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BUDGET AND INCOME

Income, charges, remuneration, and burden sharing

Income model

The current income model for the IMF, endorsed by the Executive Board and approved by the Board of Governors 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 (see "Gold Sales" later in the chapter). 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. A broadening of the IMF's investment authority to enhance returns on investments is a key element of the model. In January 2013, the Executive Board adopted new rules and regulations for the Investment Account that provided the legal framework for implementation of the expanded investment authority, authorized under the Fifth Amendment to the Articles of Agreement, which became effective in February 2011.⁷⁴

Charges

Pending the investment of resources held in the endowment, which will be phased over a three-year period (funding to the

endowment's strategic asset allocation started in March 2014), 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. For FY2015 and FY2016, the Executive Board agreed to keep the margin for the rate of charge at 100 basis points. The margin was adopted under the rule for setting the basic rate of charge adopted by the Board in December 2011. Under this rule, the margin is set so as to cover the IMF's financing-related intermediation costs and allow for a buildup of reserves. In addition, the rule includes a cross-check to ensure that the rate of charge maintains a reasonable alignment against long-term credit market conditions.⁷⁵

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 tranches⁷⁶ 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 General Resources Account. 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.

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.

At April 30, 2014, the IMF's outstanding borrowings under bilateral loans and note purchase agreements, and the enlarged and expanded New Arrangement to Borrow, amounted to SDR 47.3 billion (\$73.3 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 FY2014, 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 1.10 percent and 0.09 percent, respectively, in FY2014.

Net income

The IMF's net income in FY2014 was SDR 2.6 billion (\$4.0 billion), reflecting primarily income from high levels of financing activity and income from its investments held in the Investment Account. As required by International Financial Reporting Standards (amended IAS 19, *Employee Benefits*), FY2014 income includes gains of SDR 1.1 billion (\$1.7 billion) arising from the immediate recognition of all changes in the IMF's defined-benefit obligation of postemployment benefit plans and the associated plan assets. In past years, actuarial gains or losses were amortized under the previous accounting standard.

Gold sales

The IMF adopted an income model that includes an endowment funded from the profits of the sale of a portion of the institution's gold holdings. The Executive Board agreed in July 2009 that in addition to funding the endowment, part of the gold sale proceeds would also be used to increase the IMF's resources for concessional financing to low-income countries.

Previous top Managing Director Christine Lagarde addresses the Development Committee in April 2014 **Previous bottom** Signage highlights the theme for the Spring Meetings **Far left** David Lipton, First Deputy Managing Director, speaks at a seminar on sovereign debt restructuring in October 2013 **Far right** Members of the press photograph the G20 officials at the 2013 Annual Meetings **Left** Financial Counsellor and Director José Viñals presents the April 2014 Global Financial Stability Report **Right** Economic Counsellor Olivier Blanchard talks to the media about the April 2014 World Economic Outlook



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 \$850 per ounce that was assumed in 2008, when the Board endorsed the revised income model. The actual average sales price was \$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 IMF Executive Board approved in February 2012 the distribution to IMF members of SDR 700 million (about \$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 (about \$978 million)—would be transferred, or otherwise provided, to the PRGT.⁷⁷ This threshold was reached in October 2012, and the distribution was made later that month.

The Executive Board discussed the use of the remaining windfall gold sales profits of SDR 1.75 billion (\$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. As part of a strategy to ensure the longer-term sustainability of the PRGT, Executive Directors approved, in September 2012, the distribution of the remaining windfall gold sales profits, in proportion to members' quota shares. The decision mandated that for the distribution to occur, members must give satisfactory assurances that an amount equivalent to at least 90 percent of the distribution would be made available to the PRGT.

In October 2013, the IMF announced that the required threshold had been reached.⁷⁸ As of April 30, 2014, 155 countries had committed to provide their share of the distribution to the PRGT, for a total of SDR 1,652 million (\$2.56 billion) in additional capacity for concessional financing in low-income countries. Managing Director Christine Lagarde thanked the member countries, noting that their actions had "secured critical resources to provide adequate levels of financial support to the poorest countries for years to come" and praising the "strong and universal commitment of our membership to help the world's poorest countries." The IMF continues to seek contributions from remaining members to maximize concessional financing capacity.

Table 5.1
Budget by major expenditure category, FY2013–17
(Millions of U.S. dollars)

	FY2013		FY2014		FY2015	FY2016	FY2017
	Budget	Outturn	Budget	Outturn	Budget	Budget	Budget
ADMINISTRATIVE EXPENDITURES							
Personnel	835	802	861	820	893	912	931
Travel ¹	125	119	123	114	128	134	128
Buildings and other	181	180	190	195	196	199	202
Contingency reserves	18	—	12	—	7	7	7
TOTAL GROSS BUDGET	1,159	1,102	1,186	1,129	1,224	1,252	1,268
Receipts ²	-161	-154	-179	-160	-197	-197	-198
TOTAL NET BUDGET	997	948	1,007	969	1,027	1,054	1,070
Carry-forward ³	41	—	42	—	42		
TOTAL NET BUDGET INCLUDING CARRY-FORWARD	1,038	948	1,049	969	1,069	1,054	1,070
CAPITAL							
Facilities and information technology	162	89	41	158	52	41	4

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.

Table 5.2**Administrative expenses reported in the financial statements, FY2014**

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

FY2014 NET ADMINISTRATIVE BUDGET OUTTURN	988
Timing differences	
Pension and postemployment benefits costs	327
Capital expenditure—amortization of current and prior years' expenditure	49
Amounts not included in the administrative budget	
Capital expenditure—items expensed immediately in accordance with International Financial Reporting Standards	18
Reimbursement to the General Department (from the Poverty Reduction and Growth Trust, Post-Catastrophe Debt Relief Trust, and Special Drawing Rights Department)	(75)
TOTAL ADMINISTRATIVE EXPENSES REPORTED IN THE AUDITED FINANCIAL STATEMENTS	1,307
MEMORANDUM ITEM:	
Total administrative expenses reported in the audited financial statements (Millions of SDRs)	861

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 FY2014 U.S. dollar/SDR exchange rate for expenditures of about 1.52.

Administrative and capital budgets

In April 2013, in the context of the FY2014–16 medium-term budget, the Executive Board authorized total net administrative expenditures for FY2014 of \$1,007 million, as well as a limit on gross expenditures of \$1,227 million, including up to \$42 million in carry-forward of unspent FY2013 resources for possible spending in FY2014 (Table 5.1).⁷⁹ It also approved capital expenditures of \$41 million for building facilities and information technology capital projects.

The IMF's work during the year continued to be driven by the need to alert the membership to potential risks to the global recovery and to financial stability worldwide. Relative to the prior year, overall spending was unchanged in real terms. The budget envelope continued to be set at a higher level in recognition of additional resources equivalent to \$53 million to meet crisis-related demands.

Actual net administrative expenditures in FY2014 totaled \$988 million, \$19 million below the total net budget. The “underspend” was down significantly from that in the previous year, reflecting more effective utilization of the budget. Capital budget expenditures for facilities and information technology totaled \$144 million, including amounts appropriated in prior years. The largest share of that spending was for the HQ1 renewal program, \$92 million (see Box 5.1). Information technology (IT) spending totaled \$37 million for core infrastructure replacements and upgrades, data management projects, and IT security. Progress continued on two major capital building projects. The Concordia renovation was substantially completed and the building was opened for operation in April 2013. The HQ1 renewal program,

an occupied building renovation, has moved from the design to the construction phase. Completion is expected in 2017.

For financial reporting purposes, the IMF administrative expenditures are accounted for on an accrual basis in accordance with International Financial Reporting Standards (IFRS). Those standards require accounting on an accrual basis and the recording and amortizing of employee benefit costs based on actuarial valuations. Table 5.2 provides a detailed reconciliation between the FY2014 net administrative budget outturn of \$988 million and the IFRS-based administrative expenses of \$1,307 million (SDR 861 million) reported in the IMF's audited financial statements for the year.

In April 2014, the Board approved a budget for FY2015, including net administrative expenditures of \$1,027 million and a limit on gross administrative expenditures of \$1,265 million, including up to \$42 million in carry-forward of unspent FY2014 resources. For the third year in a row, the limit on net administrative expenditures (excluding the carry-forward) remained unchanged in real terms relative to the prior year. The capital budget was set at \$52 million, comprising \$22 million for building facilities and \$30 million for IT projects. Indicative budgets for FY2016 and FY2017 were also presented to the Board.

The FY2015–17 medium-term budget was formulated within the IMF strategic planning framework with an overall envelope and resource allocations that provide for the delivery of the Fund's priorities. The changing needs of the IMF's membership have been met within a flat budget through efficiency measures and better utilization and reallocation of existing resources. In particular,

resources have been freed up through reallocation to cover additional activities in fragile states and the Middle East, enhanced multilateral surveillance work, and strengthened risk management, as well as for additional costs of IT and physical security.

Arrears to the IMF

Overdue financial obligations to the IMF fell from SDR 1,298 million at the end of April 2013 to SDR 1,295.5 million at the end of April 2014 (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 2014, 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 General Resources Account, and the remainder to the Trust Fund and the PRGT. Zimbabwe was the only country with protracted arrears to the PRGT. The general SDR allocation in August 2009 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 removal from the list of PRGT-

eligible countries remain in place as remedial measures related to Zimbabwe's outstanding arrears to the PRGT.

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. EAC members 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 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 2014 EAC members were Jian-Xi Wang (Chair), a

Box 5.1

Building renovation progresses

After years of planning, the older of the IMF's two headquarters buildings (HQ1) in downtown Washington, D.C., started an extensive renovation to replace aging and failing building systems that were nearing the end of their life and in urgent need of replacement or refurbishment. Without replacement, system failure was likely over the next three to five years.

Renovation work began in HQ1 on May 1, 2013, with much of the work during the first year on the lower levels. Construction workers put in over 400,000 person/hours in demolition activities, removing and recycling over 4,000 tons of debris, and installing 680,000 pounds of sheet metal ductwork, 110,000 feet of pipe, and 659,000 feet of electrical wire, in replacing the central mechanical and electrical systems that support the second floor and below.

As of April 2014, progress had been made toward installing a new, flexible, and energy-efficient central plant and creating a

structure that will provide more natural light when these areas are reopened. The public spaces such as the main atrium, gallery, and cafeteria remained closed due to ongoing demolition.

Conducting a major renovation in an occupied building presents challenges that do not exist with traditional construction sites. Procedures were put in place at the onset of the project to protect those who conduct the daily work of the Fund while construction goes on around them.

Renovation work will continue, moving floor by floor up the building as the project progresses. Once renovation work commences on an office floor, the affected building users move temporarily to workspaces in the IMF's other building (HQ2). When work is completed, the renovated building is expected to significantly cut energy bills and help the IMF achieve the highest sustainability standards.

Table 5.3

Arrears to the IMF of countries with obligations overdue by six months or more and by type, as of April 30, 2014
(Millions of SDRs)

	Total	By type		
		General Department (including Structural Adjustment Facility)	Trust Fund	Poverty Reduction and Growth Trust
Somalia	234.6	226.3	8.3	—
Sudan	979.9	898.0	81.8	—
Zimbabwe	81.1	—	—	81.1
Total	1,295.5	1,124.4	90.1	81.1

Source: IMF Finance Department.

certified public accountant and Chairman of Beijing Dalio Public Welfare Foundation; Gonzalo Ramos, Secretary General of the Public Interest Oversight Board; and Daniel Loeto, a chartered accountant and Chief Accountant of the Bank of Botswana.

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 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 Executive Board on the results of the audit and transmits the report issued by the external audit firm, through the Managing Director and the Executive Board, for consideration by the Board of Governors.

The external audit firm is appointed for a term of five years, which may be renewed for up to an additional five years. Deloitte & Touche LLP, currently the IMF's external audit firm, was initially appointed in 2004. Deloitte & Touche issued an unqualified audit opinion on the IMF's financial statements for the financial year ended April 30, 2014. With the prior approval of the Executive Board, the external audit firm can provide additional audit-related services. The fees for such services cannot exceed 33 percent of the value of the five-year audit contract. The provision of non-audit-related services by the external audit firm is prohibited.

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. In line with best practices, OIA reports to IMF management and its activities are overseen by the EAC, thus ensuring its objectivity and independence.

During the year covered by this report, OIA completed audits and advisory reviews in the areas 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.

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 (see the next section, "Risk Management").

The Board is informed of OIA activities twice a year via an activity report that includes information on the OIA's 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 February 2014. 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 OIA recommendations in the first half of the year improved in comparison to the rate for the previous year.

Risk management

During the year, the Advisory Committee on Risk Management continued to support 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 May 2013.

In July 2013, the Board discussed the 2013 Report on Risk Management prepared by the committee, which was informed by the results of a departmental risk survey in which departments were asked to provide their views on the strategic and operational risks faced by the Fund. Executive Directors broadly



Left Managing Director Christine Lagarde presents the findings of the staff survey at a town hall meeting **Right** Staff Association Committee Chair Aissata Sidibé shares staff concerns at a town hall meeting on the HQ1 Renewal project

concluded with the overall risk assessment. A number of Executive Directors noted that future reports could benefit from more analysis of mitigation strategies, including a review of past implementation. They also looked forward to proposals from the Managing Director for strengthening the Fund's risk management framework.

Review of the adequacy of the Fund's precautionary balances

Precautionary balances are one element of the IMF's multilayered framework for managing financial risks, which also includes the strength of the Fund's lending policies and its preferred creditor status. These balances, comprising retained earnings held in the Fund's reserves and the Special Contingent Account, are ultimately available to absorb possible financial losses, thereby helping protect the value of reserve assets that members place with the Fund and underpinning the exchange of international reserve assets through which the Fund provides assistance to countries with financing needs.

In February 2014, the Executive Board conducted a review of the adequacy of the Fund's precautionary balances,⁸⁰ which is normally undertaken every two years under a framework agreed to by the Executive Board in 2010. This framework provides an indicative range, linked to developments in total IMF credit outstanding, that is used to guide decisions on adjusting the target for precautionary balances over time.

Executive Directors generally agreed that the rules-based framework for assessing the adequacy of precautionary balances adopted in 2010 remained broadly appropriate. At the same time, they reiterated the continued importance of judgment and Board

discretion in light of a broad assessment of financial risks facing the Fund.

Executive Directors observed that while the overall balance of risks facing the Fund had remained broadly unchanged since the previous review, some risks had moderated, reflecting small decreases in credit outstanding and the forward-looking credit measure, and the decline in market perceptions of correlated risks. They noted, however, that the Fund still faced large concentrated exposures, mainly to euro area countries, and that this regional concentration was expected to remain high for some time, given the lengthening of the average maturity of Fund credit.

In light of these developments, Executive Directors broadly supported retaining the existing indicative target for precautionary balances of SDR 20 billion. They noted that this target was close to the midpoint of the updated indicative range derived from the framework.

Executive Directors reiterated the importance of maintaining a minimum floor for precautionary balances to protect against an unexpected increase in credit risks, particularly after periods of low credit, and to ensure a sustainable income position. They agreed that this floor should remain at SDR 10 billion for the time being. They noted that this issue should be revisited in the future now that reserves had exceeded the floor for the first time under the framework, and as the longer-term evolution of credit became clearer and the implementation of the Fund's new income model progressed.

Executive Directors noted the projected steady increase in reserve accumulation. They looked forward to discussions of policies that could affect the pace of reserve accumulation.

HUMAN RESOURCES POLICIES AND ORGANIZATION

Human resources

To be effective in the dynamic, integrated global economy, the IMF must maintain a cutting edge in key areas of competence and remain an employer of choice for talented professionals. Agility in dealing with new or unexpected issues, while at the same time ensuring that all employees of the Fund are treated fairly, is essential to its continued success.

In FY2014, the IMF continued its focus on strong recruitment, quickly responded to the results of the 2013 Staff Survey, and developed a new leadership development framework to strengthen people management skills.

Workforce characteristics

External recruitment continued to rise for the third consecutive year, with a 9 percent increase in 2013. This represents a total external hire of 176 staff, mainly among midcareer economists and support staff, with a relatively small number of B-level, or managerial level, hires.

Among the new hires, 93 were economists, about 10 percent more than in 2012. These hires focused on midcareer level, as the Economist Program (EP) remained the same size (29) as in the previous year. In other career streams, hiring at A9–B5 decreased by 4 percent, largely due to fewer B-level hires.

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 58 midcareer economists were recruited in 2013, a 14 percent increase from the previous year. While the majority of midcareer hires were macroeconomists (48), 10 were experts in fiscal policy and the financial sector.

Of specific note this year was the launch of the Externally Financed Appointee Program. This centralized recruitment program will supplement departmental hiring of midcareer economists. The program was developed in response to the interest from member countries in having their public sector officials gain Fund experience, with the cost financed by the member countries. To date, three member countries (Japan, Korea, and Sweden) have committed to participate and six appointees are expected to begin in calendar year 2014.

In 2013, 478 contractual employees were hired, reflecting a slight increase, 2 percent, over 2012. Most contractual hiring—69 percent—was at the professional level and was short term. Consistent with the aim of improving support to economists, 62 research assistants were hired representing 41 percent of all support contractuales.

As of April 30, 2013, the IMF had 2,119 professional and managerial staff and 459 staff at the support level. A list of the institution's senior officers and its organizational chart can be found on pages 73 and 74.

Diversity and inclusion

The IMF makes every effort to ensure that the staff is diverse in terms of geographic region and gender. It also monitors other aspects of diversity, including educational background, and

Box 5.2

Safeguards assessments: Policy and activity

When the IMF provides financing to a member country, a safeguards assessment is carried out to obtain assurances that the member's central bank is able to adequately manage the resources it receives from the IMF and provide reliable information. Safeguards assessments are diagnostic reviews of central banks' governance and control frameworks and complement the IMF's other risk management measures, which include limits on access, conditionality, program design, measures to address misreporting, and postprogram monitoring. The assessments are conducted independent of other IMF activities such as surveillance, program discussions, and technical assistance. As of April 2014, 259 assessments had been completed, and 15 were finalized during the year covered by this report, including one voluntary assessment in the Middle East region conducted at the request of the authorities.

In addition to the assessments, safeguards activities include monitoring of progress in addressing recommendations and other developments in central banks' safeguards frameworks for as long as IMF credit remains outstanding. About 70 central banks are currently subject to safeguards monitoring. Activities during the year also included two seminars on safeguards assessments held for central bankers at the IMF–Middle East Center for Economics and Finance and at the Joint Partnership for Africa. The seminars focused on the safeguards policy and its application, with emphasis on the importance of effective governance and oversight.

The safeguards policy is subject to periodic reviews by the Executive Board; the last review, in 2010, marked the policy's tenth anniversary, and the next review is planned for 2015.

recruits actively from all over the world.⁸¹ Of the 188 member countries at end-April 2014, 143 were represented on the staff. Web Tables 5.1–5.3 show the distribution of the IMF’s staff by geographic region, gender, and country type.

The institution continues to make progress towards its diversity goals, but challenges remain. Hiring of nationals from underrepresented regions reached 49 percent of all external hiring at the A9–B5 level for 2013, the highest since 2009. One-third of the 2013 EP intake were nationals from underrepresented regions. While progress is being made towards diversity by nationality representation, the Fund faces challenges in attracting women economists. While the share of women among total staff hires in Grades A9–B5 was broadly the same, the share of women in the EP dropped from 52 percent to 36 percent.

During the year several measures were also introduced to improve the cultural and demographic inclusiveness of the work environment. A new inclusion index was derived from the Staff Survey results, with measures added to departmental accountability frameworks; cross-cultural competence assessment and training was added to the diversity curriculum. The objective of these measures is to further support diversity of staff and to encourage different perspectives to be presented and given a fair hearing.

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, 2013, the salary structure for management was as follows:

Managing Director	\$482,080
First Managing Director	\$419,190
Deputy Managing Directors	\$399,240

The remuneration of Executive Directors was \$247,280, and the remuneration of Alternate Executive Directors was \$213,910.

Human resources reforms

Staff Survey

The 2013 Staff Survey concluded in early FY2014, with follow-up efforts targeted towards creating a more enabling environment and strengthening people management. Specifically, measures to increase mobility of staff across and within job families were designed and introduced, including the development of a new mobility program for office assistants. Increased offerings and the access to training for staff was undertaken to support career development, with 1,250 new training slots on offer. Also implemented was strengthened guidance to support more

transparent and consistent people management decisions (promotion selection and performance review).

Leadership

To further support the people management focus within the Fund and facilitate a shift towards a more innovative and agile work environment, updated roles and responsibilities and competency profiles for all managerial levels were developed. Implementation of this framework will continue in FY2015 and will be the foundation for development and assessment of all managers.

Client service

An online human resources client service system was introduced in May 2014 with the objective to improve quality and timeliness of service delivery. Service-level agreements were implemented for key transactions, with performance regularly monitored. The result was a 91 percent client satisfaction rate for FY2014.

Extension of term of IMFC Chair

The IMF’s policy advisory committee, the International Monetary and Financial Committee, deliberates on the principal policy issues facing the IMF and the international monetary and financial system. The committee has 24 members, reflecting the composition of the IMF Executive Board. Each member country that appoints, and each group of countries that elects, an Executive Director appoints a member of the committee. The IMFC meets twice a year, at the IMF–World Bank Spring and Annual Meetings.

In December 2013, IMFC members asked Tharman Shanmugaratnam to extend his term as Chairman of the committee by one year upon the conclusion of his term. Minister Tharman, who was selected as Chairman for a term of up to three years, accepted the extension and will remain as Chairman through March 2015. In requesting the extension, the members cited Minister Tharman’s strong leadership as valuable in the committee’s deliberations and the continuity of his leadership in the year ahead as particularly helpful in ensuring that all members’ views are taken into account, including with respect to significant ongoing reforms.

ACCOUNTABILITY

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



Left Deputy Managing Director Naoyuki Shinohara shares his views at a seminar on emerging markets in April 2014
Right Deputy Managing Director Min Zhu has the floor at a seminar on Latin America in October 2013

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

IMF forecasts

In March 2014 the IEO released its evaluation “IMF Forecasts—Process, Quality, and Country Perspectives.” The evaluation found that the processes and methods used to generate short-term forecasts for Article IV consultations and the *World Economic Outlook* are well structured and, in general, appropriately tailored

to country-specific characteristics. By and large, country officials have confidence in the integrity of IMF forecasts. In terms of forecast quality, the evaluation concluded that the accuracy of IMF forecasts was comparable to that of private sector forecasts. There were no significant biases except during certain episodes. Specifically, the evaluation found a tendency for significant overpredictions of GDP growth in the WEO during regional or global recessions as well as during crises in individual countries. It also found that short-term forecasts of GDP growth and inflation made in the context of IMF-supported programs tended to be optimistic in high-profile cases characterized by exceptional access to IMF resources and that at the first program review, forecast biases were typically reduced or reversed.

Box 5.3

In Memoriam: Wabel Abdallah

The IMF community was shocked and saddened by the death in January 2014 of Wabel Abdallah, the IMF's Resident Representative in Afghanistan. Mr. Abdallah was among more than 20 people killed in an attack at a restaurant in Kabul. His death marked the first time the IMF has lost a staff member in this way.

A Lebanese national, Mr. Abdallah was appointed Resident Representative in June 2008. He joined the Fund from the Central Bank of Lebanon in 1993 and held positions in a number of IMF departments, including the Middle East and Central Asia Department, the Statistics Department, and the Human Resources Department. His pre-IMF career was rich

and varied, encompassing positions as a senior lecturer at Columbia University, an economic advisor to Lebanon's mission to the United Nations, and an economic advisor to the governor of the Central Bank of Lebanon.



A staff gathering was held in January to remember Mr. Abdallah, and an In Memoriam page on the IMF's intranet also offered staff an opportunity to share their memories of a cherished colleague.

Based on these findings, the evaluation recommended that the IMF should promote a culture of learning from past forecast performance, provide appropriate guidance to economists on best practices in forecasting for the short and medium term, and enhance transparency by describing its forecasting process to the public and by making historical forecasts more easily accessible.

During their discussion of the evaluation in February 2014, Executive Directors expressed broad support for all of these recommendations.

IEO work program

In response to a recommendation in the second external evaluation of the IEO (see discussion later in this section), the IEO prepared an evaluation of recurring issues from a decade of evaluations that was discussed by the Executive Board in mid-2014.

Work on evaluations of the IMF's response to the global financial crisis, statistics at the IMF, and IMF self-evaluation systems, is ongoing.

The IEO launched a new initiative to revisit past evaluations 5 to 10 years after they were first issued. During the year covered by this report, one report was completed revisiting the 2005 evaluation of IMF technical assistance. All completed evaluations (including information on ongoing evaluations, issues papers, IEO Annual Reports, and other documentation) are available on the IEO website.⁸²

Implementation of Board-endorsed IEO recommendations

Soon after the Executive Board discussion of an evaluation, IMF management presents to the Board a forward-looking implemen-

tation plan for Board-endorsed IEO recommendations. These management implementation plans aim to ensure systematic follow-up and monitoring of the implementation of Board-endorsed IEO recommendations.

In June 2013, the Executive Board discussed the management implementation plan arising from the IEO evaluation of the role of the IMF as trusted advisor.⁸³ In its report, which was discussed by the Board in February 2013, the IEO had evaluated in what circumstances the Fund was viewed as a trusted advisor to its member countries and made recommendations aimed at addressing the key challenges identified by the evaluation. The Executive Board agreed that the proposals contained within the implementation plan fulfilled the framework's requirement.

Follow-up to the second external evaluation of the IEO

The Executive Board launched a second external evaluation of the IEO in August 2012.⁸⁴ When the Board discussed the evaluation report in March 2013, Executive Directors endorsed many of the external panel's recommendations for further enhancing the IEO's effectiveness.

In February 2014, the Board approved proposals to implement these recommendations, including steps to provide a more accurate recording of the outcome of Board discussion of IEO reports, increase interactions between the IEO and the International Monetary and Financial Committee during the Spring and Annual Meetings, and strengthen monitoring of the follow-up on IEO recommendations endorsed by the Board.

Left Managing Director Christine Lagarde meets with Kenyan parliamentarians in Nairobi, Kenya, in January 2014 **Right** Deputy Managing Director Nemat Shafik moderates a panel at a staff event for International Women's Day in March 2014



Transparency

The IMF's transparency policy, enacted in 1999 and most recently revised in June 2013, 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."⁸⁵ 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 2013 update, published in October 2013, is available on the IMF's website.⁸⁶

Review of transparency policy

In February–March 2013, the IMF conducted public consultation on views of its transparency policy, in preparation for the institution's subsequent review of the policy. 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.

At two meetings in June 2013, the Executive Board conducted a review of the transparency policy, based on an IMF staff paper.⁸⁷ Executive Directors noted that two decades of reform had transformed the Fund's transparency and that the Fund had been able to contribute to public debates during the global financial crisis through open discussion of risks and policy options and to respond to heightened public scrutiny of its increased financing activities. At the same time, the transparency policy had given members comfort to continue publishing country reports, with the assurance that the most sensitive information would be protected. It was observed that the Fund was now broadly at par with other institutions with similar mandates as regards the amount and types of information that it publishes. Notwithstanding this progress, Executive Directors agreed that there was room to enhance transparency to further improve the effectiveness of Fund surveillance and policy advice and enhance its legitimacy with members. A number of specific areas were identified:

Increasing publication rates and reducing lags. Executive Directors broadly supported the staff's proposal to extend a stronger publication regime to all staff reports on the use of Fund resources and policy support instruments as a way to strengthen the Fund's accountability to its shareholders. Most Executive Directors also agreed with the proposals to encourage faster release of information—including defining prompt publication as being within 14 days of Board consideration, issuing factual statements in case of delayed publication, and introducing lower-profile publication

for reports published more than 90 days after Board consideration. Executive Directors took note of the staff's clarification that defining prompt publication and shortening the normal period for deletion requests would not establish a binding deadline.

Clarifying external communication. Executive Directors agreed to streamline external communication products to reduce the risk of inconsistent messages. They supported the adoption of a single term "press release" for all external communication products and the discontinuation of the term "public information notice."

Better explaining the Fund's rules on confidentiality. Executive Directors considered how best to reconcile the Fund's role as a trusted advisor to individual members and its function as global watchdog. In this context, they supported the staff's proposals to encourage a common understanding of the Fund's rules on confidentiality between staff and members, including through clearer staff guidance; clarifying confidentiality rules at the start of each mission, including when confidential information would need to be disclosed to the Executive Board; and strengthening departmental review to avoid leakage of confidential information.

Monitoring evenhandedness. Executive Directors supported the proposal to strengthen monitoring in this area and urged the staff to continue to explore ways to reinforce candor and evenhandedness.

Adapting the transparency policy to the new surveillance framework. Executive Directors broadly agreed on the need to adapt the transparency policy to recent surveillance reforms. They agreed that the introduction of a publication regime for a new category of multicountry documents was a good way to ensure that the Fund publishes candid multilateral surveillance, while respecting members' needs concerning confidentiality. Executive Directors generally saw the need to adapt the modification rules for Article IV staff reports to take into account the implications of the Integrated Surveillance Decision.

Facilitating public access to the Fund's archives. Executive Directors welcomed the progress on implementing the 2009 reforms to the archives policy and saw a case for further efforts to digitize other documentary material and to streamline procedures for declassifying these materials. Most Executive Directors also saw scope for reducing the lags for public access to Executive Board minutes from five to three years. A significant minority of Executive Directors favored retaining the existing lags in order to strike a balance between informing the public about the Board's views and maintaining the candor of Board discussions. (The lag time was subsequently reduced to three years; see the next section.)

The transparency policy is expected to be reviewed next no later than 2018.

Public access to minutes of Executive Board meetings

After further discussion, the Executive Board agreed in March 2014 to reduce the lag for public access to minutes of most Board meetings from five to three years,⁸⁸ while retaining the five-year lag only for minutes of discussions that involve use of Fund resources or a Policy Support Instrument. This was the fourth such reduction since 1996. Reduction of the lag for public access to Board minutes had been frequently mentioned during the consultations for the review of the transparency policy, including by civil society organizations. The Board considered that the decision strikes the right balance between informing the public about the Board's views, maintaining the candor of Board discussions, and ensuring that access to Board meeting minutes does not jeopardize ongoing Fund operations. To allow time for the Fund and members to implement the new rules, the Board agreed to a transition period of six months; the new rules apply to minutes of all Board meetings taking place on or after August 27, 2014.

Review of communications strategy

Independent of its reviews of the transparency policy, the Executive Board has conducted periodic reviews of the communications strategy since 1998. Most recently, in February 2014 the Executive Board was updated on implementation of the strategy, including the main developments in Fund communications since 2007 and the key communications challenges in the period ahead. The communications strategy was subsequently reviewed in July 2014.

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.

The IMF's Communications Department has primary responsibility for conducting the IMF's outreach activities and its engagement with external stakeholders. 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.

Outreach by IMF management and senior staff

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 management 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 regions, meeting with authorities and key stakeholders in member countries and taking advantage of numerous opportunities to further the IMF's outreach objectives.

Outreach to youth, labor unions, and parliamentarians

The IMF continued to place emphasis on its outreach to civil society organizations, youth, trade unions, and parliamentarians. It proactively engages with members of parliament, a group that plays an important role in their countries' economic decision-making process, through already-established "umbrella" parliamentary organizations, such as the Parliamentary Network on the World Bank and International Monetary Fund, Commonwealth Parliamentary Association, Global Organization of Parliamentarians Against Corruption, and North Atlantic Treaty Organization (NATO) Parliamentary Assembly. At the country level, the IMF also reaches out to parliamentarians on the committees that have oversight of economic issues.

The Fund and the World Bank support the Parliamentary Network, whose mission is to provide a platform for parliamentarians around the globe to advocate for increased accountability and transparency in international financial institutions and multilateral development financing. Through the network, the IMF has held specialized conferences, such as one in Rwanda in 2012 on private sector development. It also holds workshops for members of parliament during the Spring and Annual Meetings to provide an overview of the main economic challenges as well as of latest research on topics that the Fund is developing. In addition, the Fund organizes country- and issue-specific outreach to discuss specific economic issues that members of parliament will legislate on in their national parliaments.

In its seventh year, the IMF Fellowship Program for civil society organizations sponsored the participation of 54 members of such organizations and youth from 43 countries in the IMF–World

Box 5.4**Regional Office for Asia and the Pacific initiatives to strengthen policy dialogue**

Various high-level conferences organized by the Regional Office for Asia and the Pacific (OAP) in cooperation with other institutions brought together senior policy makers and leading academics during the year to discuss issues relevant to the region. A conference in Bangkok—coorganized by OAP and the Bank of Thailand—focused on challenges relating to the interaction of monetary, fiscal, and macro-prudential policies. A seminar jointly organized in Tokyo by Hitotsubashi University and OAP discussed

options for emerging markets in dealing with unconventional monetary policies implemented by systemic central banks, including the implications of exit. A conference held in Tokyo—jointly organized by the Financial Services Agency of Japan, the Asian Development Bank Institute, and OAP—discussed key challenges faced by financial authorities in maintaining financial stability while ensuring availability of long-term finance and fostering a competitive financial industry.

Bank Spring and Annual Meetings. Civil society was also invited to provide input—through public consultations—on issues such as the revised draft of the fiscal transparency code, economic spillovers in international taxation, and the 2014 triennial surveillance review.

In recent years, the IMF has also stepped up its engagement with youth worldwide with the goal of exchanging ideas about solutions to the challenges young people face, in particular unemployment. The Fund continued to collaborate with the International Labour Organization (ILO), with a focus on three areas: the Social Protection Floor initiative, joint research and capacity building, and social dialogue. In addition to country-level engagement by IMF staff, the Managing Director met several times with the leadership of the International Trade Union Confederation. The IMF also engaged with labor organizations and civil society organizations on its work on Fiscal Policy and Income Inequality and the Fund's growth and job agenda.

The IMF continued to help the community in Washington, D.C. and around the world by providing donations for humanitarian relief, volunteering, and grants to support local community and global initiatives. A cornerstone of these efforts is the Helping Hands Campaign, through which Fund staff members make donations to support organizations serving needy communities, which the IMF matches at 50 percent.

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 5.4).

Regional Office in Paris and Brussels

The IMF Europe Office, located in Paris and Brussels, serves as liaison to European Union institutions and member states, as well as international organizations and civil society in Europe. The office engages with institutions such as the European Commission, the European Central Bank, the European Stability Mechanism, the European Parliament, the Economic and Financial Committee, and the Eurogroup Working Group, on euro area and EU policies as well as EU-IMF country programs. It also represents the IMF at the Organisation for Economic Co-operation and Development. More broadly, it fosters the dialogue on global economic issues with EU institutions, international organizations, and governments and civil society in Europe and meets frequently with representatives from industry associations, unions, academia, and the financial sector. It also supports the IMF's operations in Europe, including in economic surveillance, IMF-supported programs, and technical assistance, and helps to coordinate communication and outreach activities across the region.