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). 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). 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...