ANNEX

2 IMF Downsizing During the Crisis

In 2006, the IMF was projecting a budget shortfall and faced pressure to establish a new income model in light of sharp decreases in lending operations.[1] An April 2007 report to the IMFC noted that the IMF needed to place its finances on a sound footing and be run on a tightened budget.[2] In November 2007, the Managing Director informed staff that the IMF would have to find $100 million worth of cuts to offset its income shortfall. In March 2008, the IMF Executive Board approved a new income model and, a month later, a medium-term budget which provided for $100 million in savings over a three-year period.[3] These savings were to be achieved by "refocusing" operations, and introducing efficiency gains. But it was clear that savings of this magnitude would require a significant reduction in staff.

In February 2008, Management announced that a "downsizing" would take place in two stages.[4] During the initial stage, from March 1 to April 21, 2008, staff could volunteer for separation. Afterwards, depending on the outcome of the first stage, there could be a need for mandatory separations. In the event, 20 percent of eligible staff volunteered to separate—higher than targeted, particularly at the mid-level, thus eliminating the need for mandatory separations. Nearly 500 staff, including 28 percent of administrative support staff, 10 percent of mid-level staff, and 24 percent of senior managers exited the IMF between May 2008 and May 2009 as a result of the downsizing.[5] In the first half of 2008, Management established a hiring freeze. The MCM Department was also restructured in September 2008, its second reorganization since 2006.

Soon after, faced with higher demands stemming from the crisis, the IMF reversed the hiring freeze and launched a substantial external recruitment drive. More than 100 economists were hired by end-April 2009, including experts in the financial sector area. By the end of FY2012, the IMF's workforce had recovered to more than 3,000 staff, up from about 2,500 in FY2009. Nonetheless, according to an internal 2013 Corporate Workforce Planning paper, a large share of this recruitment was for externally-financed capacity building, while IMF-financed activities remained "relatively flat."

The downsizing created uncertainty and anxiety among staff, undermining staff morale[6] and distracting Management as serious global turmoil was mounting. Morale remained low in the aftermath of the exercise, as indicated in an IMF staff survey conducted in June 2008: asked about the impact of the restructuring, almost half of the respondents said the IMF would now be a worse place to work and only one-sixth thought it would be better. Given the large share of senior managers who separated voluntarily, the IMF lost some of its most experienced staff, just when it was needed for a rapid response to the crisis. Indeed, in a staff survey conducted by a crisis-affected area department in October 2009, respondents felt that the downsizing exercise had impeded the IMF's ability to provide intellectual leadership; in the words of one respondent, "the conjuncture of the restructuring and the crisis has had disastrous consequences on the leadership provided by the department."[7]

Executive Directors also voiced concerns about the impact of the downsizing on the IMF's capacity to both respond to the crisis and fulfill its mandate. These comments came at the outset of the crisis and were reiterated

[1] Managing Director's Report on Implementing the Fund's Medium-Term Strategy (April 2006).
[2] Report of the Managing Director to the International Monetary and Financial Committee on the IMF's Policy Agenda (April 2007).
[3] FY2009–FY2011 Medium-Term Administrative, Restructuring, and Capital Budgets.
[4] Staff Bulletin 08/3, "Refocusing and Modernizing the Fund: The Framework for the Downsizing Exercise" (February 29, 2008).
[5] Message from the Managing Director on the Completion of the Voluntary Phase, May 19, 2008.
[6] Staff Association Committee statements (late 2007–early 2008).
[7] See IEO (2011).

in particular throughout 2009–10 as the IMF staff's role in providing analytical support for the G20 MAP ramped up and as the European crisis intensified. Illustrative examples include:

> It is most unfortunate that the downsizing of IMF staff has come at a time when the IMF should be most active. This is evident in a number of departments, in particular the MCM, where staff resources are strained by the ongoing crisis missions and in providing support to area departments. The recent increase in MCM's workload appears to have pushed many other priorities further down the list. Even surveillance seems to be suffering (November 2008).
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> [O]ne cannot help but wonder if the preoccupation with . . . the downsizing exercise lessened our focus on the vulnerabilities building up in the global financial system and contributed to the IMF's missing the fallout and risks from the subprime crisis . . . the IMF now faces a heightened risk due to the . . . downsizing (March 2009).
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> While we are fully supportive of the new responsibilities that the IMF has taken on in the area of early warning, and the G-20 mutual assessment process, it is important that these responsibilities do not affect the resources that are needed for the IMF's bilateral surveillance and outreach efforts (June 2009).