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Statement by Mr. Palei and Mr. Shestakov on Independent Evaluation Office - Working with Partners - IMF Collaboration with the World Bank on Macro-Structural Issues (Preliminary)
Executive Board Meeting
November 16, 2020

We thank the Independent Evaluation Office (IEO) staff for the extensive evaluation, and the Managing Director for her informative and helpful statement. When the Fund engages in a widening range of issues, such as climate change, income inequality, and gender policies, which may have macro-critical consequences, collaboration with the World Bank and other IOs becomes crucial. Proper collaboration should help to tap into the existing knowledge and expertise in other organizations and to avoid duplication of efforts. Collaboration could also alleviate resource constraints that the Fund and other IOs are facing in these areas of work. We welcome the report's focus on more effective collaboration, and not just more collaboration.

The report considered many successful cases, in which working with external partners proved fruitful and had advanced the Fund's agenda. Previous IEO evaluations highlighted the productive collaboration in the areas of social protection, financial surveillance, and international trade. We welcome the IEO's conclusions that a considerable progress has been achieved with the pilot programs on inequality, gender, climate change, and macro-structural reforms. These conclusions are particularly helpful in the absence of the formal evaluation of the pilots at the Board level. We expect to receive more information from staff as a necessary input into the Fund's Comprehensive Surveillance Review. According to the IEO report, both Bank and external experts were pleased by the very high quality of the Fund's work, even if in some areas it was "first rate" and widely used, while in others it was more of a synthesis of existing knowledge. Joint work helps both the Fund and the Bank to gain credibility with country authorities, civil society organizations, and other development partners.

The overall characterization of working with partners, however, was "broad but uneven", and opportunities to leverage the partners' expertise may have been missed. The report identified several barriers to collaboration between the Fund and the Bank, as well as with other IOs: different time horizons stemming from distinct mandates, market-based philosophy of the Fund clashing with rights-based philosophy of the International Labour Organization and UN agencies, decentralized organizational structure of the Bank, a lack of incentives to collaborate as reflected by promotion decisions, the Fund's culture of "self-reliance", and a lack of knowledge exchange. We broadly agree with the four recommendations that the IEO proposes to tackle these challenges. Below we provide more detailed comments on the four recommendations contained in the IEO report.

<u>RECOMMENDATION 1</u>: *The Fund should seek to develop and agree on concrete frameworks to ensure effective collaboration with the World Bank (or other relevant partner organizations) on key macro-structural issues where collaboration is judged to bring the greatest strategic returns.*

Frameworks for effective collaboration should anchor mutual expectations of the collaborating partners. Creating the frameworks might address many issues raised when working with the Fund, mainly the Fund being insensitive to the Bank's timing and resource constraints, a lack of flexibility about the timing of the resulting publication, and rigidity about the publication format (as a Fund or as a joint document). The frameworks might also help in addressing many challenges on the Bank side: reluctance to engage from the Bank staff with a project or sector background, or the Bank's perceived "client-focused mindset".

Given the Fund's entrenched culture of self-reliance, for the time being it might be appropriate to err on the side of more, not less collaboration. While we agree with the Managing Director that we should prioritize areas where collaboration might be more impactful and cost-effective, the discovery of these most important areas is at least partly bound to be based on a trial-and-error process. Collaboration should be encouraged in the areas where Fund's expertise is complementary to the expertise of the external partner: e.g. the Fund's work in the energy pricing area is complementary to the broader issue of climate change prevention.

<u>RECOMMENDATION 2</u>: *The Fund should seek to improve internal incentives to collaborate and address the wider cultural reluctance to engage with external partners.*

We concur with the report's second recommendation and would like to underscore the twin challenge of changing both incentives and culture in the Fund. The report mentions that only a quarter of the respondents from IMF and World Bank staff feel confident that they could access all the information relevant to their macro-structural work from the other institution. While in principle Fund staff can share anything on a "need to know" basis aside from the market-sensitive information, the lack of clear guidance for staff on what information can be shared caused staff's caution in sharing working documents. The persistent barriers in the knowledge exchange contributed to the Fund being inward-looking and "self-reliant". The ILO respondents did not feel that collaboration with the Bank was rewarded in their performance assessment. The report leaves a reader wondering if misaligned incentives for information-sharing became entrenched in the Fund's working culture.

When interacting with the external partners, alleviating internal constraints to collaboration might not improve the outcome, if the external partners are themselves constrained in their resources or have different work priorities. Addressing bottlenecks in these interactions will necessary be organization- and issue-specific, but we can agree with the report's broader recommendation of engaging early on, with careful timing of the interaction and with a clear picture of the other organization's "business needs". The focus on the business needs of the partner is particularly important, so that the Fund's work would not be seen as "encroachment" on the areas of expertise of the partner, and to ensure partnership instead of competition in pursuing the Fund's agenda.

<u>RECOMMENDATION 3</u>: *The Fund should work with the World Bank to identify, prioritize, and implement practical steps to improve access to and exchange of information and knowledge across the two institutions.*

We fully support the report's third recommendation and encourage management to facilitate information sharing and knowledge exchange within the Fund and, on this basis, across the partnering institutions. Unfortunately, the development of the Fund's internal knowledge exchange is well behind our initial expectations. Without understanding how the knowledge is shared within the Fund, it is even more difficult to point to the areas of possible improvements in collaboration with the WB. We note that staff should clearly understand the document sharing arrangement and readily access up-to-date information on the subject matter. When appropriate, the opening up should extend to the reciprocal access to analytical workstreams, including databases and program codes across the intranets. Creating cross-linked knowledge exchange sites and specialized repositories should be thought as a priority step in the process of knowledge integration.

A lack of formal knowledge exchange comes at a cost. In her statement the Managing Director expressed a concern that the recommendation to cross-link knowledge exchange poses significant costs in terms of accountability, coordination, and information security risks. We would like to point out that the alternative to the formal and agreed upon knowledge exchange procedures is either a lack of knowledge exchange or informal knowledge exchange. Both options come with their own costs, including information security risks in the case of informal exchange, and these costs, while less directly observable, should not be overlooked.

<u>RECOMMENDATION 4</u>: *The IMF Board's strategic role in facilitating and supporting external collaboration could be strengthened.*

We commend the IEO staff for recognizing the strategic role that the IMF Board should play in supporting external collaboration. The Board should engage early on initiatives and facilitate collaboration with partner institutions when it is important. We also agree that cases of good collaboration should be celebrated, and we welcome joint work and presentations by Bank and Fund staff, as well the presence of Bank experts during some of the IMF Board meetings.

The modalities of the Board work in facilitating collaboration should take into account the Board's resources and constraints. We note that some IEO interviewees felt that ED's offices could exchange information with one another to provide consistent messages to staff. While such information exchange is sometimes possible and indeed happening, in general we think that such coordination will be necessarily limited by the need to represent the authorities of ED's offices constituencies. Sometimes the message to staff appropriately reflects the divided views of the Board. Likewise, we don't think that there should be an excessive number of joint meetings of the two Boards just for the sake of them, but would prefer more focused joint meetings on macro-critical issues, with early engagement.