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December 9, 2015

To: Members of the Executive Board

From: The Secretary

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

Board Action:	Executive Directors' consideration on a lapse of time basis
Deadline to Request Board Meeting after which the Requirement of a Forward-Looking Implementation Plan Deemed Fulfilled:	Wednesday, December 16, 2015 12:00 (noon)
Additional information:	The report (EB/EVC/15/12, 8/28/15) was discussed and endorsed by the Evaluation Committee on November 24, 2015. This revised report incorporates factual updates on the current status of various actions and initiatives that had been envisaged when the paper was originally circulated in August. The revisions have been endorsed by Mr. Field, Chairman of the Evaluation Committee.
Publication:	Proposed
Questions:	Mr. Panth, SPR (ext. 34253) Ms. Tsounta, SPR (ext. 36826)



December 8, 2015

IMPLEMENTATION PLAN IN RESPONSE TO THE BOARD-ENDORSED RECOMMENDATIONS FOR THE IEO EVALUATION REPORT OF IMF RESPONSE TO THE FINANCIAL AND ECONOMIC CRISIS

EXECUTIVE SUMMARY

This paper sets out Management's response to the Independent Evaluation Office's (IEO) evaluation of *IMF Response to the Financial and Economic Crisis*.

The implementation plan proposes specific actions focusing on the three of the four recommendations that received broad support from the Executive Board, namely (i) ensuring that the IMF as a quota-based institution has sufficient resources to contribute to future crisis resolution; (ii) developing guidelines for structuring engagements with other organizations, and (iii) consolidating and simplifying the current framework to identify and assess risks and vulnerabilities.

Some of the proposed actions to address the Board-endorsed IEO recommendations are underway as part of the 2014 Triennial Surveillance Report (TSR) Action Plan, the FY2016–18 Medium-Term Budget and the ongoing efforts to ratify the 2010 Quota and Governance Reforms. The paper also explains how implementation will be monitored.

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CONTENTS

INTRODUCTION	3
IEO RECOMMENDATIONS AND BOARD REACTIONS	3
IMPLEMENTATION PLAN	4
RESOURCE IMPLICATIONS	8
ANNEX	
I. IEO Evaluation of IMF Response to the Economic and Financial Crisis: Recommendations, Board Response, Proposed Follow-Up	9

INTRODUCTION

1. This paper lays out a forward-looking management implementation plan (MIP) for the IEO evaluation “IMF Response to the Financial and Economic Crisis”. During the Board discussion of the report, Executive Directors welcomed the evaluation and were encouraged by the overall finding that the IMF had played an important role in the global response to the crisis. They were also reassured that IMF-supported programs reflected lessons from past crises and through a reformed lending toolkit, had helped members cope with the crisis fallout. Directors also noted with satisfaction that country authorities are largely supportive of the initiatives launched since the crisis to strengthen macroeconomic and financial surveillance. Directors supported three out of four of the IEO’s recommendations to enhance the IMF’s ability to respond to future crises and to strengthen its ability to warn about mounting risks. This implementation plan proposes a range of actions to address those recommendations. Some of the proposed actions are already underway, in particular as part of ongoing efforts to implement the 2014 Triennial Surveillance Report (TSR) *Action Plan* and efforts to ratify the *2010 Quota and Governance Reforms*.

2. Progress on the implementation of this plan will need to be monitored closely. This will be primarily through future Periodic Monitoring Reports (PMRs), which provide updates on implementation of IEO evaluations, updates of the implementation of the 2014 *TSR Action Plan*, including an interim implementation assessment in early 2017, the *Crisis Program Review* and follow-up work for other broader reviews of surveillance.

IEO RECOMMENDATIONS AND BOARD REACTIONS

3. The IEO evaluation contains four high level recommendations which aim to enhance the IMF’s ability to respond to future crises and to warn about mounting risks. These are:

- Ensure that the IMF, as a quota based institution, has sufficient resources to contribute to future crisis resolution.
- Develop guidelines for structuring engagements with other organizations, whether as a member or a partner.
- Consolidate and simplify the current framework to identify and assess risks and vulnerabilities, including making the Early Warning Exercise (EWE) more user-friendly and enhancing outreach on its results.
- Update annually the Financial Sector Assessment Programs (FSAPs) for the world’s five to seven largest systemic financial centers in conjunction with IMF’s bilateral surveillance.

4. During the Board discussion, Executive Directors broadly endorsed the first three IEO recommendations. Most Directors—in line with the Managing Director’s statement—saw limited merit in the IEO proposal to update annually (in conjunction with the IMF’s bilateral surveillance) the

FSAPs for the world's five to seven largest systemic financial centers, in view of its resource costs and the slow evolution of the structural and institutional factors assessed under the FSAP.

5. Directors had differing views on how some of the recommendations could best be implemented. While Directors generally supported the recommendation to develop guidelines for better structuring engagements with other organizations and clarifying the IMF's roles and accountabilities, most Directors noted that such guidelines should define broadly applicable principles of engagement and cooperation, while remaining flexible and pragmatic to allow adaptation to specific circumstances. In addition, despite Directors broadly endorsing the IEO recommendation to consolidate and simplify initiatives to identify and assess risks and vulnerabilities, a range of views were expressed on the appropriateness of disseminating the EWE findings to a wider audience, including by debriefing the Board.

IMPLEMENTATION PLAN

6. This MIP proposes a number of specific actions to address the IEO's recommendations and sets out how these will be monitored. Some of the proposed measures are already underway as part of the *2014 TSR Action Plan* and ongoing efforts to ratify the 2010 Quota and Governance Reforms. Some additional proposals will need to be considered in conjunction with other ongoing work and initiatives, such as the findings from the *Crisis Program Review*, the ongoing work on identifying structural reform priorities and efforts to achieve efficiency gains in the context of the *FY2016–18 Medium-Term Budget* streamlining initiative. In these cases, the MIP flags the issues but acknowledges that options to address some recommendations would require further deliberation before concrete actions can be taken. Annex 1 summarizes the evaluation's recommendations, Directors' responses, and proposals, timelines and accountabilities for implementation.

***Recommendation 1:** Management should work with the IMFC to ensure that the IMF has sufficient resources to contribute to future crisis resolution. Quotas should be sufficient to cover members' needs under likely crisis scenarios, with borrowing arrangements set up to deal with tail risks.*

- **2010 Quota and Governance Reforms:** Adoption of the reforms remains critical to strengthen the Fund's credibility, legitimacy, and effectiveness, and to ensure it has sufficient permanent resources to meet its members' needs, including for crisis prevention and resolution. In that context, Management will continue to work with the IMFC and other stakeholders to ensure the earliest ratification of the 2010 Quota and Governance reforms and the completion of the 15th General Review of Quotas. In response to calls by the IMFC and G20, the IMF Executive Board initiated discussions in early 2015 on possible interim steps that represent meaningful progress towards the objectives of the 2010 Reforms. Since then, the Executive Board has met on several occasions to discuss possible interim steps and work continues and will be completed as soon as possible. The timing of work on the 15th General Review of Quotas and on a new quota formula will be determined, taking into

account progress made in ratifying the 2010 reforms and the deadline of December 15, 2015, established in the Articles of Agreement for this Review.¹ Staff and management, in collaboration with the Board, will continue to follow the guidance and directions provided by the IMFC and the Board of Governors on all other quota and governance-related matters and additional meetings (with the IMFC, Board of Governors, and the Executive Board) will be scheduled as needed.

- **New Arrangements to Borrow (NAB).** The Executive Board has activated this fall the NAB for a further six-month period (from October 1, 2015 to March 31, 2016). Additional activations will be considered in March and September, next year. The Board will also discuss the renewal of the NAB in October 2016, as this decision needs to be taken a year before the expiration of the current NAB in November 2017. The IMF has relied on the NAB since 2011 in view of the delays in implementing the 2010 Quota reform. Thus, once the Quota reform comes into effect and the IMF has access to adequate resources, the NAB would be rolled back.
- **2012 Borrowing Agreements:** A review of the current borrowing guidelines was completed by the Executive Board in July 2015. At the same time, the Board approved a further one-year extension of the 2012 Borrowing Agreements. Most lenders, accounting for about 96 percent of the total amount under the approved 2012 agreements, have already consented to this extension. Further extensions of the Agreements (i.e., beyond the current second extension) are not contemplated in the current modalities of the 2012 Borrowing Agreements and would require amendments of these Agreements. The Board is scheduled to discuss the future of the 2012 Borrowing Agreements and Review of Borrowing Guidelines in May 2016. These arrangements provide the IMF with supplemental resources after the quota and the NAB to handle potential tail risk scenarios.

***Recommendation 2:** The IMF should develop guidelines for structuring engagements with other organizations, whether as a member or a partner. These guidelines should clarify the IMF's roles and accountabilities in order to protect the institution's independence and to ensure uniform treatment of all members.*

- **Multi-pronged approach.** A multi-pronged approach is needed in the IMF's engagement with other organizations, whether as a member or a partner. In all instances, flexibility and pragmatism are critical to allow adaptation to specific country circumstances. Thus, as underscored by the Board, established guidelines should only define broadly applicable principles of engagement and cooperation, while respecting the independence and differing mandates of the other organizations and the Fund.

¹ The Board considered an update of the quota database in July 2015.

- **Principles and Core responsibilities.** A flexible framework would, nevertheless, still need to adhere to the same basic principles that apply to Fund engagements in the absence of other partner organizations. Thus, the Fund's role in collaborative technical assistance should be limited to its areas of expertise. Similarly, in co-financing operations with other major creditors in supporting macroeconomic adjustment programs, the Fund should still retain sole responsibility for such critical components of program design as the macro-framework and the debt sustainability analysis and ensure that cross-conditionally (whereby other institutions determine whether the country has met the conditions for a Fund-supported program) is prohibited. Early and effective communication will be key to avoid any confusion or misconceptions on this point.
- **Principles of engagement and cooperation.** The IMF already has some broad guidelines of collaboration with other organizations, though the specificity of the modalities differs by institution and the topic at hand.² A comprehensive assessment of the modalities of engagements with other organizations, whether as a member or a partner, is warranted. However, the Board only fairly recently expressed limited appetite for moving towards a more structured engagement with regional financing arrangements during the briefing on *Stocktaking the Fund's Engagement with Regional Financing Arrangements* (2013). Furthermore, such a comprehensive exercise will be most useful after internalizing lessons from the *Crisis Program Review* and after ongoing efforts to follow up on the TSR recommendation to better leverage work by other institutions on macro-critical structural issues has borne fruit. On the last point, the paper *Structural Reforms and Macroeconomic Performance: Initial Considerations for the Fund* provided this October some preliminary insights towards that end but further work will likely be required. Accordingly, staff will prepare a Board paper that takes stock of the IMF's modalities and engagement with other organizations, including Regional Financing Arrangements, and makes any specific proposals for change deemed necessary in early 2017.

Recommendation 3: *Management needs to consolidate and simplify the current framework to identify and assess risks and vulnerabilities. In particular, the EWE needs to be made more user-friendly, it should foster greater debate and input by participants, and outreach on its results should aim to reach authorities.*

- **Simplifying and consolidating the risk framework.** The 2015 Risk Report (prepared by the Risk Management Unit and discussed by the Board in July 2015) provided a first assessment

² Examples include the *Concordat on Bank-Fund Collaboration*, the *Joint Management Action Plan on Bank-Fund Collaboration* (JMAP), the *Guidelines on Collaboration Between the Bank and the Fund in Financial Sector Work*, the *G20 Principles for Cooperation between the IMF and Regional Financing Arrangements*, the *IMF-WTO Cooperation Agreement*, the *IMF/World Bank Low Income Countries Debt Sustainability Framework*, and the report on the *IMF Membership in the Financial Stability Board and the International Tax Dialogue*, a collaborative arrangement involving the IDB, IMF, OECD, UN and the World Bank. In July 2015, an agreement in principle on a joint two-pillar initiative with the World Bank was reached on tax policy issues of relevance to developing countries, which will be formalized in a collaboration agreement based on the principles of the JMAP. In addition, discussions are ongoing with the European Commission on enhanced cooperation on EU neighborhood and pre-accession countries.

of developments and capabilities that can impede the achievement of the Fund's near and medium-term objectives, building on the new risk management framework presented to the Executive Board last March (FO/DIS/15/44). The Report included a proposal for a Fund-wide stress test exercise, as a possible tool to rationalize existing risk products and scenario analyses across the Fund within an integrated and common framework, with a view to avoid duplication of work and minimize demands on area departments. While recognizing its evolutionary nature, Executive Directors supported the new risk framework, calling for stronger ownership and integration across departments, notably through the inclusion and alignment of the risk assessment within the Fund's strategic planning, accountability framework, and budget cycle. Work on this front will continue to be shared with the Executive Board on a regular basis (including in the annual discussion of the IMF's Risk Management Report).

- **Efficiency gains.** Staff, led by SPR is in the process of identifying efficiencies between the IMF Risk Group, the Tail Risk group, the EWE team, and other groups working on economic and financial risk assessments that will also help improve the integration and consistency across the risk assessment framework. This measure is one of the recommendations of the cross-cutting streamlining package that was approved as part of the FY2016–18 Budget. These proposed actions are in addition to the actions already outlined in the *MD's TSR Action Plan* to use the *Global Policy Agenda* as a short, integrated summary of the IMF's views on the global outlook and risks, and the various proposals under the FY2016–18 Medium-Term Budget to streamline the underlying multilateral surveillance products.
- **Vulnerability Exercise.** To enhance transparency of risk-related methodologies, a note describing the Vulnerability Exercise methodology (i.e., a system that measures and monitors key macro-financial risks, vulnerabilities, and observed trends) will be published. This proposal is another step in staff's efforts to enhance transparency in its risk-related work. Since January 2015 the G-RAM has been circulated to the Board.
- **Early Warning Exercise (EWE) briefings.** Consistent with the range of views expressed by Executive Directors, on the appropriateness of disseminating the findings to a wider audience, including by debriefing the Board, it is not proposed to enhance the outreach of the EWE at this time. Management will continue to explore ways to disseminate the EWE information to the Board without compromising candor or access to confidential information, including through existing processes, including Board discussions of the Fund's other risk work.

Recommendation 4: *FSAPs for the world's five to seven largest systemic financial centers should be updated annually in conjunction with IMF's bilateral surveillance.*

- **Macro-financial analysis.** Consistent with the 2014 *TSR* and the views of most Executive Directors it is not proposed that FSAPs for the world's five to seven largest systemic financial centers be updated annually. Instead, as outlined in detail in the 2014 *TSR Action Plan*, efforts will focus on fully embedding macro-financial analysis in Article IV surveillance in both our baseline projections and risk assessment, including through use of balance sheet

analysis to explore linkages between the financial sector and other sectors and by promoting uptake of user-friendly tools, and effectively integrating financial sector issues into policy advice. Building on recent progress in the macro-financial workstream (presented to the Board in May 2015 in the context of the Board Report on *Initial Steps In Implementing the MD's TSR Action*), the Board was briefed in October 2015 on *Mainstreaming Macro-Financial Surveillance*, which described continuing Fund-wide efforts to strengthen the coverage of macro-financial issues in bilateral surveillance and discussed experience with 24 country cases under way. The Board will also discuss an interim implementation assessment of the *TSR Action Plan* in early 2017, followed by the *Comprehensive Surveillance Review* in 2019.

7. Progress in implementing the proposed actions will be evaluated in future PMRs. In addition, progress in mainstreaming macro-financial analysis and in enhancing collaboration with other organizations on macro-critical structural issues where the Fund lacks in-house expertise will be evaluated in an interim implementation assessment of the *TSR Action Plan* in early 2017, followed by the *Comprehensive Surveillance Review* in 2019. Implementation of the MIP will be coordinated by SPR, in close collaboration with the Office of Budget and Planning (on budget-related issues); the Risk Management Unit and various groups working on economic and financial risk assessments (on risk-related issues); the Legal and Finance departments (on quota and governance issues), and area and functional departments on mainstreaming macro-financial analysis in surveillance (Annex 1).

RESOURCE IMPLICATIONS

8. Much of the resource costs for the new initiatives outlined above have already been factored in the FY2016–18 Medium-Term Budget. This includes around 45 FTEs for several larger initiatives that encompass most of the proposed actions. The costs include the work on the 2010 Quota and Governance reforms (around 9–10 FTEs; the cost is contingent on progress made in ratifying the reforms), mainstreaming macro-financial surveillance (25 FTEs), simplifying and consolidating the risk framework (the budget of the Risk Management Unit is 8 FTEs) and preparing the Board paper that provided some initial considerations on the Fund's work on macro-structural issues (around 2 FTEs). Savings (1.6–2 FTEs), expected from efficiency gains in Fund-wide risk work, are also already included in the FY2016–18 Medium-Term Budget. Resource costs of the proposed actions for next fiscal year will be assessed in time for the FY2017–19 Medium-term Budget. These costs will be contingent on the progress made in ratifying the quota and governance reforms and the experience gained from the pilot cases in mainstreaming macro-financial surveillance. Resources will also be needed in pushing forward the macro-structural workstream (around 2 FTEs) and in preparing the Board paper on stock-taking the IMF's modalities and engagement with other organizations (around 2 FTEs). In addition, any extra costs associated with enhanced engagement and collaboration with other organizations will also have to be assessed in due course.

Annex I. IEO Evaluation of IMF Response to the Economic and Financial Crisis: Recommendations, Board Response, Proposed Follow-Up

IEO Recommendation	Executive Directors' Responses	Follow-Up Plan and Timeline	Accountability
<p>1. <i>Ensure that the IMF, as a quota based institution, has sufficient resources to contribute to future crisis resolution</i></p>	<p>Directors endorsed this recommendation. In this context, Directors called on the United States to promptly ratify the 2010 Reforms.</p>	<p>In response to calls by the IMFC and G20, the IMF Executive Board initiated discussions in early 2015 on possible interim steps that represent meaningful progress towards the objectives of the 2010 Reforms. Since then, the Executive Board has met on several occasions to discuss possible interim steps and work continues and will be completed as soon as possible. In addition, the timing of work on the 15th General Review of Quotas and on a new quota formula will be determined, taking into account progress made in ratifying the 2010 reforms. Staff and management, in collaboration with the Board, will continue to follow the guidance and directions provided by the IMFC and the Board of Governors on all other quota and governance-related matters and additional meetings (with the IMFC, Board of Governors, and the Executive Board) will be scheduled as needed.</p> <p>The Executive Board has activated this fall the NAB for a further six-month period (from October 1, 2015 to March 31, 2016). Additional activations will be considered in March and September, next year. The Board will also discuss the renewal of the NAB in October 2016.</p> <p>A review of the current borrowing guidelines was completed by the Executive Board in July 2015. At the same time, the Board approved a further one-year extension of the 2012 Borrowing Agreements. Further extensions of the Agreements (i.e., beyond the current second extension) are not contemplated in the current modalities of the 2012 Borrowing Agreements and would require amendments of these Agreements. The Board is scheduled to discuss the future of the 2012 Borrowing Agreements and Review of</p>	<p>FIN, LEG, SPR in consultation with SEC are responsible for preparing the reports and organizing the Executive Board, IMFC, and Board of Governors meetings.</p>

IEO Recommendation	Executive Directors' Responses	Follow-Up Plan and Timeline	Accountability
		Borrowing Guidelines in May 2016.	
2. <i>Develop guidelines for structuring engagements with other organizations, whether as a member or a partner.</i>	Directors generally supported the recommendation. However, most Directors noted that such guidelines should define broadly applicable principles of engagement and cooperation, while remaining flexible and pragmatic to allow adaptation to specific circumstances.	<p>A Board paper on structural reforms (October 2015) provided some initial considerations towards efforts to better leverage work by other institutions on macro-critical issues.</p> <p>Staff will prepare a Board paper that takes stock of the IMF's modalities and engagement with other organizations, including Regional Financing Arrangements, and makes any specific proposals for change deemed necessary in early 2017.</p>	<p>SPR is in charge of moving this agenda (in consultation with other departments).</p> <p>SPR (in consultation with other departments)</p>
3. <i>Consolidate and simplify the current framework to identify and assess risks and vulnerabilities, including making the EWE more user-friendly and enhancing the outreach on its results</i>	Directors broadly endorsed the recommendation to consolidate and simplify the current framework to identify risks and vulnerabilities. However, they expressed a range of views on the appropriateness of disseminating the EWE findings to a wider audience, including by debriefing the Board. There was agreement that any such effort should not compromise candor or access to confidential information.	<p>The 2015 Risk Report included a proposal for a Fund-wide stress test exercise, as a possible tool to rationalize existing risk products and scenario analyses across the Fund within an integrated and common framework, with a view to avoid duplication of work and minimize demands on area departments.</p> <p>Staff, led by SPR is in the process of identifying efficiencies between the IMF Risk Group, the Tail Risk Group and the EWE team, and other groups working on economic and financial risk assessments.</p> <p>To enhance transparency, a note describing the Vulnerability Exercise methodology will be published, presenting the broad contours of the exercise.</p> <p>Consistent with the range of views expressed by Executive Directors on the appropriateness of disseminating the findings to a wider audience, including by debriefing the Board, it is not proposed to enhance the outreach of the EWE at this time. Management will continue to explore ways to disseminate the EWE information to the Board without compromising candor or access to confidential information, including Board discussions of the Fund's other risk work.</p>	<p>Risk Management Unit</p> <p>Staff, led by SPR is in the process of identifying efficiencies between the Risk Group, the Tail Risk Group and the EWE team, and other groups working on economic and financial risk assessments.</p> <p>SPR</p> <p>SPR</p>

IEO Recommendation	Executive Directors' Responses	Follow-Up Plan and Timeline	Accountability
<p>4. <i>Update annually the FSAPs for the world's five to seven largest systemic financial centers in conjunction with IMF's bilateral surveillance.</i></p>	<p>Most Directors saw limited merit in the IEO recommendation and instead looked forward to forthcoming proposals to mainstream macro financial surveillance.</p>	<p>The 2014 TSR Action Plan proposes measures to fully embed macro-financial analysis in Article IV surveillance, including through balance sheet analysis and promoting uptake of user-friendly tools.</p> <p>The Board was briefed in October on <i>Mainstreaming Macro-Financial Surveillance</i> which described the continuing Fund-wide effort to strengthen the coverage of macro-financial issues in bilateral surveillance and discussed the experience with 24 country cases under way.</p>	<p>Area Departments in consultation with MCM, SPR and other functional departments will be responsible for mainstreaming macro-financial analysis in Article IV consultations. SPR will monitor progress as part of the monitoring of the implementation of the 2014 TSR Action Plan.</p> <p>SPR and MCM prepared the Board briefing.</p>