

IEO COMMENTS ON THE MANAGEMENT AND STAFF RESPONSES TO THE EVALUATION OF IMF INTERACTIONS WITH MEMBER COUNTRIES

Executive Board Meeting
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1. We appreciate the support by management and staff for some of the report's findings and recommendations, and in particular the recognition that there are important issues regarding the effectiveness and independence of Fund surveillance in large countries that deserve serious consideration. Despite this, there appear to be markedly different assessments of the extent of effectiveness of the IMF's interactions, and of the management of those interactions, and, as a result, a different take on the importance of some of IEO's recommendations.

2. To help the discussion of these issues by Executive Directors, we briefly set out our understanding of what lies behind the contrasting assessments, and clarify the reasoning behind some of the evaluation's recommendations. To this end, and in light of the Management and Staff Responses, this note focuses briefly on four topics: (i) what the evaluation evidence says about the Fund's effectiveness and strategic alignment in advanced and large emerging economies; (ii) the implications of the evaluation's findings about the candor of staff assessments of country conditions; (iii) what the evaluation says about country strategies for, and the management of, technical assistance; and (iv) the motivation behind the evaluation's recommendations. There are other points on which we differ with the Staff Response, but for the sake of brevity, we do not include them here.

3. First, what does the evaluation evidence say about the Fund's effectiveness and strategic alignment in advanced and large emerging economies?

- On the *effectiveness and quality* of Fund interactions, the evaluation did present some favorable evidence, but also much that was unfavorable and that warrants serious attention by the Board and management. Most striking in the cases of advanced and large emerging economies for example, which together account for 90 percent of global GDP, the evaluation noted that the IMF's interactions were not rated highly in areas such as the international dimensions of surveillance

covering coordination/spillovers, alerts about upcoming risks, and cross-country analysis. There are areas that are central to the Fund's main job and that will be essential for the Fund to improve if it is to respond effectively to the new responsibilities it has been given by the G-20, as well as more generally strengthen the Fund's surveillance for the whole membership.

- On *strategic alignment*, while management appears to agree with the IEO that the evaluation's strategic alignment indicators provide an important barometer of the effectiveness of Fund interactions and performance, the IEO sees more dissonance than alignment in key underlying scores for the advanced and large emerging economies. The Management Response finds encouragement in what it sees as "a high degree of strategic alignment between the authorities and staff on the purposes of Fund interactions in all countries." Yet the evaluation points to major differences between the staff views and the authorities' views in several key areas. For example, in the critical role of contributing to the development of policy frameworks highlighted in the Staff Response, the disconnect ranges from 38–39 percentage points for the advanced economies to 44 percentage points for the large emerging economies (in other words, 86 percent of staff working on the large emerging economies aimed to contribute to the development of policy frameworks, but only 42 percent of authorities wanted the IMF to do so). And on helping to build and maintain consensus outside government, the critical plank underpinning the outreach strategy, the differences range from 30–33 percentage points for the other advanced and large emerging economies to 45 percentage points for the large advanced economies. While for contributing to policy coordination, including the analysis of spillovers, the disconnect between the authorities of the large advanced economies and the staff working on them is 50 percentage points.

These gaps are too large for such strategically important functions; how to narrow them warrants careful consideration, and, in part, motivated the evaluation's recommendations to establish a strategic approach to interactions at the level of country groupings, as a well as at individual county level, in consultation with the country authorities.

4. Second, on the issue of candor in country assessments, which is arguably one of the most troubling findings of the evaluation, the IEO believes the position articulated in the Staff Response is too relaxed. The Management Response rightly states that: "Importantly, as the institution assists its members in securing a durable recovery from the crisis while striving to limit any recurrences, promoting candor in staff's assessments is critical." Yet in expanding on this statement, the Staff Response goes in another direction, pointing "...to the tension inherent in the authorities' receptiveness of tough messages..." The IEO is of the view that the issue is less the authorities' receptiveness (or not) to tough messages, but rather the value added of the message and the support that management and senior staff provide to staff conveying tough messages where necessary. Indeed, as Figure 14 of the main report shows, about half of surveyed staff working on advanced economies answered that they did not get backing from management and senior staff in tensions with the authorities, a recurring theme also of interviewed staff. Meanwhile, paragraph 13 of the Staff Response further blurs the discussion, by stating: "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..." While the IEO can fully sympathize with task force fatigue, the evaluation's evidence on how staff view their own caution in country assessments—and the support they do or do not receive from management and senior staff—suggests serious risks to institutional integrity and governance in core areas. We accordingly believe that the issue should be addressed expeditiously and by highly-visible action, and reported to the Executive Board, as recommended in the main report.

5. Third, on technical assistance (TA), there is actually less disagreement between the IEO and the staff than the Staff Response suggests—although there is some. Contrary to what paragraph 6 of the Staff Response suggests, the IEO does *not* believe—nor does the evaluation report say—that the regional technical assistance centers (RTACs) operate independently from headquarters; the evaluation report simply echoes the positive feedback on RTAC activities and staff that

interviewed officials voiced. Also contrary to the Staff Response, the IEO report recognizes that a number of factors affect the translation of technical assistance into enhanced capacity on the ground. Indeed, these are factors that Fund staff need to take into account in proposing technical assistance activities and appraising their likely results. More generally, the IEO report acknowledges that the different departmental responsibilities "are now clearer and their collaboration is closer than used to be the case." This said, there are differences with the Staff Response, since the IEO report says that more progress is needed, especially in the formulation of country TA strategies, a point volunteered by interviewed staff in both area and functional departments that also resonated with comments of interviewed officials from some PRGF-eligible countries.

6. Fourth, the Staff Response takes issue with some of the evaluation's recommendations, including the specificity with which they have been formulated. Three points are warranted at this stage.

- First, IEO's experience with past recommendations designed to address similar issues has not been reassuring. For example, the 2007 recommendation that management take a strategic approach to identify opportunities to improve the effectiveness of the dialogue with authorities was met by "surveillance agendas," which have subsequently been dropped without clarity on how that recommendation would then be carried out. Similarly, follow-up on the recommendation that management and the Board send clear signals of support for the staff's conveyance of difficult messages has not been sustained. In the circumstances, IEO saw the need for recommendations in these areas with clearly monitorable actions, designed to assist the Board in its oversight role of management.
- Second, the package of recommendations as a whole responds to the evaluation's major findings, for example on the Fund's perceived limited value added in surveillance-only relationships; the various unresolved outreach issues highlighted in the report; and the many relationship management issues, including with respect to too much staff turnover, too little staff training, and too little staff and management accountability.
- Finally, the recommendations reflect the need to improve the IMF's effectiveness both in responding to the longstanding challenge of bringing value added to surveillance-only relationships and in meeting its new responsibilities on international policy coordination. They were designed to help improve Fund performance in the near term, when crisis conditions prevail with implications for demand for Fund services, but also beyond, when the challenges of maintaining traction will continue.