(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).4 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, 2007b, 2008a, 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

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

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).

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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.”