GOVERNANCE, FINANCES, AND ACCOUNTABILITY

QUOTA AND GOVERNANCE REFORM

Quota subscriptions (see Web Box 5.1) are a major source of the IMF’s financial resources. The IMF’s 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 its own ability to help meet those needs, and to modify members’ quotas to reflect changes in their relative positions in the world economy, thus ensuring that the decision-making mechanism of the international financial system evolves with the changing structure of the global economy. The most recent of these reviews, the Fourteenth General Review of Quotas, was concluded in December 2010.

Progress on the 2010 quota and governance reform

In December 2010, the Board of Governors approved a quota and governance reform in connection with the completion of the Fourteenth General Review and a proposed amendment of the IMF’s Articles of Agreement on the reform of the Executive Board. The reform package, once accepted by the membership, will double quotas to approximately SDR 476.8 billion (about US$739.0 billion), shift more than 6 percent of quota shares to dynamic emerging market and developing economies and from overrepresented to underrepresented countries (exceeding the 5 percent target set by the IMFC in 2009), and protect the quota shares and voting power of the poorest members. With this shift, Brazil and India will be among the Fund’s 10 largest shareholders, which would also include the United States, Japan, China, France, Germany, Italy, the Russian Federation, and the United Kingdom. In addition, the 2010 reform will lead to an all-elected Executive Board, the combined representation of advanced European economies on the Board will decrease by two Executive Director positions, and there will be further scope for appointing second Alternate Executive Directors to enhance representation of multicountry constituencies. A comprehensive review of the quota formula will be completed by January 2013, and completion of the Fifteenth General Review of Quotas will be moved up to January 2014. A comparative table of quota shares before and after implementation of the reform is available on the IMF’s website.\(^54\)

For the quota increases to become effective, two conditions must be met: (1) the proposed amendment to reform the Executive Board must enter into force, which requires acceptance of the amendment by three-fifths of members having 85 percent of the Fund’s total voting power, and (2) members holding not less than 70 percent of total quotas as of November 5, 2010, must consent to the increase. When it approved the reform, the Executive Board endorsed a timeline that called for the quota increase and realignments and the proposed amendment on Executive Board reform to take effect by the 2012 Annual Meetings.
In December 2011 and March 2012, the Executive Board reviewed progress toward implementation of the 2010 quota reform package. Executive Directors were informed at both reviews that the necessary legal thresholds required for effectiveness of the reforms had not yet been reached. That remained the case at the end of FY2012: 100 members having 57.93 percent of quotas as of November 5, 2010, had consented to their proposed quota increases under the Fourteenth General Review; 75 members having 46.85 percent of the total voting power had accepted the proposed amendment to reform the Executive Board. During the progress reviews, the Managing Director urged the remaining countries to complete the necessary legislative steps and other legal measures quickly to implement this important agreement within the agreed-upon timeframe.

Review of the quota formula

As noted previously, the 2010 quota and governance reform called for a comprehensive review of the quota formula by January 2013 and completion of the Fifteenth General Review of Quotas by January 2014. As a first step toward these goals, in March 2012, the Executive Board initiated formal discussions on the review of the formula for determining members’ quotas.55

Executive Directors stressed the importance of agreeing on a quota formula that better reflects members’ relative positions in the global economy for future discussions on the Fifteenth General Review. Most Executive Directors agreed that the principles that underpinned the 2008 reform of the quota formula remain broadly relevant: that the formula should be simple and transparent, be consistent with the multiple roles of quotas, produce results that are broadly acceptable to the membership, and be feasible to implement statistically based on timely, high-quality, and widely available data.

Executive Directors generally concurred that GDP is the most comprehensive measure of economic size and should continue to have the largest weight in the quota formula.56 A range of views were expressed on the relative importance of market versus purchasing power parity GDP in the GDP blend variable. Many Executive Directors noted that openness is a measure of members’ integration into the world economy and should remain an important variable in the quota formula. Many of these Executive Directors saw merit in further exploring options for better capturing financial openness.

Executive Directors took note of the IMF staff’s finding that there is little empirical evidence of a relationship between variability of current receipts and net capital flows and potential demand for Fund resources. Most Executive Directors considered that reserves remain an important indicator of a member’s financial strength and ability to contribute to the Fund’s finances. Many Executive Directors supported, or could support, further work on the scope for capturing members’ financial contributions to the Fund in the quota formula, either instead of, or as a complement to, reserves. Other Executive Directors viewed the inclusion of voluntary financial contributions in the formula as inconsistent with the Fund’s role as a quota-based institution.

Recognizing the difficult compromise in 2008 on the use of compression57 to moderate the role of size in the formula and better protect the voice of smaller members and low-income countries, many Executive Directors supported retaining the compression factor.

RESOURCES, INCOME, AND BUDGET

Borrowing agreements

New Arrangements to Borrow

To supplement its quota resources, the IMF has two standing sets of credit lines, the General Arrangements to Borrow (established in 1962) and the New Arrangements to Borrow (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 was expanded and enlarged with new participants in FY2011 to increase available resources for providing financing. In FY2012, the National Bank of Poland joined the NAB, with a commitment of SDR 2.5 billion (US$3.9 billion). Total resources available under the NAB as of April 30, 2012, amounted to nearly SDR 370 billion (US$574 billion).

After the expansion was ratified by NAB participants, the expanded NAB became effective in March 2011, and it was activated for the first time in April 2011, for the maximum six-month period permitted.58 With that activation approaching its termination date, the Board approved another six-month activation period in September 2011, with the activation to begin October 1, 2011, and subsequently approved another six-month activation period beginning April 1, 2012. Between the initial activation and April 30, 2012, SDR 53 billion (US$82.15 billion) was committed under Fund-supported programs, and actual drawings under the NAB, including bilateral claims folded in, amounted to SDR 39.8 billion (US$61.69 billion).

Proposed rollback of the NAB

In the context of the agreement in December 2010 to double the IMF’s quota resources under the Fourteenth General Review, it was agreed that there should be a corresponding rollback of the NAB, resulting in a shift in the composition of the Fund’s lending resources from the NAB to quotas, while not reducing the overall lending capacity. The rollback required Executive Board approval, which was given in December 2011; that approval included necessary technical decisions for implementing the
rollback. The rollback now requires the consent of participants representing 85 percent of total credit arrangements under the NAB, including each participant whose credit arrangement is being reduced. Once the required consents are obtained, the rollback would become effective for each NAB participant on the same day as the quota increase for the relevant member under the Fourteenth General Review.

**Bilateral agreements**

As part of an international effort to strengthen the adequacy of the global resources available to prevent and fight crises and to promote global economic stability, a number of IMF member countries, including those in the euro area, pledged additional support in FY2012 via bilateral loans and note purchase agreements. Euro area members pledged €150 billion (about US$200 billion) in December 2011; additional pledges in April 2012 from Japan (US$60 billion), the Republic of Korea (US$15 billion), Saudi Arabia (US$15 billion), the United Kingdom (US$15 billion), Sweden (at least US$10 billion), Switzerland (US$10 billion), Norway (SDR 6 billion, about US$9.3 billion), Poland (€6.27 billion, about US$8 billion), Australia (US$7 billion), Denmark's Nationalbank (€5.3 billion, about US$7 billion), Singapore (US$4 billion), and the Czech Republic (€1.5 billion, about US$2 billion), along with pledges from China, Russia, Brazil, India, Indonesia, Malaysia, Thailand, and other countries, brought the total to US$430 billion by the end of the financial year. Should it become necessary to use these resources, once they are available, adequate risk mitigation features and adequate burden sharing among official creditors would apply, as approved by the Executive Board.

**Agreements in support of financing for low-income countries**

In 2009, following a reform of its concessional financing facilities, the IMF launched a fundraising campaign seeking additional bilateral loan resources and subsidy contributions to support concessional financing under the PRGT. Loan agreements or note purchase agreements with 12 members were signed in FY2010 and FY2011. In FY2012, the IMF signed an additional bilateral loan agreement with the Saudi Arabian Monetary Authority to provide SDR 500 million (US$775 million), bringing total additional resources secured for concessional financing to SDR 9.46 billion as of the close of FY2012.

**Income, charges, remuneration, and burden sharing**

**Review of the Fund’s charges and maturities**

**Income**

Since its inception, the IMF has relied primarily on its lending activities to fund its administrative expenses. A reform of the Fund’s income model approved by the Board of Governors in May 2008 allows the IMF to diversify its sources of income through the establishment of an endowment funded within the Investment Account with the profits from a limited sale of the Fund’s gold holdings (see “Gold Sales” later in the chapter), a broadening of the IMF’s investment authority to enhance returns on investments, and resumption of the practice of reimbursing the Fund for the cost of administering the PRGT.

Broadening the Fund’s investment authority required an amendment of the Articles of Agreement, and in February 2011, the amendment became effective, following ratification by the membership with the required majorities. The amendment provides authority to expand the range of instruments in which the IMF may invest, in accordance with rules and regulations to be adopted by the Executive Board. Currencies in an amount equivalent to the gold sale profits of SDR 6.85 billion were transferred from the General Resources Account to the Investment Account in March 2011 and invested. The endowment envisioned in the IMF’s revised income model is expected to be established following adoption by the Executive Board of new rules and regulations for the expanded investment authority authorizing such an endowment.

**Charges**

The main sources of IMF income continue to be its financing activities and investments. As noted in Chapter 3, the basic rate of charge (the interest rate on IMF financing) comprises the SDR interest rate plus a margin expressed in basis points. For FY2013 and FY2014, the Executive Board agreed to keep the margin for the rate of charge unchanged from FY2012, at 100 basis points. The margin was adopted under a new rule for setting the basic rate of charge adopted by the Executive Board in December 2011. The new rule, effective for FY2013 onward, is an important step in fully implementing the revised 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. Consistent with the Board-endorsed principle that the margin should be stable and predictable, the margin is set for a period of two financial years starting with FY2013–14.

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 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 twelve-month period. Commitment fees are levied at 15 basis points on amounts available for drawing up to 200 percent of a member’s 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 more than 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, nor 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.

In 2009, the Executive Board agreed to boost the IMF’s financing capacity, via borrowings, as part of its near-term response to the global financial crisis. As of April 30, 2012, the IMF had SDR 40.05 billion in borrowings outstanding under bilateral loans and note purchase agreements and under the enlarged and expanded NAB (see also “Borrowing Agreements” earlier in the chapter).

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 FY2012, the adjustments for unpaid quarterly interest charges averaged less than 1 basis point, reflecting the rise in IMF credit outstanding owing to the effects of the global crisis on members and a similar increase in member reserve tranche positions. The adjusted rates of charge and remuneration averaged 1.30 percent and 0.30 percent, respectively, in FY2012.

Net income

The IMF had net income in FY2012 of SDR 1.5 billion, reflecting primarily income from the high levels of financing activity. Investment income was SDR 169 million, representing returns net of fees of 126 basis points.

Gold sales

As noted earlier in the chapter, the revised 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 Fund’s gold holdings, with the objective of investing these resources and generating 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 sale 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 assumed at the time the revised income model was endorsed. Funding the endowment with gold profits at the level assumed at that time, and increasing resources for concessional financing to the levels agreed upon in July 2009, would have required an average sales price of US$935 per ounce. The actual average sales price was US$1,144 per ounce, resulting in additional “windfall” profits from the gold sales.

Use of gold sale profits

In a preliminary discussion on the use of the gold sale profits in FY2011, the Executive Board agreed that at least SDR 4.4 billion (US$6.8 billion) of the profits would be used to fund the endowment within the IMF’s Investment Account, as mentioned earlier. Executive Directors also affirmed their support for a strategy to use part of the profits to generate SDR 0.5–0.6 billion, in end-2008 net present value terms, in resources for subsidies for the PRGT. For this purpose, in February 2012, the Board approved a distribution to all IMF members of SDR 0.7 billion (US$1.1 billion) in reserves attributed to a portion of the windfall profits from the gold sales (see “Concessional Financing” in Chapter 3), with the expectation that the recipient member countries would contribute the distributed resources to the PRGT.

In September 2011, the Executive Board held a follow-up discussion focused on options for using the remaining windfall profits of SDR 1.75 billion (US$2.7 billion), which had been placed in the general reserve. Many Executive Directors continued to support using resources linked to the remaining gold windfall profits as part of a strategy to assist low-income countries. In particular, many were in favor of, or open to, using these resources as part of a strategy to bolster the PRGT’s capacity to provide concessional assistance to low-income countries. Many Executive Directors supported, or were willing to consider, counting the remaining windfall profits toward the Fund’s precautionary balances, in light of the Fund’s elevated
Executive Directors recognized that choosing among these main options involved trade-offs in financial policy implications. Some could support a combination of options, though such an approach would limit progress toward each individual objective. Given the lack of a consensus at the time of the discussion, most Executive Directors were willing to support a sequenced approach, under which the remaining windfall would remain in the Fund’s general reserve and would continue to be invested on an interim basis in the Investment Account, but not be counted toward precautionary balances, on the understanding that the Board would revisit the ultimate use of the windfall profits in a year’s time. This approach would allow time for greater clarity to emerge regarding the global outlook, the Fund’s income position and credit risks, and the evolution of demand for concessional financing. A number of Executive Directors would have preferred to take a decision on the use of the windfall without further delay.

Executive Directors will continue to explore options on how to use the remaining windfall profits. It was decided that in the interim, the windfall profits would remain in the Investment Account and be invested in short-term deposits.

### Administrative and capital budgets

In April 2011, in the context of the FY2012–14 medium-term budget, the Executive Board authorized total net administrative expenditures for FY2012 of US$985 million as well as a limit on gross expenditures of US$1,123 million (see Table 5.1). In addition, the Board approved up to US$34 million in carry-forward of unspent FY2011 resources. It also approved capital expenditures of US$162 million, the bulk of which were for renovations of the Concordia building and to start detailed planning for the renovation of the aging main headquarters building (see Box 5.1).

The IMF’s work during FY2012 continued to be affected by the ongoing global crisis, and the approved budget aimed to provide sufficient resources to allow the organization to meet the associated needs of the membership. Relative to the previous financial year, which represented the final year of the Fund’s three-year restructuring and downsizing effort, the budget was increased by 3 percent in real terms to fund changes in the Fund’s core work that will be sustained well beyond the current crisis, for example, work on crisis prevention, cross-country analysis, and financial sector surveillance. Within the authorized limit, the FY2012–14 medium-term budget also included US$53 million in crisis-related temporary expenditures, which in FY2011 had been financed from unspent resources carried forward from FY2010 and authorized for spending in FY2011.

### Box 5.1 Building renovations

The IMF’s main capital expenditures over the medium term will be on repairs and renovation of the main headquarters (HQ1) and Concordia buildings. Following several consultations with the Committee on the Budget about renovation options for both buildings, the Executive Board approved funding for the projects, as well as project-specific governance and financial control frameworks (over and above the Fund’s standard governance and control measures) that include project review teams, and in the case of HQ1, an external peer reviewer. Both of these projects were approved by the Executive Board in the context of the FY2012–14 medium-term budget.

**HQ1.** Studies culminating in FY2011 revealed that most of the building and its major systems, almost 40 years old, have exceeded or are reaching the end of their useful lives, and substantial investments are required to replace a number of key building systems to ensure safety, energy efficiency, and more rational use of space. After consideration of a number of alternative approaches, the least costly approach—renovating two floors at a time—was approved, despite its greater inconvenience to the IMF staff. In FY2012, management approved the architect’s conceptual design for the renovation, which is expected to meet the IMF’s business requirements and place the building in good operational condition for two decades. The repairs and renovation will be carried out over four years beginning in 2013.

**Concordia facility.** In accordance with the approach recommended by the IMF staff and approved in FY2011, renovations began in FY2012 on the 46-year-old Concordia building, to address structural and systems issues and bring the building up to modern standards, and the building is projected to reopen in spring 2013. The 81-year-old Bond building was put on the market and competitively sold in January 2012 for about US$22 million; the net proceeds from the sale were credited to the General Resources Account. The two buildings were part of the Concordia extended-stay facility, used primarily to house students attending courses at the former IMF Institute (now part of the Institute for Capacity Development; see Chapter 4).
Table 5.1
Budget by major expenditure category, FY2011–15
(Millions of U.S. dollars)

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Administrative</td>
<td></td>
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<td></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Personnel</td>
<td>739</td>
<td>757</td>
<td>820</td>
<td>799</td>
<td>836</td>
<td>847</td>
<td>854</td>
<td></td>
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<tr>
<td>Travel</td>
<td>104</td>
<td>94</td>
<td>112</td>
<td>105</td>
<td>118</td>
<td>121</td>
<td>122</td>
<td></td>
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<tr>
<td>Buildings and other</td>
<td>169</td>
<td>169</td>
<td>181</td>
<td>178</td>
<td>181</td>
<td>180</td>
<td>182</td>
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<tr>
<td>Annual Meetings</td>
<td>—</td>
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<td>—</td>
<td>6</td>
<td>—</td>
<td>—</td>
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<tr>
<td>Contingency reserves</td>
<td>—</td>
<td>—</td>
<td>11</td>
<td>—</td>
<td>17</td>
<td>17</td>
<td>13</td>
<td></td>
<td></td>
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<tr>
<td>Total gross budget</td>
<td>1,013</td>
<td>1,021</td>
<td>1,123</td>
<td>1,082</td>
<td>1,159</td>
<td>1,164</td>
<td>1,171</td>
<td></td>
<td></td>
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<tr>
<td>Receipts¹</td>
<td>-122</td>
<td>-104</td>
<td>-138</td>
<td>-136</td>
<td>-161</td>
<td>-168</td>
<td>-169</td>
<td></td>
<td></td>
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<tr>
<td>Total net budget</td>
<td>891</td>
<td>917</td>
<td>985</td>
<td>947</td>
<td>997</td>
<td>997</td>
<td>1,002</td>
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<tr>
<td>Carry-forward²</td>
<td>62</td>
<td>. .</td>
<td>34</td>
<td>. .</td>
<td>41</td>
<td></td>
<td></td>
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<tr>
<td>Total net budget including carry-forward</td>
<td>953</td>
<td>917</td>
<td>1,019</td>
<td>947</td>
<td>1,038</td>
<td>997</td>
<td>1,002</td>
<td></td>
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<tr>
<td>Capital</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Facilities and information technology</td>
<td>48</td>
<td>54</td>
<td>162</td>
<td>44</td>
<td>388</td>
<td>35</td>
<td>35</td>
<td></td>
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</tr>
</tbody>
</table>

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

¹ Includes donor-financed activities, cost-sharing arrangements with the World Bank, sales of publications, parking, and other miscellaneous revenue.
² Resources carried forward from the previous year under established rules.

Actual net administrative expenditures in FY2012 amounted to US$947 million, US$38 million below the authorized level, mainly as a result of lower-than-planned expenses for personnel. New staffing positions that were authorized as part of the FY2012 budget were filled with some lags. Actual spending on capital information technology (IT) and facilities was largely as planned. Capital budget appropriations are approved for a period of three years, with proportionally lower spending typically in the first year, as most projects span a longer period. IT investments focused on improving information and data management, IT security, operational efficiencies, and replacing technology that was outdated or no longer supported.

For financial-reporting purposes, the IMF’s administrative expenses are accounted for in accordance with International Financial Reporting Standards 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 FY2012 net administrative budget outturn of US$947 million and the International Financial Reporting Standards–based administrative expenses of SDR 613 million (US$948 million) reported in the IMF’s audited financial statements for the year.

In April 2012, the Executive Board approved a budget for FY2013, including net administrative expenditures of US$997 million and a limit on gross administrative expenditures of US$1,159 million, as well as a US$41 million in carry-forward of unspent FY2012 resources. The limit on net administrative expenditures for FY2013 remained unchanged in real terms relative to that in the previous year. The capital budget was set at US$388 million to finance necessary investments in facilities and IT. The Executive Board also endorsed an indicative budget for FY2014–15.

The FY2013–15 medium-term budget aims to strike a balance between continued pressures on the IMF related to its active role in the global effort to restore financial stability and the desire to preserve the gains from the completed restructuring. The budget preserves the level of temporary crisis-related resources approved in FY2012. At the same time, and to ensure that resources are not diverted from nonsystemic surveillance cases, other new demands are being met through a combination of reallocation measures involving streamlining and refocusing selected multilateral surveillance products (both focus and frequency) and other efficiency measures (for example, the merger of two departments; see “Building Capacity in Member Countries” in Chapter 4).
Table 5.2
Administrative expenses reported in the financial statements
(Millions of U.S. dollars, unless otherwise indicated)

<table>
<thead>
<tr>
<th>FY2012 NET ADMINISTRATIVE BUDGET OUTTURN</th>
<th>947</th>
</tr>
</thead>
<tbody>
<tr>
<td>Timing differences</td>
<td></td>
</tr>
<tr>
<td>Pension and postemployment benefits costs</td>
<td>−28</td>
</tr>
<tr>
<td>Capital expenditure—amortization of current and prior years’ expenditure</td>
<td>46</td>
</tr>
<tr>
<td>Amounts not included in the administrative budget</td>
<td></td>
</tr>
<tr>
<td>Capital expenditure—items expensed immediately in accordance with International Financial Reporting Standards</td>
<td>7</td>
</tr>
<tr>
<td>Gain on sale of fixed assets</td>
<td>−20</td>
</tr>
<tr>
<td>Reimbursement to the General Department (from the Post-Catastrophe Debt Relief Trust and Special Drawing Rights Department)</td>
<td>−4</td>
</tr>
<tr>
<td>TOTAL ADMINISTRATIVE EXPENSES REPORTED IN THE AUDITED FINANCIAL STATEMENTS</td>
<td>948</td>
</tr>
</tbody>
</table>

MEMORANDUM ITEM
Total administrative expenses reported in the audited financial statements (millions of SDRs) 613

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 FY2012 U.S. dollar/SDr exchange rate for expenditures of about 1.55.

Table 5.3
Arrears to the IMF of countries with obligations overdue by six months or more and by type
(Millions of SDRs; as of April 30, 2012)

<table>
<thead>
<tr>
<th></th>
<th>General Department (including Structural Adjustment Facility)</th>
<th>Trust Fund</th>
<th>Poverty Reduction and Growth Trust</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>1,301.2</td>
<td>89.4</td>
<td>85.9</td>
</tr>
<tr>
<td>Somalia</td>
<td>232.8</td>
<td>224.6</td>
<td>8.2</td>
</tr>
<tr>
<td>Sudan</td>
<td>982.6</td>
<td>901.4</td>
<td>81.2</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>85.9</td>
<td>—</td>
<td>85.9</td>
</tr>
</tbody>
</table>

Source: IMF Finance Department.

Arrears to the IMF
Overdue financial obligations to the IMF fell from SDR 1,305 million at end-April 2011 to SDR 1,301 million at end-April 2012 (Table 5.3). Sudan accounted for 75.5 percent of remaining arrears, and Somalia and Zimbabwe for 17.9 and 6.6 percent, respectively. At end-April 2012, 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 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 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 April 2012, the Executive Board decided to continue the Fund’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 Fund’s By-Laws, exercises general oversight over the annual audit.

External Audit Committee
The EAC has three members, 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 Fund. 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 conduct a midyear review, in June after the completion of the audit, and in July to report to the Executive Board. The IMF staff and the external auditors consult with EAC members throughout the year. The 2012 EAC members were Arfan Ayass, Amelia Cabal (chair), 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 its financial statements; 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 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, 2012.

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 Fund’s risk management, control, and governance processes. The OIA’s audit coverage includes Fund staff, and, since 2011, the Executive Board, offices of Executive Directors, and the Independent Evaluation Office and its staff.

The OIA conducted 16 audits and reviews in FY2012 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 Fund’s overall goals. In addition, the OIA conducted five advisory and special reviews to help in streamlining business processes to facilitate the implementation of internal development projects, and to provide input and coordination support for special reviews of the Fund. It completed two investigations that started in FY2011.

Separate from its internal audit function, the OIA also serves as Secretariat to the Advisory Committee on Risk Management. In this capacity, the OIA coordinates production of an annual risk management report to the Board. OIA also provided technical and logistical assistance in FY2012 to the external panel convened to review the Fund’s risk management framework (see the next subsection, “Risk Management”).

In line with best practices, the OIA reports to IMF management and to the External Audit Committee, thus ensuring its objectivity and independence. The Executive 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 final informal Board briefing on these matters for FY2012 took place in January 2012. No significant weaknesses in the Fund’s internal control structure and financial statements were identified, while the closure level for recommendations in FY2012 lagged behind that for FY2011.

Risk management

Efforts continued in FY2012 to strengthen the IMF’s risk management framework. The Advisory Committee on Risk Management provides a cross-departmental forum for discussing important incidents and risks. As noted in the previous subsection, it prepares annually a risk management report discussing key risks facing the Fund and informally briefs the Board on risk management issues. In June 2011, the Executive Board discussed the 2011 Report on Risk Management. Noting a shift in the IMF’s risk profile against the backdrop of a multispeed global recovery, Executive Directors broadly concurred with the assessment of the main risks presented in the report and the proposed mitigation measures. They observed, however, that recent events had focused attention on the IMF; increasing reputational risks, and expressed interest in reviewing and discussing the findings of an external panel on risk management that had been convened.

In December 2010 a high-level external panel had been appointed to undertake an independent and comprehensive review of the IMF’s risk management framework. The panel was chaired by Guillermo Ortiz and included as members Jacob A. Frenkel, Malcolm D. Knight, and Thomas O’Neill. The panel submitted its report to the Managing Director in November 2011; the report was also shared with the Executive Board. In accordance with its terms of reference the panel assessed all aspects of the framework—the processes used to identify, evaluate, and mitigate potential risks to the Fund and its operations—recognizing the Fund’s unique role in the international financial system, particularly its surveillance activities and responsibilities in crisis lending. An informal briefing of Executive Directors was held
in January 2012, providing an opportunity for Executive Directors to question panel members on the findings and recommendations included in their report.

To follow up on the panel’s report, in March 2012 IMF management established a working group composed of senior staff acting in their personal capacity. This working group was tasked with (1) making concrete proposals to address key recommendations stemming from the external panel’s report and (2) examining the potential role of quantitative analysis in the IMF’s management of financial risks. The working group is expected to consult with outside experts in the private and public sectors and to complete its work in FY2013.

MEMBERSHIP

In April 2012, the Republic of South Sudan joined the IMF as its 188th member upon the signing of the IMF’s Articles of Agreement by Finance and Economic Planning Minister Kosti Manibe Ngai at a ceremony in Washington, D.C. Managing Director Christine Lagarde welcomed the country to IMF membership and underscored that the Fund would do its best to assist the country in setting up the foundations for economic stability and growth.

South Sudan applied for membership in the IMF in April 2011, when the IMF initiated procedures for membership. It issued a declaration of independence from Sudan the following July. Since that time, the Fund has stepped up the provision of technical assistance and training to the country and engaged in a policy dialogue with the authorities in the areas of tax and customs administration, public financial management, oil revenue management, exchange rate policy, central banking, and macroeconomic statistics. The Fund has also coordinated with donors and technical assistance providers to support South Sudan through a dedicated trust fund for capacity building of about US$11 million over the four years following its becoming a member, with the European Union as a lead donor. South Sudan’s initial quota in the IMF was set at SDR 123.0 million (US$190.7 million). With the inclusion of South Sudan, IMF members’ quotas amount to SDR 238.12 billion (US$369.09 billion).

HUMAN RESOURCES POLICIES AND ORGANIZATION

Human resources in FY2012

Human resources management at the IMF must support the Fund as a knowledge-based institution, with staff as its key asset. The institution’s success hinges on its ability to attract, motivate, retain, and develop a highly skilled, innovative, and diverse workforce. The Fund made significant progress toward these objectives in FY2012, including through the continuation of strong recruitment and the implementation of important reforms aimed at improving the effectiveness and efficiency of human resources services across the institution.

Workforce characteristics

The pace of recruitment at the IMF normalized in 2011 following record hiring in 2009–10. The Fund hired 153 staff, compared to an annual average of 170 appointments in 2007–11. Continuing the increase seen in 2010, and partly in response to crisis-related staffing needs, 53 percent of new staff were hired on a limited-term basis (42 percent in 2010). These shorter-term appointment types will provide the Fund with more flexibility to adjust its workforce in the years ahead. Midcareer economists with substantial policy experience represented a high share of total hiring (76 percent in 2011, up from 72 percent in 2010 and 59 percent in 2005), in many cases reflecting area departments’ need for staff with fiscal experience to handle the increase in Fund financing programs and technical assistance.
As of April 30, 2012, the IMF had 2,007 professional and managerial staff and 468 staff at the support level. A list of the Fund’s senior officers and the IMF’s organization chart can be found on pages 67 and 68, respectively.

The IMF makes every effort to ensure that staff diversity reflects the institution’s membership and recruits actively from all over the world (Web Tables 5.1–5.3 show the distribution of the staff by nationality, gender, and country type). Of the 188 member countries at end-April 2012, 156 were represented on the staff. The Fund made progress in hiring diverse staff during the year, but supply constraints and competition remain challenges; 41 percent of new staff came from underrepresented regions and 44 percent were female. The Fund’s Economist Program continued to provide particularly strong diversity results: about 70 percent of the FY2012 cohort came from underrepresented regions, and 55 percent were women. Finally, policy measures introduced in 2011 resulted in the hiring of an additional four staff from East Asia and the Middle East. After meeting the original benchmarks to increase the share of women at the managerial level, the Fund revised the benchmarks in 2011 and added a recruitment benchmark to advance progress toward improved representation of women at the professional and senior levels. Regarding the regional diversity benchmarks, the target for professional and managerial staff from transition countries was met in 2011, and work continues toward meeting the benchmarks for other underrepresented regions.

Management salary structure

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, 2011, the salary structure for management was as follows:

- Managing Director: US$467,940
- First Deputy Managing Director: US$406,900
- Deputy Managing Directors: US$387,530

The remuneration of Executive Directors was US$244,350, and the remuneration of Alternate Executive Directors was US$211,370. The average salary in FY2012 for IMF senior officers (see page 67) was US$312,934. Web Table 5.4 provides the salary scale for the IMF staff.

Human resources reforms

Staff survey

Early in 2012, IMF management adopted an action plan to address the challenges identified in a staff survey conducted the previous year. Nine projects with Fund-wide reach were initiated, tackling areas such as career development, performance management, leadership, and accountability. Policy design proposals were completed by the end of April 2012 and will move toward full implementation in FY2013. The next staff survey will be conducted in late 2013.

Promotion reform, compensation, and benefits

Reforms were introduced in 2011 aimed at building promotion decisions around a structured talent review process, supported by comprehensive competency frameworks and explicit limits on the number of promotion slots. A thorough comparator-based review of staff compensation was also conducted, and significant progress was made in implementing previously approved reforms to the staff retirement plan. A task force review of the 2008 Medical Benefits Plan reforms found that the reform objectives had been achieved.

Modernizing human resources service delivery

The Fund’s Human Resources Department achieved efficiency savings during the year and progressed with the streamlining and automation of its activities. Areas in which specific streamlining was achieved include leave processing and administration, overseas benefits, and performance monitoring for fixed-term staff.

Board review of 2010 Diversity Annual Report

Each year, the IMF’s Diversity Advisor prepares a report that provides an accounting of the institution’s efforts to promote a more diverse working environment and conditions. The report is prepared in consultation with the Fund’s Diversity Council, a Fund-wide representative body that provides guidance to IMF management, department heads, and departmental Diversity Reference Groups; is presented to the Executive Board; and is published on the Fund’s external website.

In May 2011, the Executive Board discussed the 2010 Diversity Annual Report. Executive Directors recognized the value of diversity in improving institutional quality and performance. They welcomed the important progress made in recent years in this area: in particular, building on the diversity infrastructure put in place over previous years, the share of staff from underrepresented regions had increased modestly and that of female staff had increased further in 2010, and several new initiatives had been launched to support sustained progress in subsequent years.

Executive Directors highlighted the important challenges that lay ahead in order to achieve staff diversity that adequately reflected the Fund’s membership. They took the opportunity to provide IMF management with broad guidance for the organization and appointment of Fund staff, while supporting the report’s recommendations. They encouraged management and staff to step up the momentum and press ahead vigorously in implementing the Fund’s diversity agenda.
Executive Directors welcomed the further increase in the share of professional staff from developing and transition countries to near 45 percent. They noted, however, that the shares of nationals from the four underrepresented regions (Africa, East Asia, the Middle East, and transition countries) remained low, including at the senior level. They supported policy measures that had recently been adopted and called for stronger efforts to raise the share of nationals from these regions, especially for the Middle East region, whose share had declined over the preceding decade.

Executive Directors considered the value of greater diversity of experience and expertise among staff in fostering an effective workforce, noting also the conclusions of the IEO evaluation of IMF performance in the run-up to the financial and economic crisis. They recommended taking into account educational, professional, linguistic, and other dimensions of diversity in recruitment and career development.

Executive Directors commended the achievement of the 20 percent benchmark for the representation of women among senior staff but noted that the Fund lagged behind most comparator international institutions in this regard. They saw a need to further improve gender diversity in core functions, such as senior and economist positions. In this regard, they encouraged the ongoing IMF initiative to reset the benchmark for women among senior staff at an appropriately ambitious level and pointed to the need for supportive working conditions.

Executive Directors supported the report’s additional recommendations for further action. They stressed that sustained rapid progress toward the Fund’s diversity goals required continuing strong leadership from management and close monitoring and accountability for results of managers at all levels. They called for a special effort to promote diversity among the Fund’s senior personnel managers. They welcomed the diversity strategy’s emphasis on training and educating staff at all levels about the business case for diversity and adapting personnel management practices to align with the Fund’s diversity objectives.

**Management changes**

In May 2011, former Managing Director Dominique Strauss-Kahn informed the Executive Board of his intention to resign as Managing Director, with immediate effect. Upon the Managing Director’s resignation, First Deputy Managing Director John Lipsky—who had announced that he would not seek to extend his term as First Deputy Managing Director when it expired (see Box 5.2)—took over as Acting Managing Director. The Executive Board immediately initiated the selection process for the next Managing Director, adopting a procedure that allowed the selection to take place in an open, merit-based, and transparent manner. Nominees were evaluated against a candidate profile that set forth the qualifications expected, to establish a short list of nominees, without geographical preferences.

Short-listed candidates were then interviewed by the Executive Board, after which the Board met to discuss their strengths, with the objective of selecting the new Managing Director by consensus, as had been the case in previous selection rounds.

In late June, the Board selected Christine Lagarde to serve as IMF Managing Director and Chairman of the Executive Board for a five-year term starting the following month. Mme. Lagarde is the first woman named to the top IMF post since the institution’s inception in 1944.

A national of France, Mme. Lagarde had been the Minister of Finance of France since June 2007. Prior to that, she had served as France’s Minister for Foreign Trade for two years. She also had an extensive and noteworthy career as an antitrust and labor lawyer, serving as a partner with the international law firm of Baker & McKenzie, where the partnership elected her as chairman in October 1999. She held the top post at the firm until June 2005, when she was named to her initial ministerial post in France. She holds degrees from the Institute of Political Studies and from the Law School of University Paris X.

Shortly after beginning her term as Managing Director, Mme. Lagarde proposed the appointment of David Lipton to the position of First Deputy Managing Director, as well as the appointment of Special Advisor to the Managing Director Min Zhu to the position of Deputy Managing Director. Mr. Lipton, a U.S. national, was at the time the Special Assistant to the President and Senior Director for International Economic Affairs at the U.S. National Economic Council and U.S. National Security Council at the White House. Before taking that job, he had been Managing Director and Head of Global Country Risk Management at Citi and Managing Director of Moore Capital Strategy Group at Moore Capital Management. He had also held senior positions at the U.S. Treasury Department, and served as an economic advisor to the governments of Poland, Russia, and Slovenia during their transitions. After graduating from Harvard University in 1982, where he earned his master’s degree and doctorate in economics, Mr. Lipton had served on the staff of the IMF for eight years, working on economic stabilization issues in emerging market economies and low-income countries.

Mr. Zhu joined the IMF from the People’s Bank of China in 2010, where, as Deputy Governor, he was responsible for international affairs, policy research, and credit information. Prior to his service at China’s central bank, he held various positions at the Bank of China, where he served as Group Executive Vice President, responsible for finance and treasury, risk management, internal control, legal and compliance, and strategy and research. Mr. Zhu also worked at the World Bank for six years and taught economics at both Johns Hopkins University and Fudan University.
Box 5.2

Farewell to John Lipsky

After a distinguished five-year term as the First Deputy Managing Director, John Lipsky left the IMF in November 2011, having remained for three additional months as a Special Advisor to the Managing Director. In a farewell reception at IMF headquarters, Executive Directors and IMF management and staff gathered to pay tribute to Mr. Lipsky and his important contributions to the IMF.

Addressing the gathering, Managing Director Christine Lagarde noted the many things at the IMF that “would not have existed without John Lipsky,” singling out for particular mention the Early Warning Exercise, the Fund’s close relationship with the Financial Stability Board, its close collaboration with the Group of Twenty, and in particular its participation in that organization’s Mutual Assessment Process. Executive Board Dean A. Shakour Shaalan offered reasons Mr. Lipsky would be remembered “with great fondness” and drew attention in particular to his service as Acting Managing Director, observing that his leadership and stewardship of the institution had seen it through a very difficult time. Appearing by video, former Managing Director Rodrigo de Rato called hiring Mr. Lipsky “one of the best decisions I made” during his time at the Fund, and Staff Association President Susan George recounted particular occasions on which Mr. Lipsky had come to the support of staff. The Staff Association gave Mr. Lipsky a certificate for a donation in his name to the Staff Compassionate Fund, and the Managing Director presented Mr. Lipsky and his wife with flowers, as well as a commemorative photo album and book of Mr. Lipsky’s speeches during his time as First Deputy Managing Director.

Mr. Lipsky recalled walking into the IMF for the very first time in 1973 and his service in the Western Hemisphere and Exchange and Trade Relations (forerunner to the current Strategy, Policy, and Review) Departments and as Resident Representative in Chile. He termed his time as First Deputy Managing Director “a fantastic experience,” praising the IMF staff during that time as the most talented group that had ever served the institution and singling out members of his personal staff, as well as his former and current management colleagues, for particular gratitude.

ACCOUNTABILITY

Transparency

The IMF’s transparency policy, enacted in 1999 and most recently revised in March 2010, states that “recognizing the importance of transparency, the Fund 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.” The Executive Board receives annual updates on the implementation of the Fund’s transparency policy; these reports are part of the information the IMF makes public as part of its efforts in the area of transparency. The 2011 update is available on the IMF’s website.

Independent Evaluation Office

The Independent Evaluation Office, established in 2001, evaluates IMF policies and activities with the goal of increasing the Fund’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 Fund management and operates at arm’s length from the Executive Board, to which it reports its findings.

Ongoing IEO evaluations include “International Reserves: IMF Advice and Country Perspectives,” “The Role of the IMF as Trusted Adviser,” and “Learning from Experience at the IMF: An IEO Assessment of Self-Evaluation Systems.” Full texts of completed evaluations, information on those that are in progress, issues papers, IEO Annual Reports, and other documentation are available on the IEO website.

The IEO celebrated its first decade with a conference at IMF headquarters in December 2011. The conference was attended by Executive Directors, current and former management, senior staff, external stakeholders, and current and past IEO evaluation teams. Box 5.3 gives highlights of the conference.
Box 5.3
The Independent Evaluation Office’s tenth anniversary conference

In his opening remarks at the office’s tenth anniversary conference, “Ten Years of Independent Evaluation at the IMF: What Does It Add Up To?” Independent Evaluation Office (IEO) Director Moises Schwartz observed that the IEO was created to strengthen learning and accountability at the IMF and to enhance understanding among external stakeholders of how the institution works. These goals have formed the basis of IEO evaluations. Addressing the conference, Managing Director Christine Lagarde urged the IEO to “continue to produce honest, fair, and demanding analysis.” She observed that the IEO brings “ruthless truth-telling to an organization that tells the truth,” emphasizing the IMF’s reliance on “honesty and credibility.” The Chairman of the Executive Board’s Evaluation Committee, Executive Director Moeketsi Majoro, pointed to the “commendable contribution that the IEO is making in helping the Fund deliver its mandate more effectively,” adding that “as a watchdog, the IEO has to tell it like it is,” bringing out “both the successes and the shortcomings.” He further observed that “for the IMF to remain relevant and thrive, learning better and faster is critically important . . . it is those most responsive to change [who survive].”

The conference offered an opportunity to consider recurring themes in IEO evaluations. Mr. Schwartz highlighted the following:

• the need to strengthen IMF governance and clarify roles and responsibilities—from the IMFC and the Board to management and senior staff;
• the centrality of greater evenhandedness across the membership in the application of policies and framing of advice;
• the importance of creating incentives to encourage alternative views and support staff in raising difficult issues with country authorities, even in the largest countries; and
• the imperative to better integrate analytical and operational work across departments—promoting cooperation and reducing turf battles and silo behavior.

Participants congratulated the IEO on its work, underscoring the IEO’s independence and the quality of its evaluation reports as key strengths. They saw room for improvement in areas such as dissemination and follow-up on recommendations. In particular, many reiterated weaknesses in the IMF’s framework for implementation and monitoring of follow-up on Board-endorsed IEO recommendations.

Executive Board reviews of IEO reports and recommendations

As noted previously, although the IEO operates at arm’s length from the Executive Board, it does report its findings to the Board, which reviews the findings. In May 2011, the IEO completed and published its evaluation of the relevance and utilization of research at the IMF, which was discussed by the Executive Board the following month. The full text of the evaluation, including the Summing Up of the Executive Board discussion pertaining to it, is available on the IEO’s website.

Implementation of Board-endorsed IEO recommendations

Soon after each Executive Board discussion of an IEO evaluation report, IMF management presents to the Board a forward-looking implementation plan for those IEO recommendations that the Board endorses. The implementation plan is part of a framework, established following an external evaluation of the IEO, that seeks to ensure a more systematic follow-up and monitoring of the implementation of Board-endorsed IEO recommendations. That framework includes the Periodic Monitoring Report, established in 2007. Each Periodic Monitoring Report focuses on how the implementation of recent management implementation plans has advanced and whether outstanding recommendations from the previous report have been implemented.

In September 2011, the Executive Board reviewed the Fourth Periodic Monitoring Report, which examines the implementation status of the management information plan pertaining to recommendations from the IEO’s evaluation of IMF involvement in international trade policy issues. It also provides an update on progress in regard to improving the Monitoring of Fund Arrangements database and staff mobility—issues highlighted by the Executive Board’s Evaluation Committee from the previous Periodic Monitoring Report. The Board supported the report’s conclusion that all key performance benchmarks related to the trade management information plan either had been met or were on track for timely completion. No new remedial actions were proposed, and there were no outstanding performance benchmarks to be reviewed in the next Periodic Monitoring Report, although it would provide further updates as necessary on broader issues raised in the context of the Fourth Report.

Ethics framework for staff, management, and the Executive Board

The IMF’s ethics framework includes a comprehensive set of rules and procedures for disciplinary action, supported by a robust infrastructure that includes the independent Ethics Advisor, an independent Ombudsperson, and the Integrity Hotline, which enables staff and the general public to report misuse of IMF resources or misconduct by staff or vendors securely and anonymously.
In May 2011, the IMF issued revised standards of conduct for staff, bringing to fruition more than two years of work on strengthening the institution's ethical framework. The enhanced standards of conduct introduced new reporting requirements in regard to close personal relationships in the workplace and updated the institution's policies on harassment and discrimination. They also reinforced protection against retaliation for staff who report suspected misconduct, while clarifying procedures for conducting and overseeing investigations of such misconduct. The work on updating the standards involved broad collaboration and consultation across the institution. The Fund also benchmarked its policies against those of comparator institutions and reviewed best practices in a cross-section of other organizations.

Executive Directors have also adopted a Code of Conduct, which is intended to provide guidance on ethical standards in connection with, or having a bearing on, their status and responsibilities in the Fund. An Ethics Committee of the Executive Board considers matters relating to the Code of Conduct. In addition, the Committee gives guidance to Executive Directors, upon request, on ethical aspects of conduct of their alternates, advisors, and assistants.

**Engagement with external stakeholders**

**Outreach**

The IMF’s objective in engaging with civil society organizations (CSOs) and youth leaders, trade and labor unions, parliamentarians, academics, and think tanks is twofold: first, to listen to external voices to better understand their concerns and perspectives, with the aim of improving the relevance and quality of Fund policy advice; and second, to improve the outside world's understanding of IMF objectives and operations. New tools are increasingly being used in the Fund’s outreach, including social media (see Box 5.4), videos, and podcasts.

**Outreach by IMF management**

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 recent years in the IMF’s outreach efforts. In addition to the more specific outreach goals outlined below, outreach by management and senior IMF staff provides an opportunity, more broadly, to articulate the organization’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 Fund analysis and policy advice; and to reinforce the Fund’s commitment to providing needed support to members, particularly those most affected by the crisis.

The Managing Director traveled to all five regions during FY2012, meeting with heads of state and other key stakeholders in member countries, making concerted efforts to engage with media, labor, CSOs, parliamentarians, and business groups. Likewise, the First Deputy Managing Director and Deputy Managing Directors traveled extensively during the year and took advantage of numerous opportunities to further the IMF’s outreach objectives.

**Engagement with labor groups**

IMF cooperation with the International Labour Organization (ILO) deepened in FY2012 in the face of the ongoing crisis in Europe. In the joint Social Protection Floor Initiative, currently being piloted in El Salvador, Mozambique, and Vietnam, the ILO determines what would be needed beyond existing social protection mechanisms to establish a basic social protection floor and estimates the cost of a basic set of social transfers; the IMF then assesses the scope for implementing the necessary benefits package in a fiscally sustain-

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**Box 5.4**

**IMF launches Arabic blog**

As part of efforts to increase outreach in the Middle East, the IMF launched its Arabic-language blog, The Economic Window (ال~-نة الإقتصادية), in October 2011. The blog complements the IMF’s English-language blog, iMFdirect—the Fund’s global economy forum—and the Spanish-language blog, Diálogo a Fondo; the IMF also has a specialized Public Financial Management blog. The new Arabic blog aims to encourage interactive debate and offer analysis and potential solutions on economic issues in the Middle East and North Africa, while providing Arabic commentators and research on global topics. In its first seven months, the blog established a significant readership and posted more than 60 articles, including three blog posts by the Managing Director and four by Deputy Managing Director Nemat Shafik. As of the end of FY2012, it had built up a readership in 52 countries, including Algeria, Egypt, Jordan, Kuwait, Libya, Oman, Saudi Arabia, Tunisia, and the United Arab Emirates. It had been well received in the Middle East and North Africa, and the content had been reproduced by leading Arab blogs and news sites.

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a The blog is available at http://blog-montada.imf.org/
able way, and options are presented to country authorities for decision. IMF-ILO collaboration on labor market and employment issues focuses on policies to promote employment-creating growth, with Fund work focusing primarily on the macroeconomic policy dimension, while the ILO addresses labor market institutional issues. The collaboration reflects the rising importance of labor market issues in Fund advice, especially in program countries and countries in the Middle East and North Africa, where youth unemployment has proven to be a critical issue affecting macroeconomic stability. The social dialogue element of the two organizations’ collaboration gained new momentum in FY2012 with preliminary meetings for previously agreed-upon consultations among authorities, unions, and employers in Bulgaria, the Dominican Republic, and Zambia. Formal dialogues were expected to begin in FY2013.

Interaction with labor unions has become an integral element of IMF outreach to nongovernmental stakeholders, and contact with unions in Europe took on increasing importance during FY2012 as the European crisis became more severe. Meetings with national trade unions now take place during the majority of Article IV missions or staff visits, and many resident representatives maintain regular contacts with unions. In addition, IMF management and departments are in regular contact with representatives of the international trade union movement, often under the umbrella of the International Trade Union Confederation, and also in the context of the IMF’s relationship with the ILO.

Engagement with civil society organizations

The IMF has engaged intensively with CSOs—such as nongovernmental organizations, academic institutions and groups, and think tanks—on policy issues for the past decade, with a continuing emphasis on low-income countries. Highlights of this engagement in FY2012 were two conferences, “Management of Natural Resources in Sub-Saharan Africa,” cohosted with the government of the Democratic Republic of the Congo in March 2012, and “The East African Community after 10 Years: Deepening EAC Integration,” cohosted with the Secretariat of the East African Community the previous month.

Meetings and seminars with CSOs have proven to be excellent avenues for the IMF not only to provide information, but also to listen directly to CSOs’ views and voices. Since 2009, the Fund has also solicited CSO views more systematically on specific issues—for example, natural resources taxation and wealth management, the Triennial Surveillance Review (see Chapter 3), and the review of conditionality—through public online consultations.

The CSO Fellowship Program for the 2011 Annual and 2012 Spring Meetings provided an alternative platform for a combined total of 41 leaders from civil society and youth organizations to discuss and enhance the Fund’s policy agenda through seminars, face-to-face consultations, and bilateral meetings with IMF management, Executive Directors, and directors and staff from various IMF departments. Similarly, as part of its efforts to foster two-way interaction with stakeholders at the country level, in FY2012 the IMF launched its Academic Fellowship Program, which brings academics from low- and middle-income countries to the IMF’s Annual and Spring Meetings, where they participate actively in official events and interact with staff at all levels of the institution. A total of 15 academics from all regions were sponsored during the year.

In addition, the Fund has also broadened and intensified its dialogue and interactions with think tanks and academics around the world and engages them regularly in joint public events and in private exchanges of ideas and views.

Engagement with legislators

IMF outreach to legislators is aimed at listening to their views and concerns about the Fund’s policy advice to countries, and IMF country teams meet with legislators on a regular basis to discuss country-specific issues. During FY2012, the Fund organized, in collaboration with the Parliamentary Network, several events that were particularly geared toward legislators. A workshop held at the 2011 Annual Meetings brought together 24 legislators from 19 countries to discuss the impact of global financial crisis on developing countries and offered legislators an opportunity to provide their views and perspectives on a range of issues. Another workshop during the 2012 Spring Meetings focused on the continued challenges facing developing countries in attempting to deal effectively with the crisis and on issues such as inclusive growth and IMF governance reforms.

In March 2012, more than 120 parliamentarians from 40 African countries gathered in Kigali, Rwanda, for a two-day conference, organized by the Parliamentary Network in collaboration with the IMF and World Bank, on building the private sector’s role as an engine of growth in Africa. The conference was hosted by the Rwandan government and included an address by President Paul Kagame.

Charitable activities

The IMF’s Civic and Community Relations Program builds on the institution’s overarching objective to foster policies that boost economic growth and improve the well-being of people in its 188 member countries. It aims to help the community in the greater Washington, D.C., area (the IMF’s host city), as well as charities working in developing countries, through staff donations that are partially matched by the institution, volunteering activities, and community initiatives. Fund grants and donations have totaled more than US$18 million since 1994 when the program was created and reached nearly US$800,000 in FY2012. That total included just over US$325,000 in matching funds for the Helping Hands program, an annual employee giving campaign that raised more than US$650,000 from staff and retirees in its fall 2011 campaign, and nearly US$70,000 in matching contributions for staff-initiated humanitarian relief drives to assist victims of natural disasters in developing countries. The Fund’s Civic Program Advisory Committee, a twelve-member
payment systems that reduce the use of fee-for-service arrangements, including budget caps, judicious use of competition to foster efficiency, exist to contain the grown of public health care spending, he observed, related public spending, including on health. Effective policy tools advanced economies would require containing the growth of age-

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In opening the conference, IMF Deputy Managing Director Min Zhu underscored that successful fiscal consolidation efforts in advanced economies would require containing the growth of age-related public spending, including on health. Effective policy tools exist to contain the grown of public health care spending, he observed, including budget caps, judicious use of competition to foster efficiency, payment systems that reduce the use of fee-for-service arrangements, and greater reliance on private financing, including through greater use of private insurance.

As Mr. Zhu noted, in emerging economies, there is more fiscal space to increase spending to expand coverage of health services, especially in emerging Asia, where health outcomes are good relative to spending. Challenges include the need to provide universal coverage to the population with a fiscally sustainable package of services. The goal would be to lower high out-of-pocket expenditures to improve financial protection. Assessing the cost-effectiveness of health interventions is also a priority for the region.

Asia offers a number of success stories that can be drawn upon in forging reform strategies. These include Japan’s success in containing cost growth, as well as Thailand’s achievement of universal health coverage in spite of a high degree of labor market informality. The appropriate mix of reforms to draw from the region’s success stories will depend on country circumstances.