

EB/EVC/11/4

March 29, 2011

To: Members of the Evaluation Committee
(Mr. Majoro, Chair; Mr. Alkholifey, Mr. Andersen, Mr. Gibbs, Mr. Legg,
Mr. Mojarrad, Mr. Nogueira Batista, Mr. Virmani)

From: Alessandro Zanello, Committee Secretary

Subject: **Implementation Plan in Response to Board-Endorsed Recommendations
for the IEO Evaluation of IMF Performance in the Run-Up to the
Financial and Economic Crisis**

The attached paper on the Implementation Plan in Response to Board-Endorsed Recommendations for the IEO Evaluation of IMF Performance in the Run-Up to the Financial and Economic Crisis will be taken up for discussion at a meeting of the Evaluation Committee to be held on **Tuesday, April 26, 2011** in the Board Committee Room (HQ1-12-120B).

Att: (1)

Other Distribution:
Members of the Executive Board
Department Heads

INTERNATIONAL MONETARY FUND

Implementation Plan in Response to Board-Endorsed Recommendations for the IEO Evaluation of IMF Performance in the Run-Up to the Financial and Economic Crisis

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Approved by Ranjit Teja

March 28, 2011

I. INTRODUCTION

1. **This paper presents a forward-looking implementation plan for the above-cited IEO report.**¹ During the Board discussion, Executive Directors “concurred with the general thrust of the IEO evaluation and recommendations” and “considered that the report provided a balanced assessment of the failure of Fund surveillance to adequately anticipate and warn about the global crisis, consistent with the Fund’s own reports that acknowledged these shortcomings.” They broadly agreed with the IEO findings on the factors that had contributed to the failure to identify risks and give clear warnings in the run up to the global financial crisis. At the same time, they noted that “the reform initiatives undertaken since the onset of the crisis—the early warning exercise, the vulnerability exercise for advanced economies, inputs into the G20 Mutual Assessment Process, integration of WEO-GFSR messages, mandatory financial stability assessments for systemic countries, and cross-country and spillover reports—will help enhance the candor and traction of surveillance.” The issue is how to build on this progress, as well as consider additional steps that could be taken in response to the IEO recommendations.

II. IEO RECOMMENDATIONS AND BOARD REACTIONS

2. **The Evaluation made five general recommendations, each followed by more specific recommendations on how they could be implemented.** The five general recommendations were:

¹ *IEO Evaluation of IMF Performance in the Run-Up to the Financial and Economic Crisis* (SM/11/7), and *The Chairman’s Summing Up – IEO Evaluation of IMF Performance in the Run-Up to the Financial and Economic Crisis*. (BUFF/11/21).

- Create an environment that encourages candor and diverse/dissenting views;
- Strengthen incentives to “speak truth to power”;
- Better integrate financial sector issues into macroeconomic assessments;
- Overcome silo behavior and mentality; and
- Deliver clear consistent messages to the membership on the global outlook and risks.

3. **In their discussion, Directors expressed a range of views on the appropriateness and suitability of the IEO’s *specific* recommendations.** They underscored that further analysis and discussion were warranted in some areas to make the specific recommendations actionable within competing work program priorities and budgetary constraints. They also suggested considering other responses to complement the IEO’s general recommendations.

4. **This Implementation Plan therefore proposes a phased approach.**

- A. For those specific recommendations that commanded a high degree of support from the Board, concrete steps are put forward.
- B. For those recommendations where the Board considered that further analysis and discussion was warranted, the plan indicates how this work could be taken forward, and on what timescale. The upcoming Triennial Review of Surveillance (TSR) will play an important role in this regard.
- C. For those areas involving a range of recommendations and no clear consensus, the plan presents a few proposals for further Board consideration.

5. **As the proposed approach covers areas where specific new initiatives have yet to be defined, regular monitoring will be especially important.** Given the role of the upcoming TSR in assessing the need for shifts in the implementation of surveillance, a mechanism is needed to incorporate any specific initiatives that might be agreed as a result. It is expected that upcoming IEO Periodic Monitoring Reports will cover such initiatives, allowing the institution to track progress.

III. IMPLEMENTATION PLAN

A. *Specific Recommendations with A High Degree of Board Support*

IEO Recommendation: *“Ensure that Summings Up of Board discussions better reflect areas of significant disagreement and minority views.”*

6. Efforts to appropriately reflect minority views in Summings Up will continue.²

During the Board discussion of the IEO report covered by this MIP, the Managing Director explained that the approach taken in the preparation of Summings Up for country matters differs from that for the Summings Up for policy matters. For country Summings Up, the aim is to deliver to country authorities focused policy messages that convey the sense of the Board meeting. For policy meetings, by contrast, the convention is for the Summings Up to reflect a range of views to help pave the way for consensus and operational guidance.

7. In recent months, efforts have been made through reforms of Board practices to highlight the variety of Directors' views in the preparations for Board discussions.

Specifically, the document entitled *Main Themes in Grays* now casts a sharp light on “Issues for discussions” (in the case of country matters) or “Remaining Diverging Views” (in the case of policy matters). With factual questions answered in writing ahead of meetings, Board discussions are generally better framed for a substantive consideration of key issues—and, as importantly, for an explicit airing of minority views during the meetings.

8. A paper on the six-month assessment of reforms in Board practices would be an appropriate vehicle to further consider the question of minority views in Summings Up.

The assessment paper will also review the experience with and identify areas for possible improvement in other Board practices directly and indirectly affected by the reforms, including the Board calendar, Gray statements, the Main Themes in Grays, Lapse of Time procedures, and speaker intervention times.

IEO Recommendations: “*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.*” And “*Strengthen financial sector expertise in the IMF by updating the staff's knowledge through training and by hiring experienced market participants in both the Monetary and Capital Markets Departments (MCM) and area departments.*”

9. Considerable efforts will continue to broaden the professional diversity of staff, including their educational background and skill mix. In this regard, steps have been taken to recruit a higher proportion of midcareer economists with substantial policy experience (72 percent in 2010, up from 59 percent in 2005). More staff have also been hired with financial sector experience as well as experts with fiscal and debt policy skills, doubling the number of hires with such skills in recent years.³ The Fund has also increased support for

² For background on the origins, purposes, and processes of summings up, see *Improving the Summing Up Process* (EB/APC/09/3, 6/2/2009).

³ In 2010, the Fund hired 24 individuals with financial sector experience and 15 with fiscal/debt policy skills.

training and secondments, which have allowed staff to sharpen their knowledge of financial markets. Progress in these areas will continue, and updates will be provided to the Board on an annual basis by the Human Resources Department (HRD). The next such update is expected in April.

10. On other dimensions of staff diversity:

- The recent B-level diversity initiative targeting nationals from underrepresented regions, aided by in-house expert sourcing, has begun;
- The search for diverse candidates, especially for the Economist Program (EP), has been broadened globally and will remain so;⁴
- Targeted recruitment missions to underrepresented regions have continued with support from regional offices.

11. A Working Group (WG) has been considering ways to enhance career development opportunities for A14 staff, including economists and financial sector experts. The proposed recommendations of the WG established by Management cover reforms that would support career development for financial sector experts, including broadening promotion criteria for A15/B1 to improve career progression for staff engaged in advisory and technical services; enriching job content, visibility, and opportunities for cross-department collaboration; and enhancing internal and external mobility opportunities. The draft report was forwarded to Management in January 2011. The incoming Deputy Managing Director, who has broad experience on staff management issues, will review these recommendations and determine with departments, including HRD, how to move forward.

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.”*

12. Staff will consider ways to better disseminate systemic risk assessments under the early warning exercise (EWE), beginning with the 2011 Spring Meetings. In the Board discussion, Directors encouraged enhanced outreach related the EWE, but did not support the recommendation to create a new risk assessment unit, given overlap with other recent initiatives. Going forward, EWE assessments would be presented more broadly to

⁴ For instance, the composition of the 2011 EP intake will include 70 percent from under-represented regions, 45 percent from non-U.S. universities, and 55 percent women. This compares with 58 percent, 42 percent, and 39 percent, respectively, in 2006.

country teams, while any external outreach on the EWE would be mindful of the need to provide appropriate commentary and safeguards. Further, the 2011 TSR will consider the effectiveness of recent efforts to incorporate risk assessments from the vulnerability exercises for emerging and advanced economies in Article IV consultation discussions.

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

13. **Management intends to put in place an action plan in response to the recent staff survey by next June.** The plan is being developed by HRD, working with departments and the Staff Association Committee. More than 2,000 staff participated in the survey in December 2010 and January 2011, a response rate of over 70 percent. The survey was developed based on inputs received from focus groups conducted in the summer of 2010, which identified key themes and areas of concern among staff, including career development, work environment, performance management, and leadership. Overall the survey results were very positive, but the survey also revealed some concerns. On the latter, for instance, less than half of respondents said that they felt comfortable voicing their opinion on matters that affect them, and only a quarter felt that there is a climate where staff can challenge traditional ways of doing things. These issues warrant further scrutiny, including to determine if they relate to administrative processes or to the core work of surveillance, lending, and technical assistance. In the Board discussion, Directors supported the proposal to continue regular self-assessments, with input from both authorities and external stakeholders. This in fact has increasingly been the case in recent years in both strategic and policy reviews (the Fund’s Mandate, medium-term strategy, and surveillance and conditionality reviews). IMF-wide surveys could also occur at more regular frequencies, but this would entail additional costs (see below).

B. *Specific Recommendations Needing Further Analysis and Discussion*

14. **The following recommendations will be considered as a part of the forthcoming TSR, which is expected to be completed before the 2011 Annual Meetings.**

IEO Recommendation: *“Actively seek alternative or dissenting views by involving eminent outside analysts on a regular basis in Board and/or Management discussions.”*

15. **As a start, external experts will provide both independent reports and independent checks on staff for the forthcoming TSR, the Fund’s most important internal review of surveillance.** Several of these experts will present their views on keys issue covered by the review and prepare reports based on structured interviews with country authorities. These reports will be provided to the Board in full. Additional external input through an Advisory Group will provide an independent check on staff analysis and recommendations. This group will comprise a diverse range of experts with broad regional representation and policy experience. The group’s view will be shared with the Board, and

published as part of the TSR. Following this experience, alternative views will then be sought in a similar way for other policy and surveillance discussions.

IEO Recommendation: *“Continue to strengthen the FSAP and address the problems...which limited its effectiveness in the run-up to the crisis.”*

16. **The forthcoming TSR will provide a general review of financial sector surveillance, which will touch on the implications of the recent FSAP reforms.** This follows the recent review of the FSAP, and the 2010 decision to make the financial stability assessment component a mandatory part of the Article IV process for the world’s top 25 financial centers. Consideration of any possible enhancements would need to take into account that the assessment would only be preliminary, given that the changes are recent. The TSR will also review progress in data sharing and in filling data gaps related to the financial sector, including those identified by the G20.

C. Specific Recommendations with No Clear Consensus

17. **Other issues and recommendations were discussed during the Board meeting, but there was no agreement on how best to move forward.** These relate to the IEO’s general recommendations to *“create an environment that encourages candor and diverse/dissenting views”*, and to *“strengthen incentives to speak truth to power”*. The Board also underscored the need to directly tackle issues of internal culture and institutional values. The following three issues are presented for Board discussion:

- The IEO highlighted that a common theme across its recommendations is the need to address weaknesses in IMF governance. The IEO previously addressed this issue in their 2008 report on *Governance of the IMF*, which brought to the fore the issue of activating the ministerial-level Council envisaged in the Articles of Agreement. This idea was supported by the *Committee on IMF Governance* in their March 2009 report, and discussed again by the Board in *IMF Governance Reform* papers in July 2010. No agreement was reached at the time, but Directors did support additional work on fostering ministerial engagement.⁵ During the Board discussion of the current evaluation, many Directors highlighted the need to increase ministerial involvement in the IMF. Directors could therefore consider when it would be most productive to revisit the issue of ministerial involvement.

⁵ *IMF Governance Reform (SM/10/182)* and *The Chairman’s Summing Up IMF Governance Reform Executive Board Meeting, July 28, 2010 (BUFF/10/116)*.

- Regarding potential changes to internal culture and institutional values, there are no quick remedies. But as a first step, if Directors agree, staff could convene a cross department taskforce, or, alternatively, an external consultancy could be engaged, to examine how best to address these issues and report back to the Managing Director within the next year. The results of the recent Staff Survey would provide important inputs into this process. Progress could then be reported to the Board in the context of the next Periodic Monitoring Report.
- Finally, a few Directors suggested that a strategic statement or vision for the Fund should be considered. They noted that this would be vital if improvements in the scope and quality of the Fund's various surveillance products are to be effectively integrated and traction with authorities is to be enhanced. At the same time, it would be important to consider how such a statement would fit with existing documents that play a similar role, such as the statement of surveillance priorities, the Managing Director's Statements on the Work Program and Medium Term Budget, IMFC communiqués, and indeed the Articles of Agreement. If the Executive Board agree that this would be a useful innovation, staff could draft a proposed statement for Board consideration.

IV. RESOURCE IMPLICATIONS

18. **Some initiatives outlined above would not need additional resources, while resource implications for others require additional Board discussion.** In particular, many of the concrete actions listed above (paragraphs 6-13) are either ongoing or could be accommodated under the existing budget envelope. The recommendations stemming from the WG on A14 staff would be budget neutral over time, although some upfront costs could be expected for a few initiatives (for example, increasing external mobility opportunities and broadening promotion guidelines for specialist staff). These budgetary implications would need to be considered first during the internal review process. Also, undertaking more regular IMF-wide self assessments would entail an additional cost. The 2011 staff survey cost \$350,000, of which \$100,000 was for staff support. For many of the proposals needing further analysis and Board discussion (paragraphs 14-17), including ones that would be developed through the TSR, it would be difficult to estimate resource implications at this stage. However, for the proposal to seek alternative or dissenting views by involving eminent outside analysts on a regular basis in Board and/or Management discussions, the resource implications of this proposal can be roughly set out. Using the experience of the TSR as a guide, the cost of the External Advisory Group to the TSR will be approximately \$200,000. This is the projected cost for 12 experts to work periodically on the TSR issues over five months, and includes attending two meetings in Washington.

Table 1. IEO Evaluation of the IMF’s Performance in the Run-Up to the Financial and Economic Crisis: Recommendations, Board Response, and Proposed Follow-Up

IEO Recommendations	Executive Directors’ Responses	Follow-Up Plan
Create an environment that encourages candor and diverse/dissenting views		
<p>1. Actively seek alternative or dissenting views by involving eminent outside analysts on a regular basis in Board and/or Management discussions.</p>	<p>“Directors generally agreed that more should be done to seek alternative or dissenting views, and a number of Directors were of the view that direct interactions between the Board and eminent outside analysts could be enhanced.”</p>	<p>For the forthcoming TSR (expected to be completed before the 2011 Annual Meetings), external experts will contribute independent views on key issues covered by the review and to prepare reports based on structured interviews with country authorities. Following this experience, alternative views will then be sought in a similar way for other policy and surveillance discussions.</p>
<p>2. 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.</p>	<p>“A number of Directors did not support the IEO’s recommendation to create a new risk assessment unit, given the overlap with other recent initiatives, but instead encouraged enhanced outreach to disseminate risk assessments under the early warning exercise.”</p>	<p>Outreach in the context of the EWE will be enhanced starting with the next exercise whose findings will be presented during the 2011 Spring Meetings.</p>
<p>3. 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.</p>	<p>“Directors supported the recommendation to broaden the diversity of staff, including their educational background and skill mix. They welcomed ongoing efforts to hire financial sector experts and to manage their career progression once in the Fund.”</p>	<p>Considerable efforts will continue to recruit a higher proportion of midcareer economists with substantial policy experience. More staff have also been hired with financial sector experience as well as experts with fiscal and debt policy skills. Progress in this area will be reported, with regular updates to the Board through the annual Diversity report and the Recruitment and Retention update incorporated in the compensation paper.</p>
<p>4. Ensure that Summings Up of Board discussions better reflect areas of significant disagreement and minority views.</p>	<p>“Many Directors...noted the value of having more granular Summings Up of Board discussions to reflect important minority views, without losing track of the objective of building consensus.”</p>	<p>Experience with Summings Up since the advent of the Board Practices reforms will be included in a follow up paper on the six-month assessment of the implementation of the reforms.</p>

Strengthen incentives to “speak truth to power”		
<p>1. Management should encourage staff to ask probing questions and challenge Management’s views and those of country authorities. Well-founded analysis should be supported by Management and the Board even when the diagnosis might not be shared by country authorities.... Clarify the roles and responsibilities of Board members and Management in ensuring that staff is not unduly constrained by political considerations when conducting surveillance.</p>	<p>“Directors agreed that incentives needed to be strengthened to ensure the Fund “speaks truth to power,” while noting that this was an exceedingly difficult issue for any international agency. Directors looked forward to the upcoming <i>Triennial Surveillance Review</i>, which will examine the promotion of effective surveillance.”</p>	<p>The forthcoming TSR will consider the promotion of effective surveillance.</p>
<p>2. Conduct regular IMF-wide self-assessments to look at the health and functioning of the organization.</p>	<p>“Directors supported the proposal for the IMF to continue to conduct regular self assessments with input from both authorities and external stakeholders.”</p>	<p>The 2011 staff survey, which was hosted by an external survey consultant, identified key themes and areas of concern among staff. Based on the findings, departments will work with Management to develop action plans by June. Regular self-assessments, with input from both authorities and external stakeholders, will continue also in the context of strategic and policy reviews.</p>

Better integrate financial sector issues into macroeconomic assessments		
<p>1. It is necessary...to ensure that the coverage, periodicity, and participation in the mandatory financial stability assessments reflect new developments in the rapidly changing financial markets and institutions....The Board should also revisit the possibility of conducting mandatory financial stability assessments every three years...continue to strengthen the FSAP...strengthen its ability to regularly monitor, assess, and warn about stability in global and systemic financial markets and institutions.</p>	<p>“Directors welcomed the IEO’s positive appraisal of the recent changes to the FSAP, and felt it would be useful to have further discussion of possible enhancements.”</p>	<p>The forthcoming TSR will provide a general review of financial sector surveillance, which will touch on the implications of the recent FSAP reforms.</p>

<p>2. Strengthen financial sector 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>"[Directors] welcomed ongoing efforts to hire financial sector experts...some Directors also emphasized the need to continue increasing MCM engagement in Article IV consultations for systemic cases."</p>	<p>More staff have been hired with financial sector experience. Progress in this area will continue, with regular updates to the Board. MCM engagement on financial sector issues in Article IV consultations for systemic cases has increased markedly.</p>
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<p>Overcome silo behavior and mentality</p>		
<p>1. Management should clarify the rules and responsibilities for the internal review process, in particular for "connecting the dots." It should hold the corresponding units and senior staff responsible for integrating multilateral and bilateral surveillance, taking account of alternative views, 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 and of the development of themes and ideas for multilateral surveillance documents, [and] ensure that substantive differences in departments' views are addressed as they arise.</p>	<p>"Directors stressed that, while more could be done to foster cross-departmental collaboration, recent initiatives, such as the new internal review process, should be given time before changes are considered."</p>	<p>No further action is proposed until the recent changes to the internal review process have been given sufficient time to provide a meaningful evaluation.</p>

<p>Deliver a clear, consistent message to the membership on the global outlook and risks</p>		
<p>1. 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>"Directors...considered it crucial that the analyses of the WEO, GFSR, and the Fiscal Monitor deliver a consistent message."</p>	<p>The TSR will examine the promotion of effective surveillance, and specifically at whether the Fund has been effective in contributing timely, clear, analytically well grounded, and candid diagnosis and policy advice on financial sector crisis response.</p>