issues can be effectively tackled by conditionality during a crisis—or more practically of how to design reforms that will be sustained beyond a program relationship with the IMF.

B. Recommendations

This evaluation found that member countries and partners appreciated IMF contributions to the global response to the crisis, and that IMF financial support helped many member countries to mitigate the impact of the crisis. It also found that aspects of IMF activities could be improved to better warn the membership about mounting risks and vulnerabilities and about policies to mitigate them, and to be better prepared to contribute to the global safety net.

The following four sets of recommendations address concerns about the IMF’s size and structure of funding, about managing partnerships, and about how to make macro and financial surveillance more effective and useful for member countries.

(i) Management should work with the IMFC to ensure that the IMF has sufficient resources to contribute to future crisis resolution. Quotas should be sufficient to cover members’ needs under likely crisis scenarios, with borrowing arrangements set up to deal with tail risks.

The appropriate size of the IMF and the structure of its funding should be derived from the role that its members want it to play. To contribute to crisis prevention and resolution, the IMF should have enough resources to respond to member country needs in an unexpected crisis. To be most helpful, these resources should be available in advance of when they are needed, either as quotas or standing borrowing arrangements with automatic triggers. There is no perfect formula to estimate the optimal size for the IMF. It appears that the current level of resources (with a credit capacity of about $1 trillion) served the IMF well during the recent crisis and could be a useful benchmark for equipping the IMF for the future. However, at least until the 2010 quota increase is implemented, the IMF’s credit capacity relies disproportionately on borrowing, detracting from the IMF’s legitimacy as a quota-based, universal cooperative, and adding some (albeit small) funding risk.

Management could work with the IMFC to re-examine its quota review process to help ensure that the IMF has sufficient resources already in place to respond to a global crisis, and to reflect shifting weights in the global economy. The IMFC could also explore alternative arrangements to deal with an impasse on quota reviews.

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

Over the past few years, the IMF has coordinated and partnered with other organizations in critical initiatives such as the G20 MAP, the newly-created FSB, and the Troika. These initiatives proved largely effective in addressing aspects of the crisis and also helped to enhance the traction of IMF analysis and advice. In some cases, however, they raised questions about the IMF’s role, accountabilities, and independence, as well as about how to ensure uniform treatment of all IMF members.

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

Authorities appreciate the new initiatives to tackle gaps that existed before the crisis, but indicated that the number and scope of such exercises has grown beyond their capacity to absorb the results. They urged that findings from the EWE be disseminated to a wider group of authorities. They also asked that risk analysis, including discussions of risks in IMF flagship reports, be better integrated, consolidated, and presented to them in a manner that can be absorbed more easily.

(iv) FSSAs for the world’s five to seven largest systemic financial centers should be updated annually in conjunction with IMF’s bilateral surveillance.

IEO (2011) welcomed the decision to make the FSSA mandatory for the largest 25 financial centers every five years, but raised the concern that more frequent assessments may be needed to detect emerging vulnerabilities in rapidly changing financial markets. The number of countries with mandatory FSSAs and the periodicity of assessments were decided by balancing the need to identify systemic risks with the resources available for the program. But experience has shown that an interval of five years between FSSAs...
is too long, particularly for the largest systemically important financial centers. To address this concern, IMF staff have suggested mainstreaming financial sector work by training area department economists and placing financial sector specialists in area departments. This is a welcome initiative, but it will take a long time to yield results. It is IEO’s view that the membership will be better served by focusing on the top five to seven financial centers, those that are truly systemic. For these, an FSSA update could be prepared every year in advance of the Article IV consultation. The other countries on the current list could continue having an FSSA every five years, subject to resource constraints.