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## SEVENTH PERIODIC MONITORING REPORT ON THE STATUS OF IMPLEMENTATION PLANS IN RESPONSE TO BOARD-ENDORSED IEO RECOMMENDATIONS

IMF staff regularly produces papers proposing new IMF policies, exploring options for reform, or reviewing existing IMF policies and operations. The following documents have been released and are included in this package:

- The **Staff Report** on Seventh Periodic Monitoring Report on the Status of Implementation Plans in Response to Board-Endorsed IEO Recommendations prepared by IMF staff and completed on September 1, 2015 for the Executive Board's consideration on October 8, 2015.
- A **Proposed Decision** that was approved by the Executive Board on a lapse of time basis on October 8, 2015.

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### EXECUTIVE SUMMARY

**The Seventh PMR includes: (i) a discussion of progress made over the last year on the actions corresponding to four Management Implementation Plans (MIPs) that were classified as still “in progress” in the previous PMR; and (ii) an assessment of the progress made in achieving the high-level objectives in three areas directly related to those MIPs.** In addition, an update on substantive issues related to five older MIPs agreed since 2007 is provided at the end of the report. Three new evaluations have been completed by the IEO since March 2014. In July and August 2015, Management issued the MIPs in response to these evaluations. Given that only a short time has passed since their completion, progress in addressing the actions contemplated in those MIPs will be discussed in the next PMR.

**Assessing the implementation status of many of the actions envisaged in the MIPs requires a degree of judgment, particularly for those recommendations that involve changes in institutional culture and processes.** These recommendations usually require a long time horizon in order to assess whether adequate progress has been made, and to ensure that what has been achieved is sustainable.

**The previous PMR concluded that the majority of the actions envisaged in the four MIPs that were discussed at that time had either been implemented or were “in progress” (42 out of 46 actions).** Further progress has been made over the last year with the actions classified as pending. However, most of these actions remain “in progress” because their implementation involves a continuous, long-term effort.

**As noted above, this report also discusses the progress made in achieving the high level objectives in three areas identified in the recent IEO *Evaluation of Recurrent Issues*, which are closely related to the four MIPs.** These are: (i) attention to risks and uncertainty; (ii) organizational silos; and (iii) evenhandedness. There are three main conclusions that can be derived from the analysis. First, in line with the views expressed in the IEO *Recurrent Issues Evaluation*, these issues are intrinsic to the nature of the Fund, and the actions to achieve the related objectives are likely to constitute work in progress for a prolonged period of time. Second, notwithstanding the “perennial” nature of these challenges, the Fund has made substantial efforts to address them, with varying degrees

of success. Third, the approaches to address these high level objectives have been adapted over time, and will continue to evolve in the future.

**The PMR concludes that most of the actions envisaged in the four MIPs have either been implemented or remain in progress, given their long-term nature.** As work in the key areas appears to be largely on track, it is proposed that the next PMR focuses on monitoring the implementation of new MIPs and those actions still in progress that are more critical for the Fund.

Approved By  
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## OVERVIEW

**1. The Sixth Periodic Monitoring Report (PMR) on the Status of Management Implementation Plans (MIPs) in Response to Board-Endorsed IEO Recommendations covered the MIPs arising from four IEO Evaluations:** (i) *IMF Performance in the Run-Up to the Financial and Economic Crisis* (February 9, 2011); (ii) *Research at the IMF – Relevance and Utilization* (June 21, 2011); (iii) *International Reserves – IMF Concerns and Country Perspectives* (December 19, 2012); and (iv) *The Role of the Fund as a Trusted Advisor* (February 20, 2013). The IEO Evaluation of *IMF Forecasts – Process, Quality and Country Perspectives* (March 18, 2014) was not covered by the Sixth PMR as the associated MIP had not been issued.

**2. In July 2014, the Evaluation Committee (EVC) reviewed the Sixth PMR and informed the Executive Board that it broadly agreed with its assessment.** On August 7, 2014, the Board approved the proposed decision recommended by the EVC on a lapse of time basis.<sup>1</sup> The EVC made two general recommendations for future PMRs: (i) the need to focus on whether the implementation measures proposed by management had been effective in achieving the high-level objectives of past Board-endorsed IEO recommendations; and (ii) the need to track progress on the actions that had not yet been completed, even those covered by the Triennial Surveillance Review (TSR).

**3. Since the finalization of the Sixth PMR, the IEO has concluded two new evaluations:** *Recurrent Issues from a Decade of Evaluation – Lessons from the IMF* (April 30, 2014); and the *IMF Response to the Financial and Economic Crisis* (October 27, 2014).<sup>2</sup> In July 2015 Management issued the MIPs corresponding to the IEO evaluations of *IMF Forecasts* and *Recurrent Issues*, and the MIP for the evaluation of the *IMF Response to the Financial and Economic Crisis* was issued in August 2015.

**4. This Seventh PMR is divided into two sections.** The first section discusses the status of the actions that were classified as still “in progress” for the four MIPs reviewed in the last PMR. Also, in response to the EVC’s request, the second section includes an assessment of the progress made in achieving the high level objectives of the Board-endorsed recommendations in three areas that were identified as “recurrent” in the recent *IEO Evaluation of Recurrent Issues*. These three areas, which were chosen because of their close relationship with some of the abovementioned MIPs, are: (i) attention to risks and uncertainty; (ii) organizational silos; and (iii) evenhandedness.<sup>3</sup> In addition, the

<sup>1</sup> The decision supported by the Board reads as follows: “A range of actions envisaged in the MIPs for the *IMF Performance in the Run-Up to the Financial and Economic Crisis*, *Research at the IMF – Relevance and Utilization*, *International Reserves – IMF Concerns and Country Perspectives*, and *the Role of the Fund as a Trusted Advisor* have either been implemented or are in progress. In addition, a few actions have been partially implemented, with no further action foreseen. Further steps on many of the actions that are in progress will be tracked in the next PMR. As work in these areas appears on track, this additional follow-up will be provided at a more general level.”

<sup>2</sup> The IEO has also issued two “mini” reviews since the last PMR: (i) *Revisiting the 2004 IEO Evaluation of the IMF’s Role in the PRSP and the PRGF and the 2007 IEO Evaluation of the IMF and Aid to Sub-Saharan Africa* (August 14, 2014); and (ii) *The IMF’s Approach to Capital Account Liberalization: Revisiting the 2005 IEO Evaluation* (March 17, 2015). In addition, the IEO is currently working on three more evaluations: (i) *The IMF and the Euro Area Crisis*; (ii) *Learning from Experience at the IMF: An IEO Assessment of Self Evaluation Systems*; and (iii) *Statistics for Global Economic and Financial Stability: The Role of the IMF*.

<sup>3</sup> Actions to address recommendations in these areas are included in the *Run-Up to the Crisis MIP and the Trusted Advisor MIP*. The *IEO Evaluation of Recurrent Issues* also focused on two other topics: (i) Executive Board (continued)

Appendix to the report provides an update of the most relevant measures taken in the context of the implementation of five older MIPs agreed since 2007.

**5. To prepare the report, OIA met with the Chairman of the EVC and senior staff from ICD, HRD, MCM, RES, SEC, SPR, some area departments, and the IEO.** The report relies on the information obtained in these meetings and a large number of Fund documents issued since the Sixth PMR, including those related to the 2014 TSR and more recent IEO evaluations. As many of the actions envisaged in the MIPs are of a qualitative nature, the assessments of implementation necessarily involve a degree of judgment.

**6. In commenting on this PMR, Departments were in broad agreement with its substance.** Departments provided a number of specific comments and suggestions to refine and update the analysis of the actions undertaken to address Board-endorsed IEO recommendations, which have been incorporated in this report.

## IMPLEMENTATION STATUS OF ACTIONS STILL “IN PROGRESS” IN THE SIXTH PMR

**7. This section discusses the progress made over the last year in implementing the actions classified as still “in progress” in the Sixth PMR.** Overall, the Sixth PMR identified 22 actions corresponding to the four MIPs that required further follow-up. Table 5 presents an updated summary of the implementation status for all four MIPs.

### A. IMF Performance in the Run-up to the Financial and Economic Crisis

**8. The IEO report on the *Run-Up to the Economic and Financial Crisis* noted that the Fund provided few clear warnings of the build-up of vulnerabilities and risks in the global financial system.** In particular, it found that surveillance paid insufficient attention to risks of contagion and spillovers from the crisis in advanced economies.

**9. The MIP arising from the IEO Evaluation (hereafter the *Run-Up to the Crisis MIP*) built on the 2011 TSR.** The Sixth PMR concluded that substantial progress had been made in implementing the steps envisaged in the MIP. At the same time, it noted that additional work was needed to further integrate global risk analysis into Article IV reports; strengthen the analysis of macro-financial linkages and financial spillovers; improve information sharing and coverage of cross-country experiences; and address related weaknesses identified in the 2013 Staff Survey. Other pending issues included the need to devote more time to staff training; address remaining perceptions about lack of evenhandedness

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Guidance and Oversight; and (ii) Country and Institutional Context. These two topics are not included in our assessment because they are not directly related to the issues addressed in the IEO evaluations covered by this PMR.

across countries; and strengthen the support available for vulnerable (non-systemic, non-advanced) countries on issues requiring specialized expertise.

**10. In September 2014 the Board completed the 2014 TSR, which reviewed the progress made in Fund surveillance since 2011 and made several recommendations**

**(Appendix 1).**<sup>4</sup> Following the Board discussion of the TSR, management issued the *Managing Director's Action Plan for Strengthening Surveillance*, which includes a number of initiatives to address those recommendations. In addition, in March 2015 the staff circulated an updated *Guidance Note for Surveillance under Article IV Consultations*, which reflects the TSR's main priorities. In May 2015 the Board was also briefed on the initial steps in implementing the *Managing Director's Action Plan*.

**11. Looking ahead, the implementation of some of the actions still "in progress" will be affected, to some extent, by the changes envisaged in the FY 2016-FY 2018 Medium Term Budget.** These include, for instance, those related to multilateral surveillance activities and the recent reform of the Fund's categories of employment. Appendix 2 provides a summary of the main implications of the FY 2016 Budget for some of the issues related to this MIP, as well as to this PMR in general.

**12. Overall, the *Run-Up to the Crisis MIP* listed eight general recommendations followed by 17 specific steps to address them.** Out of these, nine actions were classified as still "in progress" in the Sixth PMR. Recent progress in implementing these actions as well as other steps to address each of the issues still pending at the time of the Sixth PMR are discussed below. Table 1 provides a summary of the status of the MIP.

**A.1 Create an environment that encourages candor and diverse/dissenting views**

**IEO Recommendation: "Create a risk assessment unit that reports directly to management with the purpose of developing risk scenarios for the systemically important countries and analyzing tail risks for the global economy."**

**MIP Implementation**

- As noted in the 2014 TSR, the Fund has introduced major changes to strengthen the analysis of risks:
  - (i) The 2012 Integrated Surveillance Decision (ISD) clarified the scope of risk coverage and spillover analysis (including outward spillovers) in Article IV consultations, supported by coverage of systemic economies in the Spillover Report.

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<sup>4</sup> In the context of the 2014 TSR, the Board agreed with the staff's recommendation to move to a longer five-year cycle for comprehensive reviews of surveillance, in line with the standard cycle of policy papers. This would be complemented by a smaller scale interim report after 2 ½-3 years that would assess implementation, identify any emerging pressure points, and help shape the subsequent review.

- (ii) An interdepartmental Risk Group (RG) identifies and analyzes key global risks that are summarized in the Global Risks Assessment Matrix (G-RAM). Risk assessments in Article IV reports are guided by this matrix, and also leverage the analysis of risks conducted at the multilateral and regional levels (WEO/GFSR/FM/REOs). Country teams are expected to identify and discuss domestic risks, in addition to global risks, in Article IV reports.
  - (iii) The G-RAM is now being issued to the Board, and the WEO/GFSR summarizes the key global risks highlighted in the G-RAM.
  - (iv) An independent interdepartmental Tail Risk Group comprising A-level economists has been established to explore tail risks. This group reports its findings to both the main RG and management.
  - (v) In partnership with the Financial Stability Board (FSB), the Fund has continued to conduct a semi-annual Early Warning Exercise (EWE) to identify and assess low probability, but possible high impact risks to the global economy. In addition, Vulnerability Exercises (VEs) are conducted to assess vulnerabilities and emerging risks in advanced, emerging market, and low income countries. The VE's findings are incorporated in the flagship products.
  - (vi) Efforts have been made to strengthen external sector surveillance through the External Balance Assessment (EBA) methodology and the External Sector Report (ESR), which provides a multilateral consistent analysis of the external positions and policies of 29 systemic economies. An EBA-lite methodology has been provided to non-ESR desks.
- A Risk Management Unit (RMU) was established on June 9, 2014 as part of a set of measures undertaken by the Fund to strengthen its risk management framework. The RMU reports to the First Deputy Managing Director (FDMD), on behalf of management. The responsibilities of the RMU are somewhat different and more comprehensive than those envisaged in the IEO recommendation, and aim to lay the basis for a more systemic, measurable, and integrated culture of risk management at the Fund.<sup>5</sup> The new unit has initial responsibility for (i) developing the main elements for a strengthened RM framework; (ii) fostering the development of additional tools to analyze and monitor risks to the Fund; and (iii) producing reports on the Fund's risk profile at regular intervals, highlighting areas where additional risk analysis or mitigation efforts need to be undertaken. In March 2015, the Board held an informal session to discuss a paper prepared by RMU staff on the main elements of a conceptual framework for risk management.

### **Pending Issues under the MIP**

- While there has been substantial progress since the financial crisis, the 2014 TSR recognizes that continued efforts are needed to deepen risk analysis, better integrate outward spillovers and spillbacks into policy discussions, and strengthen the analysis of inward spillovers. Authorities

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<sup>5</sup> The IEO report recommended the establishment of a small risk unit, staffed in part by external analysts, which would serve to identify emerging risks and protect the Fund from insularity and "group think".



interviewed for the *IEO Evaluation on the IMF Response to the Financial and Economic Crisis* (which focused on the period September 2008 through 2013) indicated that they would have appreciated earlier and clearer warnings regarding recent critical risks, including on the euro crisis and the volatility from quantitative easing and its tapering. Stakeholders also find it difficult to absorb the key messages from multilateral surveillance, given the proliferation of multilateral products. In this regard, they have called for consolidation and simplification of the Fund initiatives aimed at identifying risks and vulnerabilities.

- The *Managing Director's Action Plan for Strengthening Surveillance* envisages a number of actions to enhance the work on risks and spillovers:
  - (i) To strengthen the clarity and coherence of multilateral surveillance messages, the key messages from the ESR and the Spillover Report will be incorporated in the WEO and the GFSR. At the same time, the main views on the global outlook, risks and vulnerabilities, and policy messages from all the multilateral products will be summarized in the GPA. The regional trends chapter of the WEO will be abolished to avoid duplication; the GFSR will be streamlined; and the Fiscal Monitor will include a conjunctural chapter only once a year.
  - (ii) To facilitate further integration of multilateral surveillance into bilateral surveillance, efforts are being made to promote an effective two-way flow of ideas between multilateral surveillance and country/regional analysis. Among other things, the topics for the analytical chapters of the flagships will reflect other departments' views. In addition, the departments authoring the Fund's flagships will give tailored presentations highlighting the implications of global risks for different country groupings, while area departments will determine the implications for their countries.
  - (iii) Regional analysis and cluster reports will be used more systematically to help integrate multilateral surveillance products with Article IV consultations.
  - (iv) Article IV consultations for economies whose policies are likely to have systemic spillovers will include greater quantification of the impact of outward spillovers and spillbacks, which will be discussed with country authorities.
  - (v) For countries where risks could have an impact on the economic outlook, Article IV reports will include an alternative scenario that will support the policy discussions. Departments are already considering a first wave of 20 countries to experiment with the design and implementation of these scenarios.
  - (vi) The balance sheet approach will be used to facilitate a more in-depth analysis of the impact of shocks and their transmission across sectors. In this regard, in June 2015 the Board was briefed on the Fund's experience with balance sheet analysis and how to use it more effectively in surveillance. At the same time, STA is preparing prototype balance sheet matrices for a number of macro-financial pilots. This will allow country teams to assess the distribution of risks within and across sectors and run stress scenarios that will illustrate the transmission of shocks.

- (vii) SPR will expand the external debt sustainability analysis (DSA) to assess shocks to external flows.
- (viii) The staff will work with G-20 members to develop plans for a second phase of the G-20 Data Gaps Initiative, starting in 2016, including strengthening implementation of data on sectoral accounts, government finance statistics, and external exposures in foreign currency. Over the medium term, efforts will be intensified to develop a global flow of funds, at least for the largest global economies.
- The follow-up work on streamlining in support of the FY16–18 Medium-Term Budget envisages finding ways to exploit synergies and achieve efficiency gains in the work of the risk and early-warning exercise groups. Work on tail risks will also be better coordinated with these efforts, again, to try to exploit efficiencies.
- The work by the RMU on building a framework for risk management will provide a basis for risk reporting.

**IEO Recommendation: *Change the insular culture of the IMF through broadening the professional diversity of the staff, in particular by hiring more financial sector experts, analysts with financial markets experience, and economists with policy making backgrounds. Strengthen financial sector expertise in the IMF by updating the staff's knowledge through training and by hiring market participants in both the Monetary and Capital Markets Department (MCM) and area departments.***

- Within the limits imposed by a tight budget, efforts have continued to enhance the professional diversity of staff by hiring financial sector experts and mid-career economists with policy experience. The recent report on Staff Recruitment and Retention indicates that recruitment of mid-career economists (including specialists) in 2014 was more or less at the same level as in 2013. A total of 109 mid-career economists (staff and contractuels; Grades A11-A15) were recruited into economics departments, of which 69 percent were fungible macroeconomists and 31 percent specialists (mostly fiscal and financial sector experts).<sup>6</sup> Overall, mid-career economists represented 80 percent of total economist appointments (staff and contractuels) in 2014.
- In October 2014 the Board broadly endorsed the new employment framework proposed in the *Categories of Employment* paper, which became effective on May 1, 2015. A department-by-department review to assess the alignment of the current workforce with the new framework indicated that about 120 of the existing 630 contractual appointments met the criteria for staff appointments. Many of these appointments are related to capacity development and include headquarters-based technical assistance experts with substantial professional experience. The new

<sup>6</sup> Two centralized recruitment programs supplement mid-career hiring: the Externally Financed Appointee program, where country officials are appointed on two-year contracts financed by their respective authorities (program participation would reach near full capacity in 2015, with 15 appointees), and the Special Appointee Program, which is targeted at country officials from LICs on a one year contractual appointment financed by the Fund (10 officials are currently participating).

staff appointments are expected to improve morale and provide a better balance between continuity and turnover.

- Regarding training on financial sector issues, data on finance courses offered through ICD show a marked increase in FY 14–15, both in terms of the number of courses and the number of weeks attended by staff (Box 1). For FY 2015 and FY 2016, ICD, jointly with MCM and other departments, developed the macro-financial training curriculum.

**Box 1. Internal Economics Training Events in Finance (FY 2010–2015)**

Fiscal Year	Total No. of Events	Participant Weeks	Percentage of IET Total (Participant Weeks)
2011	24	170.6	18.5
2012	19	203.6	21.2
2013	19	181.0	19.2
2014	26	237.9	31.7
2015	25	221.3	37.5
<b>Total</b>	<b>140</b>	<b>1292.5</b>	<b>25.4</b>

Source: ICD

### Pending Issues under the MIP

- The support available to vulnerable countries not directly affected by the crisis remains a concern. As noted in the last PMR, notwithstanding the Fund’s efforts to hire more specialists in recent years, some area departments that were not directly affected by the crisis (in particular AFR and MCD) have not been receiving sufficient support on issues requiring specialized expertise, due to resource constraints. Mission chiefs working on EMs and LICs, particularly those from the two regions referred to above, think that the timely integration of surveillance necessitates a reallocation of resources, and have called for greater support from functional departments, either on Article IV missions, or on a continuous basis.<sup>7</sup>
- HRD has continued to inform the Board about developments in the human resources area, including in the context of the regular discussions on Staff Recruitment and Retention, and the Diversity and Inclusion Annual Reports:
  - (i) The report on *Staff Recruitment and Retention Experience in CY 2014* notes that the base salary has become a key issue for hiring at the mid-career level, especially for more experienced economists. Long negotiations have required an increasing reliance on the total compensation

<sup>7</sup> Mission chiefs from AFR and MCD view multilateral activities as crowding out the support formerly received from functional departments. Despite the clear rising trend in multilateral surveillance, a study on “Integrated Surveillance” prepared for the 2014 TSR found no evidence of a reallocation of staff time from bilateral to multilateral surveillance. However, the distribution of resources for bilateral surveillance has become more uneven.

package, especially the monetary value of expatriate benefits, to facilitate acceptance of Fund employment. Related to this, the current policy of limiting grade offers to A12 and A13 for candidates for fungible economist positions could discourage good potential candidates or lead to early dissatisfaction for those that are hired. At the same time, diversity remains a challenge for mid-career economist hiring. An increase in the share of hired specialist economists in 2014 limited the candidate pool, making hiring from underrepresented regions more challenging.

- (ii) Although there has been a recent increase in training on finance issues, progress on strengthening training across the Fund has been slow. Based on the information available in the AFs, most area and functional departments registered an increase in the percentage of employees with four or more days of training during the year. However, the figures still show that, on average, only 31.1 percent of Fund staff took four or more days of training in FY 2014. To improve departmental accountability, charge-backs for no-shows to training sessions have been instituted. In addition, training enrollments are now reflected in the calendar of absences to assist with better planning and incentivize attendance.

## ***A.2 Strengthen Incentives to “Speak Truth to Power”***

***IEO Recommendation: Management should encourage staff to ask probing questions and challenge management’s views and those of country authorities.***

### **MIP Implementation**

- In interviews during the preparation of this report, senior members of staff were of the view that the cultural environment of the Fund has improved since the crisis. The establishment of several interdepartmental groups has promoted candor and supported the open discussion of alternative perspectives, helping to reduce the prevalence of “group think”. Management’s periodic informal “brown bag” lunches with diverse staff groups at all levels, and the creation of the Tail Risk Group, also seek to promote new ways of thinking.
- The 2014 TSR concluded that Fund engagement with country authorities has also improved. Results from the surveys conducted for the TSR show that country authorities feel that the Fund has become a more collaborative and less dogmatic institution. To promote a more productive and candid engagement with country authorities, the *2015 Guidance Note for Surveillance under Article IV Consultations* indicates that “staff should engage with members well ahead of Article IVs and maintain a continuous dialogue, including through staff visits, seminars, and workshops”. Among other things, a short survey recently sent to OED seeks to obtain feedback about the staff’s engagement with country authorities and EDs.
- To allay concerns about the evenhandedness of the Fund’s transparency policy, the November 2014 paper on *Key Trends in Implementing the Fund’s Transparency Policy* included detailed

information on the requests for corrections and deletions received in 2013.<sup>8</sup> Several suggestions to improve the process are discussed below.

### **Pending Issues under the MIP**

As noted in the previous PMR, addressing openness and candor implies a change in institutional culture that requires time. Although several initiatives have been implemented, there are indications that some issues have not yet been fully addressed:

- Despite the progress reported by senior staff, the 2013 Staff Survey showed poor results in the evaluation of the Fund's climate for innovation, risk taking and empowerment among A-level staff. This issue needs to be followed up in future surveys.
- Although Fund engagement with member countries has improved, results from the surveys of country authorities also suggest that the staff needs to pay greater attention to their views and requests for specific analysis and advice. In this regard, the TSR External Advisory Group suggested a fundamental shift towards more "client-focused" surveillance, with "communication at the start and not at the end of the surveillance process". The *Managing Director's Action Plan for Strengthening Surveillance* envisages a more continuous engagement with member countries, to be monitored by area departments through surveys and informal feedback mechanisms. The OED survey will also provide additional information on this issue.
- To strengthen accountability, the *Managing Director's Action Plan* contemplates further steps to enhance the follow-up of past policy advice in Article IV consultations. Specifically, the follow-up will be expanded to include changes in staff advice and, where relevant, the implementation of different policies by the authorities.
- The surveys conducted for the 2014 TSR also indicate that a significant minority of stakeholders has concerns about evenhandedness. Notwithstanding these results, an external background study for the TSR found little evidence that surveillance is systematically biased. Following the 2014 TSR, the Board endorsed a new "input-based" concept of evenhandedness, reflecting not just the outcomes (i.e., policy advice) but the underlying "inputs" to surveillance, where inputs are risk adjusted and tailored to country circumstances. In addition, a new mechanism to help member countries report concerns about evenhandedness will be established. A more detailed discussion of evenhandedness and measures envisaged to address concerns in this area is included in the following section.

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<sup>8</sup> The 2013 *IEO Evaluation of the Role of the Fund as a Trusted Advisor* concluded that the number of deletions and corrections in staff reports for advanced and emerging-market economies was larger than for low-income countries, with 93 percent of the staff reports for advanced economies having been subjected to deletions or corrections. The IMF's 2013 *Review of Transparency* noted that the greater incidence of deletions from staff reports for advanced countries might reflect the larger amount of market-sensitive information in these countries or their greater capacity to scrutinize Board documents before publication.

- Regarding transparency, an OIA *Report on the Review of the Application of the Rules for Corrections to Article IV Consultation Staff Papers*, issued in January 2015, found that some elements of the process could be improved, including: (i) the completeness of data on rejected correction requests; (ii) the documentation trail supporting the confirmation of authorities' views during consultations; (iii) the validation and compliance monitoring tools for country desk data; (iv) certain quality aspects of the review process; and (v) outreach to country authorities on the transparency policy.

**IEO Recommendation: Conduct regular IMF-wide self-assessments to look at the health and functioning of the organization.**

### **MIP Implementation**

- Regular self-assessments through policy reviews, with inputs from country authorities and external stakeholders, have continued to take place. Examples include the 2014 TSR, the FSAP review, and the Review of the IMF's Communications Strategy completed in July 2014.
- Following the 2010 Staff Survey, a new survey was conducted in 2013 which helped identify six key reforms to create a more enabling environment and improve people management at the Fund. In November 2014, the Director of HRD presented an update to staff on the follow-up of these reforms, which is summarized in Appendix 3.
- The IEO is conducting an assessment of self-evaluation systems within the IMF, which looks at the systems used by the Board, management, and staff to learn from experience and incorporate lessons.

### **Pending Issues under the MIP**

- As noted in Appendix 3, many of the steps envisaged in response to the 2013 staff survey have been implemented, although it will take time for the effects of these changes to be felt. In addition to the Accountability Frameworks (AFs), progress was expected to be tracked through full staff surveys to be conducted every two years and mini-surveys focusing on opportunities for improvement in the interim years. However, in light of the broad spectrum of actions being undertaken, management has decided that it is better to allow more time for implementation before conducting a new full staff survey. There will be an interim survey in September 2015, focusing on career development, empowerment and inclusion.
- The IEO Evaluation of Self-Assessment Systems provides further opportunity to review developments in this area.

### **A.3 Better Integrate Financial Sector issues into Macroeconomic Assessments**

**IEO Recommendation: Continue to strengthen the FSAP and address the problems...which limited its effectiveness in the run-up to the crisis. Strengthen financial sector expertise in the IMF by updating the staff's knowledge through training and by hiring experienced market**

***participants...Missions to G-20 economies and other financial centers should include experienced financial experts.***

### **MIP Implementation**

- The 2010 decision to make the financial system stability assessment (FSSA) component of the FSAPs a mandatory part of Article IV surveillance for the most systemic jurisdictions was a major step toward integrating financial sector analysis with Fund surveillance. However, their frequency—every five years—is low when compared with the pace of financial developments.
- The 2011 TSR made a number of key recommendations to enhance the effectiveness of financial sector surveillance. In line with one of these recommendations, in September 2012, the Executive Board adopted the IMF’s Financial Surveillance Strategy (FSS), which specified several steps to strengthen financial sector surveillance over a period of three to five years.
- In September 2013, the Executive Board considered a Progress Report on the FSS in an informal session. The report indicated that progress had, to varying degrees, been made on each of the three pillars of the strategy (i.e., improving risk identification and policy analysis, fostering an integrated view of financial sector risks, and engaging more actively with stakeholders). However, the report recognized that the coverage of macro financial linkages in Article IV consultations was still limited and had deficiencies. Advances had also been limited in cross-border linkages and spillover analysis, sovereign-bank feedback loops, and financial deepening in countries with shallow financial systems.

Since the Progress Report on the FSS was prepared, several actions have been taken to further strengthen financial sector surveillance:

- As noted earlier in this PMR, efforts continue to be made to hire financial sector experts and provide training on financial sector issues. In addition, systemic importance remains an important criterion to determine MCM participation in Article IV missions.
- Further analytical work has been done on relevant regulatory and banking issues. For instance, in June 2014 the staff briefed the Board on cross-border bank resolution, and in January 2015 on how banking sector developments and characteristics influence the propagation of risks from the banking sector to sovereign debt.
- In March 2014, management asked two senior staff from SPR and MCM to convene an inter-departmental working group in order to explore practical proposals to enhance the analysis of financial sector issues in Article IV consultations. In response, the group produced a report entitled

*“Strengthening Surveillance of Financial Sector Issues in Article IV Consultations”* which served as an input to the 2014 TSR and the FSAP review.<sup>9</sup>

- In September 2014 the Executive Board completed the 2014 Review of the FSAP, which was conducted separately but concurrently with the TSR.<sup>10</sup> The FSAP review concluded that recent changes had strengthened the focus, effectiveness, and traction of the FSAP. It noted that country authorities reported a high degree of satisfaction with the FSAP, and that a large number of FSAP recommendations had been implemented.<sup>11</sup> The review centered on ways to (i) continue strengthening the systemic risk focus of all components of the FSAP; (ii) maintaining a cutting-edge analytical toolkit for the analysis of vulnerabilities and resilience, while being realistic about the limits of this analysis; and (iii) improving the FSSA to ensure continuing traction and better input into Article IV surveillance.
- The 2014 TSR indicated that FSAPs were better integrated in Article IV consultations but recognized that financial and macroeconomic analysis remained fragmented. It also noted that the discussion of macro-financial linkages in Article IV reports varied markedly across country groups, being significantly more extensive for AMs than EMs, and much less so for LICs. The TSR made two key recommendations: (i) mainstream macro-financial surveillance through better tools and new practices; and (ii) strengthen surveillance of macro-prudential policies as a complement to other macroeconomic policies.

(i) **Mainstream macro-financial surveillance.** Integrating financial sector analysis into surveillance work requires better understanding the linkages between the financial sector and the real economy via credit creation, borrowing and financial deepening, as well as the build-up and transmission of risks between the financial and the real and fiscal sectors. Assessments of cross-border spillovers should also reflect a financial sector dimension. Looking forward, the principal responsibility for financial surveillance and macro financial work at the country level will rest with area departments, with support from functional departments as needed. It is recognized that fully mainstreaming this work across all country teams will take a sustained and concerted push. In this regard, a number of steps are being implemented:

- (a) Country cases. To build experience and develop best practices on macro-financial issues, work is under way on 23 pilot country cases, with focused support from functional departments. In this regard, area departments have identified several themes to be covered in bilateral surveillance with these countries. Common topics across these cases include the financial cycle and macroeconomic implications; macroeconomic shocks and financial stress;

<sup>9</sup> The report became known as the Marston-Demekas Report, the names of the two senior staff from SPR and MCM who headed the group and authored the paper.

<sup>10</sup> The 2014 FSAP review drew on a number of different sources, including surveys of country authorities and EDs and a special study by independent external consultants on the question of evenhandedness of FSAPs.

<sup>11</sup> In the surveys for the 2014 TSR, EDs identify progress in FSAP follow-up and the overall quality of financial sector analysis in Article IVs, with around a third detecting significant improvements. In addition, a review of a sample of FSAPs conducted for the *IEO Evaluation on the IMF Response to the Financial and Economic Crisis* found that the recommendations of FSSAs were reflected in the corresponding Article IV reports, and that subsequent consultations followed up on the issues raised in the FSSAs.



balance sheet analysis; cross-border issues and spillovers; financial supervision and regulation; and financial development, deepening, and inclusion. Functional departments are providing enhanced support through early engagement, knowledge transfer, review, and mission participation.

(b) Better tools, training, and review. Efforts are also under way to make existing tools more accessible and user friendly to desks and to develop and disseminate new tools to support country teams in quantifying macro-financial linkages and detecting the build-up of systemic risk. In this regard, MCM has revamped its Financial Toolbox website, including tools to assess changes in the macro-financial environment and measure the resilience of the financial sector, while RES has developed a desktop toolkit to check the consistency between real sector forecasts and credit conditions. At the same time, STA is working with teams that will use balance sheet analysis to explore the links between the financial sector and other sectors to generate data sets for upcoming missions. In February 2015, ICD launched a 5-module course on key macro-financial topics; the cycle will be repeated to accommodate high demand. In addition, SPR and MCM are providing intensified backstopping through the review process and have identified good examples of past and current macro-financial analysis. They have also developed and disseminated a set of common questions for country teams.

(c) Hiring and mobility. HRD is placing more emphasis on macro-financial skills in its recruitment policies. In addition, a voluntary mobility scheme for staff with financial sector expertise has been developed in consultation with area departments and MCM.

(d) In October 2015 the Executive Board will be briefed on the Fund-wide ongoing efforts to mainstream macro-financial surveillance and strengthen its coverage in bilateral surveillance.

**(ii) Strengthen surveillance of macro-prudential policies as a complement to other macroeconomic policies.**

(a) A *Guidance Note on Macro-prudential Policy* was issued in November 2014 based on country experience and the 2013 Board paper on *Key Aspects of Macro-prudential Policy*. The note addresses issues in the use of macro-prudential policy tools, offers guidance for staff advice based on country-specific circumstances, and summarizes key principles on the institutional framework for macro-prudential policy. Two accompanying notes were also issued that (i) provide guidance on the instruments available to address specific vulnerabilities; and (ii) explore how the characteristics of LICs may shape Fund advice on macro-prudential policy.

(b) In January 2013 the staff issued a policy paper (accompanied by a background paper) on *The Interaction of Monetary and Macro-prudential Policies*. Moreover, an SDN prepared in 2013 discusses the interaction between macro-prudential and micro-prudential policies. In November 2014, together with the Sveriges Riksbank, the Fund hosted a conference on the implementation and interaction of macro-prudential policies with other policies.

(c) The thinking and practice in the area of macro-prudential policies is still work in progress. In particular, further work is needed on the links between macro-prudential policies and other policies and their wider macroeconomic implications.

## Pending Issues under the MIP

- Mainstreaming and strengthening macro-financial surveillance will take significant time, as it will require changing the skills profile of the institution. The process calls for a significant effort by area departments to build a critical mass of macro-financial economists by training, hiring, mobility, and appropriate incentives. This could take several years, particularly in a context characterized by resource constraints and multiple work pressures. It will also require intensive collaboration and support from functional departments.
- The Fund will need to continue developing expertise in macro-prudential policies to be able to provide adequate support. More research and analysis is needed on the costs and benefits of macro-prudential policies, as well as to understand its interaction with other policies. These new findings will be incorporated in the *Guidance Note on Macro-prudential Policies*, which will be updated periodically. The review process will also place more emphasis on macro-prudential policies.
- Notwithstanding the hiring of more experts in recent years, available resources are still insufficient to address the institution's needs in the financial sector area. FSAP coverage in EUR, APD, and WHD increased substantially during the last five years, but mainly at the expense of coverage of Sub-Saharan and Middle Eastern countries (especially LICs and fragile states). The low frequency of FSAPs in non-systemic jurisdictions is the result of the resource constraint. The *Managing Director's Action Plan* also envisages leveraging the work of other international organizations (e.g., the World Bank), including through the creation of an interdepartmental task force for that purpose. This would help address some issues that are particularly relevant for these countries, such as financial deepening.
- The FSAP review recognized that the analysis of financial interconnectedness and spillovers remained a challenge, partly dependent on data availability. In addition, the review noted that the evaluation of financial sector oversight and supervisory effectiveness in FSAPs is often driven by identified gaps in formal compliance with established international standards, rather than by the impact of these gaps on systemic risk. Against this backdrop, the review stressed the need to strengthen FSAPs by continuing to shift the focus of all components of the financial stability assessment toward systemic risk; upgrading the analytical underpinnings, transparency and evenhandedness of the assessment of vulnerabilities; exploring a macro-financial approach to supervisory standards assessments; and ensuring a more systematic treatment of macro-prudential policy issues in all FSAPs. The Review of Standards and Codes planned for April 2016 will pay particular attention to a newly developed macro-financial approach to supervisory standards assessments, as called for in the FSAP review.
- Both the IEO and staff share the view that FSSAs conducted every five years are too infrequent to provide continuous surveillance of financial developments and macro-financial linkages. At the same time, staff is of the view that assessments undertaken within less than three years would be largely redundant. The Board has been against shortening the frequency of FSAPs in light of their resource costs and the slow evolution of the structural and institutional factors assessed by them.

#### **A.4 Overcome Silo Behavior and Mentality**

**IEO Recommendations: Management should clarify the rules and responsibilities for the internal review process, in particular for “connecting the dots...bringing cross-country experience to bear, and having policy consistency across countries/regions on cross-cutting issues...establish interdepartmental collaboration at an earlier stage of the Article IV process”.**

#### **MIP Implementation**

- As indicated in the last PMR, several actions have been taken to promote cooperation and a free exchange of ideas. The Surveillance Committee has been revamped and interdepartmental collaboration has been strengthened through continued interaction in a number of standing interdepartmental groups and task forces. At the same time, the Spillover and External Sector Reports seek a better integration of bilateral and multilateral perspectives.
- Collaboration during the process of preparation of policy papers has also been enhanced. The usual practice is that at the outset of each important paper a “concept note” is circulated for comments to relevant departments. An interdepartmental meeting is subsequently convened to incorporate different perspectives, and further discussions take place at mid-point meetings.
- The work on cluster reports has also continued. Following the preparation of the *German-Central European Supply Chain (GCESC)* cluster report, the *Nordic Regional Report (NRR)* and the *Baltic Cluster Report (BCR)*, two new cluster reports were completed in early 2015. These include: (i) *Housing Recoveries: Cluster Report on Denmark, Ireland, Kingdom of the Netherlands – the Netherlands, and Spain*, which examines the experience of four European countries that have had large house-price declines in recent years; and (ii) *Central and Eastern Europe – New Member States Policy Forum, 2014 – Staff Report on Cluster Consultations – Common Policy Frameworks and Challenges*, which focuses on policy challenges related to the monetary, financial and trade integration of the New Member States with the EU and the euro area. In addition, a cluster report on *Financial Integration in Central America, Panama, the Dominican Republic, and Colombia* has recently been completed.
- Measures to develop cross-country experience among staff while ensuring an appropriate balance with mission team stability remain in place. Staff members are encouraged to look for assignments outside their department after five years and, if necessary, centralized support for mobility is provided after seven years. The indicator of the share of fungible economists (A11 to B5) with seven or more years in a department (tracked through the AFs) shows a decline from 12.6 percent in FY 2012 to 9.7 percent in FY 2014.

#### **Pending Issues under the MIP**

- Despite recent efforts, progress with cross-country analysis remains limited. Background work for the 2014 TSR found that only about a third of recent Article IV reports included an in-depth analysis of policy experiences in other countries. In the context of the surveys conducted for the

2014 TSR, country authorities called for more expert policy advice backed by relevant cross-country work, while the staff suggested that accessibility of information on cross-country policy experiences is still a major constraint. As part of the *Managing Director's Action Plan for Strengthening Surveillance*, an initiative has been launched to better document and use cross-country knowledge. In this regard, several steps are under way:

- (i) A Knowledge Management Working Group (KMWG) established in March 2014 has presented its report to management, including a KM strategy and program to help design, coordinate, and communicate the Fund's knowledge-sharing activities.
- (ii) Departments are also implementing other initiatives to improve cross-country learning. For instance, a recent paper on small states was prepared jointly by four area departments (AFR, APD, MCD and WHD), and AFR's work on small middle income countries draws lessons from cross-country experiences.
- (iii) SPR is conducting internal senior staff meetings where the emphasis is on ensuring the cross-country consistency of the policy review. At the same time, Article IV teams are strongly encouraged to include cross-country lessons in policy notes.
- (iv) Efforts will also be intensified to draw cross-country lessons from FSAPs and incorporate regional perspectives that could be useful to both country counterparts and area department teams.
- (v) The Fund's cross-country knowledge will be made more directly available to member countries through better dissemination.
- (vi) Work will continue on cluster reports. An ASEAN report and a report on the Central African Economic and Monetary Community (CEMAC) are being prepared.



**Table 1.**  
**Implementation Plan in Response to the Evaluation of IMF Performance in the Run-Up to the Financial and Economic Crisis (concluded)**

<p>5. Conduct regular IMF-wide self-assessments to look at the health and functioning of the organization.</p>	<p>8. The 2010 staff survey, which was hosted by an external survey consultant, identified key themes and areas of concern among staff. Based on the findings, departments have worked with management to develop action plans. Regular self-assessments, with input from both authorities and external stakeholders, will continue also in the context of strategic and policy reviews.</p>	<p>In progress.</p>
<p>6. Continue to strengthen the FSAP and address the problems ... which limited its effectiveness in the run-up to the crisis. Strengthen financial expertise in the IMF by updating the staff's knowledge through training and by hiring experienced market participants .... Missions to G20 economies and other financial centers should include experienced financial experts.</p>	<p>9. Financial sector experts will be assigned to the Article IV teams involving systemically important financial sectors.</p> <p>10. Coverage of financial issues in Article IVs will be strengthened by stepped-up training and dissemination of vetted tools and good practices, as well as cross-country thematic studies.</p> <p>11. Intensified efforts to draw cross-country lessons from FSAPS.</p> <p>12. Efforts will continue to broaden the professional diversity of staff, including their educational background and skill mix, and to hire more staff with financial sector experience.</p> <p>13. A strategic plan for financial sector surveillance would be prepared.</p>	<p>Implemented (as reported in the Sixth PMR).</p> <p>In progress.</p> <p>In progress.</p> <p>Implemented (as reported in the Sixth PMR).</p>
<p>7. Management should clarify the rules and responsibilities for the internal review process, in particular for "connecting the dots... bringing cross- country experience to bear, and having policy consistency across countries/regions on cross-cutting issues...establish interdepartmental collaboration at an earlier stage of the Article IV process.</p>	<p>14. The TSR made a number of recommendations to better analyze linkages and spillovers across sectors and countries, as well as to bring more cross-country experience to bear.</p> <p>15. Specific measures will be taken to make progress on cross-departmental collaboration, promote diversity of staff and views, and address mobility issues.</p>	<p>In progress.</p> <p>Implemented (as reported in the Sixth PMR).</p>
<p>8. Ensure that the assessment of the global economy is consistent and comprehensive, taking a stance on a central scenario with clear specifications of risks and vulnerabilities around this scenario. This assessment should be transmitted to the membership in a clear fashion.</p>	<p>16. The Global Policy Agenda (which replaced the Consolidated Multilateral Surveillance Report) continues to distill the key messages from the WEO, GFSR, Fiscal Monitor, and other surveillance products.</p> <p>17. Starting with the next issue, WEOs will pay greater attention to risks around the baseline.</p>	<p>Implemented (as reported in the Sixth PMR).</p> <p>Implemented (as reported in the Sixth PMR).</p>

## B. Research at the IMF – Relevance and Utilization

**13. The IEO Evaluation of Research at the IMF found that Fund Research was widely read and included a large number of high quality products.** At the same time, the evaluation made a number of recommendations to improve the relevance and quality of IMF research, enhance its utilization, and address the perception that sometimes research appeared to be “message driven”. In particular, the evaluation recommended seeking greater consultation and cooperation with country authorities on research topics and enhancing the quality of the review process for some products.

**14. In response to one recommendation to enhance the relevance of IMF research, in 2014 an interdepartmental working group led by the Research Department completed the first periodic Strategic Review of Research (SRR).** To that end, an external consultant prepared a background report on research at the Fund, covering the period 2010–2012. The consultant’s report found that Fund research is generally of high quality and well regarded by those in the economics profession and official circles, but it also identified several shortcomings, some of which had already been mentioned in the IEO evaluation. The main shortcomings included: insufficient consultation with national authorities on research topics; uneven quality of research, especially Working Papers (WPs) and Selected Issues Papers (SIPs); a proliferation of research products; and, in some cases, excessive reliance on inappropriate or overly sophisticated techniques.

**15. Several steps to address these issues were taken in the context of the MIP in response to the IEO evaluation, as well as following the recommendations made in the consultant’s report.** The Sixth PMR classified as “implemented” the recommendation to conduct the Periodic Strategic Review and as “partially implemented” a recommendation that management designate a Research Coordinator responsible for coordinating research activities across the Fund. In this regard, the PMR noted that, although no Fund-wide coordinating mechanism for all research activities had been put in place and no indicative Fund-wide research agenda had been developed, there had been exchange of information on research products across departments. In addition, the Economic Counselor has continued to convene interdepartmental meetings once a year to discuss with other departments the contents of the Research Department’s Agenda and potential overlaps. He has also updated EDs on a regular basis about the Research Department’s Agenda.

**16. Other recommendations classified by the Sixth PMR as still “in progress” are discussed below.** Table 2 provides an update on the status of implementation of the MIP.

### ***B.1 Enhancing the Relevance of Research***

***IEO recommendation: Staff should consult country authorities on topics for SIPs and other research. [They] should also be able to research other relevant topics. Preliminary results should be discussed with authorities and other in-country experts. Longer country assignments would also contribute by enabling greater familiarity with country conditions, as would collaboration with country authorities on research projects.***

## MIP Implementation

- It is difficult to determine to what extent the staff has enhanced consultations with country authorities (particularly prior to Article IV consultations) on research topics. Based on interviews conducted in the context of the 2014 TSR, policymakers reported that in general there has been a positive evolution in the Fund's engagement with the membership and praised the organization of seminars during missions on issues chosen by country authorities. In the interviews conducted for this PMR, staff also noted that most mid-year staff visits discussed the focus and analytical topics for the next Article IV consultation, including research topics.
- To strengthen the continuity of relationships with member countries and improve the staff's knowledge of country issues, mission chief tenure continues to be monitored through the AFs, with a target of three years. Based on the AFs, in FY 2014 the average tenure for area department mission chiefs was 2.3 years. A more detailed analysis of the recent evolution of this indicator is included below in the discussion on the *Trusted Advisor MIP*.
- Research support coverage is also being monitored through the AFs, with a target of one research assistant/officer for every four economists. Most departments are at or above this target.

## Pending Issues under the MIP

- Although there are indications of overall progress, the surveys conducted for the 2014 TSR show that country authorities (30 percent overall and 55 percent of LICs) see scope for greater engagement with local academics. Countries with Fund-supported programs are more open to greater engagement, with 50 percent calling for more work with local academics. In the context of the previous PMR, the possibility had been mentioned of organizing periodic regional research conferences in collaboration with local institutions (rotating across regions) to encourage research on topics of relevance to the region and to showcase other Fund research. However, there are limitations to the potential for these activities owing to budgetary constraints.

### ***B.2 Promoting Openness to Alternative Perspectives***

***IEO Recommendation: Researchers should be allowed to explore issues without preconceived conclusions or messages. The Board, management, and senior staff should actively foster an environment that encourages innovative research and should establish incentives for staff to pursue such research.***

## MIP Implementation

- As part of the effort to stimulate openness and innovation, work has continued to strengthen leadership in the Fund. Senior staff has been actively engaged in promoting a more open management and leadership culture by identifying opportunities to lessen hierarchy and



encouraging innovation and creativity. Clearly defined departmental management roles and responsibilities have been published on the HRD website.

- At the end of 2012, new procedures were put in place to strengthen the review process for WPs, which were also expected to help address the problem of “message driven” research. These procedures as well as further changes envisaged in the budget proposals are discussed below under the steps taken to enhance the technical quality of research.
- Staff Discussion Notes (SDNs) are providing a channel to encourage new perspectives. Recent notes have discussed analytical issues outside the Fund’s usual policy concerns, such as the SDNs on *Redistribution, Inequality and Growth*; *Youth Unemployment in Advanced Economies in Europe: Searching for Solutions*; *Fair Play: More Equal Laws Boost Female Labor Force Participation*; *Tackling Small and Medium-sized Enterprise Problem Loans in Europe*; and *Islamic Finance: Opportunities, Challenges, and Policy Options*. The SDN on *Redistribution, Inequality and Growth*, in particular, challenges the conventional wisdom according to which there is a trade-off between redistribution and growth. In the context of the 2014 TSR, civil society organizations welcomed the Fund’s increased focus on issues relating to inclusive growth, macro-social issues and income distribution.
- The ongoing efforts to broaden staff diversity in terms of academic background and professional experience should also contribute to developing alternative perspectives, although results at this point are still limited (see Appendix 3).

### **Pending Issues under the MIP**

- Although several surveys were conducted for the 2014 TSR, a separate survey to assess some specific issues, including the extent to which consultation on research topics has improved, has not yet taken place. Among other things, the OED survey could help to obtain additional information on this issue.

### **B.3 Enhancing Technical Quality of Analytical Work**

***IEO Recommendation: Management and staff need to allocate adequate time and resources to each research project... the IMF needs clear standards for technical quality of different research projects... incentives to improve the quality of research should be strengthened.***

### **MIP Implementation**

- As noted earlier, in response to the IEO evaluation, at the end of 2012, procedures dealing with Working Papers (WPs) were modified to improve their quality. The new procedures, which have been published on the intranet, indicate that the originating department (division chief or above) must authorize a WP for issuance after certifying that all requirements included in a checklist for WPs are met and that the paper is of sufficient quality. If the paper addresses a country or topic within the direct responsibility of another department, it should be sent to that

department for review. The check list must also confirm that, if the paper deals with a specific country or group of countries, a copy has been sent to the concerned Executive Director(s), along with a memo notifying him/her of the staff's intention to issue the paper in the WP series. The full text of each WP appears in the Fund's external website. When datasets have been used in carrying out the research, these datasets may be posted on the web along with the paper (authors should check that there is no legal impediment to the posting of the datasets).

- The paper on the FY 2016 – FY 2018 Medium Term Budget noted that analytical work is critical for the Fund's effectiveness and relevance, but it also recognized that "not all the analytical work that finds its way into WPs is of the highest quality or relevance to the Fund". In this context, the paper argued that there was still scope for reducing the resources devoted to general analytical work while improving its quality. To this end, it was proposed that: (i) all planned SDNs be listed in departmental AFs; and (ii) all new proposals for WPs require ex ante approval by a dedicated senior staff in each department and listing on a Fund-wide ongoing project website, with line managers held accountable for the quality and relevance of the final product.

### **Pending Issues under the MIP**

- Although the procedures approved by end-2012 are in general being followed by departments, an assessment of their impact in terms of the quality of research would require more resources than those available for this PMR. A short and well-targeted survey on this matter would be useful.
- The new procedures for WPs and SDNs envisaged in the MT Budget proposal should be implemented.

**Table 2.**  
**Implementation Plan in Response to the Evaluation of Research at the IMF - Relevance and Utilization**

IEO Recommendation	Follow Up Plan	Implementation Status
1. Management should designate a senior staff member to be the leader and advocate of research activities across the IMF. This leader, the Research Coordinator, would be responsible for coordinating research activities across the IMF. The Research Coordinator should report annually to the membership and the Board on research priorities and achievements.	1. Coordination of research activities has been stepped-up in response to the IEO recommendations. The Economic Counselor will continue to convene interdepartmental meetings about twice a year, while also updating the Board.	Partially implemented (as reported in the Sixth PMR).
2. The IMF, in consultation with country authorities, should conduct a periodic strategic review. An indicative medium-term research agenda should be prepared in consultation with member countries and the Executive Board.	2. The next review will build on the IEO's framework and is expected in about 18 months. The review will focus on many of the issues highlighted by the IEO, and will be used to inform the setting of an indicative medium-term research agenda.	Implemented (as reported in the Sixth PMR).
3. Staff should consult country authorities on topics for SIPs and other research. [They] should also be able to research other relevant topics. Preliminary results should be discussed with authorities and other in-country experts. Longer country assignments would also contribute by enabling greater familiarity with country conditions, as would collaboration with country authorities on research projects.	3. Departments will step up efforts to consult more with country authorities on research topics, recognizing that staff will need flexibility to research issues that they feel are important.  4. Reforms have recently been announced to ensure that an appropriate balance is struck between the need for cross-country experience and fresh perspectives and mission team stability.	Partially implemented.  Implemented (as reported in the Sixth PMR).
4. Researchers should be allowed to explore issues without preconceived conclusions or messages. The Board, management, and senior staff should actively foster an environment that encourages innovative research and should establish incentives for staff to pursue such research.	5. Progress is needed on internal culture and institutional values. In this regard, a series of reforms have been announced covering leadership, management training, mobility, and accountability.  6. The forthcoming statement of workplace values should emphasize, among other things, that staff should contribute their ideas to the work program of departments, even if these are not in line with the Fund's "groupthink."	In progress.  Implemented (as reported in the Sixth PMR).
5. Management and staff need to allocate adequate time and resources to each research project...the IMF needs clear standards for technical quality of different research projects...incentives to improve the quality of research should be strengthened.	7. New procedures have been adopted to ensure the quality of Working Papers.  8. The forthcoming Strategic Review of IMF Research will assess technical quality more broadly.	In progress.  Implemented (as reported in the Sixth PMR).

## C. International Reserves – IMF Concerns and Country Perspectives

**17. The *International Reserves MIP* sought to focus on those IEO recommendations for which there was broad support from Executive Directors, concentrating primarily on reserve adequacy assessments in the context of bilateral surveillance.** In the bilateral context, the IEO recommended that reserve adequacy indicators be applied flexibly and reflect country-specific circumstances, and that clearer advice be given on reserve adequacy considerations for advanced economies. It also argued for clearer recognition of the multiple tradeoffs involved in decisions on reserve adequacy and reserve accumulation at the country level, and for a better integration of the advice on reserves with that on related policy areas. The discussion below provides an update of recent developments concerning the *International Reserves MIP*. Table 3 summarizes the current status of MIP implementation.

**IEO Recommendation: *Ensure robust coverage of reserve adequacy in Fund surveillance, and specific guidance tailored to certain types of economies.***

### MIP Implementation

- The emerging market (EM) metric—introduced in 2011 as a complement to the traditional metrics based on imports, short-term liabilities, and broad money—provides a conservative tool for assessing reserve needs for emerging market economies. Data for the EM metric as well as the traditional metrics are already available on the SPR website, and are easily accessible to country teams.
- In response to the *International Reserves MIP*, in November 2013 the staff issued a follow-up paper on *Assessing Reserve Adequacy – Further Considerations*. The paper aimed to: (i) explore the use of reserves in recent years and their role – in conjunction with other external liquidity buffers – in preventing and mitigating crises; (ii) discuss reserve adequacy considerations for advanced economies; and (iii) review the Assessing Reserve Adequacy (ARA) Metric and suggest ways to improve it in order to better account for country-specific factors in a consistent way. The paper focused exclusively on reserves held for precautionary purposes.
- After the discussion on the follow-up ARA paper, an informal Board meeting was held in July 2014 on additional operational considerations for assessing reserve adequacy. In response to Executive Directors' call for further work on several issues during the remainder of 2014, the staff prepared a new paper on *Assessing Reserve Adequacy – Specific Proposals*, which was discussed by the Board in January 2015. This paper seeks to bring together the Fund's recent work by further discussing and outlining a framework to address reserve adequacy issues in different economies. The January 2015 ARA paper made a number of proposals that were considered by the Board in a formal discussion:
  - (i) When warranted, Article IV reports should include a fuller discussion of the authorities' stated objectives (not only precautionary but also non-precautionary) for holding reserves, an assessment of the reserve needs for precautionary purposes, and a discussion of the costs of reserves. The analysis would seek to ensure evenhandedness by assessing countries

in similar circumstances in similar ways, while allowing the discussion to reflect specific country conditions and needs.

- (ii) Based on previous work, the paper suggests that for reserve adequacy purposes, countries could be classified depending on financial and economic flexibility and degree of market access. Accordingly, countries were grouped into mature markets, deepening financial markets, and constrained market access categories that broadly correspond to the standard per capita income classification. For each group, methodologies were developed to help assess reserve adequacy for precautionary purposes. The paper recognized that no single indicator or model can capture the whole set of factors that determine reserve adequacy and suggested that all relevant indicators be used as a starting point, complemented by country specific analysis.
- (iii) For mature economies without a reserve currency, the rationale for reserves centers on the need to limit foreign exchange market dysfunction, including issues related to bank funding stress. Given that data gaps prevent the creation of a standardized approach for this group of countries, the paper argues in favor of using scenario analysis to assess reserve needs for precautionary purposes. When reserve adequacy issues are relevant, Article IV reports are expected to discuss the authorities' reserve adequacy framework, including risks, possible reserve needs, and the costs associated with holding reserves.
- (iv) For less mature market economies (deepening financial markets), the paper proposes to discuss the relevant metrics, including the traditional ones (import cover, ratio of reserves to short-term debt, ratio of reserves to broad money, etc.), as well as the Fund's ARA EM metric. Country specific analysis, when necessary, could complement the assessment. The paper also calls for adjusting the Fund metric to reflect capital controls and the volatility of capital flows; discussing risks related to intensive commodity economies, including the need for additional buffers; and taking into account the specific circumstances of fully and partially dollarized economies. For currency unions, the paper notes that a starting point is to consider the reserve needs of the consolidated, union level, economy.
- (v) For low-income and credit constrained economies, the paper's proposed approach is to balance the benefits from holding reserves in terms of both crisis prevention and mitigation against the opportunity cost. This approach would complement traditional approaches like the three-month import rule. As with the work on other types of economies, the new approach also captures cross-country differences – in exchange rate regimes, dependence on resource wealth, and fiscal position – in determining the adequate level of reserves against current account shocks. As countries begin to gain market access, such as frontier economies in recent times, they may increasingly use the tools for emerging market economies.
- (vi) In considering the paper, Executive Directors agreed that the depth and emphasis of the discussion on reserve adequacy issues should depend on country circumstances and reflect the aspects that are relevant for the country's external stability and global stability. The

discussion should reflect the adequacy of reserves for precautionary purposes, the authorities' stated precautionary and non-precautionary objectives, and the cost of reserves. Directors underscored the importance of judgment in making assessments and the need to avoid a mechanical application of any metric. For mature economies, they broadly agreed that scenario analysis offers a helpful tool to approximate reserve needs, while for countries with deepening financial markets and credit-constrained economies they supported the use of all relevant reserve metrics, supplemented by country-specific analysis where warranted. Most Directors agreed with the methodology to calculate the ARA-EM metric, although some expressed concerns about individual components and the weights applied to them. Most Directors also supported the preparation of a staff guidance note, in line with the MIP's response to the findings of the IEO evaluation.

### **Pending Issues under the MIP**

- A Guidance Note on Reserve Adequacy is planned for end-October 2015.

**IEO Recommendation: *Improve communication of the Fund's views, and guidance, on reserve adequacy.***

### **MIP Implementation**

- As noted in the Sixth PMR, the follow-up ARA paper issued in November 2013 was informed by a survey that gathered member country views on the motives for holding reserves, analytical frameworks to assess precautionary reserve adequacy, and approaches to intervention. The staff also visited some emerging markets in Latin America for discussions during the preparation of the paper. In 2014, during the preparation of the 2015 paper on *Assessing Reserve Adequacy – Specific Proposals*, the staff met with officials in several Asian countries to discuss various aspects of the work.
- There have also been internal presentations in some area departments on the ARA metric and, more generally, on the key findings of the work program on reserve adequacy.
- Where reserves have been a relevant issue for a particular consultation, individual country teams have also discussed the Fund's work on reserve adequacy with the authorities during Article IV missions, and have reflected their views in the staff report.

### **Pending Issues under the MIP**

- More outreach activities to country authorities, think-tanks, and the private sector are expected to take place after the Board discussion on the Guidance Note.
- Following the request of some EDs, staff is also working to make the Fund's data on various reserve adequacy metrics publicly available. This will allow greater use of this work and a wider discussion of reserve issues.

**Table 3.**  
**Implementation Plan in Response to the Evaluation of International Reserves - IMF Concerns and Country Perspectives**

Area	Follow Up Plan	Implementation Status
1. Ensure robust coverage of reserve adequacy in Fund surveillance, and specific guidance tailored to certain types of economies.	1. Management and staff will continue to promote implementation of the guidance for surveillance in Article IV consultations, including assessment of reserve adequacy.	Implemented (as reported in the Sixth PMR)
	2. Further work is proposed to review the recent experience with the use of the reserve adequacy metric, and to propose areas for development.	Implemented (as reported in the Sixth PMR)
	3. Together with existing work, the new analysis will form the basis for a Board paper and staff guidance note on reserve adequacy.	In progress
2. Improve communication of the Fund's views, and guidance, on reserve adequacy.	4. The second External Sector Report (ESR) provides a key opportunity to present a multilaterally consistent assessment of external developments and policy recommendations.	Implemented (as reported in the Sixth PMR)
	5. The Fund will step-up engagement on reserve adequacy through dedicated missions, and as part of the regular surveillance cycle.	In progress.

## D. The Role of the Fund as Trusted Advisor

**18. The IEO Evaluation of the Role of the Fund as Trusted Advisor found that a large majority of country authorities held positive views of the Fund and its work, and that the Fund's image had improved in the aftermath of the financial crisis, being perceived as more open, flexible, and responsive.** The IEO evaluation noted, however, that additional efforts were needed and made several recommendations to enhance the role of the institution as a trusted advisor.

**19. The MIP arising from the evaluation proposed a number of steps to address five IEO Board-endorsed recommendations and ways in which they could be monitored.** Some of these steps had already been adopted before the MIP was issued, including in response to recommendations arising from the *Run-Up to the Crisis Evaluation*. The *2012 Guidance Note for Surveillance* provided additional guidance to staff in some areas, and management also issued specific instructions to address several issues. The Sixth PMR concluded that the implementation of several actions related to three out of the five Board-endorsed recommendations was still "in progress".

**20. The surveys of stakeholders conducted for the 2014 TSR provided new information to judge progress on the implementation of these recommendations.** For some specific actions, however, it is difficult to reach a definite conclusion because they were not covered in the surveys. The discussion below provides an update of the progress made in implementing the pending actions under the three recommendations since the last PMR was issued, based on available information. Table 4 summarizes the current status of MIP implementation.

***IEO Recommendation: Enhance the value-added of Article IV consultations for country authorities.***

### **MIP Implementation**

- The 2011 TSR enshrined early consultation with country authorities on their key areas of interest ahead of policy consultations as best practice. This was reflected in the *2012 Surveillance Guidance Note*. Moreover, in 2013 management issued further instructions to staff clarifying that all mission teams are expected to contact authorities at least two months in advance of missions to exchange views on proposed policy issues and topics, and that policy notes should indicate the outcome of these exchanges. Instructions have also been issued by which mission teams are expected to share major policy questions and global assumptions underlying projections with the authorities and the relevant Executive Director at least one week ahead of missions. In addition, they are expected to foster dialogue by better explaining the rationale for, and relevance of, policy advice.
- The Fund has also increased senior staff participation in the concluding stages of Article IV missions for some systemic economies. More broadly, senior staff frequently visits various countries in between Article IV consultations as part of the effort to enhance engagement and hold more informal discussions with high level officials.

### **Pending Issues under the MIP**

- The interviews and surveys conducted for the 2014 TSR confirmed that staff is more willing to engage in a genuine dialogue and is more responsive to country needs. At the same time, country authorities still see substantial room for improvement that would help enhance the traction of Fund policy advice. Specifically, country authorities and EDs have encouraged staff to work harder to listen to and understand the authorities' views, and to take greater account of political constraints, particularly in EMs and LICs. Country authorities also believe that the value added of surveillance missions could be enhanced through earlier engagement on their scope and more fact-checking from headquarters, and by fielding missions with greater in-depth specialist knowledge.
- The MIP had identified the need for enhanced use of cross-country examples by functional department economists as one of the actions to support its implementation. As noted earlier, progress in this area has been limited. The new measures envisaged in the *Managing Director's Action Plan* to strengthen KM and stimulate the exchange of information on cross-country experiences are aimed at addressing this issue.



- The survey recently sent to OED seeks to assess progress in implementing the specific actions that were envisaged to strengthen the dialogue with member countries.

**IEO recommendation: *Strengthen the continuity of the relationship between the Fund and member countries.***

### MIP Implementation

- Steps have been taken to lengthen mission chief and staff tenure on country assignments; progress in this area is being monitored through the AFs. As noted in Box 2, the indicator for mission chief tenure for all area departments shows an average tenure of 2.3 years in mid-FY 2015, compared with 2.4 years in FY 2013, with some variations across departments. These figures represent an increase in average tenure since the financial crisis, but are still below the target of three years average tenure. In light of mobility and promotions, achieving this target has proven difficult, particularly for LICs and fragile states. Data coverage for mission chiefs has improved, with a total of 184 country assignments captured for FY 2014, compared with 153 assignments for FY 2013. Area departments also monitor desk economist tenure, but comprehensive data are not available.

#### Box 2. Staff Tenure in Country Assignments

Mission chief tenure is monitored through the Accountability Framework, with the average three-year target being measured based on the last completed assignment. This indicator was introduced with the FY 2015 Scorecards and is now posted on the OMD's website. Scorecards are updated every six months. The overall indicator for area departments shows an average mission chief tenure of 2.4 years in FY 2013, followed by a slight decline to 2.3 years in mid-FY 2014 and no change subsequently. The following table provides data for the five area departments:

	<b>FY 2013</b>	<b>Mid-FY 2014</b>	<b>FY 2014</b>	<b>Mid-FY 2015</b>
<b>Total</b>	<b>2.4</b>	<b>2.3</b>	<b>2.3</b>	<b>2.3</b>
AFR	2.4	2.2	2.2	2.3
APD	2.4	2.0	1.9	1.8
EUR	2.8	2.6	2.3	2.3
MCD	2.5	2.5	2.9	2.9
WHD	2.1	2.3	2.1	2.1

Source: HRD and Departmental AFs.

- In line with instructions included in a June 2013 memo by the FDMD, all area and functional departments have also issued guidelines establishing minimum requirements and recommending best practices for handovers of country assignments from one economist to another, including on data management. Under these guidelines, an assessment of how well staff and managers assist with desk transitions is expected to be reflected in the APR process.
- As part of the actions to address this IEO recommendation, the MIP envisaged that measures aimed at raising the share of nationals from under-represented regions among senior staff and

setting targets for representation of women at senior levels would continue. The 2014 Diversity and Inclusion Report shows that progress on achieving the diversity benchmarks has been mixed; only 3 out of the 11 quantitative benchmarks for underrepresented groups were met by end FY 2014. At the same time, diversity among senior managers has improved. Appendix 3 provides an update of developments in this area, including general data on trends in geographical, educational and gender diversity.

### **Pending Issues under the MIP**

- The MIP envisaged enhancing the role of OED in the liaison process. To that end, mission teams were instructed to engage closely with OED prior to, during, and after policy discussions with country authorities. The MIP also envisaged that progress in this area would be monitored through annual surveys. Among other things, the OED survey seeks to obtain feedback on the staff's engagement with OED.
- Although all departments have issued guidelines for handovers of country assignments, actual practices concerning APR assessments of desk transitions vary significantly across departments. SPR is planning a survey this fall on handover procedures.
- In line with the MIP, efforts to increase diversity, including at the senior level, should continue.

**IEO recommendation: *Reduce unnecessary disclosure concerns that may inhibit authorities from using the Fund as a true sounding board for informal advice at an early stage when formulating their policies.***

### **MIP Implementation**

- The MIP called for the staff to make the authorities aware of the Fund's policy on the treatment of confidential information during their discussions. At the same time, it encouraged staff to have informal/brainstorming discussions with country authorities. Following the completion of the latest Transparency Review, SPR issued an updated *Guidance Note on the Fund's Transparency Policy*. The guidance note indicates that staff should ensure that the authorities are aware of the key elements of the Fund's Transparency Policy and includes an appendix containing a Transparency Policy Information Sheet that can be handed to country authorities during missions.

### **Pending Issues under the MIP**

- The general surveys conducted for the 2014 TSR review indicate that country authorities' willingness to disclose confidential information to IMF staff varies significantly across income groups and regions. Around a quarter of country members provide no information beyond Article IV requirements and publicly available information, with a higher ratio in the Middle East (around 40 percent). LICs, countries in AFR or those with Fund arrangements show the greatest trust (proxied by early disclosure of policy intentions or full disclosure), while AMs and G-20 countries are less prepared to trust Fund staff with confidential information. Country authorities with Fund-supported programs put emphasis on early engagement on the scope of missions and creating more room for "off-the-record" discussions.

**Table 4.**  
**Implementation Plan in Response to the Evaluation of the Role of the Fund as Trusted Advisor**

IEO Recommendation	Follow Up Plan	Implementation Status
1. Enhance the value-added of Article IV consultations for country authorities.	<ol style="list-style-type: none"> <li>1. Early consultations with country authorities will now be expected of all teams.</li> <li>2. Mission teams will be expected to share major policy questions and global assumptions underlying projections at least one week ahead of the mission.</li> <li>3. Enhanced use of cross-country examples by functional department economists.</li> <li>4. Pilot reports on clustered Article IV consultations, which can augment cross-country analysis, will be initiated.</li> <li>5. Mission chiefs to be tasked to better explain rationale for Fund policy advice.</li> </ol>	<p>In progress.</p> <p>In progress.</p> <p>In progress.</p> <p>Implemented.</p> <p>In progress.</p>
2. Strengthen the continuity of the relationship between the Fund and member countries.	<ol style="list-style-type: none"> <li>6. Target of three years average tenure for country assignments to be monitored by HRD.</li> <li>7. Measures to raise the share of nationals from under-represented regions among senior staff and set targets for representation of women at senior levels will continue.</li> <li>8. Transition rules to be introduced by July 2013 to support orderly handovers.</li> <li>9. SPMs will work to prevent simultaneous turnover of the mission chief, senior desk, and/or Resident Representative.</li> <li>10. Role of OED in liaison process to be emphasized and monitored through an annual survey, which will begin by April 2014.</li> <li>11. Surveys of country authorities for forthcoming TSRs will be enhanced to help determine progress in improving the Fund's role as trusted advisor.</li> </ol>	<p>Implemented (Sixth PMR).</p> <p>In progress.</p> <p>Implemented (Sixth PMR).</p> <p>Implemented (Sixth PMR).</p> <p>In progress.</p> <p>Partially implemented.</p>
3. Incorporate early and openly the views of all country authorities - particularly those that stand to be the most affected by changes in the Fund's policy stance - during the preparation of major policy papers on which analytical debate is still ongoing.	12. Staff will continue the best practice of extensively consulting authorities and other stakeholders ahead of major policy papers. However, consistent with views of most Directors, it is not proposed that all policy papers will have to present the views of every country.	Implemented (Sixth PMR).

**Table 4.**  
**Implementation Plan in Response to the Evaluation of the Role of the Fund as Trusted Advisor (concluded)**

4. Reduce unnecessary disclosure concerns that may inhibit authorities from using the Fund as a true sounding board for informal advice at an early stage when formulating their policies.	13. Staff will be expected to inform authorities of the Fund's policy on the treatment of confidential information. At the same time, staff will be encouraged to have informal/brainstorming discussions with country authorities in the course of policy discussions.	In progress.
5. Work closely with country authorities to design a customized outreach strategy for mission chiefs and resident representatives that is most suited to gaining traction, given country specifics.	14. Mission chiefs should discuss outreach plans/strategy with authorities in the context of mission planning, with support from COM. SPR will monitor during PCMs.  15. Resident Representatives' terms of reference will be clarified to underscore the importance of formulating an outreach strategy in collaboration with the country authorities, to be updated on an annual basis. This will be monitored by HRD, with support from COM.	Partially implemented (as reported in the Sixth PMR).  Partially implemented (as reported in the Sixth PMR).
6. Implement the Fund's transparency policy in a uniform and fair manner.	16. The next Review of Transparency, expected to be issued to the Board in the second quarter of 2013, will provide updated analysis on the implementation of the policy, including whether it has been applied in an even-handed manner across the membership. To the extent that shortfalls are found, it will provide concrete recommendations on how these may be addressed.	Implemented (as reported in the Sixth PMR).

Table 5. Summary of Implementation Status for all Recent Management Implementation Plans (MIPs)<sup>12</sup>

MIP	Number of Board-Endorsed Recommendations	Number of Follow-Up Steps in the MIP	Of Which			
			Implemented	Partially Implemented	Not Implemented	In Progress
IMF Performance in the Run-Up to the Financial and Economic Crises	8	17	8	–	–	9
Research at the IMF—Relevance and Utilization	5	8	4	2	–	2
International Reserves—IMF Concerns and Country Perspectives	2	5	3	–	–	2
Role of the Fund as Trusted Advisor	6	16	6	3	–	7
<b>Total</b>	<b>21</b>	<b>46</b>	<b>21</b>	<b>5</b>	<b>–</b>	<b>20</b>
<b>Percentage</b>		<b>100</b>	<b>45.7</b>	<b>10.9</b>	<b>–</b>	<b>43.5</b>

<sup>1</sup> Implementation status is explained as: **Implemented:** The recommendation has been substantially addressed by actions. If actions are planned, but not yet implemented, normally the recommendation would continue to be classified as “In Progress.” **In Progress:** There has been some action taken or there is significant planned action in the near future. Steps have been taken to plan and implement the recommendation. **Partially Implemented:** The actions taken address portions of the recommendations. OIA will not follow up further on the remaining aspects because (i) they are not considered critical; (ii) additional actions are unlikely to occur; or (iii) actions are outside the control of the responsible entity. **Not Implemented:** This classification is used when it is determined that the recommendation will not be implemented. This category may be used in two main cases: (i) the recommendation may no longer be relevant due to changes in the organization or processes; or (ii) the likelihood of future implementation is too low to warrant continued follow-up.

## PROGRESS IN ACHIEVING THE HIGH-LEVEL OBJECTIVES OF THE BOARD-ENDORSED IEO RECOMMENDATIONS

**21. When the Sixth PMR was discussed, the EVC asked for the next PMR to focus on whether the implementation measures proposed by management had been effective in achieving the high-level objectives of past Board-endorsed recommendations.** In response to the EVC's request, this section concentrates on three areas (directly related to the four MIPs discussed in Section I) that were identified as "recurrent" in the recent *IEO Evaluation of Recurrent Issues*. The three areas are: (i) attention to risks and uncertainty; (ii) organizational silos; and (iii) evenhandedness.

**22. To address progress in these areas, the discussion below takes into account the conclusions of the *IEO Recurrent Issues Evaluation*, the progress made subsequently under the MIPs, the Board discussion of the 2014 TSR, and the paper on *Stakeholders' Perspectives on IMF Surveillance*, which contains the results of interviews with policymakers and surveys of stakeholders that served as background for the 2014 TSR.** The latter provides valuable information on a broad spectrum of opinions expressed by country authorities, EDs, and mission chiefs about how much progress has been made in achieving the high-level objectives under consideration.

**23. Three main conclusions can be derived from the analysis.** First, as noted in the *IEO Recurrent Issues Evaluation*, the three high level objectives under consideration are major generic issues intrinsic to the nature of the Fund, with deep roots in the institution's culture, policies and governance arrangements. Consequently, the efforts to address them are likely to constitute work in progress for as long as the Fund exists. Second, notwithstanding the "perennial" nature of these challenges, the Fund has made substantial efforts to address the three issues, with different degrees of success. In general, attention to risks and uncertainty constitutes the area where most progress has been achieved, followed by addressing organizational silos. Progress on evenhandedness, in turn, remains difficult to quantify. Third, the strategies used by the institution to seek these high level objectives have changed over time and will continue to evolve in the future, reflecting the views of member countries, changes in the degree of criticality of the issues over time, modifications in strategies in light of the progress achieved, and budgetary considerations.

### A. Attention to Risks and Uncertainty

**24. Overall, this seems to be the area where most progress has been made in recent years.** Nevertheless, further work is required, particularly with regard to spillover analysis and macro-financial issues. This PMR focuses on a broad definition of the subject under consideration, which includes the analysis of risks, vulnerabilities and spillovers.

**25. The Fund has made major strides in improving its risk assessments since the global financial crisis.** Assessments of risks and uncertainty are now a standard feature of surveillance and program reports; interdepartmental risk groups have been created; risk tools have been developed; and a dedicated risk management unit has been established to enhance risk culture within the institution. The VE, the G-RAM, the ISD, and the related *Guidance Note on Surveillance* have improved the analysis of risks and spillovers. At the same time, the WEO has increased its attention to risks and alternative scenarios, the GFSR has enhanced its focus on risks and financial stability, the Fiscal Monitor has developed indicators and has focused on the analysis of fiscal risks, and the DSA is now a standard element in Article IV documents.

**26. The progress made was acknowledged in the surveys conducted for the 2014 TSR, where the Fund's work on risks was highly rated by both country authorities and EDs.** EDs gave their highest rating in terms of value added to the Fund's risk assessments. Country authorities in AMs (EUR) valued in particular the assessment of external risks, while those in EMs and LICs (AFR and MCD) put more emphasis on domestic risks. As in the 2011 TSR, the Fund's risk analysis in the WEO and the GFSR received the strongest ratings, and this time the analysis in FSSAs, Article IV reports and REOs were all well considered. The surveys also indicate that there is broad support for continuing to strengthen work in this area. In particular, stakeholders see a greater focus on the transmission channels of shocks, and quantification of risks and their likely impacts as key steps to further strengthen risk assessments. They also recognize the usefulness of balance sheet analysis to help deepen and further tailor risk and spillover analysis to country circumstances.

**27. The Fund's spillover analysis is seen as improving, although further progress is needed.** The perception of the Fund's spillover analysis has improved significantly relative to the 2011 TSR, when it received poor ratings from country authorities and EDs, particularly for outward spillovers. Stakeholders ranked the WEO and the GFSR as the best sources of spillover analysis. Newer reports – the Spillover Report, the Pilot External Sector Report, and Cluster Reports – were rated higher by authorities from AMs than those from EMs and LICs, in part reflecting the Spillover Report's focus on systemically important countries. Looking ahead, EDs gave high priority to the analysis of inward spillovers for the broader membership.

**28. Stakeholders were divided in their assessment of the Fund's work on macro-financial and other linkages.** Country authorities were fairly positive, while some 70 percent of EDs indicated that Fund work on macro-financial linkages had contributed only to some extent to their understanding of issues. Regarding risk identification and policy analysis, EDs found that the most progress had been made in the areas of cross-border linkages, capital flows, and policies to contain sovereign-bank feedback loops. Areas where there had been less improvement included assessing the implications of exit from extraordinary macro-financial policies, global regulatory reforms, and financial deepening. Looking forward, there is broad support for further strengthening work on financial and macro-financial issues, including structural financial issues. In this regard, it is worth mentioning the staff's recent work on 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*).

## B. Organizational Silos

**29. Progress on achieving the high-level objectives of IEO Board-endorsed recommendations to address organizational silos has been mixed.** On the one hand, substantial efforts have been made and visible progress has been achieved in recent years in integrating multilateral and bilateral surveillance, including through the approval of the ISD; increasing collaboration and effectiveness in the review process; 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; and stimulating mobility. On the other hand, as noted in the PMR's discussion on the implementation of the *Run-Up to the Crisis MIP*, progress on integrating cross-country policy experiences in surveillance has been limited.

**30. In the surveys conducted for the 2014 TSR, all stakeholders acknowledged that the Fund had begun to integrate bilateral and multilateral surveillance, but saw further room for improvement.** More than 25 percent of EDs viewed bilateral and multilateral surveillance as still fragmented, although only a negligible share of country authorities and less than 10 percent of mission chiefs shared this view. A further 25 percent of EDs pointed to the need for more progress to incorporate global and regional issues into bilateral surveillance. Some stakeholders interviewed for the TSR also thought that the attempts to integrate multilateral and bilateral surveillance within the IMF's existing resource envelope had strengthened multilateral surveillance at the expense of bilateral surveillance, especially for the less systemically important countries.

**31. Policymakers stressed that precise and actionable advice, based on expert knowledge and cross-country experiences would raise the value of Fund surveillance.** Mission chiefs, particularly those working on EMs and LICs, thought that timely integration of surveillance necessitated a reallocation of resources, with nearly half of the mission chiefs working on EMs and LICs (particularly in MCD and AFR) reporting a marginal or substantial decline in support from functional departments. To strengthen cross-country work, mission chiefs suggested expanding the number of cross-country analytical studies, greater availability of cross-country data, and establishing a database with cross-country policy experiences. The new initiatives to encourage cross-country work envisaged in the *Managing Director's Action Plan for Strengthening Surveillance*, which were discussed earlier in this PMR, seek to address these issues. The success of these initiatives will depend, to a large extent, on establishing proper incentives for the staff to share cross-country experiences. Regional Units could play a useful role in this respect.

**32. The 2014 TSR also noted that a closer coordination of surveillance with Fund technical assistance would improve the traction of Fund advice.** Most country authorities who used Fund TA reported that subsequent advice from the Fund in the context of Article IV consultations had been more persuasive. The Board also saw scope to enhance collaboration among Fund



departments and with other international organizations in areas where strong expertise exists in other agencies.

### C. Evenhandedness

**33. As noted by the IEO's Recurrent Issues Evaluation, evenhandedness is not a concept that is easy to define and measure.** In contrast to the two high-level objectives discussed previously, selecting objective criteria to measure progress in improving evenhandedness is particularly difficult and remains elusive.

**34. Although an external background study for the 2014 TSR did not find evidence of a pervasive lack of evenhandedness in surveillance, the study noted significant and long-standing perceptions that the Fund is not evenhanded.** This is in line with the TSR survey results that a significant minority of country authorities and EDs perceive the Fund not to be evenhanded in its policy advice, especially with respect to its treatment of large AMs (Box 3). At the same time, past IEO evaluations found asymmetries of treatment with respect to: (i) analysis, where the evaluations identified differences between advanced and emerging countries and between high-income and low-income countries (including with respect to the allocation of resources devoted to research); (ii) influence, where perceptions of a lack of evenhandedness have arisen when political influence was seen to be exercised in a non-transparent way (for instance, with respect to the focus of surveillance or the content of conditionality); and (iii) candor, where staff were found not to deliver or to feel strong pressure not to deliver candid messages about risks and vulnerabilities to the larger or more advanced economies. Regarding the latter, the background studies for the 2014 TSR found some evidence that the candor of messages for the larger economies did not always reflect their systemic implications, and were sometimes buried deep in reports. Moreover, one study noted that the follow-up of past policy advice was discussed much less frequently in reports for advanced countries.

**35. 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.** During the Board discussion, a number of EDs saw a need to pay even greater attention to the outputs for surveillance, noting that differences in Fund advice for countries with similar characteristics were the main source of concerns.<sup>13</sup> To ensure a common understanding of this issue, staff clarified that the concept of evenhandedness would reflect both inputs and outputs. In particular, the *2015 Guidance Note for Surveillance under Article IV Consultations* indicates that the new approach should reflect "not just the outcomes (i.e., policy advice) but the underlying inputs to surveillance", and that "surveillance inputs and outputs should both be well-founded and free from bias, consistent with the Fund's principle of uniformity of treatment". The Guidance Note also

<sup>13</sup>One Chair noted that putting emphasis on inputs as opposed to outputs "is not likely to solve the problem of perception of lack of evenhandedness as it would just help justify the concentrated use of resources on systemic and large countries". He stressed that "outputs are as important as inputs, as the latter will determine the quality of the former".

encourages staff to articulate their approach when it differs from that taken for countries in “seemingly” similar circumstances.

### Box 3. Evenhandedness

The surveys conducted for the 2014 TSR included a section to assess the perceptions of evenhandedness held by country authorities, EDs and mission chiefs. In addition, an external study on the *Evenhandedness of Fund Surveillance* was prepared as background for the TSR. The main findings are discussed below.

#### Survey Results on Evenhandedness

- A significant minority of country authorities and EDs perceive the Fund not to be evenhanded in its policy advice, particularly with respect to the treatment of large advanced economies.
  - i. Although a majority of country authorities agrees that the Fund treats them evenhandedly relative to other countries in their region or in similar circumstances, around 20 percent feel that they are not being treated evenhandedly by the Fund in comparison to advanced economies. These views are strongly held in the Americas, and to a lesser extent in Asia Pacific.
  - ii. Some 40 percent of EDs – mainly representing Africa, Asia Pacific, and the Americas – do not believe that the Fund is evenhanded with respect to G-20 advanced economies.
- EDs with concerns about evenhandedness flag the tone and substance of policy recommendations, the treatment of the authorities’ views, and the degree of intrusiveness of Fund surveillance.
- Mission chiefs generally believe that the Fund is evenhanded in terms of the substance of its surveillance, but they are more concerned about the intrusiveness and tone of reports. Around 70 percent of mission chiefs see overall assessments as evenhanded to some or a great extent. However, 40 percent are concerned about lack of evenhandedness in the degree of intrusiveness, and 50 percent about the objectivity/candor of Fund surveillance.

#### External Study – Evenhandedness of Fund Surveillance

- The external study on the *Evenhandedness of Fund Surveillance* reviewed the Article IV reports of 25 countries, and conducted interviews with EDs and mission chiefs. The study reached the conclusion that there was little evidence that surveillance was systematically biased, although there were instances of differences that were not well-justified. It also noted that it was clear that there were still significant perceptions (even held by some staff) that the Fund was not evenhanded, and stressed the need for the Fund to respond to this situation. The study made several recommendations that served as a basis for the 2014 TSR recommendations.
- The study argued that actual evenhandedness should be assessed on the basis of risk-adjusted “inputs” to surveillance (resources deployed, issues to be covered, etc.) or the way surveillance is conducted, rather than by the outcomes from surveillance, which depend on country circumstances.

Source: 2014 TSR–Stakeholders’ Perspectives on IMF Surveillance and 2014 TSR – External Study–Evenhandedness of Fund Surveillance

**36. In line with the TSR recommendations, further work is planned to deepen the understanding of the new approach to evenhandedness and develop a set of criteria to evaluate it.** Cross-departmental work is now underway to develop principles to help form a shared understanding of the issue, and to guide assessments of evenhandedness concerns. In this regard, staff has begun to discuss the broad outlines of an assessment mechanism through which country authorities would raise concerns via their EDs. Based on this new mechanism, management will inform the Board about the concerns raised, along with proposals to address them, when warranted. A paper on *“Evenhandedness at the Fund – Principles and Reporting Mechanism”* is expected to be circulated for information to the Board by November 2015.

**37. To address the asymmetries in candor referred to above,** the *2015 Guidance Note on Surveillance* emphasizes 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”.

**38. Ultimately, evenhandedness issues relate to the governance of the institution.** In this regard, further efforts to enhance transparency and governance reforms can be helpful. Strengthening communications and outreach, especially in the context of Fund programs, would also contribute to avoiding misperceptions.

## D. Conclusions

**39. Most of the actions envisaged in the *Run-Up to the Crisis MIP, the Research at the IMF MIP, the International Reserves MIP, and the Trusted Advisor MIP* have either been implemented or remain in progress, given their long-term nature.** In addition, a few actions have been partially implemented, with no further action foreseen. As work in the areas that are in progress appears to be largely on track, the next PMR will focus on monitoring the implementation of new MIPs and those actions still in progress that are more critical for the Fund.

## Proposed Recommendation

The Executive Board supports the conclusions in Paragraph 39 of the Seventh Periodic Monitoring Report on the Implementation of Board-Endorsed IEO recommendations.

## Appendix 1. 2014 Triennial Surveillance Review: Main Findings and Recommendations

The 2014 TSR sought the views of eminent outside experts, who provided diverse perspectives. It included stakeholder surveys, extensive external inputs (analytical studies, commentaries, interviews, and consultation with civil society organizations), and an independent review by an External Advisory Group. The TSR's main findings and recommendations were:

**A. Risks and Spillovers - Second Generation Reforms:** The Fund has overhauled surveillance to make it more risk-based and to better reflect global interconnections. Steps have also been taken to better integrate bilateral and multilateral surveillance. Looking ahead, this work should be strengthened by focusing more on how risks spread across countries and spillovers transmit across sectors.

### Recommendations

- Continue the integration of bilateral and multilateral surveillance.
- Integrate analysis of risks and spillovers, including by reviving and modernizing balance sheet analysis.
- Address data gaps.
- Strengthen external sector assessment.

**B. Macro-financial Surveillance:** The Fund has strengthened financial surveillance since the crisis, but financial and macroeconomic analyses are still not consistently well integrated in Article IV consultations.

### Recommendations

- Mainstream macro-financial surveillance.
- Strengthen surveillance of macro-prudential policies.

**C. More Tailored Policy Advice:** The Fund needs to adapt its advice to the complexities of policymaking, taking into account evolving views on policy frameworks and better tailoring it to country circumstances.

### Recommendations

- Continue accounting for growth and sustainability implications in fiscal advice.
- Recognize all macro-critical structural issues, but be selective in advising on structural policies.

**D. More Cohesive and Expert Policy Advice:** Significant progress has been made in strengthening the analytical underpinnings of surveillance. However, more could be done by providing a broader perspective based on institutional knowledge of cross-country experiences and technical assistance.

### Recommendations

- Provide more cohesive policy advice, either by discussing the mix of policies or structuring Article IV reports around economic themes.
- Better leverage expert analysis and advice, including cross-country policy experiences.

**E. Achieving Greater Impact:** Engage in a more meaningful dialogue with members, delivering more candid and practical advice.

### Recommendations

- Strengthen the policy dialogue, including by expanding the follow-up on past advice beyond implementation to include reporting on changes in Fund advice.
- Ensure clear and candid surveillance messages, particularly on spillovers from systemic economies.

**F. Evenhandedness:** A significant minority of stakeholders has expressed concerns about evenhandedness. The Fund needs to address these concerns while safeguarding the independence and candor of staff advice.

### Recommendations

- Develop a clearer understanding of how to gauge "evenhandedness of surveillance" by using equal risk-adjusted "inputs" to bilateral surveillance.
- Establish a mechanism for the authorities to report concerns, and deal with the issues transparently.

## Appendix 2. Main Implications of the FY 2016–FY 2018 Medium-Term Budget

The FY 2016 Management Key Goals (MKGs), which shape departmental objectives and budget priorities, emphasize the need to offer cutting-edge analysis in the strategic areas identified in the Global Policy Agenda (GPA); further integrate multilateral work, risks and spillover analysis in bilateral surveillance; mainstream macro-financial surveillance; advance quota reform; and maintain adequate financial capacity.

The FY 2016 budget remains flat for the fourth consecutive year, but includes some important changes. New institutional priorities led to net resource pressures of about \$17-19 million. The new priorities include recommendations from the 2014 TSR, the Categories of Employment Reform, and the building of central contingency reserves. The TSR recommends further steps to mainstream macro-financial surveillance, while the Categories of Employment reform envisages about 120 additional staff positions to carry out work currently performed by contractual employees. Other initiatives, such as the decision to offer free data to all external users, and further work on the Common Surveillance Database project also put additional pressure on the budget.

Following the recent Board discussion on the budget, the following streamlining and efficiency actions have been identified:

- **Lending:** The presumption of semi-annual reviews for GRA arrangements will be applied more systematically, while reserving resource-intensive quarterly reviews for the most vulnerable cases.
- **Ex-Post Assessments (EPAs):** EPAs have been discontinued. Staff reports for new programs will contain a succinct, peer-reviewed assessment of the previous program.
- **Reviews of Fund Policies:** The periodicity for policy reviews will be lengthened to five or more years, on an as needed basis, with assessments on the timing of specific reviews taken in the Executive Board Work Program discussions. The major surveillance and conditionality reviews, the general review of quotas, and the review of the capacity development strategy will be conducted every five years, while the reviews related to PRGT eligibility and interest rates will take place every two years. Related reviews will be merged to ensure a holistic and consistent approach in reviewing major Fund policies.
- **Multilateral Surveillance and General Research:** The work on flagship publications and spillover/external sector analysis will be streamlined. General analytical work will be consolidated, and the link to strategic priorities will be strengthened.
- **Periodic Fund Reports:** The periodicity of Fund reports and operational reviews will be lengthened, and they will be streamlined where possible.
- **Capacity Development:** Fund-financed TA to advanced economies will be limited.
- **Administrative and Other Internal Processes:** The cost of IT support will be reduced; work on risk and early-warning analysis will be consolidated; and internal surveillance meetings will be streamlined.

## Appendix 3. Update on the 2013 Staff Survey and Diversity Issues

### A. Key Issues Arising from the 2013 Staff Survey

- **Employment Framework:** The new employment framework that went into effect May 1, 2015 reforms the rules for new staff appointments and contractual appointments. The reform involved a review by departments of the work currently being performed in contractual positions to determine whether it matched the relevant criteria (temporary or rotational in nature). Based on the results of the review, about 120 new staff positions will be created.
- **Mobility:** New policies have been launched to improve upward and lateral mobility. All qualified staff is now eligible to apply for internal vacancies, regardless of their current grades or years of experience. In addition, staff in specialized career streams and office assistants has more options to move across departments.
- **Training:** HRD has taken action to enhance training by increasing the number of classes and expanding access to courses. Five courses previously restricted to staff at grade levels A12 and above have been opened to all staff, and eligibility requirements have been relaxed, making contractual employees eligible for all non-managerial courses.
- **Managerial skills:** As part of the effort to develop a more open and enabling work environment, in May 2014 HRD, on behalf of management, introduced a Leadership Development Framework for managers. The Framework describes the roles of all managers and the capabilities required to perform them, which now represent the foundation for selection, development and assessment of managers.
- **360 Degree Feedback:** A new 360 degree feedback process has replaced the former SAM to provide better feedback to managers and improve their leadership skills. This new tool collects feedback from subordinates, peers, supervisors, and others familiar with the manager's work.
- **Transparency of personnel decisions:** A variety of mechanisms have been used to inform staff about how performance levels and promotion decisions are taken.

### B. Gender, Geographical and Educational Diversity

- The latest Diversity and Inclusion Annual Report concluded that there had been mixed progress on the diversity benchmarks in FY 2014. Three of the eleven quantitative benchmarks for underrepresented groups were met by the end of FY 2014 – for Middle East and North Africa (MENA+) at the B-level, for women economists (B-level), and for Transition Countries (A9-B5) – while one was close to achievement (East Asia, A9-B5). The other benchmarks remained under target.
- Appointments in FY 2014 were somewhat less diverse than in FY 2013. The share of women hired (both at the mid-professional grades and at the B-level) declined compared to recent years, and the share of underrepresented regional groups also fell. At the same time, there has been a steady, albeit uneven, progress toward more diversity among the Fund's senior managers.
- To promote diversity of thought, efforts have continued to increase EP appointments with PhDs from universities outside the US and Canada (60.7 percent in FY 2014 compared with 53.3 percent in FY 2013). However, the educational profile of Fund staff has not changed markedly in recent years. Among staff with PhDs, the largest share (61.5 percent) comes from US universities, although more than three-quarters of the PhDs were awarded to nationals of other countries.
- A Diversity Working Group developed new benchmarks for 2020. The benchmarks focus on areas where progress is most needed: A9-B5 staff from Sub-Saharan Africa, MENA+, and East Asia, as well as B-level women. In addition, an inclusion index has been developed and integrated into the departmental AFs.

## Appendix 4. Previous MIPs Agreed Since 2007: Summary of Recent Developments

**1. This appendix provides an update of progress on substantive issues related to five previous MIPs agreed since 2007:** (i) *IMF Interactions with Member Countries (January 2010)*; (ii) *IMF Involvement in International Trade Policy Issues (June 2009)*; (iii) *IEO Evaluation of Structural Conditionality in IMF-Supported Programs (January 2008)*; (iv) *IEO Evaluation of IMF Exchange Rate Policy Advice (May 2007)*; and (v) *An Evaluation of the IMF and Aid to Sub-Saharan Africa (March 2007)*.

### A. IMF Interactions with Member Countries

**2. As noted in the previous PMR, most of the actions envisaged in the *Interactions with Member Countries MIP* were also part of the *Run-Up to the Crisis MIP* or the *Trusted Advisor MIP*, and have already been discussed in the main report.** Therefore, the discussion below focuses on recent developments in some areas of the *Interactions MIP* that were not addressed in other parts of this PMR. These developments include:

- In March 2015, staff issued a paper on *Macroeconomic Developments and Selected Issues in Small Developing States*, which was discussed by the Board in an informal session. The paper built on the work in a previous 2013 Board paper on *Fund Engagement with Small States*, 2013 background papers on Asia-Pacific and Caribbean small states, and the March 2014 *Guidance Note on the Fund's Engagement with Small Developing States*. The new paper provides a deeper analysis and policy recommendations in respect of three challenges identified in the previous work: (i) fiscal management; (ii) exchange rate devaluation issues; and (iii) financial inclusion. The paper also analyses the impact and possible policy responses to two global economic trends – lower oil prices and diverse movements in major currencies. In May 2015 the Board considered in an informal session a paper on the *Review of the Fund's Operational Engagement with States in Fragile Situations*.
- A new interdepartmental working group, the “Small Islands Club”, has been formed to support staff working on small states. In addition, collaboration with other organizations takes place through the Small States Forum, led by the World Bank. In recent years, the Fund has also either organized or participated in high-level conferences on these issues – for example, the UN-sponsored International Conference of Small Island Developing States held in September 2014 in Samoa. In early April 2015, APD partnered with HRD to deliver a two-day training session that offered a hands-on approach on how to best leverage the Fund's collective know-how on small states. The training also featured discussions on ways to enhance engagement with development partners and improve the communications strategy in the context of mission work.
- In July 2014 the Executive Board discussed the *Review of the IMF's Communication Strategy*, which was supported by surveys of Fund employees and opinion research by external consultants. The review paper noted that most departments have now tailored communication strategies that are integrated into their work programs and, increasingly, into their AFs.



Communications training has increased for mission chiefs and resident representatives; efforts have been made to better coordinate external communications through closer consultation between area departments, COM, and country authorities; and an institution-wide outreach database was introduced in 2013. EDs concurred that the framework guiding the communications strategy remained broadly appropriate. They also indicated that clarity and consistency were vital for effective communication, and supported plans to conduct impact assessments through more regular opinion research and surveys.

- The Communications Review also concluded that further expansion of social media activity needs to be conducted in a careful and strategic way. As reported in the previous PMR, in 2013 the Fund established Twitter accounts for resident representatives in four countries (South Africa, Peru, India and Pakistan). Although the participating resident representatives found this useful, the pilot program showed that social media accounts require active engagement and close coordination with headquarters on message delivery. The review concluded that expanding social media would be effective, but only if done gradually and strategically, and with adequate support through training and guidelines. The latter are being prepared by COM in consultation with area departments.
- A number of area departments (APD, EUR, MCD, and WHD), in consultation with COM, are revisiting their communication strategy in light of the TSR. Following AFR's example, MCD is planning to roll out a targeted annual survey in FY 2016 to monitor the quality of engagement and policy dialogue. Article IV consultation policy notes are expected to include the key communication messages for outreach.
- In recent years the Fund has organized major regional conferences led by area departments in partnership with COM. In May 2014 the Fund organized in Amman the "Building the Future" conference on the economic future of Arab Countries in Transition, and the "Africa Rising" conference to discuss Africa's recent strong economic performance and key economic challenges. Moreover, a major conference for Latin America took place in Santiago, Chile in December 2014, focusing on managing risks to the region posed by the changing global environment and sharing the benefits of growth more broadly. Almost a year ago, WHD and COM began work on the Road to Lima. This is a series of events organized around WHD's analytical agenda, which include visits by management to key countries in the region, together with regional conferences with the participation of academics and policymakers on the regional challenges to growth and stability. In addition, the recently established Fiscal Forum, which is organized annually at the time of the spring Meetings, provides an opportunity to senior officials from participating countries to learn from each other's experience and discuss policy coordination.
- The findings of the Review of the Communications Strategy were broadly confirmed by the interviews with policymakers conducted for the 2014 TSR. Based on these interviews, the TSR concluded that recent Fund initiatives to strengthen and widen engagement had played an important role in building trust, with outreach contributing to establishing a broader understanding of the institution. The new *Guidance Note on Surveillance under Article IV*

*Consultations* encourages staff to routinely request meetings with political leaders, trade unions, business representatives and CSOs, and to record their views in staff reports. In this regard, COM has prepared guidance on outreach with civil society, legislators, the media, and the general public, and the IMF's Communications toolkit provides staff with up-to-date information on key policy issues. New templates are also available to standardize the presentation of mission press releases and concluding statements for publication. The Executive Board will be briefed on the implementation of the Fund's Communication Strategy in November 2015.

- In July 2014 the staff issued a revised guidance note on conditionality (*“Operational Guidance Note on Conditionality – July 2014 Revisions”*) that introduced several revisions to the December 2009 operational guidance note, in line with recommendations made by the *Review of Conditionality* discussed by the Board in September 2012. The new revised Guidance Note focuses primarily on incorporating guidance on conditionality in relation to macro-social (jobs and growth) issues, better leveraging surveillance and technical assistance in program design, and improving partnerships with other institutions, particularly regional financing arrangements. In addition, the revision adds guidance on the review-based approach to monetary policy conditionality in countries with inflation-targeting frameworks or evolving monetary policy regimes.
- In December 2014 the Executive Board discussed a staff paper on *“Reform of the Policy and Public Debt Limits in Fund-Supported Programs”*, which built on the Board discussion of a paper on *“Review of the Policy on Debt Limits in Fund-supported Programs” held in March 2013*, subsequent informal Board discussions, and various consultations with stakeholders. Key reforms proposed by the paper include: (i) a better linkage of the use of debt conditionality with the presence of significant debt vulnerabilities, as identified by debt sustainability assessments; (ii) a unified treatment of the public external debt, encompassing both concessional and non-concessional borrowing; and (iii) the determination of debt limits as one component of the fiscal framework, appropriately adjusted to country conditions. The unified treatment of debt provides LICs with more flexibility to manage their financing needs. Reflecting the broader approach of focusing on public debt (rather than public external debt), a new set of *“Guidelines on the Use of Public Debt Conditionality in Fund Arrangements”* replaced the former *“Guidelines on Performance Criteria with respect to External Debt in Fund Arrangements”*. The revised policy became effective on June 30, 2015. A staff guidance note for implementing the new policy was issued in May 2015.
- In February 2015 the Board considered in an informal session a staff paper on *“Current Challenges in Revenue Mobilization: Improving Tax compliance”*, which discusses tax policy and administration challenges and new initiatives to help developing countries build effective and efficient revenue systems to meet their development needs.
- In June 2015 the Board discussed a paper on *“The Fund's Lending Framework and Sovereign Debt – Further Considerations”*, which provides further support for proposals to modify the Fund's lending framework in the context of sovereign debt vulnerabilities and addresses potential design and implementation issues related to these proposals. Work on more efficient

approaches to resolving sovereign debt distress is expected to be completed during the remainder of the year.

- In November 2015 the Board will consider a “*Crisis Program Review*” that will take stock of recent crisis program cases to distill lessons.

## B. IMF Involvement in International Trade Policy issues

**3. On February 27, 2015, the Executive Board discussed the five-yearly *Review of the Role of Trade in the Work of the Fund*.** This review was in response to the MIP arising from the 2009 *IEO Evaluation of IMF Involvement on Trade Policy Issues*. The Trade Review focused on macro-critical trade issues and proposed a work agenda for the next five years. The analysis of the work of the Fund was based on three complementary evaluation approaches: (i) textual analysis of staff reports over the last five years; (ii) a structured review by Fund staff of a representative sample of staff reports using a common template; and (iii) a review of multilateral and research work in collaboration with external experts, as well as other areas (e.g., technical assistance and collaboration with other institutions). In addition, interviews with stakeholders were conducted, including the WTO, World Bank, OECD, and International Trade Center.

The main findings of the Trade Review are as follows:

- Growth in global trade has slowed over the last few years as the benefits of past reforms and integration trends have matured and new reforms have languished. On the trade policy side, there have been two important shifts: (i) trade liberalization efforts have migrated in part from multilateral to preferential and plurilateral negotiations; and (ii) the focus has moved from tariffs to non-tariff measures.
- The Fund has done significant and high quality analytical work on trade over the last five years, covering key issues like the great trade collapse, Global Value Chains (GVCs), and trade spillovers. However, coverage of trade and trade policy issues in bilateral surveillance has been limited (with trade policy receiving less attention than trade developments), and there is significant scope for better integration with the multilateral products. In addition, the integration of trade issues in the overall macro assessment has been limited, particularly in EMs and LICs.
- Looking ahead, the review noted that the focus of surveillance should respond to the specific needs of different country groups. For the most advanced economies, a key issue will be the implications of their efforts to pioneer and advance the new trade policy frontiers, including by opening services markets and making their regulatory systems more coherent. Many emerging market economies can still benefit from integration via traditional liberalization and by anchoring their economies to GVCs. Low-income countries can benefit from sustained efforts to reduce trade costs, including by upgrading trade infrastructures and improving economic institutions both at the national and regional levels, supported by relevant technical assistance.
- Collaboration between the Fund, the WTO and the World Bank on trade issues has continued. The joint Annual IMF/World Bank/WTO trade workshops bring together experts of the three

institutions to discuss topical trade issues and relevant analytical projects (this year's workshop was organized by the WTO). In addition, the IMF and the World Bank produce a Trade Watch internal report, which replaced the Trade Monitor report, on a regular basis. These reports contain up-to-date data and analysis covering relevant trade issues, with the objective of providing timely information to the staff of both institutions. In addition, SPR has continued to conduct internal seminars on a monthly basis to discuss relevant trade topics.

- The 2010 reference note on trade policy will be updated and is expected to provide guidance on macro-relevant trade and trade policy issues.

### C. Structural Conditionality in IMF-Supported Programs

**4. In the aftermath of the financial crisis, with limited scope for expansionary macroeconomic policies in many countries, structural policies are expected to play an increasingly important role to restore sustainable growth.** The Sixth PMR noted that there had been a trend towards increased structural conditionality in recent years. The *IEO Evaluation of the IMF Response to the Financial and Economic Crisis* found that the number of structural conditions increased from an average of 8.8 per year in SBAs approved in 2008 to more than 10 in those approved in 2010 (compared with 15.3 per year in programs approved in 1997). In this connection, the 2013 paper on *Greece – Ex-Post Evaluation of Exceptional Access under the 2010 Stand-By Arrangement* indicated that structural conditionality had become very detailed under the arrangement, with a proliferation of fiscal conditions. The evaluation argued that the detailed nature of the structural conditionality deserved further scrutiny. A similar conclusion was reached in *Romania's Ex-Post Evaluation of Exceptional Access under the 2011 Stand-By Arrangement*. In light of the increased relevance that structural reforms are expected to have in the coming years, developments in this area deserve to be followed-up closely.

**5. A new revised *Operational Guidance Note on Conditionality* was issued by staff in July 2014.** The Guidance Note on Conditionality was revised in 2010 to reflect the reform of the Fund's conditionality framework. The reform discontinued performance criteria for structural measures in all Fund arrangements, placing greater reliance on a review-based approach to monitor structural reforms. *The 2014 Guidance Note* reaffirms several principles applying to structural conditionality in Fund programs and incorporates guidance on conditionality in relation to macro-social (also called jobs and growth) issues. The main issues related to structural conditionality that are addressed in the new Guidance Note are:

- In helping the authorities design a Fund-supported program, staff should (i) seek their views and make every effort to accommodate their preferences and policy choices – including on growth, labor market and distributional targets – where possible, subject to consistency with resolving balance of payments problems, macroeconomic stability and all other program goals; and (ii) follow program preparation and review processes that can facilitate reflection on links between program goals, strategies, and conditionality. The reform strategies should be identified early on, including any specific structural measures that are critical to the achievement of program goals, and staff should consider the appropriate timing and sequencing of reforms.

- The preparation process for program approval or review should be used to help ensure that conditionality is parsimonious and well matched to tightly specified program goals, with due regard to the likely program effects on growth, employment and – at least where relevant for growth and stability – income distribution. In this process (including in Policy Consultation Meetings), staff should sketch out the reform strategy to achieve the goals supported by the arrangement and, to the extent possible, indicate the anticipated structural conditionality.
- Program-related conditions generally must be either critical for the achievement of program goals or for monitoring implementation of the program, or necessary to the implementation of specific provisions under the Articles of Agreement.
- The critically criterion applies to all measures – whether they are in the Fund’s core areas of expertise or outside, and whether they are or are not covered by another agency’s (e.g., the World Bank’s) conditionality. However, the focus of conditionality should be primarily on core Fund competencies. For conditions outside the core areas, the guidelines require more detailed explanation of their criticality, along with a strong justification. For non-core but critical measures, the Fund will, to the extent possible, draw on the advice of other multilateral institutions or bilateral donors that can provide the expertise.
- Cross-conditionality, under which the use of the Fund’s resources would be directly subjected to rules or decisions of other organizations, is prohibited.
- Reviews provide the primary tool for monitoring performance on the structural elements of Fund arrangements. The discontinuation of structural performance criteria seeks to ensure that an excessively narrow or rigid focus on specific criteria is avoided. Under the review-based approach, all Fund-supported programs should include a specified agenda for critical structural reforms, if relevant.
- Structural benchmarks remain critical for the achievement of program objectives, either by themselves or because they represent the components of a broader reform measure that is judged to be critical. However, a member’s failure to meet structural benchmarks does not by itself automatically interrupt a disbursement under an arrangement. Rather, deviations serve as indicators that the program may be off-track. Completion of the review would then require a judgment by the Board that there are factors giving confidence that program objectives are being achieved.

**6. The 2014 TSR discussed the role of the Fund on structural issues in the context of surveillance.** The paper recognized that structural issues are increasingly becoming a central element of the macro-toolkit. At the same time, the TSR stressed the need for the Fund to be selective in advising on structural policies.<sup>1</sup> The *2015 Guidance Note for Surveillance under Article IV Consultations* established criteria for the coverage of structural issues in Fund surveillance. The

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<sup>1</sup> In the area of structural policies, the 2014 TSR was supported by an external study on “*Structural Policies in Fund-Surveillance*”.

Guidance Note indicates that, in deciding how to address structural issues, staff should determine the extent to which the issue is macro-critical and whether the Fund has expertise to analyze it or provide policy advice. The Guidance Note also provides a list of structural topics (beyond fiscal and financial issues) that staff may wish to consider in an Article IV consultation. The list includes jobs and growth, infrastructure, labor markets, social safety nets, public sector enterprises, gender (female labor participation), and the macroeconomic challenges of climate change.

**7. Area departments are seeking to improve the coverage of structural issues by collaborating internally and with other agencies and institutions.** AFR and MCD have established departmental groups to coordinate work on inclusive growth issues, while AFR, EUR, and MCD are working closely with the World Bank, OECD and regional agencies to coordinate and develop relevant structural policy advice without duplication. Staff is also developing an analytical framework for identifying structural reforms with the largest productivity payoffs across different country groups, and interdepartmental work is ongoing to explore macroeconomic aspects of inequality, energy and gender issues in selected countries. Looking ahead, labor and product market reforms figure prominently in the research agenda of both functional and area departments.

#### D. IMF Exchange Rate Policy Advice

**8. Based on the surveys conducted for the 2014 TSR, stakeholders are of the view that external assessments should be embedded more fully in surveillance.** Both country authorities and EDs believe that there is room for improving the quality of external sector analysis and for better integrating it into the discussions of the policy mix. The prevailing view is that, in general, Article IV reports express external assessments narrowly in terms of the exchange rate rather than undertaking a more comprehensive assessment of the external position based on a broader set of indicators.

**9. The main developments related to the IEO evaluation of IMF Exchange Rate Policy Advice since the last PMR include:** the preparation of the 2014 External Sector Report (ESR) and the 2014 Spillover Report; further work to broaden and improve the External Balance Assessment (EBA) approach; the issuance of updated guidelines on external sector assessments in the context of the 2015 *Guidance Note for Surveillance under Article IV Consultations*; and recent work on foreign exchange intervention. Each of these issues is discussed in more detail below.

- Efforts have continued to improve methodological aspects and make ESR more consistent and better integrated with bilateral surveillance. The 2014 ESR provided an overview of developments in key external sector variables and an assessment of the external positions of individual economies, including policy options to reduce external gaps. A companion paper discussed in greater detail the external position of each of the 29 economies covered in the ESR. The assessments used a wide range of variables to estimate desirable current account balances and real exchange rates under the EBA methodology. The 2014 Spillover Report, in turn, focused on the global spillovers that might arise from the recovery and normalization of monetary policies in advanced economies, and from slower growth in emerging markets. The 2015 ESR and Spillover Report will analyze global imbalances, spillovers, and the policy implications from

exchange rate movements among major currencies, which will then be integrated in relevant Article IV consultations. Looking ahead, both the ESR and the Spillover Report will be more focused and targeted to policymakers, with the analysis from the latter to be folded into the WEO from 2016.

- The EBA approach developed by the Research Department provides a multilaterally consistent estimate of current account and real effective exchange rate gaps for around 50 countries. Norms and gaps can be decomposed into contributions from “fundamental” characteristics and policies. To extend the use of the EBA methodology to non-EBA countries, SPR has developed EBA-lite to replace CGER-based methodologies. EBA-lite extends the EBA methodology to a broader group of countries where adequate data are available (147 countries including EBA cases). Unlike EBA, EBA-lite includes aid and remittances as explanatory variables but drops public health spending due to lack of information. The *Managing Director’s Action Plan* envisages that a paper describing the EBA-lite methodology as well as the dataset and programs underpinning EBA-lite results will be made publicly available by end-2015. Efforts are also underway to assess the scope for developing an EBA-lite type external sector assessment methodology for LICs. An internal External Sector Assessment website provides operational guidance, tools, and resources for current account and exchange rate assessments.
- The 2015 Guidance Note for Surveillance indicates that staff should provide a clear bottom line assessment of the member’s balance of payments based on a broad perspective. The assessment should go beyond surveillance of exchange rate and exchange rate policies, with staff encouraged to cover five key areas: current account, capital flows and policy measures, exchange rates, reserves and foreign exchange intervention, and external balance sheets. BOP assessments should be fully integrated into the staff’s advice on the overall policy mix. EBA and EBA-lite methodologies can help identify the contribution of domestic (and foreign) policies to external imbalances, but staff should discuss policy contributions to external imbalances regardless of the methodologies used.
- The Guidance Note establishes that countries in the ESR should use and report EBA results (except those that are non-EBA countries). At the same time, countries in EBA but not the ESR should normally use and report EBA results. However, if other methods (such as EBA-lite) are considered more suitable for a particular non-ESR EBA country, country teams can base their assessments on these results in consultation with RES and SPR. For non-EBA countries, the use of EBA-lite is encouraged. Countries with serious data limitations and/or special circumstances (financial centers, and countries dependent on large aid-remittance inflows, commodity exports or tourism) can use other methods, including qualitative information.
- An informal Board discussion on *Foreign Exchange Intervention – Issues and Experiences* was held in February 2015. The discussion focused on key considerations for foreign exchange intervention under disorderly market conditions and for applying the Fund’s framework to quantitative easing/quantitative external easing.

## E. The IMF's Work on LICs and Aid to Sub-Saharan Africa

### 10. The main developments that have taken place regarding the Fund's engagement with LICs, in particular with Sub-Saharan countries, since the Sixth PMR was prepared are as follows:

- In October 2014 the staff issued a policy paper on *Macroeconomic Developments in Low-Income Developing Countries: 2014 Report*, which was discussed in an informal Board session. The paper examined macroeconomic developments and related vulnerabilities in low-income developing countries (LIDCs) – a group of 60 countries mostly eligible for concessional financing from both the Fund and the World Bank. The report analyzed the strong economic performance by the majority of LIDCs since 2000 and assessed their short-term economic prospects. Key findings include: (i) most LIDCs have recorded a strong economic growth for an extended period, but based primarily on factor accumulation rather than productivity growth; (ii) about one-half of LIDCs are classified as being at medium-high vulnerability to a growth shock, with weakened fiscal positions being a key source of vulnerability; and (iii) fiscal institutions, including debt management, should be strengthened to preempt the build-up of potential new imbalances. In the future, this type of reports will be prepared on an annual basis, concentrating on different thematic topics. The 2015 report is expected to focus on the current conjuncture; risks faced by LIDCs; and policy issues arising from their deeper integration with international financial markets. The vulnerability exercise for LIDCs will be included as a chapter of these annual reports.
- On February 4, 2015, the Executive Board approved the establishment of the *Catastrophe Containment and Relief Trust (CCRT)*, allowing the Fund to provide debt relief to LICs hit by public health disasters with international spillover potential, as well as to members experiencing other types of catastrophic events. The CCRT replaced the *Post-Catastrophe Debt Relief (PCDR) Trust* established in June 2010 in the wake of a massive earthquake in Haiti, expanding the circumstances under which the Fund can provide exceptional assistance to its low income members to include public health disasters. The CCRT has already provided debt relief of close to \$100 million for the three countries affected by Ebola in West Africa – Liberia, Sierra Leone, and Guinea. This is in addition to close to \$305 million of assistance provided to these countries since September 2014.
- The Fund actively participated in the July 2015 Financing for Development (FfD) Conference in Addis Ababa, which discussed an appropriate framework – consistent with national and international policy priorities – for development financing. In addition, the Fund is providing support to the September UN General Assembly meeting in New York, which is expected to adopt a post-2015 development agenda and a new set of Sustainable Development Goals (SDGs) to replace the existing Millennium Development Goals (MDGs); and the Climate Change Conference in Paris in December. The Fund is engaged in this international dialogue in several dimensions: it is preparing a paper elaborating its policy positions on key areas in the FfD debate that are relevant to the Fund's mandate and proposing new initiatives to enhance the Fund's support for developing countries. As a key stakeholder in the Financing for Development



process, the Fund was also actively involved in the drafting process of the outcome document for the FfD Conference and is collaborating with other multilateral organizations in other work streams related to the post-2015 development agenda.

- Collaboration with other international agencies on LIC-related issues has continued. The World Bank and the Fund have continued to prepare the Global Monitoring Report (GMR), which has assessed on an annual basis the implementation of policies and actions to achieve the MDGs. The 2014/2015 GMR confirmed that the important goal of cutting extreme poverty in half by 2015 was met ahead of time in 2010 in the context of a generally adequate stance of supporting policies. With the expected adoption of the SDGs in late September 2015, the 2015/2016 GMR will take a longer than usual perspective both looking back at the MDGs and forward to the SDGs.
- In late June 2015, the Executive Board supported reforms to the Fund's Poverty Reduction Strategy (PRS) policy. With the HPIC Initiative almost completed, and growing national recourse to alternative documentation for country development strategies, the reform seeks to maintain a clear link between a member's PRS and its policies under a Fund-supported program, with streamlined PRS documentation, while allowing flexibility in PRS procedures to reflect country circumstances. For ECF arrangements and PSIs, the Board supported the transmittal to the Fund of an Economic Development Document (EDD) that could comprise an existing national development plan or strategy document, or a newly-prepared document on a member's PRS elaborated for Fund-supported program purposes.
- In partnership with the Fund, the UK's Department for International Development (DFID) has continued to provide funding for research on LICs in several areas: monetary and exchange rate policies; public investment, growth, and debt sustainability; macroeconomic management and natural resources; macroeconomic policies and income distribution; financial deepening for macroeconomic stability and sustained growth; growth through diversification; capital flows; and gender and macroeconomics. The resources provided by DFID are used to hire researchers, organize conferences, and work with country authorities on applying frameworks and tools.
- Fund staff's ongoing work on LICs also includes analyses of how to best use natural resources for development, macro-financial linkages and credit booms, and the preparation of an SDN on sovereign bond issues. In addition, one of the Staff Background Studies that were prepared for the 2014 TSR includes a Chapter on *"Scope of Surveillance in LICs"*.
- A biennial review of eligibility for concessional financing was conducted in July 2015.
- In late 2015 the Board will be briefed on *"Evolving Monetary Policy Frameworks in LICs and Other Developing Countries"*, which examines how monetary frameworks can be made more credible, countercyclical and forward-looking in the presence of less developed financial systems and high vulnerability to shocks.

## Proposed Decision

The following draft decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

The Executive Board supports the following conclusion:

Most of the actions envisaged in the Management Implementation Plans for *IMF Performance in the Run-Up to the Financial and Economic Crisis*, *Research at the IMF—Relevance and Utilization*, *International Reserves—IMF Concerns and Country Perspectives*, and *Role of the Fund as a Trusted Advisor* have either been implemented or remain in progress, given their long-term nature. In addition, a few actions have been partially implemented, with no further action foreseen. Work in the areas that are in progress appears to be largely on track.