CHAPTER

3 Recurring Issues from IEO Evaluations

A. Executive Board Guidance and Oversight

17. The Executive Board is "responsible for conducting the business of the Fund" (Article XII, Section 3 of the IMF's Articles of Agreement), and it is under the Board's direction that the Managing Director conducts "the ordinary business of the Fund" (Section 4). As such, the Board plays the critical role in setting strategic policies for the institution and overseeing their implementation. Not surprisingly, then, as many as 36 findings across 14 evaluations relate in one way or another to the Executive Board (see Annex 1 for the complete list of findings).

18. Of the 36 findings, 16 identify a lack of clear guidance by the Board as a recurring weakness. For example, clear Board guidance has been found to be lacking with respect to: (i) an operational definition of the prolonged use of Fund resources (i.e., incidence of a country engaging in successive IMF arrangements over a sustained period) (IEO, 2002); (ii) the IMF's longer-term role in low-income countries (IEO, 2002 and 2004a); (iii) how to apply existing guidelines on the handling of social expenditure in the light of a new initiative (IEO, 2003b); (iv) the role of the IMF relative to other providers of technical assistance (IEO, 2005a); (v) the place of capital account and trade policy issues in the IMF's country or analytical work (IEO, 2005b and 2009a); (vi) what constitutes a systemically important country from the standpoint of global financial stability (IEO, 2006a); (vii) the design of structural conditionality, in the light of the Fund's initiatives to streamline conditionality (IEO, 2007c); and (viii) the meaning of criticality in the information disclosure principle (IEO, 2013).

19. IEO evaluations have pointed to a number of factors contributing to the lack of clear guidance by the Board. First, especially in areas outside the IMF's core mandate, the Board is sometimes wary of being prescriptive, considering that the staff's use of good judgment would suffice (IEO, 2002 and 2004a). Second, on issues where professional consensus is lacking or multiple trade-offs are involved, it is difficult for Board members to come to a unified institutional position (IEO, 2005b and 2007b). Moreover, as some people interviewed for this evaluation noted, philosophical differences or divergent national interests across the membership can also make it difficult for the Board to agree on a single institutional position. Third, the summing-up process for Board discussions, which tends to express Board decisions in nuanced language, can contribute to a lack of clarity in the Board's guidance (IEO, 2008).

20. IEO evaluations have noted that lack of clear guidance from the Board has had some undesirable or unintended consequences, such as: (i) failure to consistently apply due-diligence procedures (IEO, 2002); (ii) providing IMF financing when there was no need, in order to perform a task expected by the international community (e.g., giving the IMF's seal of approval for a member's policies) (IEO, 2002); (iii) inconsistency in the IMF's policy advice across the membership (IEO, 2005b); (iv) blurred emphasis on maximizing the contribution of the Financial Sector Assessment Program (FSAP) to strengthening global financial stability (IEO, 2006a); (v) pervasive structural conditionality despite the Fund's streamlining initiatives, which sought to reduce this (IEO, 2007c); and (vi) diminution of the IMF's ability to engage in discussions with authorities at an early stage of the policy formulation process (IEO, 2013).

21. The remaining 20 of the 36 Board-related findings concern the role of the Executive Board in its oversight function and more broadly within the IMF's overall governance structure. For example, the Board was found to be less than fully effective in: (i) considering alternative strategies during crisis management, given Management's understandable reluctance to share highly market-sensitive information (IEO, 2004b); (ii) providing an effective peer review of financial sector assessments or in multilateral surveillance, given the Board's lack of necessary information or direct access

to senior policymakers (IEO, 2006a, 2006b, and 2007b); and (iii) proactively providing strategic direction or exercising oversight of policy implementation (IEO, 2008).

Actions taken to resolve problems

22. Some of the specific Board-related problems identified by IEO evaluations have been fully resolved (see Annexes 1 and 2 for details). A formal definition of the prolonged use of Fund resources—known as longer-term program engagement (LTPE)—was adopted in 2003 (IMF, 2003a). In 2005, the Policy Support Instrument was introduced as an alternative IMF "seal of approval" for members' policies, thus eliminating the need to use an IMF lending arrangement for that purpose (IMF, 2005e). In 2007, the Board concluded that the primary focus of the IMF's work in low-income countries was to provide policy advice and technical support on the design of appropriate macroeconomic policies, and not to actively mobilize aid (IMF, 2007f and 2007l). In 2009, structural performance criteria were altogether abolished in all IMF-supported programs (IMF, 2009g). The Board also agreed to periodic reviews of IMF work on trade policy every five years, with the first review planned for 2014 (IMF, 2009l). In 2010, the Board agreed on a list of 25 jurisdictions whose financial sectors were the most significant for the global financial system and made them subject to mandatory financial stability assessments every five years (IMF, 2010g); the list was recently reviewed and augmented (IMF, 2013u). In 2012, the Board discussed an institutional view on member countries' use of capital controls (called capital flow management measures) (IMF, 2012l).

23. Recent actions to help improve the Board's effectiveness include raising the number of Alternate Executive Directors for multi-country constituencies (Box 1); undertaking ex post assessments of some programs, to allow the Board to reflect upon past activities of the IMF and to apply any lessons; and—in accordance with an agreement reached in November 2010 on Board practices (IMF, 2010l)—increasing the focus on strategic country and policy issues through the use of lapse-of-time procedures and better prioritization and timing of policy items. Staff-chaired sessions, for which the attendance of the staff of Offices of Executive Directors (OED) is understood to be optional, have been used to limit the number of Board meetings. Board members who were interviewed for this evaluation stated that Executive Directors are now much more proactive than previously in seeking information from Management and staff, thanks in part to recent innovations designed to enhance the Board's involvement in strategic decisions.

Outstanding issues

24. As important as these improvements are, a number of issues remain outstanding (see Box 2 on selected views of Executive Board members). Executive Directors representing various national interests are bound to disagree on some important issues. Because many of the issues are ultimately related to the governance of the IMF, quick fixes cannot be expected. In discussing the IEO evaluation of the *Governance of the IMF* (IEO, 2008), the Executive Board and the Managing Director issued a joint statement, noting that the IEO report was "part of an ongoing process to strengthen the IMF's governance framework" and that many of the issues were "complex, interrelated, and [needed] to be discussed holistically" (IMF, 2008e).

25. The Executive Board Working Group on IMF Corporate Governance in 2008 (IMF, 2008j), and the Management-appointed external panel chaired by Trevor Manuel in 2009 (Manuel and others, 2009), issued recommendations to address some of the issues raised by the IEO. The Board endorsed the Managing Director's proposal to reconvene a Joint Steering Committee one year following the discussion of the IEO evaluation in order to consider all of the recommendations issued. But Executive Directors' expectations notwithstanding, this has never occurred.

26. Achieving greater candor in the documents prepared for the Board could go some way towards strengthening the Board's oversight function. A number of IEO evaluations have observed that candor was often either lacking or watered down in staff reports, providing the Board less than a firm basis for asking hard questions about risk assessments (IEO, 2004b and 2006a). The IMF has addressed the need to increase candor as part of its ongoing review process. The 2011 Triennial Surveillance Review (TSR) reiterated the importance of creating incentives for candor among IMF staff (IMF, 2011w; see also IMF, 2011i). The large number of deletions from staff reports before the reports are released to the public may be an indication of increased candor in the original versions submitted to the Board (IMF, 2013i). Nonetheless, transparency is a double-edged sword. The IEO evaluation of *The Role of the IMF as Trusted Advisor* noted that authorities at

Box 1. Selected Recent Innovations in Executive Board Procedures and Practices

Innovations have been introduced in Board procedures and practices in recent years to increase effectiveness. Some of these are highlighted below:

Reform of Quota and Voice in the International Monetary Fund (IMF, 2008a)

- Constituencies representing seven or more member countries are now allowed to appoint an additional Alternate Executive Director. The general rule entered into force in March 2011 (IMF, 2011d).

Modification of Access Policies for the Poverty Reduction and Growth Facility and the Exogenous Shocks Facility (IMF, 2009h)

- Procedural safeguards were introduced in the form of a required informal Board meeting when a financial request (either for a new arrangement or for augmentation of an existing arrangement) would lead to a country's exceptional access. A similar requirement had already been in place since 2003 for stand-by arrangements and the use of the Extended Fund Facility (see IMF, 2003b).

Omnibus Paper on Easing Work Pressures (IMF, 2009p)

- Multi-country ex post assessments (EPAs) and ex post evaluations (EPEs) are now allowed in order to prevent a bunching of the EPA- and EPE-related workloads.

Executive Board Working Group on Committees (IMF, 2010l and 2012d)

- Better scheduling of meetings and streamlining types of meetings were seen to have improved prioritization and work program planning.
- Increased use of lapse-of-time procedures and of "green" statements (allowing Directors to express views without calling for a Board discussion) was seen to have reduced workload and achieved better focus on strategic issues.
- Issuance of joint "grays" (preliminary statements) and implementation of an earlier deadline were seen to have eased preparation for Board meetings.
- Stricter observance of time limits on interventions and more active Management chairing were seen to have improved the focus of Board discussions.

Executive Directors' Working Group on Summings Up (IMF, 2013b)

- Stakeholders' familiarity with the "rule of silence" and the way post-Board meeting comments are reflected in the summings up were clarified.
- A periodic stock-taking exercise on the effective preparation of summings up was introduced.
- The role of the Chair in ensuring that summings up adequately capture the views expressed by Executive Directors was reaffirmed.
- Qualifiers used in summings up (last updated in 2010) were deemed appropriate.

times refrained from raising an issue on which they might want the IMF's views, for fear that their concern might be aired in the staff report (IEO, 2013). How to involve the Board to increase its effectiveness remains a challenge.

B. Organizational Silos

27. Evidence of organizational silos, and inadequate integration of work done by different parts of the IMF, has been identified by 39 findings across 12 evaluations (see Annex 1 for the complete list of findings). Silos are a feature of any complex organization and are not a bad thing in themselves. But silo behavior, marked by poor coordination among different parts of the organization, is of concern. Silo behavior can result in weak analysis if it causes insufficient integration of work across IMF departments, especially between bilateral and multilateral surveillance or between financial sector and macroeconomic analysis. Silo behavior could also affect the IMF's internal review process.

28. IEO evaluations have identified silo behavior in, for example, insufficient incorporation by area departments of constructive comments received from review departments on surveillance and program design (IEO, 2003b and 2011a); insufficient integration of global perspectives into bilateral surveillance (IEO, 2006b and 2007b); turf battles between departments (IEO, 2011a); and discrepancies in the advice provided in different products produced by different departments (IEO, 2013).

Box 2. Selected Views of Executive Board Members on Executive Board Oversight

- The Executive Board has become more effective in its oversight role, with Board members proactively requesting information from Management and staff on critical issues. The Board is no longer the "rubber stamp" that it used to be.
- Until there is an effective mechanism to restructure sovereign debt, Executive Directors have little choice but to support a program even when they have debt sustainability concerns.
- Early consultation in exceptional-access cases is an improvement, but confidentiality concerns ultimately limit the willingness of Management to involve the Board in critical decisions.
- Informal Board meetings allow honest and candid discussion; they give Executive Directors greater independence from their authorities as well as an opportunity to influence decisions at an early stage.
- Frequent use of informal Board meetings has drawbacks. Because there are no written records or summings up, and Executive Directors act less in their official capacity, accountability is lacking.
- Lapse-of-time procedures have sometimes compromised the quality of bilateral surveillance in smaller countries.
- At the heart of limited Board effectiveness is the dual role of Executive Directors. They have tended to act more as representatives of their governments than as IMF officials. This has made the Board less independent of member governments and hence less effective in protecting the technical independence of staff. The typical term of an Executive Director is too short for acquiring the IMF-specific knowledge needed to assume the role of an IMF official effectively.
- Summings up, still opaque and unreadable to the public, do not fully capture the rich discussions that take place at the Board.

Source: IEO interviews.

Actions taken to resolve problems

29. In addressing these concerns, the IMF has for the most part preferred to strengthen existing mechanisms of interdepartmental coordination rather than make radical organizational changes. Considerable efforts have been made to promote interdepartmental cooperation in recent years. For example:

- At present, weekly Surveillance Committee meetings are led by Management. According to the 2011 TSR, these have improved cross-departmental information sharing and consultation, as have a number of interdepartmental groups, such as the Low-Income Country Consultative Group and the Financial Sector Surveillance Group (IMF, 2011w).[6] Senior staff members who were interviewed for this evaluation confirmed these observations to the IEO.
- The IMF has revamped the interdepartmental review process to facilitate the incorporation of views from across the institution. In 2004, Management introduced several changes designed to make the internal review process more effective, including early consultations between originating and reviewing departments. For Article IV consultations and new program briefs, pre-brief meetings are now mandatory, bringing together the originating and review departments for a discussion of the main policy issues (IMF, 2004e). Additional improvements were introduced in 2009 to make the process more strategic and effective, including the establishment of interdepartmental policy consultation meetings for Article IV and use of Fund resources (UFR) missions (IMF, 2009b).
- Efforts to integrate bilateral and multilateral surveillance are evolving, especially for systemically important countries. The Managing Director's Medium-Term Strategy called for greater use of cross-country analysis and discussion of regional or global spillover effects (IMF, 2005g). In 2006, the International Capital Markets and Monetary and Financial Systems Departments were merged, with a view to integrating multilateral and bilateral surveillance in financial areas. The Statement of Surveillance Priorities (SSP) for 2008–11 called for identifying key multilateral surveillance issues that should provide context for bilateral surveillance (IMF, 2008k; also IMF, 2007i). Most significantly, in 2012, the Integrated Surveillance

[6] In addition, the Risk Working Group manages the Global Risk Assessment Matrix (G-RAM), Early Warning, and Vulnerability Exercises (see Section C for details).

Decision, highlighting the need to embed bilateral surveillance in a multilateral perspective, institutionalized the integration of the two strands of surveillance (IMF, 2012f).

- The IMF has introduced new surveillance products that integrate bilateral and multilateral perspectives. In 2009, the first issue of what would become the Fiscal Monitor was prepared as a staff position note to identify emerging fiscal risks (Horton, Kumar, and Mauro, 2009; see also IMF, 2009k). In 2011, the Spillover Report was launched to focus on the external effects of domestic policies in five systemically important economies (IMF, 2011m); this was followed by the introduction of the Consolidated Multilateral Surveillance Report drawing on the IMF's established multilateral surveillance products (IMF, 2011v and 2012c). In 2012, the IMF began to prepare the pilot External Sector Report, which combines multilateral and bilateral perspectives in a single report (initially covering 28 large economies and the euro area) and is produced by a group representing 11 departments (IMF, 2012g). Another recent innovation has been to cluster the Article IV consultations of highly interconnected economies, as a way to focus on the regional spillovers of policies pursued by individual countries (IMF, 2013m and 2013o).
- In 2006, area departments began to prepare technical assistance (TA) country strategy notes on a pilot basis. In 2008, these were replaced by Regional Strategy Notes (RSNs), which provide a basis for annual discussions between area and functional departments on the allocation of TA resources (IMF, 2007n; see also IEO, 2014).

Outstanding issues

30. The various initiatives noted above may have facilitated the integration of different strands of work done in different parts of the institution. No definitive assessment of their outcome is possible yet. But a number of recent staff reviews suggest that given the institutional inertia the integration of different strands of activity is still a work in progress. For example, in the area of technical assistance, the 2011 Conditionality Review highlighted the need to better integrate TA delivery with surveillance and program work (IMF, 2012e; see also IMF, 2011a).

31. In the task of integrating macroeconomic with financial work, part of the difficulty comes from the inherent analytical challenge, as acknowledged in the concept note for the ongoing 2014 TSR (IMF, 2013p) as well as by IMFC members during the 2013 Annual Meetings (IMF, 2013q). There are also binding resource constraints. Some people interviewed for this evaluation noted that the attempts to integrate multilateral and bilateral surveillance within the IMF's existing resource envelope have strengthened multilateral surveillance at the expense of bilateral surveillance, especially in less systemically important countries.

C. Attention to Risks and Uncertainty

32. Insufficient consideration or acknowledgement of risks and uncertainty has been identified as an issue by 11 findings across seven evaluations (see Annex 1 for the complete list of findings). All but one of these findings come from earlier IEO evaluations (the latest is from 2006), however, suggesting that the IMF's ongoing efforts to strengthen risk assessment in program and other documents have borne fruit.

33. The past IEO evaluations observed: (i) insufficient discussion of major risks and of the link between assumptions and targets in program design (IEO, 2002, 2003b, and 2004b); and (ii) reluctance to analyze the financial-stability consequences of politically sensitive shocks such as public debt defaults (IEO, 2006a). These weaknesses, the IEO observed, led to: (i) difficulty of making timely mid-course corrections of the logic or design of programs when assumptions turned out not to hold; and (ii) lack of a fallback strategy—which made it difficult to withdraw support when sustainability was called into question.

34. Risks and uncertainty were better recognized in internal reviews, but in staff reports they were often either not acknowledged or were toned down. The IEO *Prolonged Use* evaluation (IEO, 2002) explained the characteristic lack of candor in staff reports as reflecting the belief that the primary purpose of IMF-supported programs was to give confidence to members. In the conduct of surveillance the IMF has a legitimate desire not to alarm markets unnecessarily.

Actions taken to resolve problems

35. In the context of program design, the IMF strengthened its balance sheet and debt sustainability analyses considerably following the 2004 Review of the Design of Fund-Supported Programs (IMF, 2004f) and the 2005 Review of the Conditionality Guidelines (IMF, 2005b). Moreover, the 2011 Conditionality Review

(concluded in 2012) called for the development of a framework for tailored tests of robustness, based on better risk diagnostics and stronger assessments of debt sustainability, stating that risks to program success, financial risks to the IMF, and systemic risks should be considered in program design (IMF, 2012e).

36. Risk assessment in the course of IMF surveillance has been a priority area for strengthening since the 2008 TSR (IMF, 2008i). In 2009, the IMF launched the semiannual Early Warning Exercise (EWE), designed to identify tail risks (low-probability events with high impact) (IMF, 2009d and 2009q). In 2009 and 2011, the Vulnerability Exercise (VE), which initially had been carried out only for emerging-market countries, was extended to cover advanced economies and low-income countries, respectively (IMF, 2011w and 2011e). In 2009 and 2013, the Risk Assessment Matrix (RAM) and Global Risk Assessment Matrix (G-RAM) were introduced, to assess key country-specific and global risks, respectively (IMF, 2009s and 2012m).[7] The *Global Financial Stability Report (GFSR)* has enhanced its focus on risks to financial stability, just as the *World Economic Outlook (WEO)* has increased its attention to risks and alternative scenarios. Debt sustainability analysis (DSA) is now a standard element in Board documents for Article IV consultations. FSAP procedures have been revised to require missions to cover all major risks, including those that may be politically sensitive (IMF, 2009s), while the Surveillance Guidance Note states that staff reports should be candid about risks (IMF, 2012m).

37. While a definitive assessment of the impact of these recent initiatives must wait for a full evaluation, a review of recent staff documents reveals that assessments of risks and uncertainty in program design and surveillance are now routine. With respect to surveillance, IMF staff stated in the concept note for the ongoing 2014 TSR that "there is a sharper focus on risks" (IMF, 2013p). The concept note, however, hastens to add a more cautionary remark: "the depth of analysis varies and discussion of the transmission channels and policy responses could be strengthened." At the 2013 Annual Meetings, similar assessments were provided by IMFC members, who encouraged the IMF to continue to strengthen the analysis of risks and spillovers (IMF, 2013q).[8] As noted by interviewees for this evaluation, the IMF's ability to analyze risks openly is ultimately limited by the willingness of authorities to disclose data and to engage in frank and open discussion with staff.

D. Country and Institutional Context

38. Insufficient attention to country specificity and institutional context has been identified by 26 findings across 13 IEO evaluations as a weakness in the IMF's analytical work and policy advice (see Annex 1 for the complete list of findings). In the context of IMF program design, country specificity and institutional context often refers to the political economy issues of ownership and implementation capacity. In other areas of the IMF's operational work, such as technical assistance, surveillance, and research, a lack of adequate country and institutional context diminishes the effectiveness, value-added, and traction of what the IMF offers.

39. For example, past IEO evaluations have found that: (i) structural conditionality was subject to unrealistic deadlines because of insufficient consideration of country-specific implementation capacity, feasibility, or political constraints (IEO, 2004a and 2009b); (ii) authorities across country groups complained that the analytical framework used in IMF research was not suited to the realities of their countries (IEO, 2011b); and (iii) a number of country authorities complained that IMF staff lacked adequate knowledge of country-specific background and operational details, so that their advice was overly generic and "one-size-fits-all" (IEO, 2007b and 2013).

40. Aspects of the IMF's staffing policies have made it more difficult for the institution to develop and maintain deep country knowledge. The downsizing of IMF staff and the shorter durations of country missions in recent years have not helped strengthen country-specific knowledge and expertise (IEO, 2013). Related to this finding is the high turnover of staff on country assignments, as noted by 11 findings across 10 evaluations. Interviews with Executive Board members and senior staff suggest that concerns about lack of country familiarity and about high staff turnover are much more pronounced with respect to smaller or fragile (and often low-income) countries; the IMF's more experienced staff members tend to be assigned to larger economies and have institutional incentives to remain engaged there.

41. Some of the staff members interviewed indicated that, in some cases, authorities complain about the lack of country and institutional context in IMF advice either when they disagree with the advice or when they know that it is sound but not feasible. The interviewees

[7]The G-RAM exercise is managed by the interdepartmental Risk Working Group, in which both area and functional departments participate.

[8]See, for example, the statement by Rimantas Sadzius, Chairman of the EU Council of Economic and Finance Ministers.

stressed the need to provide "first-best" advice to authorities based on objective analysis even when the advice is known not to be feasible. But while these considerations caution against accepting all criticisms at face value, the staff's commentary must also be put in perspective. The survey of mission chiefs and resident representatives done for IEO (2013) noted the importance of offering the "feasible-best" advice in order to gain traction with authorities as a trusted advisor.

Actions taken to resolve problems

42. The IMF has addressed the issue of inadequate country and institutional context through periodic internal reviews. The 2005 Review of the Conditionality Guidelines found that substantial changes had been made to strengthen national ownership (IMF, 2005b); the 2008 Revision of the Operational Guidance Note on Conditionality made substantial enhancements to guidance on the IMF's engagement in promoting ownership (IMF, 2008g). The 2011 TSR reiterated that prior to Article IV missions the mission team should exchange views with authorities on key issues (IMF, 2011w).

43. The IMF has made several attempts, starting in 2004, to achieve greater staff continuity in surveillance work and to build up country-specific knowledge. New measures were introduced in 2011 to balance the demand for cross-country experience among staff, on the one hand, with mission team continuity (targeted to last three years, on average), on the other (IMF, 2012a). In 2013, Management reaffirmed the target of three years on average for country assignments, as well as the need for a systematic procedure to hand over knowledge from outgoing to incoming mission members (IMF, 2013l). Such a system is now in place in all departments (e.g., IMF, 2013w).

Outstanding issues

44. More progress on country and institutional specificity may have been achieved in program design than in surveillance. The 2011 Conditionality Review concluded that "programs were generally well-tailored to country needs and characteristics" and that the design of conditionality tended to match country capacity (IMF, 2012e). In the area of surveillance, the 2011 TSR did not offer a self-assessment of the country-specificity of IMF advice but it mentioned that in a survey of authorities a majority of them had emphasized the need for more tailored policy advice. Especially the authorities from emerging and low-income countries had expressed a desire to see IMF staff become more aware of, and sensitive to, their circumstances (IMF, 2011w). Tailoring policy advice to country circumstances remains a priority theme for the ongoing 2014 TSR (IMF, 2013p), as was reinforced recently by IMFC members during the 2013 Annual Meetings (IMF, 2013q).[9]

45. The IMF's work must be responsive to country and institutional context if it is to achieve relevance and traction. Yet, as expressed by staff members interviewed for this evaluation, the IMF should not shy away from providing the authorities with the "first-best" advice. The staff's country and institutional knowledge can never be expected to match that of the authorities, who may therefore never be satisfied with the country-specificity of IMF advice. And especially given the Fund's increasingly tight budget constraints, trade-offs need to be managed between the need for cross-country experience and the need for country-specific knowledge. The fundamental problem is that there are no objective criteria to assess how well the IMF is performing in this area. Without such a metric, efforts to make the IMF's analytical work and policy advice more responsive to country and institutional context may always be a work in progress.

E. Evenhandedness

46. Evenhandedness is another difficult concept to define and measure. It denotes similar treatment of members with similar circumstances, but the meaning of the word "similar" is subject to interpretation. Lack of evenhandedness, whether real or perceived, has been flagged by 18 findings across 10 evaluations, from one of the earliest to the latest (see Annex 1 for the complete list of IEO findings). In a statement to the October 2013 IMFC meeting, Obaid Humaid Al-Tayer, Minister of State for Financial Affairs of the United Arab Emirates, observed that "persistent concerns about evenhandedness" were "recurring themes in reports of the Independent Evaluation Office" (IMF, 2013q). Members of the Executive Board have expressed a range of views to the IEO on the question of evenhandedness (Box 3).

[9]For example, Oh-Seok Hyun, Deputy Prime Minister and Minister of Strategy and Finance for the Republic of Korea, stressed the importance of becoming "more attentive to various country-specific circumstances when framing policy advice, including with respect to the institutional arrangements for macro-prudential policy." Likewise, Jim Flaherty, Minister of Finance for Canada, stated that traction with members required "better tailoring surveillance and advice to the needs of members through more country-level specificity."

Box 3. Selected Views of Executive Board Members on Evenhandedness

- Perception that the IMF is an instrument of its main shareholders to achieve their own policy objectives is deep-rooted. Several recent cases were mentioned.
- Evenhandedness is a real issue, not just an issue of perception. Just recently, an Article IV staff report was seen to be insufficiently critical of the policies of a large industrial country even though the spillover of these policies to the rest of the world was significant.
- Treatment of members with similar circumstances should be uniform in analysis and policy advice, even though IMF voting power is unevenly distributed.
- The fact that large emerging market economies are most vocal about lack of evenhandedness does not mean that the concern is limited to these countries. Smaller developing countries feel the same way but they do not raise the issue in order not to jeopardize their relationship with the IMF.
- Staff exercise self-censorship to moderate their statements on larger countries, but not on small low-income countries (LICs). Likewise, authorities see staff as more lenient in program reviews with euro area countries than with small LICs.
- More resources are devoted to research and selected issues papers on advanced countries than on LICs, even though LICs would benefit more from IMF research on their economies.

Source: IEO interviews.

47. Few IEO findings have identified outright cases of asymmetric treatment. Much of the evidence on lack of evenhandedness comes from surveys and interviews. Because a perception is typically held by different subsets of countries on different issues, weighing the balance of evidence requires judgment. Ultimately, the perception of lack of evenhandedness is rooted in the uneven distribution of decision-making power within the IMF.

48. Past IEO evaluations have found asymmetry of treatment in three areas (see Box 4):

- *Analysis*. The evaluations identified differences in the IMF's analysis between advanced and emerging market countries and between high-income and low-income countries, for example with respect to the focus of policy advice on managing capital flows (IEO, 2005b and 2012) or the allocation of resources devoted to research (IEO, 2011b).
- *Influence*. Here the concern has not been about larger shareholders yielding greater influence in the IMF's decision making—because the IMF is a quota-based institution, some countries legitimately enjoy greater voice than others. Perceptions of a lack of evenhandedness have arisen when political influence was seen to be exercised in a nontransparent way. Asymmetry in influence was noted with respect to the content of conditionality (IEO, 2009a) or the focus of surveillance—for example on exchange rates (IEO, 2009b) or international reserves (IEO, 2012)—which were perceived to be dictated by the interests of major shareholders.
- *Candor*. Evidence gathered by the IEO pointed to differences in the IMF's candor between large and small countries and between advanced and nonadvanced countries. Staff were found not to deliver (IEO, 2011a), or to feel strong pressure not to deliver (IEO, 2013), candid messages about risks and vulnerabilities to the larger or more advanced economies.

These examples are interrelated. For instance, the finding that information was more frequently deleted from staff reports for advanced countries than for others (IEO, 2013) pertains not only to asymmetries in the IMF's candor but also potentially to influence exercised by major shareholders.

49. Some of the perceived asymmetric treatment may reflect fundamental differences between larger and smaller countries. Larger countries are more systemically important and thus deserve more of the IMF's analytical resources. Research on low-income countries may face greater constraints on data availability. The IMF's 2013 Review of Transparency Policy (IMF, 2013i) noted that the greater incidence of deletions from staff reports for advanced countries might reflect the greater amount of market-sensitive information in these countries or their greater capacity to scrutinize the Board documents before publication. With respect to asymmetry in influence, IEO (2002) attributed the

Box 4. Typology of IEO Findings on Evenhandedness

Past IEO findings relate to three broad types of asymmetric treatment of members by the IMF:

Asymmetry in analysis

- IMF advice on managing capital flows focused almost exclusively on the policies to be adopted by emerging market recipients and not sufficiently on the supply-side policies in advanced countries (IEO, 2005b and 2012).
- Far more resources were dedicated to research on advanced countries, at the expense of low-income countries where the impact of IMF research would be greater: about 40 percent of country authorities and 60 percent of staff subscribed to this view (IEO, 2011b).

Asymmetry in influence

- Among countries with similarly restrictive trade policies, IMF conditionality on trade policy was extensive in some but absent in others, reflecting the interference of large shareholders (IEO, 2009a).
- The views of influential shareholders were seen by some countries to underlie the IMF's focus on excessive reserve accumulation as a threat to international monetary stability (IEO, 2012).
- The 2007 Surveillance Decision and the recent euro area programs were cited by some authorities as cases of lack of evenhandedness (IEO, 2013).

Asymmetry in candor

- A higher proportion of staff working on advanced countries than on other countries felt pressure to dilute coverage in staff reports in order to preserve smooth relationships with authorities (IEO, 2007b).
- While staff had repeatedly warned smaller advanced and emerging-market countries about the buildup of risks in their economies, they had delivered upbeat messages to the largest systemic financial centers even though those were similarly vulnerable. Staff felt less comfortable presenting difficult messages to large advanced economies (IEO, 2011a).
- Nearly 50 percent of mission chiefs for advanced countries admitted having felt political pressure to dilute candor (IEO, 2013).
- The number of deletions and corrections in staff reports was larger for advanced and emerging-market economies than for low-income countries; 93 percent of the staff reports for advanced countries had been subjected to deletions or corrections (IEO, 2013).

The adverse consequence of perceptions

- Almost half of mission chiefs considered that perceptions of lack of evenhandedness had adversely affected their work with emerging-market economies (IEO, 2013).

perception of political interference in program design to the lack of a formal, transparent channel to feed political judgment into the IMF's decision-making process prior to formal Board decisions.

50. The 2011 TSR observed that evenhandedness was a continuing source of concern (IMF, 2011w). Nearly a quarter of the officials surveyed for the TSR, including a majority of the G20 respondents, thought that the IMF was not evenhanded in its policy advice. Some interviewees for the TSR linked the willingness to accept candid advice with greater evenhandedness on the part of the IMF, perceiving the IMF as insufficiently critical of the policies of its major shareholders. The TSR concluded that transparency and consistency in the use of methods were important to dispel such concerns. Likewise, the 2013 Review of Transparency Policy concluded that about half the Executive Directors who were surveyed viewed the application of policy as not evenhanded, though there was no objective evidence of systematic bias in favor of larger, more advanced countries (IMF, 2013i).[10]

51. The concept note for the ongoing 2014 TSR observed that concerns about the evenhandedness of IMF surveillance "[seemed] to have become more acute in the past few years" (IMF, 2013p). While the survey conducted for the 2011 Review of Conditionality states that stakeholders perceived program conditionality and design to be evenhanded, the review also noted the extraordinarily large access to Fund resources in the recent euro area programs as a potential exception (IMF, 2012e). The 2013 Report on Risk Management informed the Executive Board that the euro area

[10]The comparable figures for mission chiefs and authorities were some 30 percent and 16 percent, respectively. While the modification rate was higher for advanced countries, this may have reflected a higher rate of complaint by these countries, given that they had more resources at their disposal to scrutinize IMF documents before publication.

programs had created the perception that European member countries had excessive weight in the IMF's decisions relative to their economic power and that the IMF's programs in the European Union had more lenient conditions than those in Asia (IMF, 2013n).

Outstanding issues

52. Evenhandedness is still an issue, as evidenced by the October 2013 statements of some IMFC members (IMF, 2013q). South African Finance Minister Pravin Gordhan, for example, observed that, in the perception of many African countries, the policy on deletions and corrections for Article IV staff reports was not consistently applied across the membership despite recent efforts.[11] Likewise, Governor Zeti Akhtar Aziz of the Bank Negara Malaysia stated: "The efforts to effect more evenhanded, comprehensive, and effective surveillance practices are welcomed. In this respect, more balanced views and recommendations from the IMF to address the various global issues should be applied to both advanced economies and EMDCs." A continued need to enhance evenhandedness was mentioned by several other Governors and Alternate Governors of the IMF on this occasion.[12]

53. Perceptions of a lack of evenhandedness are difficult to deal with, but IEO evaluations suggest that greater transparency in the Fund's work may be part of the solution. IEO (2005b), while noting that the IMF had not been applying a one-size-fits-all approach, concluded that failure to provide a clear rationale for a particular piece of advice had created the perception of a lack of evenhandedness. Likewise, IEO (2007b), after finding no clear-cut cases of uneven treatment of countries in a sample of 30 countries, concluded that the IMF could help mitigate such perception by providing a better explanation for policy advice with a similar level of analytical detail. IEO (2013) concluded that legacy and "stigma" issues could only be addressed over time—a task that may ultimately need to involve rectifying the IMF's governance deficiencies.

54. Clear signals by Management of the need to engage in candid dialogue with all countries appear essential. Yet with some countries, achieving a candid dialogue is not easy. In discussing the IEO evaluation of *IMF Performance in the Run-Up to the Financial and Economic Crisis* (IEO, 2011a), Executive Directors agreed that incentives needed to be strengthened to ensure that the IMF speaks truth to power, while noting that doing so was exceedingly difficult for any cooperative institution. In discussing the MIP for the IEO evaluation of *The Role of the IMF as Trusted Advisor,* a number of Executive Directors suggested that addressing IMF governance deficiencies would help mitigate the perception of the lack of evenhandedness (IMF, 2013k).

[11] To allay concerns about lack of evenhandedness in the application of transparency policy, the IMF has prepared an annual table on all modification requests, allowing Executive Directors to assess whether countries are being treated evenhandedly.

[12] See, for example, statements by Oh-Seok Hyun, Jim Flaherty, and Eveline Widmer-Schlumpf.