5 FINANCES, ORGANIZATION, AND ACCOUNTABILITY

FINANCES, ORGANIZATION, AND ACCOUNTABILITY

QUOTA AND GOVERNANCE REFORM

Quota subscriptions (see Web Box 5.1) are the primary source of the IMF's financial resources. The Board of Governors conducts general quota reviews at regular intervals (at least every five years), allowing the IMF to assess the adequacy of quotas in terms of members' financing needs and to modify members' quotas to reflect changes in their relative positions in the world economy. Quota reviews aim to ensure that the IMF is representative of its membership and the changing structure of the global economy. The most recent of these reviews, the Fourteenth General Review of Quotas, was concluded in December 2010, though the proposed reforms have not yet taken effect.

Progress on the 2010 quota and governance reforms

In completing the Fourteenth General Review, the Board of Governors approved quota and governance reforms, including a proposed amendment of the Articles of Agreement on the reform of the Executive Board.

The reforms, once they become effective, will double quotas to approximately SDR 477 billion, shift more than 6 percent of quota shares to dynamic emerging market economies and developing countries and from overrepresented to underrepresented countries, and protect the quota shares and voting power of the poorest members. In addition, the 2010 reforms will lead to an all-elected Executive Board, the combined representation of advanced European economies on the 24-member Board will decrease by two Executive Director positions in favor of emerging market members, and there will be further scope for appointing second Alternate Executive Directors to enhance the representation of multicountry constituencies.

A comparative table of quota shares before and after implementation of the reforms is available on the IMF's website.[74] Under the Board of Governors Resolution that approved the quota increases under the Fourteenth General Review, no quota increase for any member can become effective until three general conditions have been met: (1) members having not less than 70 percent of total quotas as of November 5, 2010, must have consented to the quota increases; (2) the 2008 Amendment on Voice and Participation (or "Sixth Amendment" to the Articles of Agreement) must have entered into force; and (3) the proposed 2010 Amendment to Reform the Executive Board must also have entered into force.

In June, September, and December 2012 and April 2013, the Executive Board reviewed progress toward implementation of the 2010 quota and governance reform package.[75] As of April 30, 2013, 149 members having 77.42 percent of IMF quotas (as of November 5, 2010) had consented to their proposed quota increases; the first condition has therefore been met. The second condition was met with the entry into force of the Sixth Amendment, as part of the 2008 Quota and Voice Reform, in March 2011. (That amendment essentially tripled the basic votes of IMF members and put in place a mechanism to preserve the share of basic votes in total votes; it also provided for the appointment of a second Alternate Executive Director for constituencies with larger numbers of members.[76]) The third condition requires acceptance of the amendment to reform the Executive Board by three-fifths of the members having 85 percent of the total voting power. As of April 30, 2013, 136 members having 71.31 percent of the total voting power had accepted the proposed amendment, and thus that condition had not yet been met.

2012 Executive Board election

A new IMF Executive Board began its two-year term in November 2012, following an election for the 19 currently elected seats.[77] As a result, seven new Executive Directors and a number of new Alternate Executive Directors joined the Board, which will serve until the next regular elections of Executive Directors in October 2014.

The election marked the beginning of a new chapter in the Board's history. A number of European members consolidated their representation on the Board, in anticipation of the coming into force of the 2010 quota and governance reforms. Belgium and Luxembourg, together with members of the former Dutch chair, formed a new chair. In doing so, Belgium and the Netherlands created a space for an additional emerging market chair. This space was taken by a new Central European chair, including Austria, the Czech Republic, Hungary, and Turkey, among others. Poland and Switzerland agreed to rotate a chair, as did the members of the Nordic-Baltic constituency.

To guide the election process, the Board established a committee whose task was to find an appropriate balance between changing the rules sufficiently to permit consolidation by the advanced European members and maintaining a reasonable distribution of voting power across the Board. The Executive Board and the Board of Governors subsequently approved the committee's recommendations on new voting limits for multicountry constituencies and the timeline for the election.

Quota formula review

Each IMF member country is assigned a quota that should reflect its relative position in the world economy, as assessed via a quota formula.[78] Quotas determine a country's financial commitment to the IMF, provide a basis for deciding members' access to IMF resources, determine members' shares in general allocations of SDRs, and are closely linked to members' voting power.

The 2010 quota and governance reforms called for a comprehensive review of the quota formula by January 2013. The first formal Board discussion on this comprehensive review took place in March 2012.[79] The Board held additional formal discussions regarding the comprehensive review in July, September, and November 2012, as well as a concluding discussion in January 2013.[80] An informal discussion was also held in June 2012. At the conclusion of its review, in January 2013, the Executive Board submitted its report on the outcome to the Board of Governors.[81]

In its report, the Executive Board noted that important progress had been made in identifying key elements that could form the basis for a final agreement on a new quota formula. It was agreed that achieving broad consensus on a new formula would best be done in the context of the Fifteenth General Review rather than on a stand-alone basis.

Left Deputy Managing Director Naoyuki Shinohara with the African Consultative Group at the 2013 Spring Meetings **Right** First Deputy Managing Director David Lipton makes opening remarks at the Fiscal Forum at the 2013 Spring Meetings

The report identified areas of common ground as well as areas where views differed among Board members and further discussions were needed. The Board's discussions covered a wide range of issues. These included, among others, the principles that should guide the review, the role and measurement of the existing quota formula variables, the relative weights of the variables, the scope for further simplifying the formula, and the merits of adding new variables. The discussions were informed by a wide range of simulations of alternative possible reforms and by extensive technical work prepared by the IMF staff, including on how to capture potential need for IMF resources, openness, and interconnectedness; alternative measures of financial openness; and measuring members' financial contributions to the institution.

It was agreed that the principles that underpinned the 2008 Quota and Voice Reform[82] remained valid as a guide for the quota formula review. Thus, it was observed, the formula should be simple and transparent, be consistent with the multiple roles of quotas, produce results broadly acceptable to the membership, and be feasible to implement statistically, based on timely, high-quality, and widely available data. It was further agreed that GDP should remain the most important variable, with the largest weight in the formula and scope to further increase its weight. Considerable support was expressed for increasing its weight, particularly if variability is dropped (see below), but other Executive Directors preferred either to keep the current weight or to maintain it relative to that of openness. Consideration will be given, it was noted, to whether or not the weight of purchasing-power-parity GDP in the GDP blend variable should be adjusted.

It was also agreed that openness, which seeks to capture members' integration into the world economy, should continue to play an important role in the formula, and that concerns regarding this variable needed to be thoroughly examined and addressed. Extensive consideration was given to the role of variability, which seeks to capture members' potential need for IMF resources, and there was considerable support for dropping variability from the formula. Some Executive Directors conditioned their support for dropping variability on other elements of an integrated reform package, including how its weight is reallocated and the adequacy of measures to protect the poorest members. Some continued to see a role for variability.

The Board took note of the staff's finding that there is little empirical evidence of a relationship between variability and actual demand for IMF resources and the difficulties of identifying a superior measure. There was also considerable support for retaining the reserves variable, which provides an indicator of members' financial strength and ability to contribute to the IMF's finances, with its existing weight.

Options were considered for including a new measure of financial contributions in the formula, with arguments made for and against such a reform. It was agreed to consider, as part of the Fifteenth General Review, whether and how to take into account very significant voluntary financial contributions through ad hoc adjustments.

It was generally agreed that the quota formula should continue to include a compression factor to help moderate the influence of size in the quota formula. It was also agreed that measures should be taken to protect the voice and representation of the poorest members.

Fifteenth General Review of Quotas

The IMF's next regular quota review—the Fifteenth General Review of Quotas—has been brought forward by about two years to January 2014. The Executive Board's work over the course of the year on the review of the quota formula (see previous subsection) will form a basis for the Board to agree on a new quota formula as part of its work on the Fifteenth Review. Any changes in quotas must be approved by the Board of Governors with an 85 percent majority of the total voting power, and a member's quota cannot be changed without its consent.[83]

BUDGET AND INCOME

Resources for providing financing to members

The IMF can use its quota-funded holdings of currencies of financially strong economies to provide financing to its members. The Executive Board selects these currencies every three months based on members' balance of payments and reserve positions. Most are issued by advanced economies, but the list also has included currencies of emerging market economies, and in some cases of low-income countries, as well. The IMF's holdings of these currencies, together with its own SDR holdings, make up its usable resources. If needed, the IMF can temporarily supplement these resources through borrowing—both through its standing borrowing arrangements and through bilateral arrangements.

Borrowing arrangements

The IMF has two standing sets of credit lines, the General Arrangements to Borrow (GAB, established in 1962) and the New Arrangements to Borrow (NAB, established in 1998). Under these arrangements, a number of member countries or their institutions stand ready to lend additional funds to the IMF, through activation of the arrangements.

The NAB is a set of credit arrangements between the IMF and 38 member countries and institutions,[84] including a number of emerging market economies. It was expanded and enlarged with new participants in March 2011 to increase available resources for providing financing. At that time, the loan-by-loan activation

Left Journalists pack a press conference at the 2012 Annual Meetings **Right** Japanese Finance Minister Koriki Jojima (left), World Bank President Jim Yong Kim (center), and Managing Director Christine Lagarde (right) tour the earthquake-damaged city of Sendai, Japan, October 2012

under the original NAB was replaced by the establishment of general activation periods of up to six months. Once activated, the NAB can provide up to SDR 366.5 billion (US$553 billion) in supplementary resources.

The expanded NAB became effective in March 2011, and it was activated for the first time in April 2011. The NAB was activated twice during the time period covered by this report, in October 2012 and April 2013, with each activation for the maximum six-month period.

The GAB enables the IMF to borrow specified amounts of currencies from 11 advanced economies (or their central banks). A proposal for calls under the GAB may be made, however, only when a proposal for the establishment of an activation period under the NAB is not accepted by NAB participants.

The GAB and an associated credit arrangement with Saudi Arabia have been renewed, without modifications, for a period of five years from December 26, 2013. The potential amount of credit available to the IMF under the GAB totals SDR 17 billion (US$26 billion), with an additional SDR 1.5 billion (US$2.3 billion) available under the associated arrangement with Saudi Arabia. The GAB has been activated 10 times, the last time in 1998.

Bilateral borrowing agreements

Since the onset of the global crisis, the IMF has signed a number of bilateral loan and note purchase agreements with official lenders to supplement its quota resources and standing borrowing arrangements. The first round of bilateral borrowing took place in 2009–10, and these resources were used to finance commitments under IMF-supported arrangements that were approved prior to the first activation of the expanded NAB. The use of 2009–10 bilateral borrowing resources was discontinued as of April 2013, and the remaining undrawn balances under commitments originally financed through this borrowing are being financed instead with quota resources.

In June 2012, the Executive Board approved modalities for bilateral borrowing by the IMF.[85] The modalities build on those used for bilateral borrowing in 2009–10 and for the expanded NAB. They envisage that the IMF would draw on the new agreements only after it has committed most of its existing resources available through quotas or the NAB. Members' claims on the IMF under the agreements can be counted as part of their international reserves, and the IMF will repay any amounts drawn with interest.

Against the background of worsening economic and financial conditions in the euro area, 38 countries committed during the year to increase IMF resources further by US$461 billion through bilateral borrowing agreements.[86] The Executive Board approved agreements in October 2012 and January, February, and April 2013. As of April 30, 2013, the Executive Board had approved 21 of these agreements, of which 18 had been finalized and were effective, for a total amount of US$350 billion.

Agreements in support of financing for low-income countries

Following the 2009 reform of its concessional financing facilities, the IMF launched a fund-raising campaign seeking additional bilateral loan resources and subsidy contributions to support concessional financing under the PRGT. Loan agreements or note purchase agreements for this purpose were subsequently signed with 13 members. The IMF signed an additional bilateral borrowing agreement during the year with the National Bank of Belgium, through which Belgium agreed to provide the PRGT with up to SDR 350 million (US$540 million) in new loan resources for low-income countries.[87] This brought the total additional resources secured for concessional financing to SDR 9.81 billion (US$14.81 billion) as of April 30, 2013.

Gold sales and new income model

Gold sales

The income model for the IMF approved in 2008 includes the establishment of an endowment in the IMF's Investment Account funded from the profits of the sale of a limited portion of the institution's gold holdings. The account's objective is to invest these resources and generate returns to contribute support to the IMF's budget while preserving the endowment's long-term real value. The Executive Board agreed in July 2009 that in addition to funding the endowment, part of the gold sales proceeds would also be used to increase the IMF's resources for concessional financing to low-income countries.

The Board approved the sale of 403.3 metric tons of gold in September 2009, representing one-eighth of the institution's total holdings. The gold sales were initiated in October 2009 and concluded in December 2010, generating total proceeds of SDR 9.54 billion. Of this amount, SDR 2.69 billion represented the gold's book value and SDR 6.85 billion represented profits. All sales were based on market prices, which were higher than the US$850 per ounce that was assumed in 2008, when the Board endorsed the revised income model. The actual average sales price was US$1,144 per ounce, resulting in "windfall" profits from the gold sales. Of the SDR 6.85 billion in gold sales profits, the Board decided to place SDR 4.4 billion in the special reserve; the remaining SDR 2.45 billion, corresponding to the windfall profits, was placed in the IMF general reserve pending further discussions on its ultimate disposition.

As part of a low-income countries financing package for 2009–14, the Executive Board approved in February 2012 the distribution to IMF members of SDR 700 million (US$1.1 billion) of the SDR 2.45 billion. The distribution was to become effective only after members had provided satisfactory assurances that new amounts equivalent to at least 90 percent of the amount distributed—that is, SDR 630 million (US$978 million)—would be transferred, or otherwise provided, to the PRGT.[88] This threshold was reached in October 2012, and the distribution was made later that month.[89] The IMF continues to seek contributions from the remaining members to maximize its concessional financing capacity.

The Board discussed the use of the remaining windfall gold sales profits of SDR 1.75 billion (US$2.7 billion) on several occasions in 2011. During these discussions, the Board considered three main options: facilitating contributions to increase the concessional financing capacity for low-income countries, boosting the IMF's precautionary balances, and adding to the gold endowment. In September 2012, the Board approved the distribution of the remaining windfall profits to help make the PRGT sustainable (see Chapter 4).

New rules and regulations for Investment Account

As noted in the previous subsection, the income model for the IMF approved in 2008 involved the establishment of an endowment in the IMF's Investment Account and required expansion of the IMF's investment authority. The Fifth Amendment to the Articles of Agreement, which became effective in February 2011, authorized that expansion. Following a number of discussions on issues surrounding the broadening of the investment mandate (including discussions in June 2012 and January 2013), the Executive Board adopted a new set of rules and regulations for the Investment Account in January 2013.[90] They replace those approved by the Board in 2006 and provide the legal framework for the implementation of the expanded investment authority.

The new rules and regulations establish three subaccounts within the Investment Account—the Fixed-Income, Endowment, and Temporary Windfall Profits Subaccounts—each with a different investment objective. The rules and regulations provide strong protection against actual or perceived conflicts of interest, including a clear separation of responsibilities among the Executive Board, IMF management, and external managers, as well as the exclusion of certain investment activities that by their nature could be more susceptible to the perception of conflicts of interest.

Charges, remuneration, burden sharing, and income

Charges

Pending the investment of resources held in the endowment (see previous subsection), which will be phased over a three-year period, the main source of IMF income continues to be its financing activities. The basic rate of charge (the interest rate) on IMF financing comprises the SDR interest rate plus a margin expressed in basis points.[91] The margin is determined under a rule adopted by the Executive Board in December 2011 for setting the basic rate of charge. The rule, effective for FY2013 onward, is an important step in fully implementing the new income model, under which the margin is set so as to cover the IMF's lending-related intermediation costs and allow for a buildup of reserves. In addition, the new rule includes a cross-check to ensure that the rate of charge maintains a reasonable alignment against long-term credit market conditions. For FY2013 and FY2014, the Board agreed to keep the margin for the rate of charge at 100 basis points.

Surcharges of 200 basis points are levied on the use of large amounts of credit (above 300 percent of a member's quota) in the credit tranches[92] and under Extended Arrangements; these are referred to as level-based surcharges. The IMF also levies time-based surcharges of 100 basis points on the use of large amounts of credit (with the same threshold as above) that remains outstanding for more than 36 months.

In addition to periodic charges and surcharges, the IMF also levies service charges, commitment fees, and special charges. A service charge of 0.5 percent is levied on each drawing from the GRA. A refundable commitment fee is charged on amounts available under GRA arrangements, such as Stand-By Arrangements, as well as Extended, Flexible Credit Line, and Precautionary and Liquidity Line Arrangements, during each 12-month period. Commitment fees are levied at 15 basis points on amounts available for drawing up to 200 percent of quota, 30 basis points on amounts in excess of 200 percent and up to 1,000 percent of quota, and 60 basis points on amounts over 1,000 percent of quota. The fees are refunded when credit is used, in proportion to the drawings made. The IMF also levies special charges on overdue principal payments and on charges that are past due by less than six months.

Consistent with the elements of the new income model, the Board decided to resume the long-standing practice of reimbursing the GRA for the cost of administering the PRGT in FY2013.

Remuneration and interest

On the expenditure side, the IMF pays interest (remuneration) to members on their creditor positions in the GRA (known as reserve tranche positions). The Articles of Agreement provide that the rate of remuneration shall be not more than the SDR interest rate or less than 80 percent of that rate. The rate of remuneration is currently set at the SDR interest rate, which is also the current interest rate on IMF borrowing.

As noted earlier in the chapter, the IMF can temporarily supplement its quota resources through standing borrowing arrangements and bilateral arrangements. At April 30, 2013, the IMF held borrowed funds from members through bilateral loans and note purchase agreements, and the enlarged and expanded NAB, amounting to SDR 46 billion (US$69 billion).

Burden sharing

The IMF's rates of charge and remuneration are adjusted under a burden-sharing mechanism established in the mid-1980s that distributes the cost of overdue financial obligations equally between creditor and debtor members. Quarterly interest charges that are overdue (unpaid) for six months or more are recovered by increasing the rate of charge and reducing the rate of remuneration (burden-sharing adjustments) to make up for the lost income. The amounts thus collected are refunded when the overdue charges are settled.

In FY2013, the adjustments for unpaid quarterly interest charges averaged less than 1 basis point, reflecting the rise in IMF credit outstanding owing to the effect of the global crisis on members and a similar increase in member reserve tranche positions. The adjusted rates of charge and remuneration averaged 1.09 percent and 0.09 percent, respectively, in FY2013.

Net income

The IMF's net income in FY2013 was SDR 2.0 billion (US$3.0 billion), reflecting primarily income from the high levels of financing activity and from its investments held in the Investment Account.

Administrative and capital budgets

In April 2012, in the context of the FY2013–15 medium-term budget, the Executive Board authorized total net administrative expenditures for FY2013 of US$997 million as well as a limit on gross expenditures of US$1,159 million (Table 5.1).[93] In addition, the Executive Board approved for spending in FY2013 US$41 million in carry-forward of unspent FY2012 resources. It also approved capital expenditures of US$388 million, the bulk of which was related to a multiyear renovation project of the IMF's aging HQ1 building (Box 5.1).

Box 5.1

Building renovations

HQ1. The renovation of the nearly 40-year-old HQ1 building (the older of the IMF's two headquarters buildings in Washington, D.C.) is focused on the replacement of key building systems to ensure safety and improve energy efficiency. Following the approval of the project by the Executive Board in the context of the FY2012–14 medium-term budget, architects and engineers began the design for the renovation. That design, approved by IMF management in April 2011, incorporates the IMF's operational needs in the layout of key spaces and office areas. The contract for construction was awarded through a competitive process, and funding previously approved by the Board was released to proceed with the work. The repairs and renovation began in the spring of 2013 and will be carried out over four years.

Concordia. Renovations began in November 2011 on the 46-year-old Concordia building, an extended-stay facility largely for country officials participating in Institute for Capacity Development courses, to modernize and replace aging building infrastructure, with a goal of creating a more modern, energy-efficient, and sustainable building. The completed building will attain Leadership in Energy and Environmental Design (LEED) Gold certification for design and construction and is expected to achieve LEED Platinum certification for ongoing operations and maintenance. The facility reopened and accepted course participants in April 2013.

Table 5.1

Budget by major expenditure category, FY2012–16

(Millions of U.S. dollars)

	FY2012		FY2013		FY2014	FY2015	FY2016
	Budget	Outturn	Budget	Outturn	Budget	Budget	Budget
ADMINISTRATIVE EXPENDITURES							
Personnel	820	799	835	802	862	867	869
Travel[1]	112	105	125	119	123	124	129
Buildings and other	181	178	181	180	190	192	194
Contingency reserves	11	—	18	—	12	11	11
TOTAL GROSS BUDGET	1,123	1,082	1,159	1,102	1,186	1,195	1,203
Receipts[2]	–138	–136	–161	–154	–179	–172	–171
TOTAL NET BUDGET	985	947	997	948	1,007	1,023	1,032
Carry-forward[3]	34	—	41	—	42		
TOTAL NET BUDGET INCLUDING CARRY-FORWARD	1,019	947	1,038	948	1,049	1,023	1,032
CAPITAL							
Facilities and information technology	162	44	388	89	41	46	44

Source: IMF Office of Budget and Planning.
Note: Components may not sum to totals because of rounding.

1 FY2013 and FY2016 include travel to the Annual Meetings held abroad.
2 Includes donor-financed activities, cost-sharing arrangements with the World Bank, sales of publications, parking, and other miscellaneous revenue.
3 Resources carried forward from the previous year under established rules.

The IMF's work during the year continued to be affected by the ongoing global crisis, and the budget aimed to support the institution's active role in the global efforts to restore financial stability. Relative to the previous year, overall spending was kept unchanged in real terms, aside from a special allocation for the 2012 Annual Meetings, and continued to include a temporary allocation of US$53 million, to respond to crisis-related needs.

Actual net administrative expenditures in FY2013 amounted to US$948 million, US$50 million below the total net budget; the lower level of spending mainly resulted from lower-than-planned expenses for personnel and unspent contingency reserves, which had been set higher in FY2013 given the elevated risks and exceptionally uncertain outlook at the time. Actual spending on capital facilities and information technology (IT) projects totaled US$89 million and was largely as planned. The main facilities projects were the renovation of the Concordia facility and the preliminary work for the HQ1 renovation project (see Box 5.1). IT investments focused on improving the stability and usability of core systems, including continued investments in information and data management initiatives as well as in IT security.

For financial-reporting purposes, the IMF's administrative expenses are accounted for in accordance with International Financial Reporting Standards (IFRS) rather than on a cash basis of budgetary outlays. These standards require accounting on an accrual basis and the recording and amortization of employee benefit costs based on actuarial valuations. Table 5.2 provides a detailed reconciliation between the FY2013 net administrative budget outturn of US$948 million and the IFRS-based administrative expenses of SDR 751 million (US$1,135 million) reported in the IMF's audited financial statements for the year.

In April 2013, the Board approved a budget for FY2014, including net administrative expenditures of US$1,007 million and a limit on gross administrative expenditures of US$1,186 million, as well as up to US$42 million in carry-forward of unspent FY2013 resources. For the second year in a row, the limit on net administrative expenditures remained unchanged in real terms relative to the previous year. The capital budget was set at US$41 million, of which about US$24 million is for investments in IT and the remainder for facilities projects. The Board also endorsed indicative budgets for FY2015–16.

The FY2014–16 medium-term budget was formulated within the IMF strategic planning framework with an overall envelope and resource allocation to ensure the delivery of the institution's priorities as set out in the Managing Director's *Global Policy Agenda* (see Chapter 4). Within an unchanged budget envelope, new demands and activities—for example, strengthening support for transition and reforms in the Middle East and North Africa region and increasing support for bilateral surveillance and program work—were accommodated through internal redirection of resources. These reallocations included some streamlining of multilateral surveillance products and other analytical work and savings in other line items in the budget that resulted from recent changes in internal policies and procedures. For FY2014, the budget preserves the same level of temporary crisis-related resources as in FY2013 (US$53 million); the level and composition of temporary funding will be reviewed in the context of the FY2015 budget cycle.

Arrears to the IMF

Overdue financial obligations to the IMF (including as Trustee) fell from SDR 1,301 million (US$2,017 million) at the end of April 2012 to SDR 1,298 million (US$1,959 million) at the end of April 2013 (Table 5.3). Sudan accounted for about 76 percent of remaining arrears, and Somalia and Zimbabwe for 18 and 6 percent, respectively. At the end of April 2013, all arrears to the IMF were protracted (outstanding for more than six months); one-third consisted of overdue principal, the remaining two-thirds of overdue charges and interest. More than four-fifths represented arrears to the GRA, and the remainder to the Trust Fund and the PRGT. Zimbabwe is the only country with protracted arrears to the PRGT. The August 2009 general SDR allocation has facilitated all protracted cases in remaining current in the SDR Department.

Under the IMF's strengthened cooperative strategy on arrears, remedial measures have been applied to address the protracted arrears. At the end of the financial year, Somalia and Sudan remained ineligible to use GRA resources. Zimbabwe will not be able to access GRA resources until it fully settles its arrears to the PRGT. A declaration of noncooperation, the partial suspension of technical assistance, and the removal from the list of PRGT-eligible countries remain in place as remedial measures related to Zimbabwe's outstanding arrears to the PRGT. In October 2012, the Executive Board decided to continue the IMF's technical assistance to Zimbabwe in targeted areas.

Audit mechanisms

The IMF's audit mechanisms comprise an external audit firm, an internal audit function, and an independent External Audit Committee (EAC) that, under the IMF's By-Laws, exercises general oversight over the annual audit.

External Audit Committee

The three members of the EAC are selected by the Executive Board and appointed by the Managing Director. Members serve three-year terms on a staggered basis and are independent of the IMF. They are nationals of different member countries and must possess the expertise and qualifications required to carry out the oversight of the annual audit. Typically, EAC members have significant experience in international public accounting firms, the public sector, or academia. The EAC selects one of its members as chair, determines its own

Table 5.2

Administrative expenses reported in the financial statements

(Millions of U.S. dollars, unless otherwise indicated)

FY2013 NET ADMINISTRATIVE BUDGET OUTTURN	948
Timing differences	
Pension and postemployment benefits costs	213
Capital expenditure—amortization of current and prior years' expenditure	47
Amounts not included in the administrative budget	
Capital expenditure—items expensed immediately in accordance with International Financial Reporting Standards	8
Reimbursement to the General Department (from the Poverty Reduction and Growth Trust, Post-Catastrophe Debt Relief Trust, and Special Drawing Rights Department)	–81
TOTAL ADMINISTRATIVE EXPENSES REPORTED IN THE AUDITED FINANCIAL STATEMENTS	1,135
MEMORANDUM ITEM:	
Total administrative expenses reported in the audited financial statements (Millions of SDRs)	751

Sources: IMF Finance Department and Office of Budget and Planning.
Note: Components may not sum exactly to totals because of rounding. Conversions are based on the effective weighted average FY2013 U.S. dollar/SDR exchange rate for expenditures of about 1.51.

procedures, and is independent of the IMF's management in overseeing the annual audit. It meets in Washington, D.C., each year, normally in January or February to oversee the planning for the annual audit, in June after the completion of the audit, and in July to brief the Executive Board. The IMF staff and the external auditors consult with EAC members throughout the year. The 2013 EAC members were Arfan Ayass (chair), Gonzalo Ramos, and Jian-Xi Wang.

External audit firm

The external audit firm, which is selected by the Executive Board in consultation with the EAC and appointed by the Managing Director, is responsible for conducting the IMF's annual external audit and expressing an opinion on the IMF's financial statements, including the accounts administered under Article V, Section 2(b), of the Articles of Agreement and the Staff Retirement Plan. At the conclusion of the annual audit, the EAC briefs the Board on the results of the audit and transmits the report issued by the external audit firm, through the Managing Director and the Board, for consideration by the Board of Governors. The external audit firm is normally appointed for five years. Deloitte & Touche LLP is currently the IMF's external audit firm. It issued an unqualified audit opinion on the IMF's financial statements for the financial year ended April 30, 2013.

Office of Internal Audit and Inspection

The IMF's internal audit function is assigned to the Office of Internal Audit and Inspection (OIA), which independently examines the effectiveness of the IMF's risk management, control, and governance processes. OIA's audit coverage includes the IMF staff, the Executive Board, offices of the Executive Directors, and the Independent Evaluation Office and its staff.

OIA completed ten audits and reviews and substantially progressed on three others during the year, in the following areas: financial audits on the adequacy of controls and procedures to safeguard and administer the IMF's financial assets and accounts; IT audits to evaluate the adequacy of IT management and the effectiveness of security measures; and operational and effectiveness reviews of work processes, associated controls, and the efficacy of operations in meeting the IMF's overall goals. In addition, OIA completed five advisory reviews and provided assistance in an internal investigation.

Separate from its internal audit function, OIA also serves as Secretariat to the Advisory Committee on Risk Management. In this capacity, OIA coordinates production of an annual risk management report to the Board and supports informal briefings of the Board on risk management.

In line with best practices, OIA reports to IMF management and to the EAC, thus ensuring its objectivity and independence. The quality of OIA's activities was assessed in December 2012 by an independent evaluation team of the Institute of Internal Auditors, which confirmed OIA's adherence to all applicable professional standards.

The Board is informed of OIA activities twice a year via an activity report that includes information on its planned audits and reviews as well as the results and status of audit recommendations, and all audit reports are shared with the Board. The most recent informal Board briefing on these matters, as of the end of the financial year, had taken place in January 2013. No material or significant weaknesses that would have a bearing on the IMF's internal control structure and financial statements were identified. The overall implementation rate of audit recommendations in the first half of FY2013 improved compared with FY2012, although it remained somewhat below the pace of earlier years.

Risk management

Steps toward strengthening the IMF's risk management framework continued during the year, in particular through the work

Table 5.3

Arrears to the IMF of countries with obligations overdue by six months or more and by type, as of April 30, 2013

(Millions of SDRs)

		By type		
	Total	General Department (including Structural Adjustment Facility)	Trust Fund	Poverty Reduction and Growth Trust
Somalia	233.8	225.6	8.2	—
Sudan	982.1	900.6	81.5	—
Zimbabwe	82.2	—	—	82.2
Total	**1,298.1**	**1,126.1**	**89.8**	**82.2**

Source: IMF Finance Department.

Left IMFC Chairman Tharman Shanmugaratnam speaks at the 2013 Spring Meetings **Right** Human Resources Department Director Mark Plant addresses IMF staff members at a March 2013 town hall at IMF headquarters

of a committee and a working group with responsibility in this area. The Advisory Committee on Risk Management supports the implementation of the IMF's risk management framework. As noted in the previous subsection, it prepares an annual report on key risks facing the IMF and informally briefs the Executive Board on risk management issues, as it did, during the financial year covered by this report, in June 2012.

In August 2012, the Board discussed the *2012 Report on Risk Management* prepared by the committee. Executive Directors generally supported the more focused format of the report, which had benefited from a streamlined risk assessment survey as well as better incident reporting. They suggested that future reports could provide more integrated risk assessments with greater emphasis on mitigation strategies and reviews of past implementation measures.

A Working Group on the Fund's Risk Management Framework, appointed in March 2012, completed its work in February 2013, after consulting with outside experts in the public and private sectors, and submitted its findings and recommendations for IMF management's consideration. The working group had been tasked with making proposals to address key recommendations stemming from the report of an external panel convened in 2010 to undertake an independent and comprehensive review of the IMF's risk management framework. It had also been asked to examine the potential role of quantitative analysis in the IMF's management of financial risks.

HUMAN RESOURCES POLICIES AND ORGANIZATION

The IMF's staff is key to its success, and effective human resource management that supports this knowledge-based workforce is the most critical element for the institution's relevance. The IMF's ability to attract, motivate, retain, and develop a highly skilled, innovative, and diverse workforce is essential to its continued success.

Human resources during the year

The IMF continued its focus on strong recruitment during the year, implementing important human resources reforms in response to the 2010 staff survey, and working to modernize human resources benefits and services across the institution.

Workforce characteristics

Recruitment and retention in calendar year 2012 was primarily shaped by continuing demands on the IMF from the ongoing global crisis.[94] The IMF hired 161 new staff members in 2012. Among the new hires, 85 were economists, a slight increase over the previous year. Recruitment to specialized career streams exceeded the recent five-year average, with a total of 48 new hires in these career streams, representing a 37 percent increase from 2011.

The IMF relies primarily on economists with a substantial number of years of analytical and policymaking experience to replenish ranks in area and functional departments. A total of 56 midcareer economists were recruited in 2012, an 11 percent reduction from the previous year and 19 percent below the 2008–12 average of 69 hires. This decrease can be attributed to two policy changes that slowed external hiring of economists: a hiring freeze for nonspecialist senior economists and a decision to advertise all economist vacancies internally first, before opening them up, if subsequently necessary, to outside applicants.

The need to provide in-depth technical advice, particularly on financial sector and fiscal management issues, led to a significant increase in the hiring of contractual employees in 2012, with their number rising by 14 percent to 470. Of this increase, long-term contractual hiring at the professional level rose

42 percent, primarily as a result of the need for technical assistance expertise. Another driver of the increase, fully 55 percent, was long-term hiring of contractual employees at the support levels.

As of April 30, 2013, the IMF had 2,061 professional and managerial staff and 457 staff at the support level. A list of the institution's senior officers and its organizational chart can be found on pages 71 and 72, respectively.

Diversity

The IMF makes every effort to ensure that its staff is diverse in terms of nationality and gender, and it recruits actively from all over the world.[95] Of the 188 member countries at the end of April 2013, 144 were represented on the staff. Web Tables 5.1–5.3 show the distribution of the IMF's staff by nationality, gender, and country type, respectively.

The institution continues to make progress in hiring diverse staff. Hiring of nationals from Africa, East Asia, and the Middle East in 2012 was comparable to or higher than such hiring in recent years. Although hiring of nationals from European transition countries decreased slightly, the number of European transition country nationals remained at the 2014 benchmark. The Economist Program, which recruits entry-level economists, continues to provide a good source of regional and gender diversity. Of the 29 participants who joined the program in 2012, one-third were from underrepresented regions, and the share of women among program appointments was 48 percent. The competition for those with doctorates from top universities remains strong.

Progress has been made on most of the IMF's diversity benchmarks, though unevenly across regions and grades. In the case of European transition countries, the benchmark for professional and managerial staff has been surpassed, and the share of East Asian staff is closing in on its 2014 benchmark. In regard to Africa, progress has been quite limited (6.8 percent for FY2013, compared with 5.4 percent in 2003, when the original indicator was set) and remains below the benchmark of 8 percent. The overall share of Middle Eastern staff in the professional and management grades has proved the hardest to increase; it was at 4.5 percent at the end of April 2012, not much different from the 4.4 percent that prevailed in 2003, and compared with the benchmark of 8 percent. In some cases, but not all, it has been difficult to make sustained headway at the management level, whereas marked shifts have been seen at the professional levels. In other hiring categories, the reverse has been true. In addition, the issues that affect hiring and retention trends vary both across regions and between region and gender.

Diversity Annual Report 2011

The Diversity Annual Report is prepared by the IMF's Diversity Office in consultation with the Diversity Council, an IMF-wide representative body that provides guidance on diversity-related matters to IMF management, department heads, and departmental Diversity Reference Groups. The report, regularly published on the IMF's website, provides an accounting of the institution's efforts to promote a more diverse working environment and conditions.

In June 2012, the Executive Board discussed the *Diversity Annual Report 2011*.[96] In their discussion, Executive Directors emphasized the need to continue to build on the diversity initiatives put in place to achieve 2014 benchmarks for diversity and to strengthen the diversity strategy overall, while ensuring that recruitment and career development remain based on merit. They noted that,

Left Managing Director Christine Lagarde with Liberian President Ellen Johnson Sirleaf at the seminar "Globalization at a Crossroads: From Tokyo to Tokyo" at the 2012 Annual Meetings **Right** Workers stand next to oil excavation pipes in Meta, Colombia

with regard to diversity demographics, advancements in a number of areas had been partly offset by movement in others counter to the institution's diversity goals. They considered that the share of staff from underrepresented regions had increased, both at the professional level and as a share of senior staff. Whereas the representation of women had increased in the professional grades, the share of women at senior levels had dropped slightly. Executive Directors emphasized the importance of continued efforts to increase the share of women and of staff from underrepresented regions at senior levels.

Executive Directors noted that the 2012 Economist Program had been a source of both regional and gender diversity. They emphasized, however, that the IMF would need to strengthen the diversity agenda in a comprehensive and longer-term perspective, including innovative career development approaches and ways to enhance the pipeline of promotions of staff from diverse backgrounds. Many Executive Directors emphasized the merits of greater diversity of academic backgrounds, including for the Economist Program, and of professional experience in fostering independent and creative thinking, and a number of these Executive Directors saw the role of midcareer professionals in nurturing diversity of thought. A few Executive Directors asked for objectives and indicators in these areas.

Executive Directors expressed support for the diversity-related initiatives in response to the 2010 staff survey, specifically, the importance of clearly communicating the business case for diversity and the increased attention to inclusion, while ensuring that performance drives recruitment and promotions. They stressed the importance of strengthening the accountability framework for senior managers and integrating the agenda into human resources policies and practices, including increasing diversity among senior personnel managers. They called for looking carefully at promotion data over time broken down by gender and underrepresented groups.

Executive Directors noted that steps had been taken to follow up on issues raised during the Board's consideration of the *Diversity Annual Report 2010,* in particular, through the survey of practices in comparator institutions. Most welcomed the finding that the approaches used by the IMF were broadly aligned with effective practices in other international institutions, but noted that the IMF could strengthen practices to broaden the diversity agenda as recommended in the report.

Executive Directors also endorsed the IMF Diversity and Inclusion Statement set out in the report.

Management salary structure

IMF management remuneration is reviewed periodically by the Executive Board; the Managing Director's salary is approved by the Board of Governors. Annual adjustments are made on the basis of the Washington, D.C., consumer price index. Reflecting the responsibilities of each management position, as of July 1, 2012, the salary structure for management was as follows:

Managing Director	US$476,360
First Deputy Managing Director	US$414,220
Deputy Managing Directors	US$394,510

The remuneration of Executive Directors was US$244,350, and the remuneration of Alternate Executive Directors was US$211,370. Web Table 5.4 provides the salary scale for the IMF staff.

Human resources reforms

Staff survey

Following on the 2010 staff survey, projects initiated last year were implemented in the course of this one. A new accountability framework for department heads was implemented to better align departmental objectives with institution-wide goals. It introduced a stronger focus on people and budget management and is expected to hold department heads accountable for delivering on related indicators. A Statement of Workplace Values was announced, aimed at providing guidance on desirable behaviors to which all IMF employees should aspire. Progress in the areas of staff mobility and development was also achieved through the expansion of the external mobility program, implementation of internal mobility schemes for management-level staff and senior macroeconomists, and the introduction of a technical track for high-performing, highly specialized individual contributors. Finally, work is ongoing to strengthen leadership in the institution. Senior leaders were actively engaged this year in defining the path to a more open management and leadership culture. This included identifying opportunities to lessen hierarchy and encourage innovation and creativity. Key outcomes have been clearly defined departmental management roles and responsibilities and defined plans to increase the cohesiveness within management teams.

In March 2013, a new staff survey was launched, in line with the current strategy of surveying the IMF staff on a periodically consistent basis. The response rate of 87.6 percent revealed the staff's strong buy-in to such exercises and exceeded that for the previous survey by more than 17 percentage points. Analysis was subsequently undertaken to identify areas of progress since 2010 and where additional efforts might be needed.

Workforce planning

The Executive Board was informally briefed on strategic workforce planning in February 2013. The policy paper prepared for the briefing identified substantive proposals, including in the areas of the employment framework, diversity, training, and people management. This emerging focus on workforce planning at the institutional level is beginning to provide useful guidance to departments in planning their own efforts to align people and dollar resources to the delivery of their business plans and outputs.

Modernizing human resources benefits and services

The Human Resources Department undertook a number of efforts over the course of the year to enhance the governance and modernization of the IMF's retirement program. These included restructuring the Administration Committee of the Staff Retirement Plan, strengthening the governance of and formalizing a funding strategy for the Retired Staff Benefits Investment Account, and expanding the retirement benefits program to include a Voluntary Savings Plan. That plan supports staff mobility, provides a vehicle for additional retirement savings, and improves benefits portability.

The policy and procedural framework for employment and management of Resident Representative and RTAC offices was strengthened during the year. Measures included publishing a policy and procedural manual for overseas heads of office that provides extensive guidance for the employment of local employees in all overseas offices. The manual incorporates an improved security evacuation policy, medical insurance improvements, tax guidance, and significantly upgraded employment contract templates. A simultaneous and parallel measure was the first-time publication of a handbook for local employees that provides transparent and consistent information on the governing employment framework. All of these measures serve to integrate these employees into the IMF's overall employment framework and to emphasize the institution's commitment to this very important employee group that supports its mission around the world.

Membership

There were no pending applications for IMF membership at the end of the previous year, and there were no new applications for membership during the one covered by this report. Thus the number of IMF members was unchanged at 188 as of the end of the financial year.

Recognition of Federal Government of Somalia

In April 2013, the IMF recognized the Federal Government of Somalia, paving the way for the resumption of relations after a 22-year interval.[97] Somalia has been an IMF member since 1962. Recognition of the government allows the IMF to resume offering technical assistance and policy advice to Somalia. The decision is consistent with the broad international support and recognition the Somali government has received since it took office in September 2012.

Declaration of censure against Argentina

The Executive Board met in February 2012 to consider proposals by the Managing Director for remedial measures that Argentina would have to implement to address the quality of the official data reported to the IMF for the Consumer Price Index for Greater Buenos Aires (CPI-GBA) and Argentina's GDP.[98] At that time, the Board called on Argentina to implement specific measures, within 180 days, with a view to bringing the quality of the data into compliance with the obligation under the Articles of Agreement. The measures aimed at aligning these indicators with the international statistical understandings and guidelines that ensure accurate measurement.

At the Board's request, the Managing Director reported on implementation of these measures in September 2012. At that time,[99] the Board expressed to the authorities its concern that Argentina had not brought itself into compliance with its obligations under the Articles by implementing the specified remedial measures. It called on Argentina to implement the measures without delay and required the Managing Director to provide another report on progress the following December.[100]

The Board considered the Managing Director's report in February 2013. It found that Argentina's progress in implementing the remedial measures since the September 2012 Board meeting had not been sufficient.[101] As a result, the IMF issued a declaration of censure against Argentina in connection with its breach of obligation to the IMF under the Articles. The Board called on Argentina to adopt the remedial measures to address the inaccuracy of CPI-GBA and GDP data without further delay, and in any event, no later than September 29, 2013. The Managing Director was given a requirement to report to the Board by November 2013 on the status of Argentina's implementation of the remedial measures. At that time, it is expected that the Executive Board will again review the issue and Argentina's response in line with IMF procedures.

ACCOUNTABILITY

The IMF is accountable to its 188 member governments. Externally the IMF is also scrutinized by multiple stakeholders, from political leaders and officials to the media, civil society, and academia; internally, its own watchdog, the Independent Evaluation Office, plays a key role in ensuring accountability to its members.

External

Managing Director's *Global Policy Agenda*

The IMF's major findings and policy messages are published twice a year in the Managing Director's *Global Policy Agenda* (discussed in Chapter 4). This report synthesizes the key risks outlined in the IMF's multilateral surveillance products (*World Economic Outlook, Global Financial Stability Report, Fiscal Monitor,* and Spillover Report) and charts a set of policy actions for the membership and the IMF to mitigate them. It is shared with

Left Finalists and winners of the Japanese student essay contest
Right Managing Director Christine Lagarde meets with students after delivering the commencement address at the Kennedy School of Government in Cambridge, Massachusetts, in May 2012

the Executive Board prior to the Spring and Annual Meetings, where it is presented to the IMFC. Informal Board meetings to review the Managing Director's *Global Policy Agenda* were held in October 2012 and April 2013.

Transparency

The IMF's transparency policy, enacted in 1999 and most recently revised in March 2010, states that the institution "will strive to disclose documents and information on a timely basis unless strong and specific reasons argue against such disclosure." This principle, according to the policy, "respects, and will be applied to ensure, the voluntary nature of publication of documents that pertain to member countries."[102] The Executive Board receives annual updates on the implementation of the policy; these reports are part of the information the IMF makes public as part of its efforts in the area of transparency. The 2012 update, published in July 2012, is available on the IMF's website.[103]

The next review of the institution's transparency policy is scheduled for the coming year and will assess the implementation of the policy since 2009. It will also examine the implications for transparency of recent changes in IMF surveillance policies, notably the 2011 Triennial Surveillance Review—which called for an increased focus on interconnectedness, strengthened risk assessments, more work on financial stability, and a renewed emphasis on the external sector—and the Integrated Surveillance Decision (see Chapter 3), which will lead to increased spillover analysis in Article IV consultations. Additionally, it will explore ways to increase the amount, timeliness, and accessibility of information made available to the public, protect the integrity of IMF documents, and enhance the IMF's accountability.

In February–March 2013, the IMF conducted public consultation on views of its transparency policy, in the context of the scheduled review. Though comments were welcomed on any or all aspects of the policy, views were specifically solicited in regard to the policy's strengths and weaknesses, ways it could be improved, whether there had been an improvement or deterioration in the policy over the preceding five years, and how well the policy was performing relative to those of other institutions, including in regard to the accessibility, frequency, and usefulness of documents. Comments received during the consultation were published, unless otherwise requested, and are available via the consultation web page.[104]

Outreach and engagement with external stakeholders

The objectives of IMF outreach are twofold: first, to listen to external voices to better understand their concerns and perspectives, with the aim of improving the relevance and quality of IMF policy advice; and second, to strengthen the outside world's understanding of IMF objectives and operations. Among the specific groups with which the IMF engages in its outreach activities are civil society organizations and youth leaders, trade and labor unions, parliamentarians, academics, think tanks, and the media. Tools such as social media, videos, and podcasts have formed an increasing part of the IMF's outreach strategy in recent years. A particular focus of the IMF's outreach during the year under discussion was engaging youth (see Box 5.2).

The IMF's External Relations Department has primary responsibility for conducting the IMF's outreach activities and its engagement with external stakeholders.[105] As the institution's policies have evolved—for instance, in its increased focus on promoting poverty reduction in low-income countries through a participatory approach and its emphasis on transparency and good governance—outreach and communication have become an integral part of IMF country work as well.

As the importance of the IMF's outreach efforts has grown in the face of the crisis and aftermath, the management team has played an increasingly important role in those efforts. Outreach by manage-

Box 5.2

Outreach to youth

The IMF's goal in engaging with youth worldwide is to interact with the next generation of leaders, to get their perspectives on key economic issues, to exchange ideas about the challenges young people in their region are facing, and to hear their aspirations, worries, and concerns. During the year, the institution undertook a number of specific outreach activities targeted toward the world's youth.

The most prominent of these was an essay competition organized to raise awareness of the IMF–World Bank Annual Meetings in October 2012.[a] University students submitted a total of 96 essays on the theme "Youth Perspectives on the Global Economy and the Role of the IMF." Three winners and five runners-up participated during the meetings in a dialogue on Asian youth with Deputy Managing Director Nemat Shafik, in which she stressed that young people need greater voice in the global economic debate, as they will inherit the legacy of choices made today. The dialogue also included five student panelists from China, Korea, Singapore, and Thailand, all members of the IMF-sponsored Youth Fellowship Program, who spoke about the challenges they face. In its second year, the Youth Dialogue continued to reflect concerns with the effects of the global crisis on youth, and in particular, unemployment.

The Managing Director devoted particular attention to youth outreach during the year. Among other activities, in May 2012, she delivered the commencement address at the Kennedy School of Government at Harvard University, where she spoke about the interconnections of global society. At Keio University in July 2012, she engaged students in a dialogue on global issues, answering their questions about the role of regional monetary unions in promoting stability in the international monetary system, the role of the IMF's financial resources in euro area countries, and other topics. As part of her first official visit to Chile as Managing Director in December 2012, she held a dialogue, "Chile's Next Generation Asks the IMF," with students from the University of Chile and the Catholic University of Chile, which was publicly broadcast.

a See Press Release No. 12/312, "Winners of the 2012 IMF Essay Contest in Japan" (www.imf.org/external/np/sec/pr/2012/pr12312.htm).

ment and senior IMF staff provides an opportunity to articulate the institution's strategic vision and the key policy priorities for the membership at large; to marshal support for policymakers for difficult national reforms that carry both domestic and global benefits; to learn more about issues affecting key stakeholders in member countries, including nontraditional constituents, with the aim of strengthening IMF analysis and policy advice; and to reinforce the IMF's commitment to providing needed support to members, particularly those most affected by the crisis. The Managing Director, the Deputy Managing Directors, and senior IMF staff travel extensively in all five world regions, meeting with key stakeholders in member countries and taking advantage of numerous opportunities to further the IMF's outreach objectives.

Regional Economic Outlook reports

The IMF publishes, as part of its World Economic and Financial Surveys, *Regional Economic Outlook* reports (REOs), providing more detailed analysis of economic developments and key policy issues for major world regions. Publication of the REOs is typically coordinated with extensive outreach events in each region. Press releases summarizing REO findings can be found on the IMF's website, along with the full text of the REOs themselves, as well as transcripts and webcasts of press conferences held upon publication.[106]

IMF regional offices

Regional Office for Asia and the Pacific

As the IMF's window to the Asia and Pacific region, the importance of which continues to grow in the global economy, the Regional Office for Asia and the Pacific (OAP) monitors economic and financial developments to help bring a more regionally focused perspective to IMF surveillance. It seeks to enhance the understanding of the IMF and its policies in the region and to keep the IMF informed regarding regional perspectives on key issues. In this capacity, OAP has increased bilateral and regional surveillance with an expanding role in Mongolia, active support and participation on work involving Japan, and increased regional surveillance with forums in Asia, including ASEAN+3 (the Association of Southeast Asian Nations plus China, Japan, and Korea) and Asia-Pacific Economic Cooperation. OAP also contributes to capacity development in the region through the Japan-IMF Scholarship Program for Asia, the Japan-IMF Macroeconomic Seminar for Asia, and other macroeconomic seminars. Furthermore, OAP conducts outreach activities both within Japan and in the region and engages in dialogue with Asian policymakers by organizing conferences and events on current policy issues central to the IMF's work (see Box 5.3).

Offices in Europe

The IMF's Offices in Europe (EUO) represent the IMF in the European region, advising management and departments as needed, supporting the IMF's operations in Europe, and providing a conduit for European views on issues of interest to the IMF. EUO's role has expanded considerably in response to increased demand for IMF policy advice, expertise, and participation in relevant policy discussions with the global financial and European debt crisis. Additionally, European-based institutions, including the Organisation for Economic Co-operation and Development (OECD), European Union, FSB, and BIS, are playing a crucial role in dealing with that crisis. Strengthening the IMF's coordination with these institutions (see "Engagment with Other Organizations" in Chapter 4) has thus been paramount.

EUO's activities focus primarily on four areas. First, EUO contributes to the IMF's multilateral and regional surveillance by representing the IMF in various organizations; reporting on the views and activities of European-based international organizations, think tanks, and prominent experts; and participating in IMF consultations with EU institutions. Second, EUO represents the IMF in the day-to-day activities of the OECD's Development Assistance Committee and has close working relationships with bilateral and multilateral development agencies in Europe. Third, EUO conducts extensive outreach to better inform the policy debate and disseminate IMF views on key policy issues in Europe. Finally, EUO plays a central role in recruitment, supporting the IMF's efforts in regard to diversity.

Internal

Independent Evaluation Office

The IMF's Independent Evaluation Office, established in 2001, evaluates IMF policies and activities with the goal of increasing the institution's transparency and accountability, strengthening its learning culture, and supporting the Executive Board's institutional governance and oversight responsibilities. Under its terms of reference, the IEO is fully independent of IMF management and operates at arm's length from the Board, to which it reports its findings.

Executive Board reviews of IEO reports and recommendations

International reserves: IMF concerns. In December 2012, the IEO released its evaluation "International Reserves: IMF Concerns and Country Perspectives." It examined two distinct aspects of the IMF's analysis: the role of reserve adequacy assessments in bilateral surveillance and the effect of reserves on international monetary system stability.

The evaluation concluded that IMF discussions of international reserves in the context of bilateral surveillance were often pro forma, overly reliant on traditional indicators, and insufficiently attuned to country circumstances. To address these concerns, the evaluation recommended that the IMF apply reserve adequacy indicators flexibly and in a way that incorporates country-specific circumstances; recognize the multiple trade-offs involved in decisions on reserves; and integrate advice on reserves with advice in related areas, directing this advice not just to emerging market economies, but also to advanced economies where appropriate.

In the multilateral context, the IEO welcomed the broader IMF work stream on the international monetary system but noted that this work had not sufficiently informed IMF analysis and recommendations regarding reserves. It recommended that the IMF take a comprehensive approach to threats to financial stability when discussing reserve accumulation, and that when addressing systemic externalities, IMF policy initiatives take into account the relative size of countries' contributions to those externalities.

During its discussion of the evaluation, the Executive Board generally supported the IEO's recommendations, while recognizing that the IMF had already made progress in many of these areas in the broader context of its work on the international monetary system. Executive Directors held different views, however, on the analytical underpinnings of the report, in

Box 5.3

Conference on capital flow management in Asia

Asian policymakers from 13 countries met in Tokyo in March 2013 to discuss challenges related to the management of capital flows with IMF officers and academics. The conference was jointly organized by Hitotsubashi University and the IMF's Regional Office for Asia and the Pacific (OAP) and funded by the government of Japan. The gathering was part of OAP's various initiatives aimed at strengthening policymaking capacity in Asia.

OAP kicked off the discussion with a review of global trends and determinants of capital flows to emerging markets, which was followed by discussions on the experiences of selected Asian countries such as Indonesia, Korea, Malaysia, and Thailand in dealing with capital flows. The recently developed IMF institutional view on capital flow management (see Chapter 3) was also discussed.

particular on whether the membership was adequately represented in the sample chosen by the IEO. They welcomed the IEO's findings that the IMF staff's research on the adequacy of official reserves was at the forefront of the field. They noted that this research had provided a rich set of tools to inform reserve assessments at the country level.[107]

Role of the IMF as trusted advisor. In February 2013, the IEO released its evaluation "The Role of the IMF as Trusted Advisor," which considered whether and in what circumstances member country authorities viewed the IMF as a trusted advisor. The IEO found that the IMF's image had improved markedly since the onset of the global crisis and that the institution was viewed as more flexible and responsive than in the past. Nonetheless, the degree to which the IMF was viewed as a trusted advisor varied by region and country type; authorities in Asia, Latin America, and large emerging market economies in general were the most skeptical, and those in large advanced economies the most indifferent. Recognizing that there will always be an inherent tension between the IMF's roles as a global watchdog and as a trusted advisor to member country authorities, the evaluation explored how the IMF could sustain the more positive image it has achieved in the aftermath of the crisis.

The evaluation recommended that the IMF take action to enhance the value added of Article IV consultations, strengthen the continuity of the relationship between the IMF and member countries, work more closely with country authorities on outreach, reduce unnecessary disclosure concerns, and implement the institution's transparency policy in a uniform and fair manner. The Executive Board supported the thrust of the IEO recommendations to further improve the quality and traction of IMF advice to its members and concurred that there are various ways to make these recommendations operational.[108]

IEO work program

The IEO is in the final stages of work on "An Assessment of IMF Self-Evaluation Systems." This evaluation examines how the IMF learns from experience.

Following consultation with country authorities, Executive Directors, IMF management, the IMF staff, and outside stakeholders, an informal Executive Board workshop was held in November 2012 to discuss topics for new IEO evaluations. The IEO subsequently initiated work on three evaluations: IMF forecasting, country statistics, and the IMF's response to the global crisis. Issues papers will be posted after consultation with relevant stakeholders on the focus and approach for the corresponding evaluations.

In early 2013, the IEO released a volume describing the experience with independent evaluation of the IMF over the preceding 10 years. This volume, as well as full texts of completed evaluations, information on those that are in progress, issues papers, IEO Annual Reports, and other documentation, is available on the IEO website.[109]

Implementation of Board-endorsed IEO recommendations

Soon after the Executive Board discussion of an evaluation, the IMF staff and IMF management prepare and present to the Board a forward-looking implementation plan for Board-endorsed IEO recommendations. Three such management implementation plans were considered during the year, and a fourth was submitted for Board review shortly after the year ended.

IMF performance in the run-up to the global crisis. In May 2012, the Executive Board discussed the management implementation plan in response to Board-endorsed recommendations arising from the IEO evaluation of IMF performance in the run-up to the global financial and economic crisis.[110] In its report, which was discussed by the Board in January 2011, the IEO had put forward a set of recommendations aimed at making IMF surveillance more effective. Consideration of the management implementation plan for the report's recommendations was scheduled for after the 2011 Triennial Surveillance Review, given that many of the issues raised in the IEO report were also addressed in that context.

Executive Directors generally considered that the proposed management implementation plan complemented well the action plan for the Triennial Surveillance Review and that the two together should help enhance the effectiveness of IMF surveillance. They broadly supported the plan's specific proposals and welcomed IMF management's statement on an ambitious agenda to break down silos and promote diverse views and candor, further advancing initiatives underway.

Research. In November 2012, the Executive Board agreed to the management implementation plan proposed in response to Board-endorsed recommendations arising from the IEO's evaluation of research at the IMF.[111] In its report, which was discussed by the Board in June 2011, the IEO had assessed research produced at the IMF between 1999 and 2008 and put forward recommendations aimed at enhancing the relevance and quality of IMF research and improving the coordination and prioritization of research across the IMF. The Board agreed that the proposals included in the management implementation plan fulfilled the framework's requirement.

International reserves. In March 2013, the Board endorsed the management implementation plan for the international reserves evaluation, which laid out proposed actions to follow up on this evaluation.[112] The proposed actions include (1) a successor paper on reserve adequacy, which will review the work included in the 2011 "Assessing Reserve Adequacy" paper and develop additional and updated guidance where needed; (2) the preparation of a staff guidance note for assessing adequacy; and (3) additional engagement on reserve issues with members, the private sector, and academics.

Trusted advisor. A proposed management implementation plan for the trusted advisor evaluation was submitted to the Board's Evaluation Committee in April 2013 and endorsed by the committee the following month; it was subsequently approved by the Executive Board.

Periodic Monitoring Report

The Executive Board also established the Periodic Monitoring Report in 2007 to ensure that IEO recommendations that are subsequently endorsed by the Board are followed up and systematically monitored. In February 2013, the Executive Board considered the *Fifth Periodic Monitoring Report on the Status of Implementation Plans in Response to Board-Endorsed IEO Recommendations* and determined that appropriate steps had been or were being taken by the IMF to follow up on the IEO evaluation "IMF Interactions with Member Countries."[113]

External evaluation of the IEO

During the year, the Executive Board launched the second external evaluation of the IEO.[114] The evaluation's purpose was to assess the IEO's effectiveness and to consider possible improvements to its structure, mandate, operational modalities, and terms of reference. The high-level evaluation panel was composed of José Antonio Ocampo, Stephen Pickford, and Cyrus Rustomjee.

In March 2013, the Board discussed the evaluation.[115] Executive Directors welcomed the panel's assessment that the IEO had played an important role in supporting the IMF's governance and transparency and enhancing its learning culture. They also welcomed the finding that the IEO's independence had been widely recognized and, as such, had strengthened the external perception of the IMF. Executive Directors agreed that the focus of IEO reports should be on long-term cross-cutting issues and drawing out lessons of wider relevance and applicability for the advancement of IMF policy and culture. They noted that the IEO Director should continue to have full freedom in choosing the subjects for evaluation, consistent with the IEO's terms of reference. Executive Directors generally agreed that, in framing its recommendations, the IEO should focus on policy issues for the IMF, rather than on processes, which are the responsibility and comparative advantage of IMF management, although they acknowledged the practical difficulties in separating substance from process, depending on the subject of evaluation. Many Executive Directors also considered it useful for the IEO to undertake, subject to resource availability, periodic evaluations of ex post assessments and ex post evaluations of selected country programs.

Executive Directors agreed on the need to improve the follow-up process for Board-endorsed IEO recommendations. They underscored the importance of strong ownership and active engagement by the Board, especially through its Evaluation Committee. In particular, Executive Directors saw a role for the Evaluation Committee in reviewing and monitoring management implementation plans and ensuring their timeliness, including by setting time limits for preparation and submission of these plans. Noting that interaction between the IEO and the membership is an essential part of the follow-up process, most Executive Directors were open to considering an appropriate forum for the IEO to present its recent work during the IMF's Annual Meetings.

With regard to Board discussions of IEO evaluation reports, many Executive Directors supported, or were open to, the IEO's suggestion that it should prepare draft Summings Up for Board discussions of its reports and work with the Secretary's Department in preparing the final version, in line with standard procedures for all other Summings Up.

The recommendations of the panel that received broad support and outstanding issues that warranted further consideration are being followed up on by the appropriate parties: the Evaluation Committee, the IEO, the IMF staff, and IMF management.