

## STAFF RESPONSE TO INDEPENDENT EVALUATION OFFICE EVALUATION OF IMF INTERACTIONS WITH MEMBER COUNTRIES\*

Executive Board Meeting  
December 14, 2009

1. While the Fund's effectiveness is widely perceived to have improved since the onset of the crisis, this IEO report is a useful reminder of the complexity of Fund interactions with members and the many dimensions along which more needs to be done. It is with the latter objective in mind that staff offers the following observations on the report's facts and conclusions.

### Comments on the Evaluation

2. The overall findings of the report should be considered against the background of important changes in Fund surveillance and financing frameworks. The analysis identifies key issues that were at the core of the debate on the Fund's relevance before the crisis. Progress in several fronts has already been made and is acknowledged in the report to some extent. The Fund has stepped up to the challenge of supporting a global response to the crisis through strengthened surveillance, policy advice, and a modernized financing framework. The new responsibilities entrusted to the Fund since the onset of the crisis—including the early warning exercise, the tripling of its resources, and the call by the G-20 for peer assessment—are in line with the report's recommendations for a greater role by the Fund in international policy coordination and analysis of spillovers. The broader membership's interest in closer engagement suggests that the Fund's efforts to better serve members are bearing fruit. While the report attempts to update the context for the findings in several places, its long gestation results in pre-crisis assessments and in recommendations that may sometimes have been overtaken by events.

3. The underlying survey evidence, perhaps more than the report, presents a generally positive assessment of Fund interactions with members. The survey evidence shows more than two-thirds of authorities in most countries (and still more than half among the large emerging market economies) rating Fund interactions overall as very effective or effective. Box 4 provides further evidence of the positive assessment of the Fund's relationship management by authorities in all country groups, with more than half of country authorities in advanced and large emerging market economies rating the Fund's long-term strategic approach to the relationship well above "average." These positive messages are often downplayed in the main text that follows the Executive Summary.

4. The report raises important issues regarding the effectiveness and independence of Fund surveillance in large countries that deserve serious consideration. The mere perception of less than even-handed surveillance undermines the institution's legitimacy. As such, it will be important for the Fund to put forward the hard and candid messages that have become more evident since the onset of the crisis (e.g., on the need to go much further in financial sector reform). At the same time, and without being defensive, the point can be taken too far, and it is important to appreciate the extent to which interactions with advanced and large emerging market economies involve special factors.

- First, Fund advice—especially if critical—may gain little traction in periods of market exuberance. The response from large emerging market economies could also be influenced by the few cases related to financial crises or potentially contentious issues such as the 2007 Surveillance Decision.
- Second, the report acknowledges that, for advanced countries, the apparent inconsistency in the high score for the overall indicator on Fund effectiveness and the low scores in the individual indicators (Box 2) may reflect that other (omitted) factors were also important to the authorities. It may also

\*Revised: 11/30/09. Paragraph references in paragraphs 6, 7, and 13 have been modified to reflect changes in paragraph numbering specified in the IEO report (SM/09/279).

suggest the lack of relevance of many of the indicators in the survey to advanced or large emerging market economies (e.g., assisting in policy consensus building or capacity building).

- Finally, staff face several constraints when interacting with the membership—notably the tension inherent in the authorities’ receptiveness of tough messages—which are largely overlooked in the analysis.

Going forward, despite these factors, we must ensure that staff analysis and policy advice is clear and hard-hitting.

5. The positive assessment of relations with PRGF-eligible countries confirms the importance of the Fund’s catalytic role in low-income countries. The report’s observations touch upon a very important catalytic role that the Fund plays in some PRGF-eligible countries, where the Fund can be a credible partner in supporting reforms. We share the IEO’s finding that a proactive outreach strategy could help further address some misperceptions about the Fund’s engagement with PRGF-eligible countries, which nonetheless should remain mindful of overall resource constraints. The contribution of resident representatives, whose role was very positively viewed by country authorities, could have been further highlighted in the report, and implications of resource constraints on further expanding their role to enhance Fund interaction acknowledged.

6. Staff do not agree with key conclusions on the institutional framework guiding the provision of technical assistance (TA).

- First, regional technical assistance centers (RTACs) do not operate independently of headquarters (as may be inferred from paras. 29 and 33). Indeed, their strategic directions are developed by headquarters. The higher frequency of TA support provided by RTACs helps to explain the overall favorable assessment.
- Second, while acknowledging the generally high level of satisfaction with Fund TA, the report infers from the comments of some officials that large amounts of Fund TA have not resulted in sustained improvements in local capacity and that there is a major problem with the “programming of technical assistance” (para. 33). Improvements in local capacity in PRGF-eligible countries are influenced by a number of factors, including the retention of trained counterparts.
- Finally, regarding the lesson drawn in para. 55 (second bullet) about avoiding supply-driven work programs, current Fund practice anchors the work of functional departments in the priorities of area departments, including in TA and economist assignments. The responsibilities between area and

functional departments are now clearer and their collaboration is closer than used to be the case.

7. Conclusions about the value of outreach should be better anchored in the underlying survey results. About half of respondents to the civil society organizations survey considered that their views had been reflected in Fund discussions with country governments, and that their discussions with the Fund had contributed to building national support for policies (para. 37). The companion paper on PRGF countries also conveys the CSOs’ positive perceptions of the Fund’s role and the authorities’ preference for greater engagement by the Fund in outreach.

## Comments on the Recommendations

8. Our views are provided on select recommendations with operational relevance for staff’s work going forward.

*Recommendations to make the Fund more attractive to country authorities and promote traction*

9. Staff agrees on the importance of further enhancing the international dimension of its surveillance and policy work. The Fund now delivers statistics and cross-country analysis through such vehicles as the *WEO*, *GFSR*, *REOs*, and *Fiscal Monitor*. Newer initiatives, such as the systemic five surveillance report, need to be taken further, together with ongoing work on large complex financial institutions and coordination of crisis-recovery strategies. Similar products have already been added to the Work Program.

10. The recommendation to increase the Fund’s specific expertise is important and significant progress is being made. Over time, the Fund has expanded its recruitment of mid-career and specialized staff in its effort to strengthen sector-specific institutional knowledge and better respond to members’ needs and requests. Effort to increase mid-career recruitment will continue to be part of departments’ strategies. The proposal to bring “more experts on country visits” does not seem to be shared by very many authorities (Figure 15), and should also be seen against the authorities’ desire for continuity on country assignments.

11. There are important drawbacks to the proposal to replace the Surveillance Agenda with “strategic agendas.” The proposed agendas may create an additional burden with little real effect on interactions with authorities. Importantly, as the Fund is embarking on a review of its surveillance mandate and modalities, the Board will have opportunities to consider ideas for reforms to improve surveillance and its traction. The key factor to consider is the ability to respond swiftly to changing circumstances.

*Recommendations to improve the effectiveness of outreach*

12. Staff agrees on the importance of coming to grips with current and past controversies. The communications toolkit, launched in March 2009, already provides extensive material for staff and is regularly updated to reflect ongoing reforms in Fund policies. The Interdepartmental Communications Group, chaired by the FDMD, is also working to facilitate the use of the communications toolkit in support of staff's increased outreach efforts. However, specific guidance on what staff "can and cannot say" seems excessively rigid.

*Recommendations to improve the management of interactions*

13. Enhancing candor and effective engagement with country authorities is undoubtedly important to staff, but the case for yet another task force is questionable. The first point to note is that candor is not so much a matter of training and "professional conduct" as much as of resolve on the part of country authorities, the Board, and management to support staff analysis even when it involves politically difficult messages. Indeed, the report itself finds that

"large majorities of respondents to the authorities' survey portrayed IMF staff as analytic, respectful, and responsive" (para. 47). The Fund has a broad and continuously updated training framework in place that supports staff and, in particular, mission chiefs in conducting country relations; a working group on Standards of Staff Conduct is already operating, with the participation of the Ethics Officer, to review and update associated rules. Rather than convene another task force to go into so narrow a set of issues, it would be more productive for HRD and relevant departments to consider ways to further deepen our guidance and training in this area.

14. We can sympathize with the desire to reduce staff turnover on country assignments and recognize the value of staff knowledge of country conditions. Significant efforts are being made in this regard. However, this proposal should be considered against other factors, including personnel management issues and the importance of bringing fresh and cross-country perspectives.