

# **Statement by Thomas Bernes, Chairman of the Evaluation Group of Executive Directors, on the External Evaluation of the IMF's Economic Research Activities**

**September 7, 1999**

On behalf of the External Evaluation Committee I would like to thank Professors Mishkin, Giavazzi, and Srinivasan for their excellent and provocative report. As I mentioned in my earlier statement on the external evaluation of Fund surveillance, the mark of a good report can be measured in the extent to which it challenges the existing modus operandi and points us in new directions. I think it is important to stress that the purpose of this kind of exercise is not merely to pat ourselves on the back, although this may be appropriate at times, but to highlight areas for improvement or new territory to be explored. In this context, I find the work of this evaluation group to be exemplary.

I am impressed by the scope and number of recommendations made in the report that indicate soundly that there is substantial room for enhancing the Fund's research activities. Given the compelling and balanced manner in which the evaluators presented their views, I find it very difficult to argue against improving accountability, quality, leadership, and performance evaluation of research staff.

Finally, I wish to reiterate the points made in my statement on the external evaluation of surveillance regarding publication, next steps (an action plan for consideration by Directors after the Annual Meetings), and stock taking (i.e., review progress after 12 months). The same principles articulated there should apply here.

# Summary of the Discussion by the IMF Executive Board of the Report of the External Evaluation Committee on the IMF's Economic Research Activities

*Summing up provided by the Acting Chairman of the Executive Board after the Board discussion on September 7, 1999, of the External Evaluators' Report (reprinted as Part 2 of this volume).*

Executive Directors expressed their appreciation to Professors Mishkin, Giavazzi, and Srinivasan for their fresh perspective and their wide-ranging review of the contribution of research activities to the achievement of the objectives of the Fund. Directors agreed that research makes an important contribution to all areas of the Fund's work—oversight of the international monetary system; multilateral and bilateral surveillance; policy and financial support for members' adjustment programs; and technical assistance, cooperation, and training. In all these areas, strong in-house research work is essential to ensure that the Fund can learn from experience and both generate and absorb ideas. As the evaluators suggest, such research support has necessarily to be multifaceted and to encompass policy foundation, policy development, and policy analysis research. Research needs to be conducted by high-quality personnel in a supportive but inevitably demanding environment, and needs to be free to challenge accepted wisdom.

Directors considered that the evaluators had done a valuable job in judging whether the Fund's diverse economic research output met the multiple expectations placed on it. While welcoming the overall usefulness of the external evaluation, several Directors considered that a longer-term perspective and inclusion of a fuller dimension of research activities in an institution with the unique role of the Fund would nevertheless have provided a richer basis for the evaluation. In this vein, these Directors questioned some aspects of the methodology evaluators had been able to employ in the time available for their study. In these Directors' views, this meant that the recommendations needed to be carefully reviewed, as the evaluators had themselves suggested, not least because several of the recommendations raised significant questions of resource allocation in an institution already characterized by rising work pressures and binding resource constraints.

The evaluators saw no major omissions in the Fund's broad research agenda in recent years, and

praised the quality of much of the Fund's research output, including the *World Economic Outlook* and *International Capital Markets* reports, but they also saw substantial room for improvement, particularly in the areas of policy development and policy analytic research. Executive Directors concurred in this broad judgment. They agreed that it was important that the environment be supportive of research and of researchers, while holding them accountable for their work. It was no doubt true that improvements can be made in the quality, focus, and dissemination of Fund research. Directors therefore encouraged the staff, management, and the Board to accept the challenge of achieving such improvements in the research activities of relevant departments, and to examine and follow up on the recommendations of the evaluation report in that light.

Turning to the nine key recommendations of the report proposing organizational changes in the Fund or changes in the emphasis of current practices:

Directors agreed that the existing decentralized structure for conducting research in the Fund (where over half of the research output is from departments other than the Research Department) should be maintained, as it encouraged appropriate specialization in research among departments. Nevertheless, a greater degree of coordination—than exists at present in the form of the Working Group on Fund Policy Advice—should be provided so as to help direct research more toward high-value activities, including the analytical underpinnings of the Fund's policy recommendations. Several Directors said that they would welcome greater Executive Board involvement in periodic reflections on the Fund's research priorities, although they did not envisage the Board having a major role in this area. However, any solution should not add another level of bureaucracy or constrain the freedom of departments to channel resources flexibly to their most pressing research needs.

In this light, Directors generally saw merit in the creation of a Committee on Research Priorities that

would elaborate research priorities for the Fund (recommendation #1). The Board expressed differing views on the structure, modalities, and chairmanship of the Committee on Research Priorities, while agreeing that it should not operate in a top-down manner to specify individual research projects because this would stifle creativity.

A few Directors thought that the introduction of explicit departmental targets for staff time allocated to research activities (#2) could reinforce the Fund's commitment to research, by ensuring that it did not remain the residual activity it so frequently becomes when operational work takes precedence. This would also be in the staff's professional interest by assisting them to maintain their human capital. However, a number of Directors noted that it might be difficult to put this recommendation into effect without adding to the size of the staff, especially given the frequently pressing operational demands on their time.

While broadly agreeing with the evaluators' finding that there had been no major gaps in the coverage of research topics in the Fund in recent years, Directors agreed that there was a strong argument for shifting the mix of research toward topics that add most value (#3), and minimizing duplication of work done outside the Fund. Several Directors endorsed the evaluators' view that the Fund's comparative advantage was in cross-country analysis, in research on developing and transitional countries, and on financial sector research—although several others cautioned that continued attention was required to the Fund's core areas as well as to specific country issues essential for effective surveillance, including for industrial countries. A few Directors thought that more attention could be focused on political economy issues concerning institutional arrangements in countries and program ownership by country authorities. Directors also noted that a refocusing of research work as proposed by the evaluators was already under way, especially concerning financial sector research, and Directors were in broad agreement that this shift should be strengthened. Several Directors also suggested that greater attention was needed to promote research into policy design issues underlying Fund programs.

Directors considered that the recommendations concerning improved collaboration among departments, encouragement to researchers to contribute to policy work (#4), and improved assessment of research quality in the annual performance evaluation of staff (#5) merited the attention of management and departmental managers.

A number of Directors were inclined to support the recommendation to give junior staff greater opportunities to present their research products to management and the Executive Board (#6).

Directors expressed their appreciation for the excellent work of the Research Department of the Fund in recent years. They supported more Research Department attention to policy foundation research as compared with policy analysis and policy development research (#7), where the generally high quality of the department's work is widely recognized. The Research Department should attempt to do this, but a large rebalancing of work between present research and operational activities was probably not possible within existing resource constraints, Directors considered.

Concerning improvements to the Fund's performance evaluation system (#8), several Directors considered that further thought should be given to performance differentiation and related issues. In this connection, we can look forward to the results of the ongoing study of personnel management practices in Fund departments by the Office of Internal Audit and Inspection, alongside related work by the Human Resources Department.

With respect to improvements to the internal review process for all staff papers and recommendations to management and to the Executive Board (#9), Directors felt that this was a matter for management to address from the broader perspective of the role of the review process in the Fund. Several Directors agreed that it was often considered that this internal review process was one of the particular strengths of the Fund as an institution, and that a formal review process is indeed critical for the formation of staff policy consensus. Nonetheless, all opportunities should be taken to ensure effective review procedures while keeping resource costs as low as possible. The issue of how to feed research findings into operational work was among the several considerations that should be brought to bear on any proposals for changes in the review process.

Executive Directors also commented on several supplementary recommendations. While recognizing that most of the areas fell within the purview of management's responsibilities, there was broad support for a number of these recommendations: the encouragement of participation in relevant external conferences (#10); the identification of significant contributors to Fund publications (#11); the improvement of collaboration with the World Bank and other researchers in central banks and treasuries (#12); the writing and dissemination of nontechnical summaries of the most important research (#15); the suggestion to treat working papers as preliminary (#16); the improvement of the dissemination of research to nontechnical audiences outside the Fund (#18); and the creation of an ongoing external review process for research products (#20). Directors considered that these recommendations needed to be examined further and that considerable discretion should be given to management on these issues.

Concerning the introduction of more flexibility into the hiring process for entry-level economists with a view to attracting research-oriented economists (#13), Directors had mixed views. They invited the Human Resources Department to consider this suggestion in conjunction with a contemporaneous suggestion by the external evaluators of Fund surveillance that the Fund needs to hire more economists with relevant policy experience.

Regarding the recommendation to increase the number of research assistants relative to economists (#19), Directors supported this policy change, which is currently being implemented but which will need time to be spread throughout the Fund because of its resource implications.

Concerning periodic general external reviews of research activities (#22), Directors noted that this matter would be taken up as part of the upcoming

review by the Board of the evaluation function in the Fund.

Directors recommended publication of the evaluation report, together with the response by management and staff and this summing up of the Executive Board discussion.

After the upcoming Annual Meetings, management will propose for Board consideration details on how to follow up on the report of the external evaluators.

Let me conclude by noting that, while management said at the start of this discussion that the meeting should be directed at the evaluation of the Fund's overall research activities, we were impressed by the strong vote of confidence we heard around the table today in the work of the Research Department and its leadership by the Director of the Research Department, as well as the Board's confidence in the high quality of the staff.