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To: Members of the Committee Evaluation Committee

From: Hassan Al-Atrash, Committee Secretary

Subject: **Independent Evaluation Office—Resource Priorities and Scope for Efficiency Gains—Some Lessons from IEO Evaluations**

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Independent Evaluation Office
of the International Monetary Fund

RESOURCE PRIORITIES AND SCOPE FOR EFFICIENCY GAINS—SOME LESSONS FROM IEO EVALUATIONS

February 17, 2021

This short note draws some lessons from the IEO's evaluation work on IMF resource priorities and scope for efficiency gains.[1] It first highlights areas where increased resources are needed to meet the Fund's priorities and goals and then identifies scope for resource savings in lower priority areas and for efficiency gains that could free resources for other uses. Key messages are summarized in Box 1.

Box 1. Key Messages on Resource Issues from IEO Evaluations

Areas where increased resources are needed

- **Financial issues:** Strengthen financial and macrofinancial surveillance in Article IV and build a larger internal pool of top-notch financial expertise.
- **Fragile states:** Increase capacity development impact in fragile states by increasing use of experts to support implementation and ensuring adequate financial resources.
- **Climate:** Leverage collaboration with the World Bank on climate more effectively as the Fund ramps up its engagement on macro-relevant climate issues.
- **Core research:** Deepen attention to core areas of research (e.g., monetary, financial and capital account issues) to ensure that the Fund is a global center for excellence and develops cutting edge toolkits for analysis and advice.

Areas with scope for efficiency gains and resource savings

- **Financial Sector Assessment Programs (FSAPs):** Conduct fewer FSAPs in mid-sized countries with relatively safe financial sectors now included in the list of 29 systemic jurisdictions. Adopt a lighter approach to FSAP stress testing for countries with sophisticated stress testing systems of their own.
- **Non-essential research:** Improve prioritization and quality control to more strictly constrain resources in research that is not mission critical, for example in working papers (WPs), selected issues papers (SIPs), and regional economic outlooks (REOs).
- **Staff turnover:** Reduce turnover of staff on country assignments to deepen country knowledge, strengthen relationships, and limit handover costs.

[1] While IEO reports provide general guidance on cost implications of their recommendations, they typically do not provide detailed costings of these recommendations, which are left to staff in preparing implementation plans. Also, as a rule, the IEO seeks to be parsimonious when making recommendations, consistent with the Fund's overall budget constraint, seeking to identify areas where cost savings can be made to offset the resource costs of recommendations that will require greater resources.

1. Areas where increased resources are needed

Financial issues

The evaluation of *IMF Financial Surveillance* (IEO, 2019a) recommended that to fully meet its responsibilities and objectives the IMF should consider devoting significant additional resources to financial surveillance. The highest priority for the additional resources would be to strengthen financial and macrofinancial surveillance in Article IV consultations, which would require augmenting the pool of financial and macrofinancial talent. The evaluation also recommended that the Fund needed to build a group of top-notch financial experts to ensure that the Fund could draw on the deep skills and expertise necessary to conduct value-added financial surveillance across the membership.

These recommendations were broadly endorsed by Executive Directors, who also suggested that the additional resources should come from reallocation from other activities and seeking efficiency gains. The management implementation plan committed to considering budgetary implications further in the upcoming CSR and FSAP reviews and in the medium-term budget exercise. Moreover, the new HR strategy and career playbook would include steps to improve incentives and career paths for staff with financial sector expertise. Executive Directors have continued to press for progress in this area, most recently in the informal Board briefing on financial and macrofinancial work at the Fund in early February 2021.

Capacity development for fragile states

The evaluation of *The IMF and Fragile States* (IEO, 2018) found that capacity development is the area where the Fund can provide the greatest value-added support to these countries after initial macroeconomic stabilization is achieved, but that such work faced large obstacles to achieving effective delivery and follow-up and lasting impact in difficult environments. The evaluation recommended practical steps to increase capacity development (CD) impact by increasing use of in-country experts to support follow-up implementation and ensuring adequate financial resources after years in which resources devoted to CD on fragile states had plateaued.

This recommendation was broadly supported by Executive Directors and reflected in the management implementation plan. Subsequently some progress has been made in increasing the priority given to fragile states in the CD resource allocation plan, although the new challenges for CD delivery in fragile states from the COVID-19 pandemic will need to be fully addressed.

Climate

The evaluation of *IMF Collaboration with the World Bank on Macro-Structural Issues* (IEO, 2020b) did not seek to assess directly whether the Fund should increase its engagement on climate issues but the conclusions it reached about IMF work on climate do have resource implications.

Most importantly, it found that collaboration with partners like the Bank was itself not cost free and therefore not a panacea for extending the Fund's ability to cover a widening range of macro-critical issues at a time when resources are under strain. Moreover, it found that uneven collaboration with the Bank had led to mixed messages and missed opportunities that undercut the Fund's impact on climate work. The evaluation recommended taking steps to achieve more effective collaboration with the Bank on climate where the Bank has deep expertise and experience, in particular by developing and agreeing on a concrete framework for the goals and modalities of collaboration between the two institutions. It also recommended ensuring that the Fund has adequate in-house expertise of its own on climate as a basis for fruitful collaboration as well as efforts to strengthen access to and exchange of information and knowledge on climate across the institutions.

The Board broadly supported these recommendations. An implementation plan is now being prepared by staff for approval by the Board in the second quarter of 2021. Success in follow-up will require close consultation with the World Bank.

Research on core issues

A number of recent evaluations have called on the Fund to deepen attention to core areas of research to ensure that the Fund would be a global center for excellence in the relevant field and would maintain cutting edge toolkits for analysis and advice. This recommendation recurred in the *IMF Financial Surveillance* evaluation (IEO, 2019a), the evaluation of *IMF Advice on Unconventional Monetary Policies* (UMP) (IEO, 2019b), and the evaluation on *IMF Advice on Capital Flows* (IEO, 2020a). In each case, the evaluations recognized some excellent research work but also found that the IMF research in these areas at the core of its mandate was uneven, that in some areas the Fund should raise its game, and that the Fund needed to develop a deeper core group of experts to lead the work. These recommendations were endorsed by Executive Directors and are to be addressed in the Board-approved implementation plans for financial surveillance and UMP. The capital flows MIP is under preparation for presentation to the Board in March 2021.

2. Areas with scope for efficiency gains and resource savings

Financial Sector Assessment Program

The IMF Financial Surveillance evaluation suggested that there would be efficiency gains from refocusing FSAP country selection and scope. It concluded that there were diminishing returns to conducting FSAPs in some mid-sized countries with relatively safe and well-supervised financial sectors, including some of the jurisdictions included in the list of "29 systemic jurisdictions," which could be moved to a lower frequency cycle than every five years, allowing more room for FSAPs on higher risk countries not included in the systemic list. It also suggested a need for more flexible allocation of resources within each FSAP, moving further to tailor FSAP coverage to country circumstances, including for example by taking a lighter approach to stress testing for countries that now conduct sophisticated stress tests of their own on a regular basis. The evaluation recommended a more flexible and dynamic risk-based allocation across countries and issues to allow greater focus on high-risk areas while containing resource pressures.

The recommendation was broadly supported by the Board although many Directors raised concerns about the proposal to reduce the number of systemic jurisdictions for which FSAPs would be mandatory every five years. The management implementation plan committed that staff would present proposals on country selection and on tailoring to country context for Board consideration in the FSAP review which is due to be completed in the months ahead.

Non-essential research

A recurring theme of IEO evaluations has been that while IMF research is often of high quality and widely respected, the overall quality was uneven. In some core areas increased attention may be needed (see above), but there should also be scope for considerable efficiency gains and resource savings by greater prioritization and quality control on research work more generally.

The issues of prioritization and quality control were emphasized in the comprehensive evaluation of *IMF Research* (IEO, 2011). It found that much of IMF research (particularly in Working Papers, Special Issues Papers, and Regional Economic Outlooks) was of low quality, prepared in too short a time with inadequate quality control and limited coordination across departments. It recommended developing a more strategic research agenda, setting clearer technical quality standards and strengthened review processes, recommendations which were endorsed by the Board.

Unfortunately, progress towards ensuring greater focus and higher quality of IMF research has been slow. Efforts in this area have been included in repeated streamlining initiatives, with particular efforts to reduce the numbers of WPs and SIPs as well as to save resources on the flagships (although these are generally very highly regarded). Efforts to include quality control have also had limited success—as acknowledged in the Board paper for last year's categorization exercise, which commented that while guidelines on working papers were introduced in 2012, steps to measure and monitor quality were costly (IMF, 2020b). The commitment in this area is due to be reformulated in a new action item to be presented later this year as agreed with the Board as part of the categorization exercise. This action item could be developed in a way that would generate overall resource savings by ensuring that research work met higher standards for relevance and quality to be included in work plans.

Staff turnover

Another recurring theme of IEO evaluations has been that too rapid turnover of staff and too short tenure on country assignments has limited the acquisition of in-depth country knowledge, implied high handover costs, and adversely impacted the value added and traction of IMF advice. This issue was highlighted in evaluations on the *IMF as a Trusted Advisor* (IEO, 2013), on *Recurring*

Issues (IEO, 2014), and more recently the evaluations of the *IMF and Fragile States* (IEO, 2018) and *IMF* A*dvice on Unconventional Monetary Policies* (IEO, 2019b).

Relatedly, lower turnover would imply a more efficient use of staff resources, allowing country desks to handle multiple countries with less strain. This point was underlined by experience during the early response to the COVID-19 pandemic when the Fund had to scramble to provide emergency financing to a large number of countries in need, but many teams had limited familiarity with their country assignments. Lower turnover would also imply reduced burden on country authorities, who have complained about having to repeatedly re-educate Fund country teams on their particular circumstances.

The Board has generally supported recommendations to take steps to extend mission tenure for both mission chiefs and team members, and HRD has issued guidelines to target three-year average tenure for country assignments. However, very little progress has been made, as confirmed in the Tenth Periodic Monitoring Report (IMF, 2020a), as the guidelines have not been met in the face of multiple competing considerations affecting staff assignments. Staff has committed to reformulating actions in this area as part of the categorization exercise agreed with the Board in early 2020.

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