

INTERNATIONAL MONETARY FUND

Supplement to the Implementation Plan in Response to Board-Endorsed Recommendations on the IEO Evaluation of IMF Interactions with Member Countries

Prepared by the Strategy, Policy and Review Department

December 10, 2010

1. This supplement reports on progress on various issues outlined in the staff's Implementation Plan since its initial issuance on June 1, 2010.¹
2. **Many of the steps included in the Implementation Plan, particularly proposals in the Mandate papers still under consideration last June, have been taken forward.** These initiatives are aimed at better integration of bilateral and multilateral surveillance, sharpening analysis of financial sector issues and macro-financial linkages, and better tailoring of the Fund's lending toolkit to members' needs and circumstances. Many further initiatives are included in the latest Work Program, which was discussed by the Board on November 22, 2010 (Buff/10/157).
3. **Steps to buttress analysis and integration of bilateral and multilateral surveillance include:**
 - (i) The WEO and GFSR have increasingly focused on immediate challenges facing policymakers in the current crisis, particularly on macro-financial linkages and spillovers, which in turn inform bilateral surveillance. Progress has also been made in integrating the Fund's key policy messages across products, including through joint forewords of the WEO and GFSR.
 - (ii) The analytical underpinnings of the *Early Warning Exercise (EWE)* have been further strengthened to sharpen the analysis of cross-country spillovers and macro-financial linkages, as well as issues of sovereign debt sustainability and fiscal space.
 - (iii) Article IV Staff reports, including those of systemic countries, have increasingly relied on analysis in products such as the WEO, GFSR, EWE, and the Fiscal Monitor.
 - (iv) Thematic multi-country reports are now regularly being prepared. The report on *Cross-Cutting Themes in Employment Experiences during the Crisis* was discussed

¹ The paper was initially issued as SM/10/141 but was later withdrawn to allow the Evaluation Committee to first discuss it. It was subsequently reissued on November 19, 2010 as EB/EVC/10/7 ahead of the formal EVC meeting on November 23, 2010.

by the Board during an informal seminar in November 2010. Work is also ongoing on *Cross-Cutting Themes from Country Experience with Capital Flows*, scheduled for February 2011, building on work by staff including through staff position notes.

- (v) Work on *spillover reports* for five systemic economies is now underway, and findings will be appropriately incorporated into the respective Article IV reports expected in July 2011.
- (vi) The discussion of the legal framework and implementation of bilateral and multilateral surveillance will continue in the context of the upcoming Triennial Surveillance Review scheduled for late 2011.

4. To enhance understanding of financial sector issues and cross-border/macro-financial linkages, progress has been achieved on two important initiatives:

- (i) Following the Board discussion in September 2010, countries with systemically important financial sectors will be subject to financial sector stability assessments under the FSAP every five years as part of bilateral surveillance.
- (ii) A paper on *Understanding Financial Interconnectedness* was discussed by the Board in October 2010. The goal was to demonstrate the potential utility of such analysis. Efforts will continue to deepen our understanding of financial linkages, including by addressing data gaps.

5. There has also been progress on proposals to offer new products and services that are better tailored to members' needs and circumstances:

- (i) The *Flexible Credit Line (FCL)* has been made more flexible by extending the duration of the arrangement and removing the implicit cap on access.
- (ii) A new *Precautionary Credit Line (PCL)* was introduced to provide crisis prevention to members with moderate vulnerabilities (and hence precluded from FCL eligibility).
- (iii) In terms of engagement with Low-Income Countries, the *Post-Catastrophe Debt Relief (PCDR)* Trust was approved in June 2010 and debt relief was granted to Haiti in July on its outstanding obligations to the Fund.
- (iv) Work on developing the analytical underpinnings of a *vulnerability exercise for low-income countries*, akin to that existing for advanced and emerging market economies, is ongoing and will be presented to the Board in March 2011.
- (v) A review of the Fund's *engagement with countries in fragile situations*, to better tailor Fund financing and technical assistance to meet the unique challenges of these countries, will be presented to the Board after the Spring Meetings.

6. **In addition, steps have been taken to address the IEO recommendation to increase mission chief and staff tenure on country assignments.** Departments have reached broad agreement on a reporting system for monitoring staff tenure, which is expected to become operational by the start of the new calendar year. Updates could be provided to the Board annually, including through the Periodic Monitoring Reports.

7. **The report by the Working Group on Increasing Staff Presence in the Field was submitted to Management in mid-July 2010.** The objective of the Working Group is to assess the business case for increasing staff presence in the field, as a way to enhance the effectiveness of surveillance. This objective is consistent with IEO recommendations. The overall findings and recommendations of the report are still under Management's consideration. Nonetheless, some of the Working Group's recommendations, such as strengthening Fund presence in Asia, are being implemented already. Other recommendations will be examined in the context of the new medium-term budget presented to the Board in April 2011.