

SM/14/194

July 1, 2014

To: Members of the Executive Board

From: The Secretary

Subject: **Sixth Periodic Monitoring Report on the Status of Implementation Plans in Response to Board-Endorsed IEO Recommendations**

Continuing the approach used with previous Periodic Monitoring Reports (PMRs), which was agreed to by the Executive Board, the following procedures will be followed with regard to the Board issuance and consideration of the PMR document. The document will be first reviewed by the Evaluation Committee (EVC). Following this discussion, it is expected that the EVC would recommend endorsement of the PMR by the full Board on a lapse of time basis. This recommendation will take the form of a draft decision included in the PMR. Board discussion will take place only if an Executive Director requests it following the EVC review or if management considers a meeting desirable. In the absence of a Board discussion, there will be no Board summing up. The Summary Record of the EVC discussion would note the views of EVC members as well as non-members. A press release, to be prepared on the basis of the Board's lapse of time decision, will be posted on the Fund's website along with the PMR.

The draft decision appears on page 67.

The Evaluation Committee will discuss this report on Tuesday, July 15, 2014.

Questions may be referred to Mr. Meyers, OIA (ext. 35912).

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

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

June 30, 2014

EXECUTIVE SUMMARY

This Periodic Monitoring Report (PMR) reviews the status of implementation of actions set out in four Management Implementation Plans (MIPs) that were endorsed by the Board in the period since the last (fifth) PMR, which was issued in September 2012, and approved by the Board in February 2013. It also presents a brief update of progress on relevant issues related to previous MIPs agreed since 2007.

The assessment of the implementation status of the actions envisaged in the four new MIPs required a degree of judgment, particularly for those recommendations of a general nature concerning changes in institutional values and processes. While one-off actions may not require ongoing monitoring, those dealing with institutional and cultural issues involve progressive steps. Moreover, when operational changes are introduced to address broad policy goals (i.e., substantive reforms in surveillance, the development of a financial sector strategy, or major reforms in the area of human resources), a longer time horizon is necessary to help assess whether adequate progress is being made.

This PMR takes the view that, in assessing the implementation of reforms related to institutional values and processes, it is advisable to allow sufficient time to ensure that the progress made is sustainable. In some cases, a robust assessment of implementation may require additional information, including through new surveys of country authorities, Executive Directors, and/or staff.

Substantial progress in the implementation of planned actions has been realized for the MIPs covered in this report. Broadly speaking, most of the actions envisaged in the four new MIPs have either been implemented or are in progress. Overall, these MIPs contained 21 IEO Board-endorsed recommendations, which resulted in 46 follow-up steps to address them. Based on our findings, 20 follow-up steps (over 40 percent of the total) have been implemented, while 22 steps (just under 50 percent of the total) are still in progress, and four steps have been partially implemented.

Out of the four MIPs, assessing the implementation status for actions arising from the IEO Evaluation of *IMF Performance in the Run-Up to the Financial and Economic Crisis*, and from the IEO Evaluation of *The Role of the Fund as Trusted Advisor*, was particularly challenging, given the general nature of some recommendations and the multiplicity of issues involved. Looking ahead, better

specification of follow-up steps, clearly linked to the recommendations, would help identify any shortfalls in the remedial actions that have been taken. The PMR also provides detailed information on the steps taken to address HR issues, including hiring of experts and mid-career economists, diversity, leadership development, and staff tenure in country assignments.

Regarding the *Run-Up to the Crisis MIP*, substantial progress has been made in strengthening the monitoring of risks and the dissemination of risk assessments. Several steps have also been taken to change the insular culture of the Fund; better integrate financial sector issues into macroeconomic assessments; encourage staff to challenge “group think;” and address silo behavior and mentality by intensifying cross-departmental collaboration, promoting diverse ideas, and better analyzing linkages and spillovers. Work continues 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 weaknesses identified in the 2013 Staff Survey. Other pending issues include the need to devote more time to staff training; address remaining perceptions about lack of evenhandedness across countries; and strengthen the support available for vulnerable (but non-systemic, non-advanced) countries on issues requiring specialized expertise.

Regarding the *IEO Evaluation of Research at the IMF – Relevance and Utilization*, the envisaged Strategic Review of Research has been completed. The related assessment of the MIP’s implementation relied, to a large extent, on the findings of a report prepared by an external consultant in support of the Strategic Review. A number of actions to address the MIP recommendations are in progress, including steps to intensify consultations with country authorities on research topics, and the implementation of new procedures to strengthen the review process for working papers. These procedures should also help address the problem of “message driven” research identified in the IEO report. At the same time, although there is exchange of information across departments, no centralized Fund-wide coordinating mechanism for all research activities across the Fund has been put in place.

In the case of the MIP arising from the *IEO Evaluation of International Reserves – IMF Concerns and Country Perspectives*, the implementation assessment was more straightforward because the topic is more specific and the associated MIP involves a shorter list of follow-up steps. A follow-up paper on *Assessing Reserve Adequacy – Further Considerations*, issued in November 2013, addresses many of the issues raised in the IEO Evaluation in the context of bilateral surveillance of international reserves. In July 2014, the staff is expected to engage the Board on additional operational considerations, and it is intended that a new guidance note on international reserves will be issued in early 2015.

Finally, with regard to the IEO Evaluation of the *Role of the Fund as Trusted Advisor*, management has issued clear instructions on a number of actions to be taken to address the recommendations. Although there is evidence that some actions have been implemented, a definite assessment of the progress made in practice on implementing several other actions requires additional information from surveys of country authorities and Executive Directors envisaged in the MIP.

Further steps in many of the actions that are still in progress will be tracked in forthcoming exercises, such as the TSR. As work in these areas appears to be largely on track, additional follow-up in future PMRs will be provided at a more general level. For specific actions that will not be covered elsewhere, it is expected that the next PMR will provide a progress report.

Approved By
Clare Brady

Prepared by the Office of Internal Audit and Inspection with the assistance of Juan Carlos di Tata (consultant)

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OVERVIEW

1. **Periodic Monitoring Reports (PMRs) provide an update on the status of Management Implementation Plans (MIPs) in response to IEO recommendations endorsed by the Executive Board.** The last (Fifth) Periodic Monitoring Report (PMR) was prepared by the Strategy, Policy and Review Department (SPR) and circulated to the Evaluation Committee (EVC) on September 25, 2012. The report covered one new MIP arising from the *IEO Evaluation of IMF Interactions with Member Countries* (hereafter the *Interactions MIP*) and included, for the first time, an update of progress on all the Board-Endorsed recommendations made since the first PMR in 2007.
2. **The Executive Board, in concluding the Fifth PMR on a lapse-of-time basis, considered that all performance benchmarks from the MIP being reviewed had either been met or were on track for completion, proposed no new remedial actions, and noted that there were no outstanding performance benchmarks to be reviewed in the next PMR.** In its discussions on the Fifth PMR, the EVC indicated that going forward, two issues required special attention, namely, the monitoring of human resources issues and the implementation of past IEO recommendations.
3. **In the follow-up to the report on the External Evaluation of the Independent Evaluation Office (EBAP/14/10, 2/3/14), the Board endorsed a recommendation that responsibility for preparing PMRs be transferred to the Office of Internal Audit and Inspection (OIA).** This is the first PMR prepared by OIA under this new mandate.¹
4. **This PMR is divided into two parts.** The first deals with the progress made on the implementation of actions set out in the MIPs that were endorsed by the Board in the period since the last PMR, and includes a description of the steps taken to address HR issues, as requested by the EVC. A table summarizing progress in implementing the planned actions is included at the end of the discussion on each MIP (Tables 2 through 5). In addition, Table 6 presents a summary of the implementation status for all the new MIPs. The second part of the report provides a brief update of progress on substantive issues raised in previous MIPs agreed since 2007.
5. **To prepare the report, OIA met with the Chairman of the EVC and members of his staff; senior staff from the IEO; and senior staff from COM, ICD, HRD, MCM, RES, SEC, SPR, and some area departments.** The report relies on the information obtained in these meetings and a large number of Fund documents issued since the fifth PMR. As many of the actions envisaged in the MIPs are of a qualitative nature (and are thereby difficult to evaluate), the assessments of implementation necessarily incorporate a degree of judgment.
6. **In commenting on this report, staff welcomed the assessment that significant progress has been made in implementing Board-endorsed IEO recommendations.** Staff indicated that the

¹ Under its terms of reference, OIA is permitted to undertake such work provided that it is a form of advisory work which is permitted under GAO No. 14, and that it would not entail OIA taking decisions on operational matters.

report could have further emphasized that this progress had been achieved despite resource pressures in a tight budget environment. In this regard, in assessing implementation of the MIP for the Evaluation of IMF Performance in the Run-up to the Financial and Economic Crisis, for example, staff interviewed for this report noted that vulnerable countries not affected by the financial crisis, were receiving insufficient support on issues requiring specialized expertise, due to resource constraints. Staff also stated that it would be important to acknowledge that some of the issues considered in this report, such as evenhandedness, are to varying degrees inherent in the nature of the Fund and thus challenging to address, as indicated in the recent IEO report on *Recurring Issues from a Decade of Evaluation*.

RECENT MANAGEMENT IMPLEMENTATION PLANS (MIPS)

7. This section covers the four MIPS that were endorsed after the Board's consideration of the Fifth PMR, corresponding to the following IEO evaluations: (i) *IMF Performance in the Run-Up to the Financial and Economic Crisis*; (ii) *Research at the IMF – Relevance and Utilization*; (iii) *International Reserves – IMF Concerns and Country Perspectives*; and (iv) *The Role of the Fund as Trusted Advisor*. A more recent MIP arising from the *IEO Evaluation of IMF Forecasts – Process, Quality, and Country Perspectives* is not included since the associated MIP has not been issued to the Board. To place these evaluations in the context of the IEO's work, Box 1 (below) provides a listing of all the IEO's evaluation reports since its creation in 2001.

Box 1. IEO Past and Ongoing Evaluations

Since its creation in 2001, the IEO completed the following 22 evaluations:

1. Evaluation of Prolonged Use of IMF Resources (September 25, 2002)
2. IMF and Recent Capital Account Crisis: Indonesia, Korea, Brazil (July 28, 2003)
3. Evaluation of Fiscal Adjustment in IMF-Supported Programs (September 9, 2003)
4. Report on the Evaluation of Poverty Reduction Strategy Papers (PRSPs) and the Poverty Reduction and Growth Facility (PRGF) (July 6, 2004)
5. Report on the Evaluation of the Role of the IMF in Argentina (1991-2001) (July 28, 2004)
6. Report on the Evaluation of Technical Assistance Provided by the Fund (January 31, 2005)
7. PRSP Evaluation – Ten Country Compendium (April 13, 2005)
8. Report on the Evaluation of the IMF's Approach to Capital Account Liberalization (April 20, 2005)
9. Evaluation Report: IMF support to Jordan, 1989-2004 (December 6, 2005)
10. Report on the Evaluation of the Financial Sector Assessment Program (January 5, 2006)
11. An Evaluation of the IMF's Multilateral Surveillance (April 7, 2006)
12. An Evaluation of the IMF and Aid to Sub-Saharan Africa (March 12, 2007)
13. IEO Evaluation of IMF Exchange Rate Policy Advice, 1999-2005 (May 17, 2007)
14. An IEO Evaluation of Structural Conditionality in IMF-Supported Programs (January 3, 2008)
15. Governance of the IMF: An Evaluation (May 28, 2008)
16. IMF Involvement in International Trade Policy Issues (June 16, 2009)
17. IMF Interactions with Member Countries (January 20, 2010)
18. IMF Performance in the Run-Up to the Financial and Economic Crisis: IMF Surveillance in 2004-07 (February 9, 2011)

Box 1. IEO Past and Ongoing Evaluations (cont.)

19. Research at the IMF: Relevance and Utilization (June 21, 2011)
20. International Reserves: IMF Concerns and Country Perspectives (December 19, 2012)
21. The Role of the IMF as Trusted Advisor (February 20, 2013)
22. IMF Forecasts: Process, Quality, and Country Perspectives (March 18, 2014)

In addition to the above, the IEO is currently working on the following three evaluations:

1. IMF Responses to the Financial and Economic Crisis: An IEO Assessment
2. Learning from Experience at the IMF: An IEO Assessment of Self-Evaluation Systems
3. Statistics for Global Economic and Financial Stability: The Role of the IMF

Starting in 2007, following the first external evaluation of the IEO, management began to prepare MIPs in response to IEO recommendations. Eleven IEO evaluations have been completed since 2007, although only nine MIPs have been prepared. No MIP was prepared for the 2008 report on *Governance of the IMF: An Evaluation*, given the complexity of the issues and the need for a broader discussion that could be considered within the PMR framework. In addition, no MIP has yet been prepared for the last *IEO Evaluation on IMF Forecasts, Process, Quality, and Country Perspectives*, which was considered by the Board on February 27, 2014.

In addition to its evaluations, at the time of its 10th anniversary in December 2011, the IEO held a conference and prepared a volume that focused on its achievements and challenges. The volume included a paper entitled *IEO Recommendations: A Review of Implementation* that reviewed the implementation of selected high-level recommendations from seven evaluations: *Financial Sector Assessment Program*; *Multilateral Surveillance*; *The IMF and Aid to Sub-Saharan Africa*; *IMF Exchange Rate Policy Advice*; *Structural Conditionality in IMF-Supported Programs*; *Governance of the IMF*; and *IMF Involvement in International Trade Issues*. Recently, the IEO also completed a report on *Recurring Issues from a Decade of Evaluation – Lessons for the IMF* (May 27, 2014). In addition, the IEO has issued a few separate reports revisiting past evaluations. In this regard, it has recently published a report on *Technical Assistance: Revisiting the 2005 IEO Evaluation*, and it is currently revisiting the 2004 *Evaluation of the IMF's Role in Poverty Reduction Strategy Papers and the Poverty Reduction and Growth Facility*, and the 2007 *Evaluation of the IMF and Aid to Sub-Saharan Africa*.

The contributions included in the 10th anniversary volume, as well as the IEO work on recurring issues and revisited IEO evaluations, while providing useful analysis, focus on major generic issues identified by the IEO, rather than the comprehensive review of the specific actions included in the MIPs that is provided in PMRs.

Source: IMF Independent Evaluation Office.

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 (January 10, 2011)** noted that the Fund provided few clear warnings of the buildup 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. **Following the issuance of the IEO report, the 2011 Triennial Surveillance Review (TSR)** identified the need for improvement in five areas: **interconnectedness, risk assessment, financial stability, external sector, and traction**. In contrast to earlier reviews that had focused on bilateral surveillance, the 2011 TSR also covered multilateral surveillance and related products, given the systemic nature of the challenges faced by member countries.

10. **On July 18, 2012, the Executive Board adopted the Integrated Surveillance Decision (ISD), which came into effect on January 18, 2013.** Under the new decision, Article IV consultations became a vehicle for both bilateral and multilateral surveillance and now cover potential or actual outward spillovers from members' policies that may significantly influence the effective operations of the international monetary system. In October 2012, an updated *Guidance Note for Surveillance under Article IV Consultations* was issued. The new guidance note emphasizes that stability should be the organizing principle of surveillance and provides guidance on the five operational priorities identified in the TSR. On November 27, 2012, the Executive Board discussed a progress report on *One Year after the 2011 TSR*. The main findings of this report are described in Box 2.

11. **The MIP arising from the IEO Evaluation of the IMF Performance in the Run-Up to the Financial and Economic Crisis (hereafter the Run-Up to the Crisis MIP) built on the 2011 TSR.** In this regard, it reflected areas in which the TSR was expected to address the concerns raised in the IEO evaluation, and also included further steps to respond to the IEO recommendations. The MIP listed five general recommendations, each followed by more specific actions to address them. Progress in achieving the targets set out for each of these general recommendations, and in implementing the associated actions, is discussed in detail below and summarized in Table 2.

I. 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."

Box 2. Progress Report on One Year after the 2011 TSR

The report noted that good progress had been made in most of the areas identified in the TSR:

Interconnectedness

- Significant progress had been made in strengthening the analytical base through Spillover Reports; multilateral surveillance papers that examined macroeconomic and financial linkages; and cluster analysis. REOs were also examining spillovers. The paper on *The Liberalization and Management of Capital Flows: An Institutional View*, provided an overall approach to Fund advice on capital flows.
- The coverage of spillovers in Article IV consultations was still uneven. Limited progress had been made with cross-country analysis and in conducting Article IV consultations together for interconnected countries.

Risk Assessment

- There had been some progress in increasing the coverage of risks in Article IV reports. Many reports had experimented with risk assessment matrices (RAMs), but fewer reports had included tail risks.
- While most multilateral reports for Spring 2012 flagged some risks, there was no uniform treatment of relevant risks across publications.

Financial Stability

- A *Financial Surveillance Work Agenda* was published in April 2012, followed by a *Financial Surveillance Strategy (FSS)* in September 2012. Progress in implementing the FSS is discussed in Box 4.
- Financial experts had been assigned to the Article IV teams of countries with systemic financial sectors. Significant work had also been done on financial stability and development in LICs, including a paper on *Enhancing Financial Sector Surveillance in Low-Income Countries*.
- Coverage of financial sector issues had increased in Article IV reports, and there was more consistent follow-up of FSAP recommendations. The discussion of macro-prudential issues was still limited.
- The depth of analysis of macro-financial linkages and cross-border linkages varied considerably across reports. Few reports used analysis available in the multilateral surveillance products. Lack of adequate data remained an impediment to macro-financial and spillover analysis.

External Sector

- The first Pilot External Sector Report (ESR) was issued on July 2, 2012. ESRs provide a multilaterally consistent analysis of the external positions of 28 large economies and the Euro Area. They draw on the Pilot External Balance Assessment (EBA) methodologies.
- Further progress was needed to refine assessment methods and extend them to other economies. It was also recognized that more work was necessary to better integrate the discussion of the external sector with other policies in country reports.

Traction

- It was too early to assess whether the ongoing reforms were improving traction. However, some of the recommendations of the 2011 TSR were being implemented. For instance, during the 2012 Spring Meetings the IMFC discussed the Consolidated Multilateral Surveillance Report, and during the 2012 Annual Meetings, the Global Policy Agenda.
- Staff had begun to discuss with the authorities some macro-social issues (e.g., employment and income distribution) considered critical for macroeconomic stability.
- Follow up of past advice in Article IV reports remained uneven, being weaker for advanced countries.

Source: *One Year after the 2011 Triennial Surveillance Review – Progress Report* (SM/12/26, 11/5/12).

MIP Implementation

12. While the Board did not support the recommendation to create a new risk assessment unit, it did encourage enhanced outreach to disseminate risk assessments. In line with this, the 2011 TSR concluded that processes needed to be improved for the Fund to be able to better monitor

risks. Although the IEO recommendation addressed the Fund's analysis of risks to the global economy, a few Executive Directors noted the related importance of strengthening institutional risk management. Recently, the Managing Director took the decision to establish a Risk Management Unit that will report to the First Deputy Managing Director (FDMD), on behalf of Management. The new unit will have 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 promoting their use over time by operational units; 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.

13. Substantial steps have been taken to address the issues raised in the 2011 TSR:

- Starting with the April 2012 issue, all WEOs have paid greater attention to risks around the baseline scenario, including by using fan charts and plausible downside scenarios. Downside risks have also been prominently analyzed in the GFSR and Fiscal Monitor.
- 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. It also conducts, with support from the interdepartmental risk working group and area departments, Vulnerability Exercises (VEs) to assess vulnerabilities and emerging risks in advanced, emerging market, and low income countries. Modeling efforts to better analyze spillovers have also contributed to achieving this objective, and downside scenario simulation results are shared with country teams.
- The updated Guidance Note for Surveillance emphasizes that risk assessments in Article IV reports should leverage the analysis of risks conducted at the multilateral and regional levels (WEO/GFSR/FM/REOs), and be guided by the Global Risks Assessment Matrix (G-RAM). Staff are also encouraged to draw on the VEs and the EWE.
- To support risk analysis, tools underlying multilateral surveillance have been disseminated to area departments.
- Country risk assessments have become more pointed. The Risk Assessment Matrix (RAM) is now a regular feature of staff reports for Article IV consultations and Financial System Stability Assessments (FSSA). In addition, a review of the framework for fiscal policy and public debt sustainability analysis (DSA) in market-access countries (MACs) was completed in August 2011, calling for a risk-based approach to MAC DSAs. A guidance note was issued in May 2013.
- The G-RAM exercise is managed by an interdepartmental Risk Working Group (RG). The RG also provides an analysis of vulnerable members and the operational implications of these vulnerabilities for the allocation of Fund resources. In addition, an independent interdepartmental group comprising A-level economists, in which both area and functional departments participate, has been established to explore tail risks—low-probability events with serious negative implications. This Tail Risk Group (TRG) makes quarterly presentations, and is expected to develop alternative views. The TRG reports to both the main RG and to Management.

- Macro-prudential policies have attracted considerable attention after the recent crisis as a means of reducing systemic risk. A paper on *Key Aspects of Macro-prudential Policy* was completed in June 2013, that seeks to strengthen the basis for practical guidance and country-specific advice. At the same time, an Interdepartmental Group has been established to facilitate the sharing of views and ensure consistency in the Fund's advice in this field.

Pending Issues under the MIP

- A pending challenge is to further integrate global risk analysis into Article IV reports. As noted in the concept note for the 2014 TSR, while the focus on risks has sharpened, the depth of analysis varies, and discussion of transmission channels and policy responses could be strengthened. A significant step in this direction has been taken recently by providing country teams with the associated probabilities of global risks through the G-RAM, in order to achieve a more consistent view of risks in country reports.
- The 2014 TSR will examine how the Fund can deepen the analysis of linkages and risks across sectors, countries, institutions and markets, including through strengthened quantitative analysis.

Other Connected Issues

- A guidance note on macro-prudential policies is envisaged by end-July 2014.

IEO Recommendation: "Change the insular culture of the Fund 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 Department (MCM) and area departments."

MIP Implementation

- Substantial efforts have been made to broaden the professional diversity of staff, including by hiring more financial sector experts and economists with policy-making backgrounds. These efforts, as well as those aimed at enhancing gender and geographical diversity, are described in Box 3, which summarizes progress on several HR issues.
- To promote diversity of thought, HR has launched a renewed effort to broaden the search for high-quality staff by widening the university base in Western Europe, contacting faculty across East Asia, reintroducing campus activities, and using social media. Over half of the 29 economists that joined the Economist Program in 2013 were from non-US schools, and close to two-thirds of the 28 EPs who will be joining in 2014 will be non-US schools graduates.
- Progress has also been made in broadening the knowledge of area department economists through the dissemination of the financial sector toolkit by MCM to area departments.

- Regarding training, data on the Internal Economics Training (IET) courses offered by ICD show that following a drop in participant weeks of training in FY 2009 owing to the restructuring exercise, there was a subsequent pick up in FY 2010-2013 (Table 1).²
- Data on finance courses offered through the IET also show that after a drop in FY 2009 due to the restructuring, there was a sharp increase in FY 2010. However, this was followed, once again, by a decline in FY 2011-2013. The sharp increase in FY 2010 is attributable to an effort to ramp up finance courses, while the subsequent decline reflects in part a request by departments to shorten the duration of courses (see Table 1).
- A pilot program created two years ago introduced a “guru” track with 10 non-managerial positions at the A15/B1/B2 levels. Five specialized departments have participated in the pilot, with six individuals having been reclassified to the new track.
- HRD has informed the Board about developments in the HR area in the context of the regular discussions on *Staff Recruitment and Retention Experience* and the *Diversity and Inclusion Annual Reports*. In addition, in February 2013 the Board considered the 2013 *Report on Corporate Workforce Planning (CWP)*.

Table 1. ICD Internal Economics Training (IET) for Staff

(Number of Participant Weeks)

2008	1007.7
2009	793.9
2010	920.9
2011	921.9
2012	960.1
2013	944.7

IET Events in Finance

FY 2008-2013

Fiscal Year	Total No. of Events	Participant Weeks
2008	26	230.4
2009	14	122.8
2010	27	278.1
2011	24	170.6
2012	19	203.6
2013	19	181.2
Total	129	1186.7

Source: Institute for Capacity Development.

² These figures exclude other internal training organized directly by IMF departments, for which data are not available.

Box 3. Progress on HR Issues

Two of the new MIPs covered by this PMR (*the Run-Up to the Crisis MIP* and *the Trusted Advisor MIP*), include several general recommendations in the area of Human Resources. This box summarizes recent progress in addressing some HR issues. Other HR issues are discussed directly in the text. In addition, Box 5 deals with Staff Tenure in Country Assignments.

Hiring of experts and mid-career economists

- The 2013 paper on Corporate Workforce Planning (CWP) presented data showing that the Fund's workforce recovered to some 3,000 employees at end-FY 2012, from 2,500 in FY 2009, when the Fund undertook the restructuring. Much of the relevant growth during this period occurred as a result of the exceptional demands triggered by the financial crisis. Economist representation increased from around one-third of the total workforce in FY 2000 to 44 percent in FY 2012. Moreover, within the economist group there was a shift from fungible economists to specialists, who made up 14 percent of the Fund's workforce in FY 2012, compared with 6 percent in FY 2008. A large part of hiring post-downsizing, including most contractual hiring, was undertaken to support donor-financed technical assistance activities, while Fund-financed activities remained essentially flat.
- Efforts have continued in recent years to hire financial sector experts and mid-career macroeconomists with policy-making backgrounds. For the period CY 2011-2013, almost 82 percent of the appointments of A11-A15 economists (both staff and contractual) corresponded to mid-career macroeconomists and specialists (mainly financial sector experts). This compares with 72 percent in CY 2010 and 59 percent in CY 2005. Appointments of specialists averaged 38 a year during CY 2011-2013, of which 83 percent were of a contractual nature.
- The Externally Financed Appointee (EFA) program was launched in 2013 in response to the growing interest from some countries to have government officials gain Fund experience, with the cost being financed by member countries. Participants under this program are hired as contractual appointees for two years. To date, three member countries (Japan, Korea, and Sweden) have committed to participate, with one appointee starting in 2013 and six appointees expected to begin in 2014, bringing the total to seven.

Increased support for Training and Secondments

- The external mobility program includes positions in other international organizations, governments, and the private sector. To promote external mobility, leave without pay slots have been increased from 35 to 60. A significant proportion of staff on secondment has taken positions in the financial private sector, which should contribute to build up the Fund's skills in this area.
- To address learning needs, in late 2013 HRD expanded training courses and relaxed eligibility requirements, making contractual employees eligible for all courses.
- More recently, HRD has announced the addition of a number of new managerial and professional development courses, providing approximately 500 new training seats a year. The new courses include a *Leading Confidently* program for managers; a *Handling Performance Conversations for Managers and Staff* program; several workshops coinciding with the APR round; and Project Management Workshops for A9-A14 staff.
- Starting FY 2015, departments will be required to reimburse the costs of last minute cancellations and no-shows in order to encourage managers to ensure that employees are able to attend planned training.

Box 3. Progress on HR Issues (Cont.)

Gender and Geographical Diversity

- Regarding gender diversity, the original 2014 benchmark for B-level women was met four years earlier than had been targeted. Encouraged by this result, the Fund adopted more ambitious benchmarks of 25-30 percent for all B-level women and 20-25 percent for B-level economists. This compares with shares of 21.9 percent and 19 percent, respectively, at the end of FY 2013. For the first time, the Fund also established a flow target of half of all external hires at the professional level. The target for the Economist Program was slightly exceeded, on average, during CY 2011–CY 2013, but dropped to 36 percent in CY 2014. The percentage of women hired as mid-career economists remains significantly below the gender benchmark.
- Progress on geographical diversity has been made on most of the benchmarks, though uneven across regions and grades. As of end-FY 2013, the benchmark for all staff had been surpassed in the case of Transition countries, and the share of East Asian staff was closing in on its 2014 benchmark. However, progress had been quite limited for Africa, and the overall share of Middle Eastern staff had proven the hardest to move. Progress at the B-level is discussed directly in the text (see developments under the *Trusted Advisor MIP*).
- The current Diversity Working Group is working on developing a new set of diversity benchmarks that will be recommended to the Diversity Council in order to guide the Fund's policies in the years ahead.

Internal Culture and Institutional Values

- A new leadership development program is being implemented to address the need for a more open environment. The focus is on the importance of developing staff and strengthening capabilities at all levels. This includes increased delegation and coaching of others, providing greater clarity regarding managerial responsibilities at all levels, in particular for people management; building intellectual leadership through better capturing collective capability, rather than individual contributions; and prioritizing strategic objectives at B3-B5 levels.
- As part of this process, clear expectations are being established for Fund managers from the B5 to A15/A14 levels. There is also a parallel process to strengthen leadership and teamwork within individual departments, including through advice from HR consultants.

Source: 2013 Corporate Workforce Planning paper; FY 2013 Diversity and Inclusion Annual Report; and information provided by the Human Resources Department.

Pending Issues under the MIP

- The support available for vulnerable countries, not directly affected by the financial crisis, should be increased. Notwithstanding the recent effort to hire more specialists, members of the staff interviewed for this PMR indicated that some of the area departments that had not been directly affected by the crisis were not receiving sufficient support on issues requiring specialized expertise, owing to constraints on the availability of resources.
- Efforts should continue to enhance diversity for mid-career economists. In CY 2013 progress was made in nationality diversity, with 40 percent of the mid-career hires being from underrepresented regions. However, women represented only 24 percent of the total hires, a figure close to the five-year average, but still significantly below the 50 percent gender recruitment benchmark.

- There is a continuing need to strengthen training, including on financial sector issues. Fund employees still receive, on average, significantly less training than those of other institutions. Based on results obtained from the accountability frameworks, this situation has not changed significantly in FY 2013, owing to continued workload pressures. Departments reported, on average, around three annual training days, compared with 7-10 annual days in other institutions. Looking forward, quantifiable targets will be set on training, starting with a minimum of four days for FY 2015. In addition, efforts will be made to better capture the full range of training provided by the institution before considering a higher target. ICD also plans to expand the Finance curriculum, given the staff's interest in this area.

Other Connected Issues

- Given the large and increasing share of A14 fungible economists and their limited scope for career progression, the CWP paper recommended changing the hiring patterns for this group by targeting A12 and A13 candidates. As a result, external appointments of fungible economists at grade A14 occur only in exceptional circumstances. This issue needs to be monitored closely as the lower entry level could discourage good potential candidates or lead to early dissatisfaction for those that are hired. In this regard, the latest report on *Staff Recruitment and Retention Experience* indicated that some mid-career economist applicants had decided not to pursue Fund employment after initial conversations with hiring managers.
- On the latter point, staff expressed the view that, while the Fund is broadly competitive at hiring at the mid-career level, recruiting specialists (technical assistance experts and financial sector experts) has been more challenging. Staff indicated that this is a result of both financial and qualitative factors that lead candidates either to not apply for Fund jobs or to reject or renegotiate offers. Internal work groups are developing both policy and practical measures to address these recruitment challenges.
- The CWP recognized that the strategy of targeting A12 and A13 candidates for specialist positions is not feasible, given the need for seasoned talent in this group that cannot be sourced at levels below A14. It also noted that it is necessary to develop a comprehensive strategy for this group, taking into account that some needs that were originally considered temporary turned out to be of a more permanent nature.

IEO Recommendation: “Ensure that summing ups of Board discussions better reflect areas of significant disagreement and minority views.”

MIP Implementation

- A Working Group of Executive Directors, supported by staff, was established in early 2012 to reflect on the appropriate presentation of minority views in summing ups. The Working Group's report, which was completed in February 2013, noted that the conventions and procedures that inform the production of summing ups were generally adequate. It also recommended that:
 - (i) Directors renew their familiarity with current practices for the application of the rule of silence

and the conventions for commenting on draft summing ups; (ii) the Secretary continue to address Directors' concerns about draft summing ups with collegiality and fairness, particularly when there is a wide diversity of views; and (iii) the Chair ensure that summing ups adequately capture the views expressed by Directors in their Gray and oral statements.

- In line with a recommendation of the Working Group, in March 2014 the Executive Board agreed to reduce the time lag to make minutes available to the public from five years to three years, retaining the five-year lag only for minutes of discussions that involve Use of Fund Resources or a Policy Support Instrument. The new rules will become effective on August 27, 2014.
- The document entitled *Main Themes in Grays* has continued to provide a good summary of "Issues for Discussion" (in the case of country matters) or "Remaining Diverging Views" (in the case of policy matters), allowing for an explicit airing of minority views during Board meetings.

Pending Issues under the MIP

None

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

MIP Implementation

- While at the time of the discussion of the IEO report, Board members did not support the idea of making this a more regular aspect of Board and/or management discussions, External Advisory Groups have continued to provide area departments with independent advice on staff analysis and recommendations, and alternative views have continued to be sought for policy discussions. In this regard, external experts provided both independent reports and checks on staff for the 2011 TSR. Moreover, the ongoing periodic Strategic Review of Research has benefitted from a background report authored by an external expert; the Financial Surveillance Strategy incorporated contributions from policymakers and academics; and the Transparency Review included the views of civil society organizations. Other reviews, including the Review of Conditionality, also benefitted from consultations with civil society organizations.

Pending Issues under the MIP

- As this recommendation was not endorsed, there are no outstanding issues under the MIP. However, efforts to incorporate the views of external experts in policy papers are expected to continue. The 2014 TSR will seek guidance from an External Advisory Group and external experts, in addition to surveys and interviews with country authorities, staff, and other stakeholders.

II. 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

14. This recommendation relates to the issues of candor and openness both inside the Fund and outside the institution in the staff's discussions with country authorities. In her Statement on the Run-Up to the crisis MIP, the Managing Director emphasized the need to promote diverse views and candor by accessing alternative perspectives to avoid "group think." Several actions have been taken in this area:

- A statement of work values was adopted on July 31, 2012, that promotes "an intellectually open atmosphere that seeks diverse views to develop the best solutions."
- The Guidance Note for Surveillance, issued in October 2012, includes as part of its operational priorities that "staff should ensure for all countries the candor and evenhandedness of reports." It also encourages staff to exchange views with the authorities on topics for discussion at an early stage in the consultation cycle. In addition, as an avenue to increase candor, the Guidance Note included "a brief assessment of the authorities' response to key policy recommendations raised in previous Article IV consultations" in the list of formal requirements for Article IV reports.
- Following poor results for openness and risk taking in the mid-2013 Staff Survey, the Managing Director encouraged staff to use all existing channels, including the review process and talking to colleagues, supervisors, and management to promote diverse views.

The ongoing effort on leadership training (see Box 3) emphasizes the importance of enabling subordinates to speak freely and provide diverse ideas. As noted earlier, the recent creation of a Tail Risks Group, consisting of A-level staff, also seeks to promote new perspectives.

Pending Issues under the MIP

15. Although several initiatives are being implemented, addressing candor and openness implies a significant change in Fund culture. No straightforward metric exists for the state of this objective, and it is difficult to judge the actual progress made, for instance, in the discussions with country authorities. There are indications, however, that some specific issues have not yet been adequately addressed:

- Clear guidance has been issued on exchanging views with the authorities on topics for discussion prior to Article IV consultations, but practices vary across country teams. At the same time, while there is evidence that follow-up on past advice has improved, it still appears to be weaker for advanced economies. Developments in these areas will be monitored through the surveys of staff and country authorities to be conducted in the context of the upcoming 2014 TSR.
- The evenhandedness of Fund advice is still perceived as a problem. Surveys of country authorities and staff conducted by the IEO, in the context of the *Evaluation on the Role of the Fund as Trusted Advisor*, showed that about a third of country authorities and half of the mission chiefs did not believe that the Fund had become more evenhanded since the onset of the global crisis, despite efforts by staff and management to be appropriately critical of policies in large advanced

countries. The upcoming 2014 TSR will reexamine traction and evenhandedness across countries, and groups of countries, both in the implementation of the new surveillance framework and with regard to policy advice.

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

MIP Implementation

- The 2010 Staff Survey yielded positive results, but also identified several areas for improvement, such as career development, performance management, and staff empowerment. In response, a Fund-wide action plan was rolled-out in October 2011 that envisaged the implementation of accountability frameworks for managing departmental performance; a more structured approach to internal mobility and the extension of options for external mobility; investment in leadership and managerial training; and a strengthening of performance management.
- Following the 2013 survey, seven World Cafes were held that identified six major areas of concern: staff development and career progression, manager accountability, APRs and performance management, categories of employment, career tracks, and work-life balance. In response, Management announced new initiatives aimed at promoting a more enabling work environment, strengthening people management, and empowering staff to better manage their careers. HRD has launched an intranet site for staff to be able to track progress and comment on the initiatives. The main initiatives announced by management are as follows:
 - i. Invest more in learning. As noted in Box 3, the list of offered courses has been expanded and grade and other restrictions have been relaxed for most courses. In addition, early this year ICD opened up its flagship macroeconomics course to all Fund employees through a new online learning platform.
 - ii. Make it easier for staff in Specialized Career Streams (SCS) to move to other departments and different kinds of jobs.
 - iii. Rate managers more explicitly according to how they manage people. By November 2014, a 360-degree development tool will be available to managers, allowing feedback from peers, supervisors, and subordinates.
 - iv. Articulate rules to ensure consistency in the APR roundtable discussions (by April 2014). The process and criteria used by the Review and Senior Review Committees will also be communicated more openly, including feedback on outcomes.
 - v. Reform the Fund’s employment framework to make it more flexible, transparent, and effective. The *Review of Categories of Employment* in fall 2014 will recommend modifications to the existing employment framework to align it with the Fund’s forward-looking corporate workforce planning strategy discussed by the Board in 2013. The modifications would affect the terms of staff and contractual appointments. In this connection, an extensive consultation process is already underway, led by a team from HRD, LEG, and OBP. Department-by-department reviews of contractual assignments will take place over the summer in order to

provide the Board with an early indication of the budgetary impact of converting some of these into staff positions. The reforms would take effect starting May 1, 2015.

- Accountability frameworks (AFs) were piloted in FY 2013 and introduced in FY 2014 to align departments with institutional goals and promote greater cross-departmental collaboration. Departmental objectives are derived from the Managing Director's Global Policy Agenda. The AF scorecard is divided into three parts: strategic objectives or work deliverables, budget indicators, and people indicators. In November 2013, a review of the initial experience with AFs was completed. Some improvements were introduced to strengthen the link between management's key goals and the AFs, achieve better coordination between departments, and enhance the budget and people indicators. The latest scorecards include deliverables and key objectives for FY 2015 that have been agreed between management and department heads.
- Regular self-assessments through policy reviews, with inputs from the authorities and external stakeholders have continued to take place. Examples include the Review of the Fund's Transparency Policy and the Triennial Surveillance Review. Currently, there is no modality in place to review the Fund's medium-term strategy.
- The IEO has also undertaken an assessment of self-evaluation systems within the IMF, which will look at the systems used by the Board, management, and staff to learn from experience and incorporate lessons. These include formal systems, such as the issuance of reports reviewing certain operations and activities, as well as informal activities, such as ex-post discussions following the conclusion of Article IV missions. The evaluation will also examine the framework used to glean lessons from IMF-wide reviews of policies, strategies, and operations.

Pending Issues under the MIP

- Several of the areas for improvement identified in the 2013 Staff Survey are similar to those identified in the 2010 survey, which suggests that some of the actions implemented after the 2010 Staff Survey have not been effective. At the same time, many of the steps envisaged in response to the 2013 Survey are still in the initial stages of implementation. Progress will be tracked through the AFs and staff surveys to be conducted every two years. The MIP had also envisaged mini-surveys focusing on opportunities for improvement in the interim years.
- The IEO *Evaluation of Self-Assessment Systems* will provide further opportunity to review developments in this area.

III. 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." And "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

16. The TSR made a number of recommendations to enhance the Fund's role by increasing the effectiveness of financial sector surveillance. Several of these recommendations have been implemented, while others are in progress. A Progress Report on Financial Sector Surveillance was considered by the Board in an informal session in September 2013. Box 4 summarizes the progress that had been made in the Financial Sector Strategy (FSS) as of that date. Other issues and subsequent developments are discussed below:

- Although there was insufficient support at the Board for increasing the frequency of mandatory FSAPs for countries with systemically important financial sectors from five to three years, financial sector experts have been assigned to the Article IV teams involving systemically important financial sectors.
- The updated Guidance Note for Surveillance under Article IV consultations establishes that staff should systematically follow up on the implementation of relevant FSAP findings and recommendations in Article IV reports. There are indications of a more consistent follow-up of FSAP recommendations.
- Based on cross country lessons from FSAPs, MCM has been disseminating monitoring tools (e.g., stress testing) as part of its financial tool box. This has made area department economists more familiar with financial sector issues and has helped to improve the coverage of these issues in Article IV reports. MCM has also reinforced internal training to improve the quality and focus of its review comments. In addition, new guidance to MCM participants in Article IV missions is being implemented.
- Recent efforts regarding hiring of financial sector experts and training on financial sector issues have been discussed in Box 3.
- Following the 2012 Review of Data Provision to the Fund, an Operational Guidance Note on Data Provision was issued that includes measures to improve the reporting of shortcomings in financial and external data in Article IV reports.

Pending Issues under the MIP

- Although substantial advances have been made to better integrate financial sector issues into macroeconomic assessments, further progress is required. In particular, there is a need to continue improving the coverage of macro-financial linkages and financial spillovers in Article IV reports; further analyze potential spillovers from the exit from extraordinary macro-financial policies; deepen analysis of financial regulation and macro-prudential policies, including cross-border implications (a guidance note on this issue is expected in 2014); and continue developing the operational implications of inter-departmental risk analysis for country work.
- Notwithstanding the recent efforts to hire more financial sector experts, available resources are still insufficient to address institutional needs in this area. Coverage of financial sector issues in advanced countries affected by the crisis has definitely improved but, at the same time, it has not been possible to increase the frequency of FSAPs for non-systemic/non-advanced vulnerable

countries, owing to resource constraints. In addition, the recent paper on *Enhancing Financial Surveillance in LICs* envisages pilot studies across a range of LICs to operationalize the approach in surveillance, but implementation has also been affected by lack of resources. Staff will continue to collaborate with the World Bank on this issue, seeking to clarify the division of responsibilities between the two institutions and exploring possibilities for further leveraging expertise.

Box 4. Progress on Financial Sector Surveillance

In line with a key recommendation of the TSR, in September 2012 the Executive Board adopted the IMF's Financial Surveillance Strategy (FSS), which specifies concrete steps to strengthen financial surveillance over a period of three to five years. In September 2013, the staff prepared a background note on the one-year progress in implementing the FSS.

The FSS is built on three main pillars: (i) Improving risk identification and policy analysis; (ii) fostering an integrated view of financial sector risks in products and instruments; and (iii) engaging more effectively with stakeholders. The background note indicated that progress had been made on each of the three pillars, but especially on improving risk identification and policy analysis. The following summary provides a brief description of progress in the three pillars as of September 2013:

- **Improving risk identification and policy analysis:** Areas where substantial advances had been made were: capital flow management (Board paper on *The Liberalization and Management of Capital Flows*, November 2012) and macro-prudential policy (several Board papers, including *Key Aspects of Macro-prudential Policy*, July 2013). Progress had also been made in the assessment of regulatory reforms and the effectiveness of unconventional monetary policy. Progress had been more limited, however, in sovereign-bank feedback loops, cross-border linkages and spillover analysis, and financial deepening in countries with shallow financial systems.
- **Fostering an integrated view of financial sector risks:** Significant progress had been made in incorporating global risks into bilateral surveillance, including by coordinating the work on the RAMs. Institutional support for financial sector surveillance had been reinforced through new guidance notes, increased collaboration through interdepartmental groups, enhanced dissemination of financial risk monitoring tools, and guidance to MCM participants in Article IV consultations. Coverage of macro-financial linkages in Article IV consultations was still limited and had deficiencies.
- **Engaging more actively with stakeholders:** Some progress had been made by (i) facilitating global dialogue through high-level events (including on macro-prudential policy and global financial risks); (ii) further contributing to the work on the global regulatory reform agenda; (iii) deepening collaboration with the World Bank (including on the LIC Pilot); and (iv) addressing data gaps.

Source: *Financial Surveillance Strategy-Progress Report* (8/29/13).

- The Board will have the opportunity to review further progress in implementing the FSS in the context of the 2014 TSR and the 2014 review of the FSAP, which will be conducted separately but concurrently with the TSR.
- The TSR will discuss how to expand and deepen the Fund's analysis of macro-financial linkages and better integrate the work on financial sector risks. The *Guidance Note for Surveillance under*

Article IV Consultations will be updated in early 2015, and lessons from the Fund's engagement during the global financial crisis will be discussed in a follow-up *Crisis Program Review*, scheduled for Board discussion in May 2015.

Other Connected Issues

- The Board was briefed in June and December 2014 on progress with the global regulatory reform agenda, with another briefing planned for December 2014. In June 2014, staff also briefed the Board on cross-border resolution issues, including recent experiences and policy initiatives. In October 2014, the Board will discuss *Monetary Policy: Its Role Now and in the Future*, which will outline conceptual issues and an analytical agenda for monetary policy frameworks once financial conditions normalize. In January 2015 the Board will take up *From Banking to Sovereign Stress—Implications for Public Debt*.
- In November 2014, the Board will examine a paper on *Enhancing Resilience and Supporting Growth in Emerging Markets: Role of Financial Deepening*.
- The fifth progress report on closing data and information gaps under the G-20 Data Gaps Initiative will be provided to the Board for information in September 2014. In January 2015, the Board will discuss the *Ninth Review of the Fund's Data Standards Initiatives*, including reforms to modernize the GDDS.
- Staff should continue with ongoing efforts to enhance engagement with central banks in different regions and reach out other regional stakeholders.

IV. Overcome Silo Behavior and Mentality

IEO Recommendation: *“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 early stage of the Article IV process.”*

MIP Implementation

- In June 2013 the First Deputy Management Director (FDMD) circulated a memo to heads of department, containing a number of concrete steps in response to the IEO recommendations arising from the *Evaluation of the Fund as Trusted Advisor*. Among these steps, the memo indicated that functional departments should ensure that economists assigned to country teams bring cross-country examples and experience to bear whenever appropriate, and that area departments should generate their own cross-country analysis, for example, where a regional perspective is helpful.
- New measures have also been put in place to ensure cross country experience among staff while seeking an appropriate balance about mission team stability. In this regard, staff members are encouraged to look for assignments outside their department after five years and, if necessary, centralized support is provided after seven years. An indicator of the share of fungible economists

(A11 to B5) with seven or more years in a department is tracked through the AFs. This indicator has declined from 14.6 percent at end-FY 2012 to 8.8 percent in mid-FY 2014.

- The Surveillance Committee has been revamped (weekly meetings are led by Management), and interdepartmental collaboration has been strengthened through continued interaction in a number of standing interdepartmental groups and task forces (such as the Low-Income Country Consultative Group and the Financial Sector Surveillance Group). These have improved cross-departmental information sharing and consultation. The usual practice regarding policy papers 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 through mid-point meetings.
- To connect the dots, the analysis of linkages and spillovers has been significantly enhanced. In recent WEOs, the chapter on regional developments has emphasized policy spillovers and interactions across countries in different regions. In addition, Pilot External Sector Reports were prepared in 2012 and 2013, while Spillover Reports for the five systemic economies were issued in 2011, 2012, and 2013. The 2013 Spillover Report discusses the impact of policies followed by advanced economies on capital flows to emerging markets, and contains an analysis of spillovers to LICs.
- A paper entitled *Enhancing Surveillance: Interconnectedness and Clusters*, issued in March 2012, constituted a first step in identifying economic and policy clusters. The paper used cluster analysis to understand the architecture of cross-border trade and financial interconnectedness and presented selected case studies on how the functional and economic features of a cluster affect shock propagation and policies. Area departments have begun to experiment with cluster-level surveillance, e.g., German supply chain, and Nordic and Baltic cluster-reports.

Pending Issues under the MIP

- Further efforts are needed to improve information sharing and the coverage of cross-country experiences in Article IV reports. As noted in the concept note for the 2014 TSR, cross-country policy lessons remain limited in Article IV consultations. The upcoming 2014 TSR will evaluate whether bilateral surveillance leverages sufficient cross-departmental expertise.
- Work is underway to refine the ESR methodology and to better integrate the Pilot ESRs and Spillover Reports, and the staff’s vulnerability analysis, with other surveillance products. In addition, efforts will continue to strengthen the depth and analytical rigor of spillover analysis and to extend cluster-level surveillance to other interconnected countries. In this regard, future pilot clustered reports are envisaged to examine policy responses to housing busts in Europe, explore trade and financial linkages between the ASEAN-5 countries (both planned for mid-2015) and analyze financial interconnections between Central America and other Latin American countries (early 2015).

V. Deliver a Clear, Consistent Message on the Global Outlook and Risks

IEO Recommendation: *“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.”*

MIP Implementation

17. The 2011 TSR highlighted that the volume of multilateral surveillance output raised risks of overlap, inconsistency, and excessive segmentation. However, the 2011 TSR survey suggested that stakeholders attached high value to the Fund’s different surveillance products. In this context, the following steps have been taken to address the issues of consistency and fragmentation:

- As noted earlier, a significant part of Chapter I of the WEO is now devoted to discussing risks around the baseline scenario.
- The Consolidated Multilateral Surveillance Report (CMSR) was replaced in October 2012 by the Global Policy Agenda (GPA), a broader report that covers the Fund’s work agenda and continues to distill the key messages from the WEO, the GFSR, the Fiscal Monitor, and other surveillance products.
- In early 2013, management took the decision to consolidate and better coordinate the multilateral surveillance products (including the analytical chapters of the flagships and the REOs). As a result, efforts are in progress to shorten the main surveillance reports and better coordinate in the first chapter of the WEO the key messages arising from the GFSR and the FM, in order to ensure the delivery of a consistent and clear view. There is still scope for further improvements in this area by shortening and better integrating the flagship publications.
- Global developments and risks will be discussed in September 2014 and March 2015, ahead of the Annual and Spring meetings, in joint Board sessions of the WEO, the GFSR, and the FM, with *World Economic and Market Developments (WEMD) Updates* in July 2014 and January 2015.

Table 2. Implementation Plan in Response to Board-Endorsed Recommendations for the IEO Evaluation of IMF Performance in the Run-Up to the Financial and Economic Crisis³

IEO Recommendation	Follow-Up Plan	Implementation Status ⁴
Create an environment that encourages candor and diverse/dissenting views		
1. 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>At the time the MIP was discussed, a number of Directors did not support the recommendation to create a new risk assessment unit, but encouraged instead enhanced outreach to disseminate risk assessments. In line with this, the 2011 TSR concluded that more needed to be done to ensure an in-depth discussion of risks, alongside a well-designed central forecast. As a result, the following actions were envisaged:</p> <ul style="list-style-type: none"> - WEOs would pay greater attention to risks around the baseline. - Analyses and findings from multilateral products would be taken up in policy discussions with country authorities. The tools underlying multilateral surveillance would be 	<p>To address the related issue on institutional risk management, management has recently taken the decision to establish a Risk Management Unit within OMD.</p> <p>Implemented</p> <p>Implemented</p>

³During the Board discussion, Directors also stressed that progress was needed on issues of internal culture and institutional values which are not addressed directly in the IEO report. Some of the measures outlined in the MIP go some way towards addressing these issues. Furthermore, IMF management has announced a series of reforms to address the Fund's institutional culture that seek to achieve more intangible goals. Management recognized that change in this area involved a continuous, long-term process. Therefore, in addition to the PMR, these issues were expected to be revisited in meetings with the Board.

⁴Implementation 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 determined by OIA to be 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) OIA may determine that the likelihood of eventual implementation is too low to warrant continued follow-up.

IEO Recommendation	Follow-Up Plan	Implementation Status ⁴
	<p>disseminated to area departments to support this effort.</p> <p>- More explicit discussion of risks and matrices in Article IV's.</p>	<p>In progress. There is a need to further integrate global risk analysis into Article IV reports.</p>
<p><i>2. 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.</i></p>	<p>Efforts will continue to broaden the professional diversity of staff, including their educational background and skill mix. HRD will provide regular reports to the Board on progress.</p>	<p>In progress. Some area departments not directly affected by the crisis are not receiving sufficient support on issues requiring specialized expertise. Diversity remains a challenge for mid-career economists. There is also a need to significantly enhance training.</p>
<p><i>3. Ensure that Summings Up of Board discussions better reflect areas of significant disagreement and minority views.</i></p>	<p>A Working Group of Executive Directors, supported by staff and perhaps an external consultant, will clarify the purposes of Summings up, including the appropriate presentation of minority views.</p>	<p>Implemented</p>
<p><i>4. Actively seek alternative or dissenting views by involving eminent outside analysts on a regular basis in Board and/or Management discussions.</i></p>	<p>At the time the MIP was discussed, the Board did not support making this a more regular aspect of Board and/or Management discussions.</p>	<p>Not endorsed by the Board. However, External Advisory Groups have continued to provide area departments with independent advice, and alternative views have been sought for policy papers.</p>

IEO Recommendation	Follow-Up Plan	Implementation Status ⁴
Strengthen incentives to “speak truth to power”		
5. Management should encourage staff to ask probing questions and challenge Management’s views and those of country authorities.	<p>The TSR discussed measures to increase the candor of surveillance, including:</p> <ul style="list-style-type: none"> - Staff will exchange views with the authorities on key issues for discussion prior to Article IV missions, but without compromising the IMF’s capacity—and obligation—to raise relevant, and at times difficult, issues. - Staff will report on the traction of past advice. 	In progress. Clear instructions have been issued regarding these two measures, but practices vary across country teams. Progress will be monitored through the survey of country authorities in the context of 2014 TSR. The evenhandedness of Fund advice is still perceived as a problem.
6. Conduct regular IMF-wide self-assessments to look at the health and functioning of the organization.	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.	In progress. Many of the areas for improvement from the 2013 Staff Survey are similar to those identified in the 2010 Survey. Several new measures have been put in place after the 2013 Survey. Regular self-assessments in the context of strategic and policy reviews have continued.
Better integrate financial sector issues into macroeconomic assessments		
7. 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 G20 economies and other financial centers	<p>In the absence of sufficient support for increasing the frequency of mandatory FSAPs for systemic economies, alternative modalities were to be pursued, including:</p> <ul style="list-style-type: none"> - Financial sector experts would be assigned to the Article IV teams involving systemically important financial sectors. - Coverage of financial issues in Article IVs will be further strengthened by stepped-up training and dissemination of 	<p>Implemented</p> <p>In progress. Further work is required to</p>

IEO Recommendation	Follow-Up Plan	Implementation Status ⁴
<p><i>should include experienced financial experts.</i></p>	<p>vetted tools and good practices, as well as cross-country thematic studies.</p> <ul style="list-style-type: none"> - Intensified efforts to draw cross- country lessons from FSAPs. - 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. - A strategic plan for financial sector surveillance would be prepared. 	<p>integrate financial sector issues, including cross-country lessons, into macroeconomic assessments. Training on financial sector issues should be strengthened. The Board will have the opportunity to review progress in implementing the Financial Sector Strategy in the context of the 2014 TSR and the 2014 review of the FSAP.</p> <p>In progress. Notwithstanding recent efforts to hire more financial sector experts, available resources are still insufficient to address the institution's needs in this area.</p> <p>Implemented</p>
<p>Overcome silo behavior and mentality</p>		
<p><i>8. 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.</i></p>	<p>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>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. Further efforts are needed to improve the coverage of cross-country issues in Article IV reports. The 2014 TSR will evaluate whether bilateral surveillance leverages sufficient cross-departmental expertise.</p> <p>Implemented</p>

IEO Recommendation	Follow-Up Plan	Implementation Status ⁴
<i>Deliver a clear, consistent message to the membership on the global outlook and risks</i>		
<p>9. <i>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.</i></p>	<p>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>Starting with the next issue, WEOs will pay greater attention to risks around the baseline.</p>	<p>Implemented</p> <p>Implemented</p>

EVALUATION OF RESEARCH AT THE IMF – RELEVANCE AND UTILIZATION

18. The IEO Evaluation of Research at the IMF found that Fund research was widely read and included a large number of high quality products. This was particularly true for the WEO and the GFSR, but also for other publications. At the same time, the evaluation noted that there was significant scope 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. These reforms were expected to encourage diverse perspectives and ensure that the conclusions from research papers were better aligned to actual findings.

19. An interdepartmental working group led by the Research Department conducted the first periodic Strategic Review of Research (SRR). An external consultant prepared a background report on research at the Fund, covering the period 2010–12. The consultant, who was assisted by four external reviewers, each of whom covered a specific area of expertise, received inputs from members of the EVC and surveys distributed via Executive Directors to national authorities. In addition, an attempt was made to sample informally, the views of non-academic economists, and external reviewers were commissioned to examine a sample of IMF research in four general topics.

20. 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. In the survey of national authorities, 92 percent of respondents rated Fund research as “excellent” or “very good,” while 94 percent “agreed” or “strongly agreed” that it was relevant. In addition, more than 60 percent of respondents “agreed” or “strongly agreed” that the quality and relevance of Fund research products had improved over the past three years.

21. Nevertheless, the report identified several shortcomings, some of which had already been mentioned in the IEO evaluation. The main shortcomings include: 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.

22. The consultant’s report made six recommendations to address these issues: (i) improve consultations with country authorities and academics on research topics; (ii) consolidate research products and define intended audiences more precisely; (iii) provide carrots and sticks to improve the quality of WPs; (iv) supplement cross-country regressions and Dynamic Stochastic General Equilibrium (DSGE) models with case studies; (v) institute a policy of releasing data used in IMF research; and (vi) improve dissemination by involving developing country researchers and holding seminars at the time of country missions.

23. Some steps to address these issues had already been taken in the context of the MIP arising from this IEO evaluation. Those steps will be supplemented by other actions proposed by

the staff to address the recommendations made in the consultant's report. The discussion below attempts to summarize the current status of implementation of the *Research MIP* that was prepared after the IEO evaluation and the issues that are still outstanding. Table 3 summarizes progress in implementation.

I. Improving the Management of IMF Research

IEO Recommendation: *“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.”*

MIP Implementation

- The Economic Counselor has continued to convene interdepartmental meetings once a year (although the MIP had envisaged meetings twice a year) to discuss with other departments the contents of the Research Department's Agenda and potential overlaps. He has also updated Executive Directors on a regular basis about the Research Department's Medium-Term Agenda.
- Although at present there is exchange of information on research products across departments, no centralized Fund-wide coordinating mechanism for all the research activities has been put in place. Clearly, there is a tension between promoting candor and diverse research perspectives and establishing a Fund-wide centralized coordination mechanism. This issue is explicitly recognized in the consultant's report, which notes that “a completely centralized model of research...should not be envisaged; this is a recipe for research projects that repeat the existing conventional wisdom.” The report concludes that there is no need for a radical change from the way things are being currently done, which combines some decentralization and considerable diversity in research products and methods.

II. Enhancing the Relevance of IMF Research

IEO Recommendation: *“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.”*

MIP Implementation

- As noted above, an interdepartmental group (comprising representatives from area and functional departments) led by the Research Department conducted the first periodic Strategic Review.
- Based on the results of a survey of authorities in member countries, the consultant's report concluded that the IMF's research output is relevant and influential. Some products, however, were valued more highly than others, with the WEO and the GFSR leading the rest. Much of the research was assessed as providing valuable input for the Fund's multilateral and bilateral

surveillance process. While the coverage of topics was seen as generally adequate, topics such as the functioning of the international monetary system and international policy coordination were singled out as meriting further work. Work in these areas has picked up during 2013–14, including the publication of two staff discussion notes (SDN) on these topics. The new SDN series was favorably assessed. However, several survey respondents pointed out that coverage of international monetary reform and macroeconomic cooperation could be enhanced.

- The Research Department Agenda is updated twice a year. The current agenda for 2013–2014 focuses on revisiting fiscal and monetary/exchange rate policies in the context of the recent crisis; exploring the role of macro-prudential policies; deepening the analysis of capital flows and policy responses; continuing the work on inequality, jobs and growth; developing an appropriate suite of tools for policy assessments in LICs; and improving the modeling tools underpinning the multilateral surveillance products. A staff discussion note on international policy coordination was issued by RES in 2013 and another on monetary policy in the new normal was issued by an interdepartmental team in 2014.

Pending Issues under the MIP

- Complete the Strategic Review of Research currently in progress.

IEO Recommendation: “Staff should consult with country authorities on topics for Selected Issues Papers and other research to be conducted as background for bilateral and regional surveillance, but 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

- Steps have been taken to increase the tenure of mission chiefs and country teams on country assignments while ensuring the need for cross-country experience. This should contribute to enhancing the quality of research products by improving the staff’s knowledge of country issues (see Box 5 below in the context of the discussion on the Trusted Advisor MIP).
- The survey conducted in the context of the consultant’s report showed that only half of the authorities reported that they were consulted by IMF country teams regarding the choice of research topics in SIPs. In addition, of those consulted, only 60 percent agreed that the staff took their views into account. It should be noted, however, that the survey covered the period through end-2012. Staff noted that most mid-year staff visits include a discussion of the focus of and analytical topics for the next Article IV consultation.

Pending Issues under the MIP

- The follow-up plan in response to the findings in the consultant’s report envisages that area departments will strengthen their policies for eliciting the authorities’ views on appropriate

research topics prior to Article IV consultations. To that end, area departments will maintain a log of these requests (whether fulfilled or not), and the extent to which the requests are being met. There is no presumption, however, that staff would limit itself to issues requested by the authorities.

- Missions to countries with poor dissemination of Fund research (especially some LICs) will be encouraged to step up outreach during missions, including through seminars involving developing country researchers. There is also the possibility 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 showcase other Fund research.

III. 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 noted in the discussion on the *Run-Up to the Crisis MIP*, a series of reforms are being implemented to change the Fund’s internal culture. The efforts to broaden staff diversity in terms of academic background and professional experience should also contribute to developing alternative perspectives.
- Management’s commitment to promote new ideas, even contrary to traditional views, has been demonstrated by the publication of analytical work challenging the magnitude of the fiscal multiplier used in European programs, and by the frank Ex-Post Evaluation of the 2010 Stand-By Agreement with Greece.
- The SDN series has also sought to elicit comments and encourage debate. Several new notes on relevant policy issues have been issued recently as part of the series. Examples include: *Redistribution, Inequality, and Growth; Obstacles to International Policy Coordination, and How to Overcome them; Rethinking Macro Policy II: Getting Granular; Economic Diversification in LICs: Stylized Facts and Macroeconomic Implications; Income Inequality and Fiscal Policy; and Fiscal Frameworks for Resource Rich Developing Countries.*

Pending Issues under the MIP

- There are no quick solutions to promoting openness and alternative research perspectives. Notwithstanding recent efforts, the survey of country authorities conducted by the external consultant shows that only half of the respondents viewed the research in WPs and SDNs as unbiased. More generally, the consultant’s report reiterates some concerns that had been raised in the IEO evaluation. In particular, the report notes that “some of the directed research may be message driven.” It should be taken into account, however, that the consultant’s report reviews

IMF research conducted over the period 2010–2012. The concerns expressed in the report are being addressed by new procedures put in place at the end of 2012, which are discussed in more detail below in the section on the technical quality of analytical research. That section also describes some additional actions to be implemented in order to further strengthen the review process for WPs, which should also help to address the problem of “message driven” research.

Other Connected Issues

- The follow-up plan also envisages that area departments will be given greater discretion on whether to issue REOs covering the whole region or more homogeneous sub-groupings. Chapter 2 of the WEO will continue to provide an overview of regional developments, drawing on area department contributions.

IV. Enhancing the Technical Quality of Analytical Research

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

- Following the IEO evaluation, at the end of 2012, procedures dealing with WPs were modified to improve their quality. The revised procedures vary across departments, but typically include having a senior staff member in charge of quality control, as well as the requirement that papers be presented at an internal or external seminar and be reviewed by relevant departmental analytical groups.⁵ All procedures incorporate the standard COM guidelines establishing that (i) if the paper deals with a country or topic within the competence of another department, the authorizing department should send the paper to that department for “courtesy review”; and (ii) the concerned Executive Director(s) should be notified if the paper deals with a specific country or group of countries. A senior staff member in each department is expected to ensure consistent implementation of the new rules.
- The consultant’s report also looked at the quality of WPs. Each of the four outside experts felt that some of the WPs should not have been issued, which suggests inadequate quality control. Generally, SDNs were judged to meet quality standards more uniformly, reflecting more extensive scrutiny. However, as noted earlier, the sample used by the outside experts covered the period before the implementation of the new procedures introduced at the end of 2012. Informal consultations carried out recently by senior staff from RES suggest that most departments are

⁵ AFR, for instance, has recently created an AFR Research Advisory Group to ensure consistent minimum quality standards in the issuance of WPs and AFR Departmental Papers (ADPs); advice on whether a piece of analytical work should be issued as a WP or an ADP; ensure that both WPs and ADPs use sound analytical frameworks and econometric evidence; and provide authors with candid feedback. Proposed WPs or ADPs are assigned for review to two members of the group by the chairperson.

following the new procedures, although no evidence is available to determine whether there has been an improvement in quality.

Pending Issues under the MIP

- Other steps are being considered to address the concerns on quality expressed in the consultant's report. Specifically:
 - i. A Fund-wide procedure for WPs would be instituted whereby the B-level staff approving the WP for distribution may request the paper to be reviewed by the department with relevant expertise (e.g., FAD, MCM, RES, etc) or (providing the cost can be accommodated within existing departmental budgets) by an external referee, who would be asked to provide comments and make a recommendation on WP issuance. Authors will be expected to fully address the comments prior to the WP being issued.
 - ii. RES and ICD, in consultation with other departments, plan to institute a half- or one-day course (to be offered twice a year) on good practices for Fund research, including surveying the strengths and pitfalls of different techniques and the resources available to Fund researchers.
 - iii. Data dissemination of research products will be improved. For flagships and Board papers, all non-confidential data used in the analysis would be posted on the web at the time of publication. For WPs, authors would post the non-confidential data either when the WP is issued or, if journal submission is intended, when the paper is published.
- Additional information on recent progress in improving the quality of WPs.

Table 3. Implementation Plan in Response to Board-Endorsed Recommendations for the IEO Evaluation of Research at the IMF—Relevance and Utilization

IEO Recommendation	Follow-Up Plan	Implementation Status ⁶
Improving the Management of IMF Research		
<i>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.</i>	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. Although there is exchange of information across departments, no centralized Fund-wide coordinating mechanism for all research activities has been put in place.
Enhancing the Relevance of Research		
<i>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</i>	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. However, no indicative medium-term research agenda has been set.

⁶ 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 determined by OIA to be 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) OIA may determine that the likelihood of eventual implementation is too low to warrant continued follow-up.

IEO Recommendation	Follow-Up Plan	Implementation Status ⁶
<i>countries and the Executive Board.</i>		
<p><i>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.</i></p>	<p>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.</p> <p>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.</p>	<p>In progress. Area departments will strengthen policies for eliciting the authorities' views on appropriate research topics.</p> <p>Implemented</p>
Promoting Openness to Alternative Perspectives		
<p><i>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.</i></p>	<p>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.</p> <p>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."</p>	<p>In progress. New procedures will be implemented to further strengthen the review process for WPs. These procedures should also help to address the problems of "message driven" research.</p> <p>Implemented</p>

IEO Recommendation	Follow-Up Plan	Implementation Status ⁶
<i>Enhancing the Technical Quality of Analytical Work</i>		
<p><i>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."</i></p>	<p>New procedures have been adopted to ensure the quality of Working Papers.</p> <p>The forthcoming Strategic Review of IMF Research will assess technical quality more broadly.</p>	<p>In progress. The consultant's report suggested that quality control was still inadequate. Procedures will be reinforced to further strengthen the review process for WPs.</p> <p>Implemented. The consultant's report for the Strategic Review included an assessment of technical quality.</p>

INTERNATIONAL RESERVES – IMF CONCERNS AND COUNTRY PERSPECTIVES

24. The recommendations included in the *IEO Evaluation on International Reserves* focused on the Fund’s approach to the analysis of reserves in both a multilateral and bilateral context, as well as on its policy advice. In the multilateral context, the evaluation recommended that the discussion of reserve adequacy be embedded in a comprehensive treatment of threats to global financial stability and reflect developments in global liquidity and financial markets. It also recommended that policy initiatives target underlying distortions rather than just symptoms, such as excessive reserves.

25. 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.

26. During the Board discussion, Executive Directors broadly supported the general recommendations presented in the IEO evaluation, but recognized that the Fund had already made progress in many of the areas highlighted in the IEO report. The updated Guidance Note for Surveillance seeks to ensure a comprehensive coverage of external sector issues as an operational priority for surveillance, and the ESR provides a multilaterally consistent view of external imbalances across the largest economies, integrating advice on reserve adequacy with that on related policy areas. More generally, the WEO, the GFSR, the Spillover Reports, and the Vulnerability and Early Warning Exercises all look at threats to global stability, including those originating from global liquidity and financial markets. In addition, following recent work on an institutional view regarding the liberalization and management of capital flows, a note providing staff with operational guidance on this matter was issued in April 2013. The note stresses that the application of the institutional view on this matter needs to reflect country circumstances.

27. Against this background, the International Reserves MIP sought to focus on those recommendations for which there was broad support from Executive Directors, concentrating primarily on reserve adequacy assessments in the context of bilateral surveillance. In particular, the MIP focused on two specific areas that are discussed in detail below. Table 4 summarizes progress in implementing the MIP.

I. Ensure robust coverage of reserve adequacy in Fund surveillance, and specific guidance tailored to certain types of economies.

MIP Implementation

- The updated Guidance Note for Surveillance, issued in October 2012, establishes stability as the organizing principle of surveillance and identifies five operational priorities, with balance of

payments stability being at the core. The note regards reserve adequacy as a critical element in the assessment of a member's balance of payments stability and global stability. Going beyond the traditional reserve adequacy indicators, the note encourages staff to make use of the metrics for emerging market and developing economies proposed in the IMF paper *Assessing Reserve Adequacy (ARA)*, while taking into account country-specific circumstances. Staff are also encouraged to explore other approaches and indicators and to use scenario analysis to determine the level of reserves needed to cushion the impact of a sudden stop in capital flows and other extreme balance of payments shocks.

- In response to the International Reserves MIP, in November 2013 the staff issued a follow-up paper on *Assessing Reserve Adequacy-Further Considerations* to address the outstanding issues identified by the Board following the IEO evaluation. The paper aims 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, and (ii) review the ARA adequacy metrics and consider ways to improve it in order to better account for country-specific factors in a consistent way. The paper focuses exclusively on reserves held for precautionary motives.
- The follow-up ARA paper underscored that reserve needs ultimately reflect the maturity, depth and underlying liquidity of a country's market as well as its economic flexibility, and that these characteristics are not always aligned with the standard classification of advanced, emerging, and low-income countries. Moreover, within each type of economy reserves needs also depend on the nature of the exchange regime.
- The paper noted that international reserves constitute an important buffer for mature market countries that are not reserve currency issuers. For these countries, potential foreign exchange funding needs of the banking system may provide a basis for reserve needs, but this could be augmented to reflect measures of trading liquidity and market participants' behavior and, possibly, the foreign exchange liquidity needs of some non-banks. The paper recognized that computation of these elements is complicated by significant data gaps.
- For economies with less-mature markets (mainly emerging market economies), the paper concluded that the ARA metric and the related risk weights appeared to be broadly appropriate, with the possible exception of exports. It was noted, however, that greater country-specificity could help improve reserve adequacy assessments. In this regard, several proposals were made to address issues that had been identified by Management and the Board following the 2012 IEO evaluation. Specifically, the paper proposed to: (i) increase the weight applied to other liabilities in the ARA metric; (ii) add a component based on commodity import exposure for countries highly dependent on commodity imports; (iii) adjust upward the weight applied to exports for countries heavily reliant on commodity exports; and (iv) introduce some persistence in the desired reserve holdings for countries with a history of capital flows volatility (perhaps by maintaining reserves relative to some moving average of the country's metric level).
- The paper discussed the cost of holding reserves in market access countries in both mature and less mature markets, including for different types of LICs, as well as the return on reserve assets. It

also addressed the possible need for adjustments to the marginal benefits for holding reserves in the case of Resource Rich Economies (RREs), suggesting that RREs might need to hold a higher level of reserves to withstand external shocks. An illustrative presentation on adequate reserve levels for different LIC subgroups (RREs, frontier markets, and Sub-Saharan economies), using alternative proxies for the cost of holding reserves was provided. It was recognized, however, that these refinements to reflect LIC heterogeneity could not capture the full range of factors that might affect the cost of holding reserves.

- In line with recommendations in the IEO report, the paper also investigated the applicability of the ARA metric to fully dollarized economies, including fully dollarized LICs, and currency unions. The analysis suggested that the metric may be relevant even for fully dollarized economies, but recommended that, at a minimum, the metric be perceived as a lower bound for reserve adequacy for these economies. Specific issues that could affect the reserve needs of dollarized LICs, with a focus on how they may differ from other LICs, were also discussed. Regarding partially dollarized economies, the paper concluded that the ARA metric seemed to be generally well suited. In the case of currency unions, the nature of the union was regarded as critical for the level of needed external buffers. It was also noted that the financial architecture and synchronization of some currency unions may limit the scope for heavy reliance on reserve pooling.

Pending Issues under the MIP

- The follow-up ARA paper addresses many of the issues raised in the IEO evaluation on reserve adequacy in the context of bilateral surveillance. In July 2014, staff will engage the Board on additional operational considerations for the assessment of reserve adequacy. The discussion will examine how income levels, capital controls, and commodity-intensive trade affect reserve needs. A new guidance note on international reserves is expected to be issued in early 2015.

Other Connected Issues

- Several other issues were raised by Executive Directors in the context of the Board discussion on the follow-up ARA paper:
 - i. Many Directors encouraged additional work to assess the drivers of reserve accumulation in excess of precautionary levels.
 - ii. For mature market countries that are not reserve currency issuers, Directors called for further efforts to address data gaps that impede the construction of indicators of short-term bank foreign exchange funding, trading liquidity, and pricing behavior of market participants.
 - iii. Directors also asked for further work to strengthen the Fund's policy advice on foreign exchange market intervention, and a fuller discussion of alternatives to reserve accumulation, such as central bank swaps, Fund arrangements, and regional financing arrangements. In this regard, a paper on *the Role of Exchange Rate Intervention—Issues and Experiences* is tentatively scheduled for Board discussion in January 2015.

- Future work on LICs could further explore the heterogeneity of this group of countries, including the high vulnerability of small states and mono-export economies to shocks.

II. Improve communication of the Fund's views, and guidance, on reserve adequacy

MIP Implementation

- In line with recommendations in the IEO report, the Fund's second Pilot External Sector Report issued in August 2013 sought to provide a multilaterally consistent assessment of external developments and policy recommendations. The report benefitted from feedback received on the previous pilot by placing greater emphasis on capital flows and incorporating further refinements in the Pilot External Balance Assessment (EBA) that analyzes current accounts and real exchange rates based on economic characteristics and policies.
- The follow-up ARA paper was informed by a survey that gathered member country views on the motive and use of reserves, analytical frameworks to assess precautionary reserve adequacy, and approaches to intervention.
- SPR's Assessing Reserve Adequacy toolkit, including the ARA metric, is available to staff in the internal IMF website. The toolkit allows for cross-country comparisons.
- A paper on *Global Liquidity-Issues for Surveillance*, which illustrates new avenues of empirical research of global liquidity to enrich IMF surveillance, was issued in April 2014.

Pending Issues under the MIP

- The MIP envisages that the Fund would step-up engagement on reserve adequacy, including through dedicated missions, focusing on countries where the discussion of reserve adequacy is central to the policy mix.
- The reserve adequacy toolkit could also be made available on the external IMF website to broaden its usage and stimulate further comments from policymakers and academics.

Table 4. Implementation Plan in Response to Board-Endorsed Recommendations for the IEO Evaluation of International Reserves—IMF Concerns and Country Perspectives

During the Board discussion of the IEO Evaluation of International Reserves, Executive Directors broadly supported the IEO general recommendations, but recognized that the Fund had already made progress in many of the issues that the evaluation had highlighted. As a result, the MIP focused on specific areas where additional work was needed. These areas are laid out below.

Area	Follow-Up Plan	Implementation Status ⁷
1. <i>Ensure robust coverage of reserve adequacy in Fund surveillance, and specific guidance tailored to certain types of economies</i>	- Management and staff will continue to promote implementation of the guidance for surveillance in Article IV consultations, including assessment of reserve adequacy.	Implemented
	- Further work is proposed to review the recent experience with the use of the reserve adequacy metric, and to propose areas for development.	Implemented
	- Together with existing work, the new analysis will form the basis for a Board paper and staff guidance note on reserve adequacy.	In progress. The follow-up ARA paper has been issued, but the guidance note is still being prepared.
2. <i>Improve communication of the Fund's views, and guidance, on reserve adequacy.</i>	- The second External Sector Report (ESR) provides a key opportunity to present a multilaterally consistent assessment of external developments and policy	Implemented

⁷ 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 determined by OIA to be 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) OIA may determine that the likelihood of eventual implementation is too low to warrant continued follow-up.

Area	Follow-Up Plan	Implementation Status ⁷
	<p>recommendations.</p> <ul style="list-style-type: none"> - The Fund will step-up engagement on reserve adequacy through dedicated missions, and as part of the regular surveillance cycle. 	In progress

THE ROLE OF THE FUND AS TRUSTED ADVISOR

28. The IEO Evaluation of the Role of the Fund as Trusted Advisor covered the period from 2005–12, with emphasis on the sub-period since the onset of the global financial crisis in 2007–08. The evaluation 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 crisis, being perceived as more open, flexible, and responsive.

29. The IEO evaluation noted, however, that additional efforts were needed and made six recommendations to enhance the role of the Fund as trusted advisor. Five of the six recommendations were broadly endorsed by the Board, but a recommendation to incorporate the views of all countries during the preparation of major policy papers received limited support. Directors supported, however, the continuation of the staff's regular practice of extensively consulting authorities and other stakeholders ahead of policy papers.

30. The MIP arising from the evaluation proposed a number of steps to address the five IEO recommendations endorsed by the Board, and ways in which they could be monitored. Some of these steps had already been adopted before agreement was reached on the MIP, including in response to the recommendations arising from the *Run-Up to the Crisis Evaluation*. The 2012 Guidance Note for Surveillance provides additional guidance to staff in some areas, and Management has also issued clear instructions on a number of issues. However, in some cases it is difficult to judge how much progress has been made in practice due to lack of updated information.

31. Specific actions in response to each of the five recommendations endorsed by the Board are discussed below. Table 5 summarizes progress in implementing the MIP.

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

MIP Implementation

- The 2012 Guidance Note encourages staff to exchange views with the authorities on topics for discussion at an early stage in the consultation cycle. This was reaffirmed in the memo sent by the FDMD to department heads in June 2013, which establishes that mission chiefs should contact authorities two months in advance of Article IV consultations, with SPR being responsible for monitoring implementation through the Policy Consultation Meetings (PCM). Mission teams are also expected to share with the authorities and the relevant Executive Director major policy questions and assumptions on the global environment underlying projections at least one week before missions. In addition, they are expected to foster dialogue by better explaining the rationale for, and relevance of, policy advice. As previously noted, staff indicated that most mid-year staff visits include a discussion on the focus of, and analytic topics to be covered during, the next Article IV consultation.
- The 2011 Triennial Surveillance Review called for enhancing the understanding of interconnectedness and incorporating it into the analysis of risks and policies. To this end,

substantial efforts have been made to deepen the understanding of macro-financial linkages and assessing external risks, contagion, and spillovers from the international economy. As noted in the context of the *Run-up to the Crisis* MIP, area departments have also begun to experiment with cluster-level surveillance, which provides cross-country analysis for interconnected countries exposed to the same shocks and with similar policy concerns.

- In response to the views expressed by many emerging markets and LICs authorities, a note providing operational guidance on jobs and growth issues in surveillance and program work was issued in September 2013. The note builds on the Board paper *Jobs and Growth: Analytical and Operational Considerations for the Fund*, and provides guidance on improving analysis and policy advice in these areas. The note emphasizes that its application by staff needs to reflect country circumstances.

Pending Issues under the MIP

- The Trusted Advisor MIP envisaged that surveys of country authorities and OED would help to monitor implementation. However, no follow-up survey of country authorities or OED has taken place since the MIP was issued. The surveys to be conducted in the context of the 2014 TSR, which would gauge the views of country authorities and Executive Board members, would provide a good opportunity to assess progress on implementation. The MIP also indicated that a separate survey of OED, to be completed by end-April of each year, would be instituted to monitor whether country teams were engaging with OED and country authorities.
- Cross-country policy lessons remain limited in Article IV consultations, and coverage of outward spillovers in Article IV reports is still at an early stage. To some extent, dissemination of cross-country knowledge has been affected by the fact that specialized departments (MCM, FAD) have been more selective about the group of countries they are reviewing. In addition, progress toward the goal of discussing Article IV consultations together for interconnected countries has been limited so far, owing to logistical issues and coordination difficulties when countries are covered by different departments. It should also be noted that the ISD limits the coverage of outward spillovers in Article IV reports to systemic countries.
- The 2014 TSR will analyze the Fund's institutional effectiveness in surveillance. In this regard, it will assess: (i) whether the Fund is properly equipped to undertake integrated surveillance on a timely basis; (ii) to what extent bilateral surveillance is able to focus effectively on country-specific concerns; (iii) whether bilateral surveillance leverages sufficient cross-departmental expertise; and, (iv) how bilateral surveillance is being supported by the various multilateral surveillance exercises.

IEO Recommendation: “Strengthen the continuity of the relationship between the Fund and member countries.”

MIP Implementation

- The June 2013 memo by the FDMD also listed several key actions to address this recommendation, as follows:

- i. Departments should aim to achieve the target of three years average tenure for country assignments. Progress in this area is being monitored by area departments supported by HRD. As noted in Box 5 on Staff Tenure in Country Assignments, the indicator for mission chief tenure for all area departments shows an average tenure of 2.4 years in FY 2013, with a slight decline to 2.3 years in mid-FY 2014, with some variations across departments. Overall, these indicators look reasonable, taking into account that the need for flexibility in tenure for certain types of countries, for example, fragile states and high-intensity crisis assignments.

Box 5. Staff Tenure in Country Assignments

In response to concerns raised by the IEO and the Board, the Fund has taken steps to lengthen country-desk tenure. This initiative covers mission chiefs and desk economists as well as staff from FAD, MCM, and SPR working on country teams. Specifically, departments have been asked to move towards average desk tenure of three years.

Mission chief tenure is now 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 in 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, with a slight decline to 2.3 years in mid-FY 2014. The following table provides data for the five area departments:

	FY 2013	Mid-FY2014
Total	2.4	2.3
AFR	2.4	2.2
APD	2.0	2.0
EUR	2.8	2.6
MCD	2.5	2.5
WHD	2.1	2.3

The information available for desk economists, which is included in the 2013 CWP paper, is older. It shows that as of April 2012 desk economists had served on their assignments for an average of 1.3 years, based on ongoing assignments. The CWP paper argued that, assuming a broadly uniform distribution of changes in desk tenure over time, one would expect an outturn of 1.5 years to be consistent with reaching the three-year benchmark.

Source: HRD and Area Departments Accountability Frameworks.

- ii. Area and functional departments should set out clear expectations and procedures for handovers of country assignments from one economist to another, including on data management. In line with this instruction, all areas and functional departments have issued guidelines establishing minimum requirements and recommending best practices for the handover of country assignments. The requirements include a checklist with information to be handed by the outgoing economist to his/her successor. An assessment of how well staff and managers assist with transition processes should be included in the APR process.

- iii. Area departments should manage the staff rotation process to ensure that mission chiefs, resident representatives, and senior desks do not leave a country assignment at the same time. This matter is being monitored by area departments SPMs with support from HRD.
- iv. Mission teams should engage closely with OED prior to, during, and after policy discussions with country authorities.
- The MIP also envisaged that improving the diversity of senior staff would strengthen the Fund's relationship with country authorities. Data on geographical diversity included in the latest Diversity Report notes that the Middle East was the only region that had attained the B-level benchmark of 5 percent as of end-FY 2013. Transition countries were still halfway toward their benchmark of 4 percent, and the share of East Asian staff, while increasing, was still below its benchmark of 7 percent. The share of B-level staff from Africa was still short of the benchmark of 6 percent, but had been on an upward trend.
- Recent hiring trends show some difficulties in recruiting diverse B-level staff. In CY 2013 the Fund recruited six B-level staff from the external market, compared with eight hires in CY 2012 and a five-year average of 10. Of the six hired in 2013, only three were from underrepresented regions, compared with six in CY 2012. None were women, although one woman was hired in early 2014.

Pending Issues under the MIP

- The upcoming 2014 TSR is expected to provide updated information on the Fund's performance in enhancing engagement with the membership. The survey of OED will also provide information about whether country teams are engaging with OED and country authorities as expected.
- Recent progress on diversity and inclusion will be discussed in fall 2014, in the context of the *2014 Diversity and Inclusion Annual Report*.

Other connected Issues

- The B-level Diversity Initiative was established in FY 2011 to help the Fund meet the benchmarks for underrepresented nationals at the B-level. As of end-March 2014, the Fund had hired nine individuals under the program, with 3-4 positions remaining. Hiring through the Initiative is due to end in FY 2015, at which time the effectiveness of the program will be assessed.

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 Trusted Advisor MIP calls 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 encourages

staff to have informal/brainstorming discussions with country authorities in the course of policy discussions.

- Following the completion of the latest Transparency Review, in November 2013, SPR issued a new 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. To this end, it includes an appendix containing a Transparency Policy Information Sheet (TPIS) that can be handed to country authorities during missions. The TPIS states that "staff (and management) should disclose to the Executive Board any information that is necessary for the Board to conduct surveillance or make decisions on Fund-supported programs. Such information would include the authorities' policy positions and plans in areas that are relevant for Fund surveillance or financial assistance but would generally exclude information on hypothetical courses of action that have been informally discussed with the authorities. The latter need not be disclosed to the Board."⁸

IEO Recommendation: *"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."*

MIP Implementation

- The October 2012 Guidance Note for Surveillance encourages area departments to develop outreach programs as part of mission planning and in active consultation with COM. It also indicates that Article IV press conferences at the end of missions and/or Board meetings should be routine, unless departments see specific reasons not to hold them.
- The memo circulated by the FDMD in June 2013 indicates that mission chiefs should discuss outreach plans/strategy with authorities in the context of mission planning, with support from COM. Staff should also seek to explain to country authorities the benefits of outreach and message management. In practice, it is difficult to judge to what extent outreach plans are systematically discussed with country authorities (or OED) in the context of mission planning. Typically, mission outreach plans are included in the draft Policy Note and reviewed by COM staff assigned to the country. Comments are then discussed prior to mission travel in the context of the PCM, and are incorporated in the Policy Note.
- The FDMD memo also establishes that terms of reference for Resident Representatives (RRs) should be clarified to underscore the importance of formulating an outreach strategy in collaboration with country authorities, and updated on an annual basis. Practices regarding this issue vary across departments. In general, most terms of reference for RRs discuss outreach, but

⁸ The note recognizes, however, that "information that is obtained in an informal discussion on hypothetical courses of action may, at some point, become of such importance for surveillance or Fund-supported programs that it may need to be disclosed to the Board."

are not systematically updated on an annual basis. At the same time, an effort has been made to prepare TORs that are less generic and more country-specific, including on outreach.

- To help staff with its outreach activities, COM has prepared guidelines on outreach with civil society, legislators, the media, and the general public, and maintains a communications toolkit. COM has also assigned staff to each department to serve as liaison officer to facilitate effective communications.
- In May 2013, as part of the ongoing strategy to strengthen RRs outreach, COM launched a pilot project on social media for use by RRs. The project is intended to explore the impact, logistics, and resource implications of RRs' communications through social media in different regions and platforms. The pilot includes four posts: India, Pakistan, South Africa, and Peru. The principles of engagement are similar to those applying for RRs using traditional media. The experience is expected to help determine whether and how to expand social media use among RRs more broadly. A Social Media Guidance Note for RRs sets out the broad principles for social media engagement, and Social Media Operational Guidelines have also been issued.
- COM'S Digital Communications Division (COMDC) maintains the RRs and Regional Offices websites (including in four languages other than English) in the imf.org domain. As a general rule, the primary responsibility for the timeliness and content of RR websites rests with the respective RR. However, for practical, technical and security reasons, COMCD has responsibility for posting material, creating new RR websites and redesigning existing ones. COM has prepared guidelines regarding RR Websites, which contain detailed specific instructions for RRs (including Regional Offices); area departments; and the COMDC.
- The Media and Public Relations course was expanded in 2013 to include outreach. To date, AFR, APD, and EUR have delivered the new course to their RRs at their Annual RR retreats.
- A new interdepartmental outreach database to assist management and departments in coordinating outreach activities was put in place in July 2013. Department representatives are responsible for updating their department's activities, usually for a period of three months. The database is expected to enhance departmental coordination and will be a useful resource for assessing the impact of outreach and for developing a strategy in line with Fund objectives.

Pending Issues under the MIP

- Several guidelines have been issued and a number of steps have been taken to strengthen outreach by mission chiefs and RRs, giving adequate attention to country-specific characteristics. As in other areas, an assessment of the effects that these actions have had in practice would benefit from the information that could be obtained from the surveys of country authorities and OED.

Other Connected Issues

- The *Review of the IMF's Communications Strategy* in July 2014 will take stock of the implementation of the Fund's communication strategy since 2007 and consider measures to strengthen it.

IEO recommendation: “Implement the Fund’s transparency policy in a uniform and fair manner.”

MIP Implementation

- Surveys conducted in the context of the *2013 Review of the Fund’s Transparency Policy* suggest that there is a marginal loss of candor arising from external pressures on staff before the publication of reports. In general, mission chiefs felt that pressure to dilute messages was slight. Those reporting high external pressure were mainly mission chiefs to European countries, followed by the Western Hemisphere. Some 20 percent of mission chiefs cited the need to maintain good relations with the authorities as a factor constraining their ability to produce candid reports, but the vast majority thought that all important information remained in the published reports.
- A significant number of survey respondents had doubts, however, that the Fund was applying the transparency policy evenhandedly, although the strength of views varied markedly. Executive Directors were the most concerned, with half of the respondents believing that the policy was not being applied evenhandedly. Mission chiefs, on balance, felt that the policy was not applied evenhandedly, although their views were not as strongly held as those of Directors. Country authorities were, on average, more positive about evenhandedness, although with significant differences between groups. The greatest concerns were expressed by country authorities in the Middle East, Africa, and the Western Hemisphere.
- Those who claimed that transparency policy was not applied evenhandedly tended to cite the larger number of modifications of staff reports in favor of advanced economies. *The Review of Transparency* paper noted, however, that a detailed examination of a sample of recent cases of deletions and corrections revealed that only a few cases did not fulfill all the criteria under the policy in place, and that there was little evidence of bias. Corrections requests remained high during the crisis, especially for advanced economies, but staff concluded that this trend was a natural reflection of the specific characteristics of countries and the criteria for deletions. The paper noted that, in fact, European crisis countries accounted for a major share of the countries requesting the largest numbers of deletions on grounds of market sensitivity.
- To address concerns about evenhandedness and strengthen monitoring, the Transparency Review proposed that an annual report containing a table of all modification requests be issued to the Board. The proposal provided that the report should detail the requests that have been rejected, including the country name, the specific request, and the reason why it was rejected. This would help Directors to assess whether countries are treated evenhandedly. Staff is also developing a database of modification requests that will be used to generate summary statistics on rejected modifications for inclusion in the report on *Key Trends in the Implementation of the Fund’s Transparency Policy*, starting in 2014.
- The Guidance Note on the Fund’s Transparency Policy issued in November 2013 envisages that internal control of an evenhanded application of the corrections and deletions policy would require strengthened recordkeeping. To this end, country teams will copy SPR when corrections and deletions memoranda are sent to SEC, even when SPR sign-off is not required. However, this record-keeping does not include requests that were rejected.

Table 5. Implementation Plan in Response to Board-Endorsed Recommendations for the IEO Evaluation of the Role of the Fund as Trusted Advisor

IEO Recommendations	Follow-Up Plan	Implementation Status ⁹
1. Enhance the value-added of Article IV consultations for country authorities.	All steps will begin in May 2013:	
	Early consultations with country authorities will now be expected of all teams.	In progress. Instructions have been issued. Implementation to be monitored through surveys of country authorities and OED.
	Mission teams will be expected to share major policy questions and global assumptions underlying projections at least one week ahead of the mission.	In progress. Instructions have been issued. Implementation to be monitored through surveys of country authorities and OED.
	Enhanced use of cross-country examples by functional department economists.	Partially implemented
	Pilot reports on clustered Article IV consultations, which can augment cross-country analysis, will be initiated.	In progress. Three clustered Article IV consultations have been completed.

⁹ 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 determined by OIA to be 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) OIA may determine that the likelihood of eventual implementation is too low to warrant continued follow-up.

IEO Recommendations	Follow-Up Plan	Implementation Status ⁹
	Mission chiefs to be tasked to better explain rationale for Fund policy advice.	In progress. Instructions have been issued. Implementation to be monitored through surveys of country authorities and OED.
2. <i>Strengthen the continuity of the relationship between the Fund and member countries.</i>	<p>Target of three years average tenure for country assignments to be monitored by HRD.</p> <p>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.</p> <p>Transition rules to be introduced by July 2013 to support orderly handovers.</p> <p>SPMs will work to prevent simultaneous turnover of the mission chief, senior desk, and/or Resident Representative.</p> <p>Role of OED in liaison process to be emphasized and monitored through an annual survey, which will begin by April 2014.</p> <p>Surveys of country authorities for forthcoming TSRs will be enhanced to help determine progress in improving the Fund's role as trusted advisor.</p>	<p>Implemented</p> <p>In progress. To be monitored through 2014 Diversity and Inclusion Annual Report.</p> <p>Implemented</p> <p>Implemented</p> <p>In progress</p> <p>In progress. Survey to be conducted in the context of the 2014 TRS.</p>

IEO Recommendations	Follow-Up Plan	Implementation Status ⁹
<p><i>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.</i></p>	<p>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.</p>	<p>Implemented</p>
<p><i>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.</i></p>	<p>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.</p>	<p>In progress. Instructions included in the Guidance Note on Transparency. Progress in implementation to be monitored through survey of country authorities and OED.</p>
<p><i>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.</i></p>	<p>All steps will begin in May 2013:</p> <p>Mission chiefs should discuss outreach plans/strategy with authorities in the context of mission planning, with support from COM. SPR will monitor during PCMs.</p> <p>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</p>	<p>Partially Implemented. Instructions have been issued by the FDMD, but consultation with the authorities varies across countries. Mission outreach plans are usually included in Policy Notes and reviewed by COM.</p> <p>Partially Implemented. Instructions have been issued by the FDMD. Most TORs discuss outreach, but updating is not systematic.</p>

IEO Recommendations	Follow-Up Plan	Implementation Status ⁹
	updated on an annual basis. This will be monitored by HRD, with support from COM.	
<p><i>6. Implement the Fund's transparency policy in a uniform and fair manner.</i></p>	<p>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.</p>	<p>Implemented. Recommendations have been made to improve evenhandedness.</p>

Table 6. Summary of Implementation Status for the Recent Management Implementation Plans (MIPs)

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	1	-	3
International Reserves—IMF Concerns and Country Perspectives	2	5	3	-	-	2
Role of the Fund as Trusted Advisor	6	16	5	3	-	8
Total	21	46	20	4	-	22
Percentage	-	100	43.5	8.7	-	47.8

PREVIOUS MIPS AGREED SINCE 2007: SUMMARY OF RECENT DEVELOPMENTS

32. This section 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).¹⁰

A. IMF Interactions with Member Countries

33. Most of the actions envisaged in the *Interactions with Member Countries* MIP were also included either in the *Run-Up to the Crisis* MIP or in the *Trusted Advisor* MIP, and have already been discussed in detail in the previous section. Therefore, the discussion below focuses on recent developments in some areas of the *Interactions* MIP that have not yet been addressed. These areas include: (i) recent modifications in the Fund's non-concessional lending facilities; (ii) the review of the Fund's Capacity Development Strategy; (iii) initiatives to increase the effectiveness of staff in the field; and (iv) recent work on fragile states and small states. The reforms that have taken place in the Fund's concessional lending products are discussed under the MIP for the *IMF and Aid to Sub-Saharan Africa*.

- **In November 2011, the Executive Board reviewed the Flexible Credit Line (FCL) and the Precautionary Credit Line (PCL) instruments and approved a set of reforms to bolster the flexibility and scope of the General Resources Account (GRA) lending toolkit.** The key reforms consisted of: (i) the consolidation of the GRA emergency assistance tools under a single instrument, the Rapid Financing Instrument (RFI), to support, in a more flexible manner, countries facing urgent balance of payments needs, including those stemming from exogenous shocks; and (ii) the replacement of the PCL with the Precautionary and Liquidity Line (PLL), allowing PLL arrangements to be approved both as insurance against future shocks and also in cases of actual balance of payments need, including through six-month arrangements to deal with short-term liquidity shocks.
- **In February 2014, the Board discussed a staff paper on the *Review of the FCL, the PLL, and the RFI*. Executive Directors agreed that the FCL, the PLL, and the RFI should remain in the Fund's lending toolkit, but saw scope for further refinements and welcomed efforts to enhance their effectiveness, transparency, and attractiveness.** In response to Directors' request for further analysis, in April 2014 the staff issued another paper on *Review of the FCL, the*

¹⁰ As noted earlier in the paper, no MIP was prepared for the 2008 report on *Governance of the IMF: An Evaluation*, given the complexity of the issues and the need for a broader discussion that could be considered within the PMR framework.

PLL, and the RFI – Specific Proposals, focusing on three issues: (i) the alignment of the qualification criteria for FCL and PLL arrangements; (ii) a methodology to calculate a new external stress index to strengthen the discussion of a country's external risks, to be presented to the Board at the time of requests for, or reviews under the FCL and PLL arrangements; and (iii) the use of a limited set of new institutional indicators to help strengthen the indicators already identified in the FCL and PLL Operational Guidance Notes. The staff paper also considered the case for amending the bank solvency criterion, as the existing FCL criterion set a relatively low qualification standard for the soundness of the financial sector and did not allow for sufficient differentiation between potential FCL and PLL cases. The Board discussed the staff's proposals on May 21, 2014.

- **In May 2013, the Executive Board considered a staff paper on *The Fund's Capacity Development Strategy: Better Policies through Stronger Institutions***, which outlined several reforms to increase the effectiveness of the Fund's capacity development program, which were endorsed by the Board. Following up on the April 2014 Board discussion of a statement of *IMF Policies and Practices on Capacity Development*, the staff will submit a revised statement for Board approval on a LOT basis. In addition, in response to requests from the Board, the staff plans to provide supplementary information on capacity development activities in Fund budget documents, starting with the FY 2014 budget outturn paper.
- **Regarding external IMF training, a triennial survey was conducted by an independent research firm in 2012.** The survey was sent to central banks, ministries of finance, and other government agencies in 185 countries that had sent participants to the IMF Institute Training Program during 2009, 2010, and 2011. The results of the survey showed that 98 percent of respondents were satisfied with the training received during this period, with 77 percent expressing strong satisfaction—the highest percentage reported since these surveys were initiated. The survey also noted that the demand for all types of training was expected to increase during 2012–2016.
- **A Working Group was established in early 2011 to look at previous recommendations to boost the effectiveness of staff in the field, and to suggest actions to fill in gaps in implementation.** The Working Group identified a few key areas where improvements had not been made (particularly selection, training, and management of RRs) and put forward suggestions on how to move ahead in these areas. Most suggestions were endorsed by Management. Suggested improvements included longer lead times for the selection of RRs; focusing the selection process on finding candidates with the outreach, interpersonal, and diplomatic skills needed for RRs assignments; and developing a comprehensive training program for newly appointed RRs. The Working Group also recommended strengthening interactions between RRs and headquarters staff, and maximizing the skills of local staff.
- **More recently, a new interdepartmental group has been set up with a broad mandate to coordinate the Resident Representative program across area departments.** The new interdepartmental group is following up on some of the recommendations made by the previous Working Group on increasing the effectiveness of staff in the field. In particular, the

interdepartmental group is working on developing a training program for RRs, an area where progress has been slow in the past.

- **In May 2012, a guidance note was issued providing operational guidance to staff on the Fund's engagement with low-income and middle-income countries in fragile situations.** The note aims to help staff to better tailor engagement with countries in fragile situations to country specific circumstances, including with regard to policy design, the choice of financing facility or instrument, technical assistance and training, and donor coordination. The note reflects the Board discussion of *Macroeconomic and Operational Challenges in Countries in Fragile Situations* (SM/11/122). Going forward, the effectiveness of Fund engagement will be assessed for a subgroup of fragile states as an input into a broader review of the Fund's work with fragile states, tentatively envisaged for early 2015.
- **In March 2013, the Executive Board discussed a staff paper on *Macroeconomic Issues in Small States and Implications for Fund Engagement* (SM/12/92).** The paper described the key characteristics and particular challenges faced by small states (both low and middle-income countries); reviewed the Fund's past engagement with small states; and, on that basis, presented a number of proposals to strengthen the effectiveness of Fund engagement. A *Staff Guidance Note on the Fund's Engagement with Small Developing States* incorporating feedback from the authorities was issued in March 2014. Another paper on *Selected Issues in Small States* will be presented to the Board in early 2015, focusing on growth, fiscal and debt challenges, and financial interconnections.
- **New special provisions for the eligibility and graduation of very small states became effective in April 2013.** The new provisions resulted in three small states (Marshall Islands, Micronesia, and Tuvalu) becoming PRGT-eligible.

B. IMF Involvement in International Trade Policy Issues

34. Recent developments regarding this MIP are as follows:

- **The External Sector Unit in SPR is responsible for spearheading and coordinating SPR's work and developing Fund policies on key external sector issues, including trade, capital flows, exchange rates, and international reserves.** Work is ongoing to update SPR's Trade Webpage in order to provide staff with easy access to all the information and resources required to guide the work on trade issues.
- **SPR has continued to update management and other departments on trade developments, including the WTO Doha Trade Round.** The preparation of a regular internal *trade monitor* publication was temporarily discontinued in May 2013 owing to organizational changes and work pressures, but these reports are expected to be resumed shortly.
- **Coordination with the WTO and the OECD on trade issues has continued, with Fund staff providing comments on the macroeconomic section of their reports. In addition,**

IMF/WB/WTO joint trade workshops continue to take place once a year to exchange views of common interest and discuss ongoing research projects. This year's joint workshop will be organized by the Fund in November. SPR has also organized trade seminars for staff and outside experts on a monthly basis to discuss relevant trade topics (e.g., trade finance, GVCs, the Trans-Pacific Partnership).

- **A staff paper on *Trade Interconnectedness: The World with Global Value Chains* was issued in August 2013.** The paper aims to document the evolution of Global Value Chains (GVCs) since the mid-1990s and to address their implications for the Fund's surveillance work. The paper examines the implications of GVCs for jobs and growth, competitiveness, and protectionism and trade-related policies.
- **The Fund's review of the work on trade policy is expected to be finalized towards the beginning of 2015.**

C. Structural Conditionality in IMF-Supported Programs

35. The 2011 Review of Conditionality found that program conditionality had become more focused and was in general aligned with program goals and tailored to country circumstances.

It also concluded that conditionality had become more parsimonious, supported by the discontinuation of structural performance criteria. At the same time, the Review recognized that focus and parsimony may come under pressure in a more challenging global environment, and that in the future it would be important to monitor conditionality closely to keep measures at the minimum necessary to ensure the success of Fund-supported programs.

36. Recent developments in the area of structural conditionality can be summarized as follows:

- **In recent years, particularly since 2011, there has been a trend toward increased structural conditionality.** For instance, the paper on *Greece – Ex-Post Evaluation of Exceptional Access under the 2010 Stand-By Arrangement* (IMF Country Report, 2013) noted that structural conditionality had become very detailed under the arrangement, with a proliferation of fiscal conditions reflecting the realization of the extent of weaknesses in administrative capacity. The Evaluation argued that the detailed nature of the structural fiscal conditionality deserved further scrutiny.
- **Structural reforms and the role of the Fund will be covered in a background paper for the 2014 TSR.** The paper, an independent study that will be prepared by external experts, will consider instances in which the Fund should provide advice on macro-critical structural reforms; and how this work could be supported by technical assistance and training, while leveraging the expertise of other institutions.
- **The Annual Report on the Application of Structural Conditionality was discontinued in 2010 owing to resource constraints. For specific program countries, structural conditionality is typically reviewed in Ex Post Assessments of Longer-Term Program Engagement (EPAs) and Ex Post Evaluations of Exceptional Access (EPEs).** The recent Board paper on *Jobs and Growth*:

Analytical and Operational Considerations for the Fund (IMF Policy Paper, March 2013) and the associated *Guidance Note on Jobs and Growth Issues in Surveillance and Program Work* (IMF Policy Paper, September 2013) covered conditionality in those areas. In addition, the guidance note on conditionality, which would discuss structural conditionality issues, is expected to be revised and issued in mid-2014.

- **A Staff Discussion Note (SDN) on *Anchoring Growth: The Importance of Productivity-Enhancing Reforms in Emerging Market and Developing Economies* was released in December 2013.** The SDN focused on the drivers of growth in EMDEs over recent decades and discusses the role of productivity-enhancing reforms in bolstering future growth prospects, emphasizing the importance of tailoring structural reforms and strategies to the specific characteristics of each economy and the stage of economic development. The dataset underpinning the paper, which has been transformed into a user-friendly toolkit and is available to staff through the intranet, covers up to 120 countries (depending on the indicator) over the period 1970–2012.
- **Going forward, work will continue on inequality, jobs, and growth.** In particular, staff will expand existing work on inequality issues, update the toolkit on Jobs and Growth, assess the post-crisis growth performance in advanced economies, and contribute to multilateral policy dialogue on growth strategies. Staff will also operationalize the Fund’s recent analytical work on inequality and jobs and growth, including in the context of Article IV consultations.

D. IMF Exchange Rate Policy Advice

37. Recent developments related to the MIP arising from the evaluation of *IMF Exchange Rate Policy Advice* include the issuance of the Pilot External Sector Reports (ESRs) and the Spillover Reports; the introduction of the Pilot External Balance Assessment (EBA) approach; and the issuance of updated instructions on external assessments and exchange rates in the context of the *Guidance Note for Surveillance under Article IV Consultations* (October 2012).

- **As noted in the previous section of this PMR, Pilot ESRs were issued in 2012 and 2013 with the aim of making surveillance of external imbalances more effective.** These reports are prepared by an External Sector Report Coordinating Group consisting of representatives from functional and area departments, which is supported by an interdepartmental team. Pilot ESRs provide a snapshot of multilateral consistent analysis for the external position of 29 of the IMF’s largest economies and the Euro Area, and point to potential policy responses to address imbalances. The analysis broadens external sector surveillance by more systematically assessing, in addition to exchange rates, current accounts, balance sheet positions, reserves adequacy, and capital flows. In doing so, it combines multilateral and bilateral perspectives, and seeks to integrate exchange rate assessments with the evaluation of the country’s overall policy mix.
- **As an input to the assessment of current accounts and exchange rates, the 2012 Pilot ESR used a first version of the Pilot EBA approach, which is a successor to the IMF’s Consultative**

Group on Exchange Rates (CGER). Following an outreach effort and feedback received on the first pilot, the second Pilot ESR incorporated an enhanced version of the EBA, including a broader analysis of the role of policies. EBA comprises three methods, each based on its corresponding CGER predecessor, but it introduces important differences relative to CGER. The most fundamental innovation is that EBA makes a sharper distinction between a positive (descriptive) understanding of current accounts and real exchange rates and normative evaluations to estimate the contribution of several “policy gaps.” The latter help identify the policies that may need to be adjusted in order to reduce prevailing imbalances. Improvements relative to CGER also include steps to strip out the influence of cyclical factors and consideration of a greater range of explanatory variables.

- **The Pilot EBA methodology provides estimates for current accounts and exchange gaps for a group of 49 advanced and emerging market economies, which are used as inputs in the Pilot ESRs.** Countries outside EBA generally rely on older approaches, such as those developed under the CGER. In addition, for economies with special characteristics, country teams often adjust their methodologies to reflect country-specific circumstances.¹¹ A recent staff paper on *External Assessments in Special Cases* (IMF Departmental Paper, January 2014) reviews different approaches to external assessments for these countries. The paper concludes that while adjustments may be theoretically warranted, they raise questions about multilateral inconsistency, accuracy, and evenhandedness. The paper also presents various tools that could be used by country teams to complement their judgment and considers some data issues that could help enhance external sector assessments. SPR is currently working on extending the EBA methodology to a broader set of emerging market and low-income countries. Training seminars will be conducted once the methodology for non-EBA countries is finalized.
- **As noted earlier in the paper, Spillover Reports were issued in 2011, 2012, and 2013.** These reports examine the external effects of domestic policies in five systemic economies comprising China, the Euro Area, Japan, the United Kingdom, and the United States. They aim to provide an added perspective to the policy line developed in Article IV discussions and an input into the Fund’s broader multilateral surveillance.
- **The Guidance Note for Surveillance under Article IV Consultations issued in October 2012 notes that an assessment of balance of payments stability is broader than an assessment of the exchange rate and exchange rate policies. Nonetheless, exchange rate issues are considered a crucial part of surveillance.** The note indicates that Article IV staff reports are expected to provide a clear assessment of: (i) the current account and the exchange rate level/competitiveness; (ii) developments arising from the capital and financial account that could lead to balance of payments instability for the member or its trading partners; and (iii) the cross-border spillovers from any of the above developments/policies that may significantly impact global stability.

¹¹ The most important characteristic is the concentration of external income in one or more sectors (commodities, tourism, financial services, aid flows, or remittances).

- **The Guidance Note establishes that assessments of balance of payments stability in staff reports should include a clear analysis and bottom line view of whether the current account and the exchange rate are broadly consistent with medium-term fundamentals.** This analysis should be integrated into the broader assessment of stability and the overall policy mix, and should support clear policy recommendations. Numerical exchange rate estimates should be included in staff reports (drawing from the Pilot ESR, the EBA where available, and the CGER and/or CGER-type estimates), except for countries with serious data limitations, where the assessment may be largely qualitative.
- In January 2015 the Board will be briefed on *The Role of Exchange Rate Intervention: Issues and Experiences*, which will include a review of country experiences, taking into account specific characteristics, external conditions, and the impact of capital inflows and outflows.

E. The IMF and Aid to Sub-Saharan Africa

38. Several developments have taken place regarding the Fund's engagement with LICs, and in particular with Sub-Saharan countries:

- **The LIC facilities framework was reviewed in September 2012 (*Review of Facilities for Low-Income Countries* (SM/12/203), and some modifications were approved in April 2013 to improve tailoring and the flexibility of Fund support (*Facilities for Low-Income Countries – Proposals for Implementation* (SM/13/77)).** A new architecture for LIC lending facilities approved in July 2009 (which became effective in January 2010) provided a unified framework under the Poverty Reduction and Growth Trust (PRGT) for eligible LICs. The new framework consists of three lending windows: the Extended Credit Facility (ECF); the Standby Credit Facility (SCF); and the Rapid Credit Facility (RCF). In addition, for policy advice and signaling, countries can request non-financial assistance under the Policy Support Instrument (PSI). The modifications to this framework approved in April 2013 seek to offer more flexibility than before on augmentation requests, program extensions, precautionary support, and requirements of formal poverty reduction strategy documents.
- **In response to the increasing financial needs of LICs during the global financial crisis, IMF concessional lending commitments increased significantly.** These commitments rose from US\$ 1.2 billion in 2008 to US\$3.8 billion in 2009, and an annual average of US\$ 1.6 billion during 2010–13. In September 2012, the Executive Board approved a partial distribution of the Fund's general reserves attributed to gold sales profits as part of a strategy to make the PRGT sustainable over the longer term.
- **As of March 31, 2014, Fund engagement in Sub-Saharan Africa included 13 ECFs; one SCF; 4 PSIs; and 2 SMPs.** There were also nine near-program countries. In addition, Fund staff had conducted 17 Ex-Post Assessments (EPAs) for Longer-Term Program Engagement since 2010, including 10 EPAs of Engagement with Sub-Saharan countries.

- **A new framework for assessing vulnerabilities and emerging risks in LICs arising from external shocks was first described in the staff paper on *Managing Volatility: A Vulnerability Exercise for Low-Income Countries* (IMF Policy Paper, 2011).** The first application of the framework was included in *Managing Global Growth Risks and Commodity Price Shocks – Vulnerabilities and Policy Challenges for Low-Income Countries* (IMF Policy Paper, 2011); and the second application in *Global Risks, Vulnerabilities, and Policy Challenges Facing Low-Income Countries* (IMF Policy Paper, 2012). In September 2013, the staff issued the *2013 Low-Income Countries Global Risks and Vulnerabilities Report*. The report concluded that most LICs had shown impressive resilience in terms of sustaining strong growth over the course of the global crisis and the ensuing sluggish recovery, but that vulnerabilities remained in some small states, oil exporters, and fragile states.
- **Collaboration with other international agencies on LIC-related issues has continued, including with the World Food Program, UNICEF, the ILO, and the UK’s Department for International Development (DFID).** This has helped inform the Fund’s work on food security, social support, and labor market issues. DFID has provided funding for research on LIC-related issues, including for a paper on *Sustaining Long-Run Growth and Macroeconomic Stability in Low-Income Countries—The Role of Structural Transformation and Diversification*, which was issued in March 2014. Other major bilateral donors that have contributed to the Fund’s regional technical assistance and training initiatives in sub-Saharan Africa include the European Union, Mauritius, Canada, Switzerland, and Australia.
- **Global Monitoring Reports dealing with progress toward achieving the Millennium Development Goals by 2015 are prepared on an annual basis and discussed by the Development Committee during the Annual Meetings.** In addition, in late May 2014 the Government of Mozambique and the Fund convened a high level *Africa Rising* conference in Maputo to take stock of Africa’s sustained strong economic performance and outlook, and to discuss the key policy challenges that lie ahead for the region. The conference was attended by policymakers, development partners, civil society, academics and business leaders from Africa and beyond.
- **Fund teams are applying new macro-fiscal frameworks and policy analysis to enhance policy advice in resource-rich developing countries.** Recent applications cover, among other countries, several members of the Sub-Saharan region, including Angola, Gabon, Ghana, and Mozambique. Staff has also prepared several papers dealing with Resource Wealth Management, including *Resource-Rich Countries Can Seize Opportunities* (IMF Survey Magazine, 2012); *Dutch Disease: Wealth Managed Wisely* (Finance and Development, 2012); *Macroeconomic Policy Frameworks for Resource-Rich Developing Countries* (IMF Policy Paper, 2012); and *Boom, Bust or Prosperity? Managing Sub-Saharan Africa’s Natural Resource Wealth* (IMF Departmental Paper, 2013).
- **A paper entitled *The Economic Impact of IMF-Supported Programs in LICs* (Occasional Paper 277) has assessed the economic impact of the Fund’s support to LICs through its facilities.**

- **A new Staff Guidance Note on the Application of the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries was issued in November 2013.** The Guidance Note incorporates changes to the framework that were approved by the IMF and IDA Boards in February 2012. These include revised thresholds for public and publicly guaranteed debt; new benchmarks for public debt; revised guidance on incorporating remittances; a “probability approach” that uses country-specific information; and a new assessment of the overall risk of debt distress. The Fund and the Bank have also modified and unified the discount rates used in the external debt analysis for LICs. The new unified discount rate has been set at five percent and will remain in effect until the next review of the debt sustainability framework for LICs.
- **A staff paper on Debt Limits in Fund Programs with Low Income Countries was discussed at an informal session of the Executive Board in January 2014.** The paper contains a proposed new approach to the handling of external borrowing limits in Fund programs, building on an earlier paper on the *Review of the Policy on Debt Limits in Fund-Supported Programs* issued in March 2013. Executive Directors provided suggestions on how to refine the proposed approach, and the staff are expected to present to the Board a modified proposal to reform the IMF’s debt limits policy before the Annual Meetings.
- **Going forward, the work on LICs will focus on prospects and vulnerabilities; macroeconomic management of natural resource wealth; revenue mobilization; financial deepening; monetary policy issues; and the challenges faced by frontier economies.** The 2014 TSR will analyze how surveillance on LICs differs from that on other countries, and a *Low Income Developing Countries Report* in September 2014 will examine economic prospects and vulnerabilities. This paper will replace the LICs vulnerability reports produced in recent years, and will include a discussion of the debt dynamics in LICs following the provision of comprehensive debt relief. Work will continue on macroeconomic frameworks for managing natural resource revenues, and a paper on *Current Challenges in Revenue Mobilization* will discuss initiatives to help build effective and efficient revenue systems. Other analytical work will examine private capital flows and macro-financial linkages in LICs, and global financial transmission into Sub-Saharan Africa. Staff will also look at the benefits and risks associated with sovereign bond issuance by frontier LICs, and a review of eligibility for concessional financing will be conducted in the Spring of 2015. In addition, the Fund will continue to provide advice and capacity building to help strengthen monetary policy frameworks in LICs.

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 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 forthcoming exercises, such as the TSR. As work in these areas appears to be largely on track, additional follow-up in future PMRs will be provided at a more general level. For specific actions that will not be covered elsewhere, it is expected that the next PMR will provide a progress report.

Proposed Decision

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