Chapter 3 • Recurring Issues from IEO Evaluations

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).

- 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).

- 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.

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.

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, times refrain 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

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).
CHAPTER 3 • RECURRING ISSUES FROM IEO EVALUATIONS

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). 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

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*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