



# IMF POLICY PAPER

## EVENHANDEDNESS OF FUND SURVEILLANCE— PRINCIPLES AND MECHANISMS FOR ADDRESSING CONCERNS

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- The **Staff Report**, prepared by IMF staff and completed on January 27, 2016 for the Executive Board's consideration on February 22, 2016.

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**International Monetary Fund**  
**Washington, D.C.**



## EVENHANDEDNESS OF FUND SURVEILLANCE—PRINCIPLES AND MECHANISM FOR ADDRESSING CONCERNS

January 27, 2016

### EXECUTIVE SUMMARY

**Evenhandedness of the Fund’s analysis and advice is critical to the effectiveness of its engagement with member countries.** In this regard, both actual *and perceived* lack of evenhandedness can be detrimental to the Fund’s credibility and legitimacy. While perceptions of evenhandedness often reflect views about the full range of Fund activities, Fund surveillance is an important contributor to perceptions. Moreover, the consistency of the Fund’s analysis and advice will likely be scrutinized more closely in an interconnected world.

**The 2014 Triennial Surveillance Review (TSR) examined the evenhandedness of Fund surveillance closely against ongoing perceptions that it is not evenhanded.** While the TSR did not find evidence of a systematic lack of evenhandedness, it confirmed significant and long-standing perceptions that the Fund is not evenhanded. To address these concerns, the TSR recommended establishing a clearer understanding of the evenhandedness of surveillance, and a mechanism for country authorities to report concerns.

**This paper outlines the key elements of a framework to operationalize the TSR recommendations,** in line with the actions in the *Managing Director’s Action Plan for Strengthening Surveillance*. The principle of “uniformity of treatment” provides a guide for evenhanded surveillance—not that members be treated identically, but that members in similar circumstances should be treated similarly. To this end, this paper:

- articulates principles for evenhanded surveillance, namely how “inputs” that shape surveillance (i.e., available resources, analytical depth, quality of engagement) can provide a basis for assessing how well surveillance “outputs” (effectively, the Fund’s policy advice and its presentation) are calibrated to country circumstances; and
- sketches out a possible mechanism for reporting and assessing specific concerns by country authorities.

A key goal is to address perceptions while safeguarding the independence and candor of the Fund’s advice, and where needed to learn from any shortcomings and promote better practices going forward.

**This framework will continue to evolve with the benefit of experience.** The next Comprehensive Surveillance Review in 2019 will provide an opportunity to take stock of progress, and consider whether the principles or mechanism need to be refined to reflect lessons learned in the initial phase.

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## CONTENTS

|  |           |
|--|-----------|
| <b>INTRODUCTION</b>  | <b>3</b>  |
| <b>BACKGROUND AND CONTEXT</b>  | <b>3</b>  |
| A. The Importance of Being Evenhanded  | 3         |
| B. TSR Findings and Recommendations  | 4         |
| <b>PRINCIPLES FOR EVENHANDED SURVEILLANCE</b>                                  | <b>6</b>  |
| <b>REPORTING AND ASSESSMENT MECHANISM</b>                                      | <b>9</b>  |
| A. Reporting and Assessment Process  | 9         |
| B. Publication Issues  | 13        |
| <b>LOOKING AHEAD</b>   | <b>14</b> |
| <b>ISSUES FOR DISCUSSION</b>   | <b>14</b> |
| <b>BOXES</b>   |           |
| 1. Key Findings of 2014 TSR External Study Evenhandedness                      | 5         |
| 2. Key Steps in the Proposed Evenhandedness Reporting and Assessment Mechanism | 11        |
| <b>FIGURE</b>  |           |
| 1. Evenhandedness Decision Tree  | 12        |
| <b>ANNEXES</b>   |           |
| I. 2014 TSR Recommendations and Actions  | 15        |
| II. Principles Related to Surveillance 'Inputs'                                | 16        |
| III. Examples of Possible Evenhandedness Concerns                              | 19        |

## INTRODUCTION

**1. The 2014 Triennial Surveillance Review (TSR) examined the evenhandedness of Fund surveillance against a backdrop of ongoing perceptions that it is not evenhanded.**<sup>1</sup> The TSR did not find evidence of a systematic lack of evenhandedness. However, it confirmed that there are significant and long-standing perceptions that the Fund is not evenhanded. In order to address these persistent perceptions and potential future concerns, the TSR recommended establishing a clearer understanding of how to gauge the “evenhandedness of surveillance” and a mechanism for country authorities to report concerns. The *Managing Director’s Action Plan for Strengthening Surveillance* outlined several actions to operationalize these recommendations. The goal is to establish a robust and well-articulated framework through which to address concerns about evenhandedness when they arise.

**2. To this end, this paper sets out the key elements of a framework to guide evenhanded Fund surveillance and address potential concerns.** Specifically, it outlines possible principles to help clarify what it means to be evenhanded (that could also help in assessing evenhandedness concerns when they arise), and a possible mechanism for assessing specific concerns reported by country authorities.<sup>2</sup> A key goal of both the principles and the reporting mechanism is to address perceptions and instances of lack of evenhandedness transparently, while safeguarding the independence and candor of staff advice, and where needed, to learn from shortcomings and promote better practices going forward.

## BACKGROUND AND CONTEXT

### A. The Importance of Being Evenhanded

**3. Evenhandedness is a cornerstone of a cooperative institution like the Fund.** Effective engagement with member countries depends on the Fund’s legitimacy and the credibility of its analysis and advice, and actual or perceived lack of evenhandedness can be detrimental to both. While perceptions of evenhandedness often reflect views about the full range of Fund activities,<sup>3</sup> Fund surveillance is an important contributor. In contrast to financial support or technical assistance (TA) that the Fund provides to member countries upon their request, surveillance is a universal activity that covers the entire membership. Moreover, in today’s interconnected global economy, the consistency of the Fund’s surveillance will likely be scrutinized more closely. This reflects the scale

<sup>1</sup> See the [2014 Triennial Surveillance Review—Overview Paper](#) (July 30, 2014) and the external study by Mike Callaghan on the [Evenhandedness of Fund Surveillance](#) (July 30, 2014).

<sup>2</sup> Both the proposed principles and framework were developed in consultation with area, functional and support departments, based on meetings held in April and June 2015.

<sup>3</sup> For instance, global opinion research undertaken by the Fund’s Communications Department in 2014 identified several factors—such as lack of progress on quota reform, the selection process for the Managing Director, and Fund lending—that influence concerns about evenhandedness.

and impact of spillovers, and that all economies—systemic and non-systemic—have a larger stake in the Fund’s analysis of and advice to other economies.<sup>4</sup>

## B. TSR Findings and Recommendations

**4. Against this backdrop, the 2014 TSR confirmed that perceptions that the Fund is not evenhanded continue to persist among some member countries.** A significant minority of member countries believe the Fund is not evenhanded in its policy advice, particularly with respect to larger economies.<sup>5</sup> Although the TSR external background study on evenhandedness<sup>6</sup> found little evidence that surveillance is systematically biased, it highlighted the significant and long-standing perceptions that the Fund is not evenhanded (see Box 1). This background study also identified “instances of differences in surveillance across countries” that, while alone may not be evidence of actual lack of evenhandedness, tend to reinforce entrenched perceptions.

**5. Lack of clarity on what it means to be “evenhanded” in surveillance is a key impediment to tackling the issue.** Concerns about evenhandedness are often framed in terms of the Fund’s treatment of a member country based on the policy advice provided and/or the way it is presented. However, apparent inconsistencies in treatment are not necessarily evidence of a lack of evenhandedness. Surveillance is not a one-size-fits-all exercise and there should be differences if surveillance is tailored to country circumstances. Echoing one of the fundamental principles of the Fund’s operations, the “uniformity of treatment,” evenhanded surveillance does not imply that member countries should be treated identically, but that members in similar circumstances should be treated similarly.<sup>7</sup> Thus, it is important to understand whether surveillance is appropriately calibrated to country circumstances.

**6. As a step toward tackling this issue, the TSR recommended establishing a clearer understanding of evenhandedness.** To help the Fund and member countries have a common understanding of this issue, the TSR recommended a concept of evenhandedness based on equal, risk-adjusted “inputs” (Annex I). While many Directors were open to considering “inputs,” some emphasized the importance of “outputs,” demonstrating the need to clarify the relationship between the two. In this regard, it is worth emphasizing that the “outputs” from surveillance will continue to be an essential element of gauging evenhandedness. The new focus on surveillance “inputs” (e.g., available resources, depth of analysis, or quality of engagement) aims to provide a clearer basis for assessing how well surveillance “outputs” are calibrated to country circumstances.

<sup>4</sup> [2014 Triennial Surveillance Review: Concept Note](#), October 8, 2013.

<sup>5</sup> Based on stakeholder surveys conducted for the 2014 TSR (see paragraphs 52-54 of [Surveys of Stakeholders and a consultation with Civil Society](#), July 30, 2014). Around 20 percent of country authorities feel that they are not being treated evenhandedly in comparison to advanced market economies.

<sup>6</sup> [Evenhandedness of Fund Surveillance](#) by Mike Callaghan, July 30, 2014.

<sup>7</sup> See the discussion of uniformity of treatment in [The G-8 Debt Cancellation Proposal and Its Implications for the Fund—Further Considerations](#) (IMF policy paper, 19 September 2005) and [The Unique Nature of the Responsibilities of the International Monetary Fund](#) (Manuel Guitián, IMF Pamphlet Series No. 46, 1992).

Reflecting that the Fund not only needs to be evenhanded, but also be seen to be evenhanded, the TSR also recommended establishing a mechanism for authorities to report concerns and for the Fund to deal with issues transparently.

### Box 1. Key Findings of 2014 TSR External Study Evenhandedness

The TSR external study on the [Evenhandedness of Fund Surveillance](#) confirmed that there are significant, and often long-standing, perceptions that the Fund is not evenhanded. Although many perceptions do not relate directly to surveillance, they can influence behavior, including countries' receptiveness to, and thus the effectiveness of, Fund advice. Interviewees for the study offered examples of what might be considered a lack of evenhandedness, such as perceived differences in policy advice (e.g., on fiscal consolidation, pension reform, directed lending, exchange rates), or in providing more critical advice, or in the turnover of staff. However, the study did not find evidence of a pervasive lack of evenhandedness, although it did note that even small instances of a lack of evenhandedness can have significance given well entrenched perceptions that the Fund is not evenhanded.

The study emphasized that, while there are differences in surveillance across countries, these alone may not be evidence of actual lack of evenhandedness. If surveillance is appropriately tailored, surveillance "outcomes"—namely the policy analysis and advice in Fund reports and the way they are presented—should differ with country circumstances. However, the study also noted that while some differences reflect appropriate tailoring to country circumstances, occasionally these are not well-justified.

Therefore, the study called for actual evenhandedness to be assessed on both the 'outcomes' and 'inputs' to surveillance. On the latter, it underscored that "all decisions in the surveillance process (such as decisions over resources deployed, issues to be covered, the depth of the analysis, the policy advice provided, and how the advice is to be presented) should be free from bias, and based on sound, robust and objective considerations."

Given the significance of evenhandedness to the effectiveness of surveillance, and the ongoing existence of negative perceptions, the report recommended the Fund take extra measures, not only to strengthen evenhandedness, but also to demonstrate that it is doing so. It recommended: (i) clarifying what is meant by being evenhanded, including more explanation in staff guidance; (ii) more explanation in Article IV reports on how surveillance has been tailored to country circumstances and why the approach and advice differs from that offered to other countries that appear to be facing similar circumstances; (iii) vigilance amongst reviewing mechanisms within the Fund to ensure evenhandedness; (iv) a mechanism for sharing evenhandedness concerns and periodic reporting to the Board.

**7. Subsequently, the [Managing Director's Action Plan for Strengthening Surveillance](#) set out several actions to operationalize the TSR recommendations related to evenhandedness. A key goal is to address perceptions and tackle potential evenhandedness concerns transparently, while safeguarding the independence and candor of staff advice. Specifically, these actions include:**

- updating the Article IV guidance to clarify a new approach to evenhandedness based on "inputs";
- developing clear principles/benchmarks (via an interdepartmental working group) for an evenhanded approach to surveillance;
- enabling Executive Directors to submit concerns about the evenhandedness of surveillance to the Secretary in writing (including specific details to allow a thorough assessment) by establishing a dedicated email inbox; and

- reporting to the Executive Board by Management on concerns raised and, where necessary, plans to address them.

**8. This paper aims to take forward implementation of these actions.** The updated [Guidance Note for Surveillance under Article IV Consultations](#)<sup>8</sup> outlines the risk-adjusted input-based approach to evenhandedness, covering both the “outputs” and the underlying “inputs” to surveillance. The goal of this paper is to: (i) articulate principles to guide this approach, including clarifying how “inputs” can inform our understanding of evenhanded “outputs,” and (ii) outline the details of a reporting and assessment mechanism (discussed in the next two sections, respectively).

## PRINCIPLES FOR EVENHANDED SURVEILLANCE

**9. Articulating clear principles to underpin this conceptual approach will be essential to form a common understanding of what it means to be evenhanded in surveillance.** This will help inform how staff approaches evenhandedness and, more specifically, how to develop and present analysis and policy advice in an evenhanded manner. Importantly, principles can also help inform authorities’ expectations of evenhandedness, and provide a basis for assessing concerns if and when they are raised.

**10. In this regard, evenhandedness should be viewed through the lens of the principle of “uniformity of treatment.”** Ensuring the uniformity of treatment among member countries is a long-standing and central tenet of the Fund’s operations. This principle does not require that member countries be treated identically. Rather, it means that countries in similar circumstances should be treated similarly.<sup>9</sup> This inevitably requires a substantial degree of judgment, illustrating the fundamental complexity of this issue and the need for a well-articulated approach to gauge how appropriately surveillance is calibrated to country circumstances.

**11. The Fund’s policy advice is a primary output of surveillance.** The 2014 TSR noted that policy advice and its presentation—effectively the “outputs” of surveillance—are the central focus of most views or concerns about evenhandedness. Under a risk-adjusted input-based approach, an assessment of evenhandedness would typically begin with understanding a member’s (or members’) treatment in the context of surveillance. This initial assessment could consider a number of aspects of policy advice, including (but not limited to):

- the substantive content or nature of the policy advice offered;
- the extent of coverage and emphasis placed on a particular issue, including the space dedicated to it in a staff report or any accompanying selected issues papers;
- the strength or tone of the policy message, degree of criticism and choice of language.

<sup>8</sup> The updated [Guidance Note for Surveillance under Article IV Consultations](#), reflecting the outcomes of the 2014 TSR, was issued in March 2015.

<sup>9</sup> See IMF policy paper (2005) and Guitián (1992).

**12. It is critical to understand how surveillance is calibrated to country circumstances.** This is where the TSR concept of “risk-adjusted inputs” becomes most relevant.

- **Risk-adjustment is a key concept for fine-tuning the focus and conduct of surveillance.** Stability is a core organizing principle for Fund surveillance. To this end, surveillance should be “risk-adjusted,” taking into account risks to a country’s own domestic and external stability, as well as global economic and financial stability.<sup>10</sup> The notion of “risk-adjusted” should be sufficiently flexible to allow the Fund to adapt and adjust to evolving vulnerabilities, where needed. Assessing relative risk requires judgment and should not be based on an overly rigid or mechanistic approach. There are a number of tools and indicators that can help inform or provide a useful starting point for judgments about:
  - an individual country’s vulnerability (for instance, as reflected in the country’s most recent Risk Assessment Matrix, Vulnerability Exercise ratings, staff report on a Fund-supported program, etc.); and
  - whether or not a country is globally or regionally systemic (e.g., G-20, large and interconnected financial sector and thus subject to mandatory Financial Stability Assessments, relatively large quota and/or GDP, etc.)
- **The factors or “inputs” that shape surveillance can provide a deeper understanding of whether and how it has been calibrated to country circumstance.** The updated [Guidance Note for Surveillance under Article IV Consultations](#) preliminarily outlines some of these factors in the surveillance process, including the: (i) allocation of resources; (ii) depth of risk and spillover analysis; (iii) analytical approaches and tools; (iv) choice of policy themes; (v) reporting of the authorities’ views; and (vi) approach to contentious issues. This is by no means an exhaustive or formal list; rather it gives some sense of the range of factors that could be considered. While the factors or “inputs” that are relevant will depend on the nature of a particular evenhandedness concern, these considerations might typically fall into three broad categories. Illustrative principles underpinning these categories are set out in more detail in Annex II and are summarized below:
  - **Principle 1:** *The resources allocated for surveillance should be adjusted to reflect countries’ individual and/or systemic risk factors.* This could reflect a range of factors, such as: (i) the size, experience and expertise of a country team; (ii) staff turnover; (iii) the frequency and duration of missions or other engagement; and (iv) the coverage of the relevant issue during the interdepartmental review process.

<sup>10</sup> Guitián (1992) noted that, in the area of surveillance, uniformity “requires taking account of a member’s capacity to influence the system as a whole.” More recently, the [Integrated Surveillance Decision](#) (ISD) clarified that surveillance should focus on economic and financial stability at both the individual country and global levels.



- **Principle 2:** *Policy advice should reflect sound, objective analysis tailored to country circumstances, including the choice of issues analyzed, depth of analysis, and analytical approaches and tools.*<sup>11</sup> The priority issues and focus of surveillance will naturally vary over time and between members. Choices about these priorities and the policy advice that follows should be supported by analysis. However, the choice of analytical approaches and tools, and how the analysis is presented (e.g., main text of staff report, box/annex, selected issues paper, etc.) is a matter of judgment, depending on the nature of the issues (e.g., the availability of ‘in-house’ expertise), domestic and/or systemic risks (e.g., the degree of attention to risks and spillovers), and other country circumstances (e.g., data availability, relevant cross-country policy lessons).
- **Principle 3:** *Engagement with authorities and other stakeholders, and the presentation of analysis and advice should reflect the Fund’s role in supporting the membership, its responsiveness to authorities’ needs, and a fair and balanced representation of their views.*<sup>12</sup> For example, early engagement by staff can help guide and demonstrate the choice of priority issues, and regular dialogue can help build trust to provide a stronger basis for the candid exchange and presentations of views, and access to information to inform analysis or policy positions. Similarly, consistent application of the Fund’s Transparency Policy and liaising closely with country authorities about planned outreach can help ensure a candid and balanced discussion of the messages.

**13. Better understanding the relationship between surveillance “outputs” and “inputs” provides a basis for assessing evenhandedness across countries.** As noted above, apparent inconsistencies in policy advice may reflect the tailoring of surveillance to specific country circumstances, rather than a lack of evenhandedness. At the same time, “tailoring” should not be an automatic explanation for all differences—the key question is whether the factors or inputs that go into surveillance demonstrate that surveillance outputs pay due regard to country circumstances. Thus, examining both “inputs” and “outputs” provides the insights needed to assess the relative treatment across countries.

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<sup>11</sup> The coverage of issues will be driven by a risk-based approach to surveillance, within the parameters of the Fund’s legal framework. For example, the ISD mandates that certain policies—i.e., exchange rate, fiscal and financial—should always be covered in bilateral surveillance.

<sup>12</sup> The [Guidance Note for Surveillance under Article IV Consultations](#) offers good practices that can support an evenhanded approach to engagement, outreach or the presentation of staff reports. Box 9, for instance, offers principles for drafting staff reports, such as: no sharing or negotiating of staff reports; comprehensive and candid assessments; accurately characterize counterparts’ views; and avoid politically sensitive language.

## REPORTING AND ASSESSMENT MECHANISM

**14. In line with the Managing Director’s Action Plan, staff also plans to establish a mechanism for reporting and assessing possible future concerns about evenhandedness.** The reporting mechanism will focus on surveillance-related concerns to gain experience and better understand the operational implications.<sup>13</sup> This section sets out the key elements of the proposed mechanism.

**15. The mechanism aims to strike a careful balance: responding effectively to well-founded and specific concerns, while also protecting staff independence and candor.** In this regard, the main rationale for the mechanism is three-fold. One, it gives members an opportunity to raise concerns and have them dealt with transparently. Two, it reassures members that specific—and well-founded—concerns will be considered thoroughly, while distinguishing these from concerns that are largely driven by perceptions. Three, it will reinforce an environment of a learning institution, with a mechanism focused on generating forward-looking actions to prevent recurrence.

**16. The proposed mechanism also weighs considerations related to cost and operational feasibility.** In particular, it reflects the need for a consistent and robust process that transparently engages the Board, without imposing excessive resource costs on Executive Directors or staff. In this regard, this initiative is part of the range of commitments arising from the TSR as outlined in the *Managing Director’s Action Plan for Strengthening Surveillance* and reflected in the *FY2016–FY2018 Medium-Term Budget*. While the exact resource implications will depend on the number and nature of concerns raised, staff estimates that each case could require between 0.1 and 0.2 FTEs depending on its complexity.

### A. Reporting and Assessment Process

**17. Following are the proposed broad steps in the reporting and assessment process,** which are set out in more detail in Box 2.

- In the event that a concern arises, an Executive Director will initiate the process by submitting the concern in writing to the Secretary on behalf of his/her country authorities.<sup>14</sup> The concern will need to be sufficiently concrete and well-substantiated to enable a thorough assessment.<sup>15</sup> To

<sup>13</sup> The mechanism will apply to concerns relating to both bilateral and multilateral surveillance (e.g., Article IV consultations and mandatory Financial Stability Assessments, and the Fund’s flagship products).

<sup>14</sup> This will apply to evenhandedness concerns that relate to surveillance documents or matters that are submitted to the Executive Board on or after the date on which this paper is considered by the Executive Board. To facilitate the submission of written concerns, a dedicated email inbox will be established by the start of FY2017.

<sup>15</sup> While concerns would typically be related to an Executive Director’s own constituency, this would not preclude other concerns being reported provided they are sufficiently concrete and well substantiated.

ensure transparency, concerns will be shared with the rest of the Board and Management for information.

- An interdepartmental committee (the “Committee”) will undertake an objective and thorough assessment of Executive Directors’ concerns, covering both the inputs to surveillance (allocation of resources, analysis, engagement) as well as the surveillance outputs.
  - The nature of the evenhandedness concern will have implications for the range of issues to be considered and the relevant peer countries (e.g., income level, regional, other commodity producers, fragile states, etc.). To avoid any potential conflicts of interest, a Committee member would recuse himself/herself from cases concerning his/her own department, country or review assignment, or home country.
  - The principles and benchmarks outlined in this paper will help guide the Committee in assessing evenhandedness. However, the distinction between “tailored” and “unevenhanded” surveillance outputs will be a matter of judgment. Figure 1 sets out the key steps in the assessment process, including the relationship between surveillance (outputs) and the factors behind it (inputs). Following this approach, Annex III outlines two illustrative examples of how the assessment process could work in practice.
  - Where relevant, the Committee may include an external expert to provide an independent viewpoint and expertise; the external expert’s input would be limited to specific policy issues.
  - The assessment process will focus on Fund policies and procedures, and their application. It will not be a review or appraisal of individual staff members.
  - The Committee will report its findings to Management, who will in turn communicate the findings to the relevant Executive Director.
  - After considering the Committee’s findings, Management will report annually to the Board regarding the number of concerns raised and the assessment of those concerns, emphasizing lessons learned and, where necessary, actions to prevent recurrence. Actions will be forward-looking rather than retrospective in nature. In particular, surveillance products will not be changed retrospectively.

## Box 2. Key Steps in the Proposed Evenhandedness Reporting and Assessment Mechanism

### Submitting and Sharing of Concerns

- **Executive Directors (EDs) will submit, including on behalf of their country authorities, evenhandedness concerns to the Secretary.** EDs' submissions should be in writing, providing concrete and detailed information to demonstrate the concern and facilitate a thorough assessment. A dedicated email inbox will be established for these purposes. To ensure transparency, SEC will circulate concerns to the rest of the Executive Board.<sup>1/</sup>

### Assessing Concerns

- **An interdepartmental committee (the "Committee") will be established to assess submitted concerns.**
  - The Committee will comprise representatives from LEG, SEC, SPR and, on a rotating basis, three area departments and one functional department.<sup>2/</sup>
  - Where relevant, the Committee may include an external member (e.g., a former ED not serving a government or a retired Fund official) to provide independence and expertise on specific policy issues.<sup>3/</sup>
  - To ensure continuous engagement, Management will have oversight of the Committee.
  - The frequency with which the Committee is expected to meet will depend on the volume of cases, with due regard to managing the resource implications.
- **The Committee will assess EDs' concerns, drawing on the details submitted by EDs and other relevant information.** While concerns are expected to be concrete and well-substantiated, the Committee will consider additional information as needed, for instance, regarding surveillance inputs (resources, analysis, engagement) and outputs (staff reports, policy notes, etc.). In this regard, the Committee may need to consult further with EDs and/or staff to gather additional information relevant to the issue being considered. The assessment process will focus on Fund policies and procedures, and their application; it will not involve the review or appraisal of individual staff members.
- **The Committee will report its findings to Management,** covering all concerns submitted and considered by the Committee, and indicating whether or not a concern has been substantiated.
- **Management will communicate the findings of the Committee to the relevant ED,** ahead of broader reporting to the Board.
- **Management will consider the Committee's findings and, if necessary, develop forward-looking actions to prevent recurrence of similar issues.** To avoid staff analysis, advice and reports becoming subject to continued revisions, actions will be forward-looking rather than retrospective in nature.

### Reporting and Follow-up

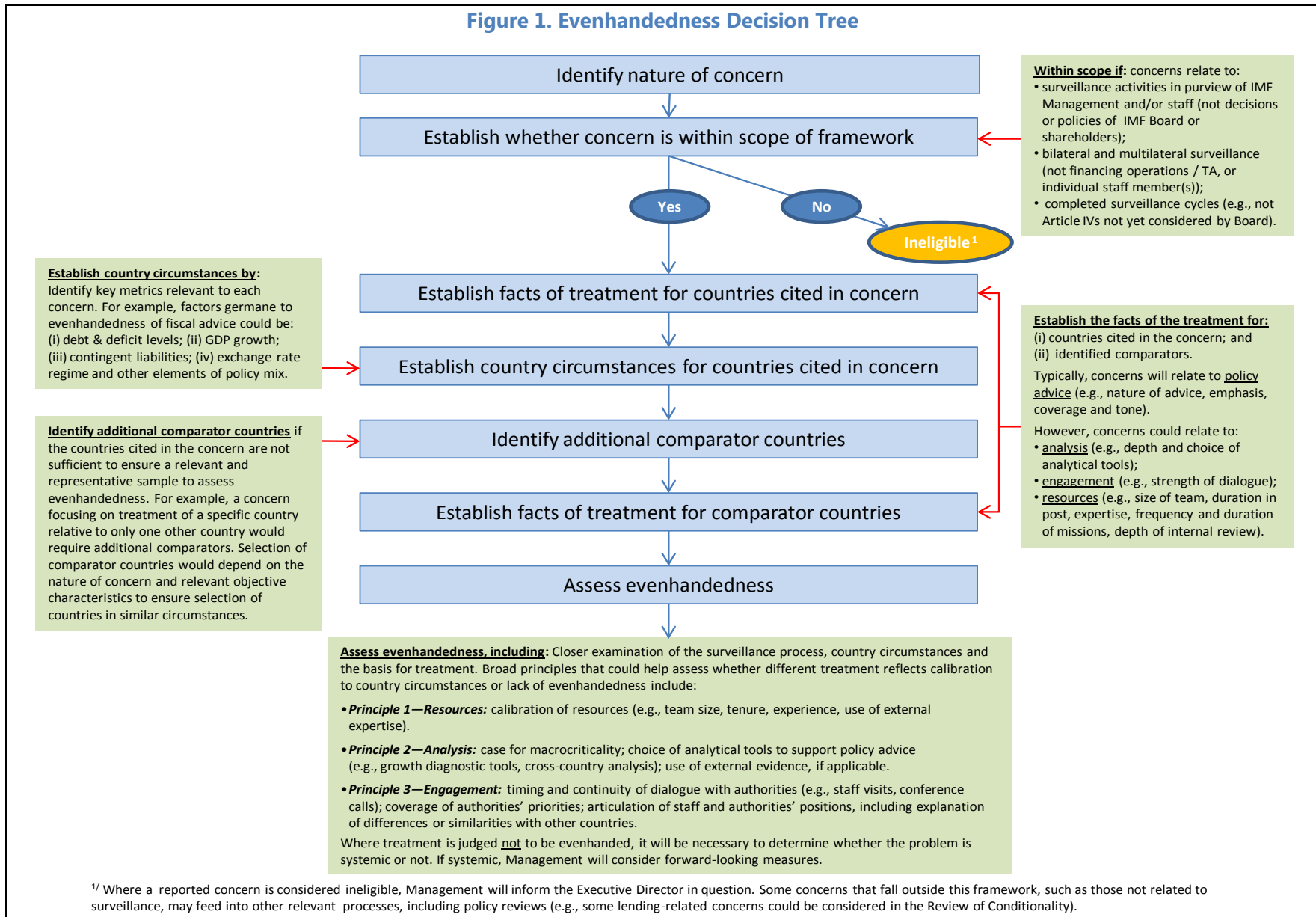
- **Management will report annually to the Executive Board,** providing an overview of all evenhandedness concerns raised (including their number, nature and those that have been substantiated) as well as the lessons learned. Where necessary, the report will set out the proposed forward-looking actions. The initial report will likely be a short, stand-alone document, but over time it may be possible to report in the context of other established products or processes to minimize the resource implications for staff, Management and the Board.
- **Forward-looking actions that have policy implications will be taken up in policy papers.** If any of the proposed forward-looking actions requires changes in any Fund policy(ies), staff will prepare a separate policy paper proposing the necessary changes to existing policy(ies) for Board consideration.

<sup>1/</sup> In line with the focus on the consistency and application of Fund policies and procedures, complaints raised against individuals will not be circulated to the Board or considered via this mechanism, and would be referred to the appropriate personnel-related mechanism.

<sup>2/</sup> To avoid conflicts of interest, Committee members would not be involved in cases concerning his/her own department, country or review assignment, or home country.

<sup>3/</sup> External experts remain outside the normal Fund managerial framework and would therefore not be involved on personnel- or resource-related issues.

Figure 1. Evenhandedness Decision Tree



## B. Publication Issues

**18. Publishing Management’s report to the Board or the details of Directors’ concerns raises a number of sensitivities.** The Fund’s general approach to transparency is guided by the overarching principle that the Fund will strive to disclose documents and information on a timely basis, unless strong and specific reasons argue against such disclosure.<sup>16</sup> A transparent and consistent approach is important for addressing potential evenhandedness concerns, particularly given the need to tackle perceptions that the Fund is not evenhanded. However, the nature of concerns reported may require the assessment process and Management’s report to cover information that is confidential or sensitive and not available to the public (e.g., policy notes, unpublished reports or summings up, confidential information or communications from authorities, internal administrative or personnel issues).<sup>17,18</sup> A general presumption of publication for Management’s report may undermine the mechanism to the extent that it: (i) discourages Directors from raising concerns; or (ii) affects the detail and candor of reporting to the Board. Moreover, if the Board were to decide not to publish Management’s report<sup>19</sup> in select circumstances, due to the confidential or sensitive nature of information, this may result in inconsistent or ad hoc publication that sends mixed signals to the public.

**19. On balance, staff proposes a cautious publication approach, at least initially, while Directors and Fund staff gain experience with the process.** Much will depend on the underlying nature of any concern raised by Directors, which at this stage is difficult to predict.

- To preserve the consistency and candor of engagement with the Board during this *learning phase*, staff proposes that Management’s reports to the Board would not be published. If Directors agree this understanding will be reflected in the summing up.
- Instead, the Fund would publish general progress updates on tackling evenhandedness concerns through existing Fund products (e.g., the Fund’s Annual Report or the new Risk Report, which already features evenhandedness as a key reputational risk). This would include an overview of the number of concerns reported by Directors and considered by the Committee, and their outcomes.

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<sup>16</sup> Decision No. 15420-(13/61), June 24, 2013.

<sup>17</sup> As the discussion in Management’s report could relate to general policy/policy issues or internal administrative matters, or even both, it is not possible to clearly determine ex ante how Management’s report would be classified under the Fund’s Transparency Policy.

<sup>18</sup> As a matter of Fund policy, Management and Fund staff may not disclose information that a member or other person has provided in confidence, unless that party consents to the disclosure and such disclosure is consistent with Fund rules. In this regard, even if the provider(s) of confidential information consent to it being included in Management’s report for Board consideration, separate consent for publication is required for disclosure of such information vis-à-vis the public.

<sup>19</sup> As Management’s report is a Board paper, its publication is a matter for the Board.

- In any case, given that the Board will consider any recommended forward-looking actions with policy implications in the context of Board papers on relevant policies, these policy papers will be subject to the relevant publication regime under the Fund’s Transparency Policy.
- These publication arrangements would be subject to review at a later date, once the Board and Management have a clearer sense of the nature and content of the reports.

## LOOKING AHEAD

### **20. Staff will move ahead with implementing the reporting and assessment mechanism.**

The process for Executive Directors to submit concerns to the Secretary, and the interdepartmental Committee, will be operational from the beginning of FY2017. Management will report to the Board on an annual cycle. While the initial report is expected to be a short, stand-alone document, over time it may be possible to report in the context of other established products or processes to minimize the resource implications for staff, Management and the Board.

**21. Early experience with the principles and mechanism will be considered in the context of the next Comprehensive Surveillance Review (CSR).** The framework for guiding evenhanded surveillance is still in its infancy and will inevitably need to evolve as the Fund gains experience. Over time, precedents will continue to build a richer basis for assessing evenhandedness. The 2019 CSR will provide an important opportunity to take stock of progress, understand more fully the resource implications, and consider whether the principles or mechanism need to be refined to reflect lessons learned in the initial phase.

## ISSUES FOR DISCUSSION

**22.** Do Directors consider that the principles set out in this paper provide a useful approach to assess the evenhandedness of surveillance, including by clarifying how “risk-adjusted” inputs can inform an understanding of how “outputs” have been tailored to country circumstances?

**23.** Do Directors think that the proposed reporting and assessment mechanism strikes the right balance between responding effectively to well-founded evenhandedness concerns and protecting staff independence and candor?

**24.** Do Directors agree with the proposed approach to publication?

## Annex I. 2014 TSR Recommendations and Actions

### 2014 TSR Recommendations<sup>1</sup>

- Establish a clearer understanding of how to gauge “evenhandedness of surveillance” by using equal risk-adjusted ‘inputs’ to bilateral surveillance (in keeping with the Fund’s principle of uniformity of treatment), where ‘inputs’ are calibrated to country circumstances based on domestic and cross-country risks.
- Establish a mechanism for country authorities to report concerns, and deal with identified issues transparently.

### Executive Board’s Views<sup>2</sup>

- **Evenhandedness.** Directors stressed the importance of tackling perceptions of a lack of evenhandedness. Many Directors were open to the idea of assessing evenhandedness in terms of the inputs to surveillance, particularly resources and the depth of analysis based on judgments about domestic and systemic risks, while also being mindful of surveillance outputs. However, a number of Directors saw a need to pay even greater attention to the outputs of surveillance, noting that differences in Fund advice for countries with similar characteristics are the main source of concerns. Directors saw merit in establishing a mechanism for authorities to report concerns about evenhandedness, allowing the Fund to better identify and understand the issues and act on them transparently.

### Managing Director’s Action Plan for Strengthening Surveillance<sup>3</sup>

- The Article IV guidance note will clarify the Fund’s approach to evenhandedness based on inputs. An interdepartmental working group [will] set clear principles/benchmarks for an evenhanded approach to surveillance. These principles/benchmarks will help in assessing evenhandedness when concerns are raised.
- Executive Directors will be responsible for raising evenhandedness concerns. We will have a dedicated mailbox for concerns to be sent in writing and include specific details to allow a thorough assessment. Management will report to the Board on the concerns raised, and, where necessary, plans to address specific concerns.

<sup>1</sup> See [2014 Triennial Surveillance Review—Overview Paper](#), pp. 30-31.

<sup>2</sup> See [IMF Executive Board Reviews Surveillance: Supporting Sustainable Growth in a Post-Crisis Interconnected World](#), Press Release No. 14/454.

<sup>3</sup> See [2014 Triennial Surveillance Review—Managing Director’s Action Plan for Strengthening Surveillance](#), pp. 8-9.



## Annex II. Principles Related to Surveillance “Inputs”

The following is not an exhaustive or formal list, but is intended to provide a broader and illustrative set of examples to help characterize the principles related to surveillance “inputs.”

### Resources

*Principle 1—Staff resources are allocated adjusting for risk across the range of Fund activities, including bilateral and multilateral surveillance. In this regard, the resources allocated to surveillance reflect countries’ individual and/or systemic risk factors.*

- The allocation of resources could reflect a range of factors, such as: (i) the size, experience and expertise of a country team;<sup>1</sup> (ii) team, and particularly mission chief, turnover (including both the duration of assignment and avoiding to the extent possible simultaneous turnover of all or most team members); (iii) the frequency and duration of missions or other engagement; and (iv) coverage in the interdepartmental review process.
- The review process—including review by the authoring and other departments, and Management—as well as consideration by the Executive Board should support and reinforce evenhandedness. Interdepartmental review, in particular, helps ensure consistency by drawing on a wider exposure to developments and Fund policy advice across countries, institutional policy positions and technical advice, and by bringing to bear a multilateral perspective at the individual country level. In doing so, the resources devoted to review, like other inputs, are tailored to countries’ needs and prioritized based on risk.

### Analysis

*Principle 2—Staff’s policy advice reflects sound, objective analysis tailored to country circumstances, including the choice of issues covered, depth of analysis, and analytical approaches and tools.<sup>2</sup>*

- Evenhandedness does not require that all issues within the Fund’s responsibility are covered in equal depth for all countries at all times. The priority issues and the focus of discussions will naturally vary over time and between members.
- Priority issues identified in a staff report would normally be supported by deeper analysis. For instance, where deeper analysis is undertaken in a selected issues paper (SIP), it is important that

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<sup>1</sup> For instance, a vulnerable or systemic country would likely have larger and more experienced team than a stable or non-systemic one. Two countries of comparable systemic importance, with similar vulnerabilities, are expected to have teams of similar size and experience.

<sup>2</sup> The coverage of issues will be driven by a risk-based approach to surveillance, within the general parameters of the Fund’s legal framework. For example, the ISD mandates that certain policies—i.e., exchange rate, fiscal and financial—should always be covered in bilateral surveillance.

it focuses on the priority issues and that the results are effectively integrated in the Article IV staff report.

- Potentially controversial issues or policy advice would also benefit from deeper analysis. For example, such analysis could take the form of a SIP or be reflected in an analysis of cross-country policy lessons.
- Multilateral analysis and policy advice should also be adjusted to reflect systemic importance (global or regional), depending on the nature of the multilateral product (e.g., flagship reports, External Sector Report, etc.). In this regard, staff’s multilateral policy advice should take due account of cross-country spillovers and interconnections. This applies also in the context of Article IV consultations, in line with the *Integrated Surveillance Decision*.
- The choice of analytical approaches and tools will be a matter of judgment, reflecting the priority policy issues under discussion (e.g., the availability of ‘in-house’ expertise), domestic and/or systemic risks (e.g., the degree of attention to and depth of analysis of risks and spillovers), and other country circumstances (e.g., data availability, etc.).
- A “tailored” or focused approach can be aided by an explicit or implicit justification. Use of cross-country experiences is a useful vehicle to help shed light on areas where a member faces similar circumstances to other countries, where it may be distinct from others, or where further justification may help support seemingly different advice or a different analytical approach. For instance, in referring to a third party analysis or data set, it may help to consider the approach for similar countries and consider if additional justification is needed.

## Engagement

*Principle 3—Staff’s approach to engaging country authorities and other stakeholders and to presenting analysis and advice (including publicly) reflects the Fund’s role in supporting the membership, its responsiveness to authorities’ needs, and a fair and balanced representation of their views.<sup>3</sup>*

- Early engagement with country authorities can help guide and demonstrate the choice of topics, in line with both the Fund’s mandate and the member’s needs and interests. Similarly, informal advance consultations with country authorities and other stakeholders can also inform the formulation of major policy papers.
- Regular or continuous dialogue with country authorities, including via Executive Directors’ offices, can provide a stronger basis for feedback and access to information to help inform future analysis or policy positions.

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<sup>3</sup> The updated [Guidance Note for Surveillance under Article IV Consultations](#) offers good practices that can support an evenhanded approach to engagement, outreach or the presentation of staff reports. Box 9, for instance, offers principles for drafting staff reports, such as: no sharing or negotiating staff reports; comprehensive and candid assessments; accurately characterize counterparts’ views; avoid politically sensitive language.

- Staff teams are encouraged, where relevant, to acknowledge and explain differences in approach or policy advice to a member country compared to other countries in ostensibly similar circumstances. Where relevant, cross-country analysis could be helpful in explaining such differences. The interdepartmental review process can also help ensure that there are sound, objective reasons justifying the differences.
- Assessments of past Fund policy advice in Article IV staff reports—including changes in staff advice or different policy approaches by country authorities—could be seen as honest reporting of differences of views and changes that occurred through time. Moreover, this could also contribute to the ongoing dialogue with the authorities, with reflections on past policy advice helping to inform focus of future policy discussions and advice.
- Staff reports aim to strike a balance between candor and awareness of country circumstances, while also providing an accurate representation of both staff's and the authorities' views. Global or systemic factors also come into play. For instance, spillovers and interconnections need to be assessed candidly, without loss of candor where these effects are significant.
- Staff reports are an important vehicle for demonstrating and characterizing the depth, nature and coverage of analysis, and demonstrating the tailoring of issues, analysis or advice (see above).
- Staff should ensure that all major issues covered in staff reports have been discussed with the authorities, and that the authorities are clear on staff's positions and will not be surprised when they see the report. They are also expected to avoid unfounded judgmental or subjective material that would undermine engagement.
- Staff reports provide an opportunity to fairly and empathetically present the authorities' views, including where there are differences. A candid presentation of the authorities' views is a helpful tool for building trust and a strong relationship.
- Staff implements the Fund's Transparency Policy<sup>4</sup> in a uniform and fair manner. For instance, the *proportion* of requests accepted or rejected could provide an objective basis for comparing modification requests across countries or country groups. Familiarity with the relevant guidance can help staff avoid inadvertently including confidential information in staff reports that would not qualify for deletion under the Fund's Transparency Policy.
- Outreach has become standard practice as part of communicating staff's analysis and advice (e.g., end of mission press conferences or dialogue with non-governmental stakeholders). Liaising closely with country authorities about planned outreach can help garner support for the benefits of outreach and raise awareness of the intended messages.

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<sup>4</sup> See Decision No. 15420-(13/61) and the [Updated Guidance Note on the Fund's Transparency Policy](#) (April 2014).

## Annex III. Examples of Possible Evenhandedness Concerns

### Example 1: Fiscal Policy Advice

**Nature of Concern:** Inconsistency of treatment on fiscal advice in two countries' Article IV consultations, for countries in similar circumstances.

**Within scope:** Yes - recent bilateral surveillance (not related to individual staff member(s)).

**Establish facts of treatment for countries A & B:** Clear difference in treatment revealed:

- *Countries A & B:* in medium term, fiscal consolidation recommended for both. But,
- *Country A:* IMF recommends near-term consolidation;
- *Country B:* IMF recommends near-term stimulus.

**Establish country circumstances for countries A & B:** Preliminary analysis suggests these are broadly similar, in terms of growth outlook, deficit and debt profiles, and income levels. Both have floating exchange rate regimes. But different regions.

**Identify comparator countries:** Include "peer" countries from both regions, and possibly a third region.

**Establish facts of treatment for comparators:** What were the short-term and medium-term fiscal policy recommendations in peer countries? Did their growth and/or sustainability outlooks differ? Was advice different in different regions?

**-Assess evenhandedness (i.e. calibration of advice to country circumstances).** In particular:

- *Principle 1—Resources:* Do teams for A, B, and other countries have similar resources available in terms of fiscal expertise? Do teams have FAD economists, and/or desks with experience on fiscal issues?
- *Principle 2—Analysis:* Are fiscal recommendations for A and/or B outliers among peer countries? If so, are they supported by deeper analysis and/or due account of cross country spillovers? Is advice consistent with multilateral advice from flagship products (e.g., Fiscal Monitor), or otherwise tailored to the country circumstances?
- *Principle 3—Engagement:* Have teams for A, B, and other countries sufficiently engaged the authorities on sustainability and growth implications of their advice?

**Results:** A number of illustrative results are set out in Table III-A below:

| Annex III. Table A. Stylized Example of Evenhandedness Concern Regarding Fiscal Policy Advice <sup>1/</sup>  |                         |   |  |   |
|--|-------------------------|---|--|---|
| SCENARIO   |                         | 1: Different Advice Justified by Country Circumstances  | 2: Different Advice Not Justified by Country Circumstances (one country)   | 3: Different Advice Not Justified by Country Circumstances (multiple countries)   |
| POLICY ADVICE  |                         | Country A: Recommends near-term consolidation<br>Country B: Recommends near-term stimulus<br>Peer countries: Diverse advice   | Country A: Recommends near-term consolidation<br>Country B and peer countries: Recommends near-term stimulus   | Country A: Recommends near-term consolidation<br>Country B: Recommends near-term stimulus<br>Peer countries: Diverse advice   |
| ASSESSING THE CALIBRATION OF SURVEILLANCE TO COUNTRY CIRCUMSTANCES   | PRINCIPLE 1: RESOURCES  | Country A, B and all peers: teams of same size and experience. Involvement of FAD fiscal expert and intensive FAD review for all countries.   | Country A, B and all peers: teams of same size and experience. Involvement of FAD fiscal expert and intensive FAD review for all countries, except country A.  | Country A, B and all peers: teams of same size and experience. Involvement of FAD fiscal expert and intensive FAD review for country B and some peers, but not for country A and other peers.   |
|  | PRINCIPLE 2: ANALYSIS   | Country A, B, and peer countries: advice is supported by multiplier analysis, a DSA and cross-country analysis.<br><br>Also in Country B: despite similar growth outlook to country A, additional analysis of spillover risks from country C; recommended fiscal stimulus reflects insurance against potential shock to which country A is less vulnerable. | Country A: refers to DSA, but without further analysis or justification.<br><br>Country B and peer countries: advice is supported by multiplier analysis, DSA and cross-country analysis.  | Country A: refers to DSA, but without further analysis or justification.<br><br>Country B: advice is supported by multiplier analysis, a DSA and cross-country analysis.<br><br>Peer countries: limited additional background justification for recommended policy stance.  |
|  | PRINCIPLE 3: ENGAGEMENT | Country A: early and regular engagement with authorities, but policy dialogue is tense with authorities reluctant to contemplate consolidation measures.<br><br>Country B: early and regular engagement with authorities.<br><br>Peer countries: diverse practices  | Country A: tense policy dialogue with authorities, who are willing to contemplate consolidation measures but feel staff recommendations are poorly explained. Staff not responsive to authorities' outreach efforts.<br><br>Country B and peer countries: early and regular engagement with authorities. | Country A: tense policy dialogue with authorities, who are willing to contemplate consolidation measures but feel staff recommendations are poorly explained. Staff not responsive to authorities' outreach efforts.<br><br>Country B: early and regular engagement with authorities.<br><br>Peer countries: staff policy advice explained only in some countries |
| CONCLUSION   |                         | Evenhanded  | Not evenhanded   | Not evenhanded  |
| RESPONSE   |                         | Surveillance for all countries is well calibrated. No problem, systemic or otherwise.   | Surveillance for most countries (B and comparators) is well calibrated. Country A is an outlier. Although problem does not appear systemic, still merit in exploring scope to clarify staff guidance.  | Surveillance not well calibrated to country circumstances in significant number of the cases, indicating widespread inconsistencies. Urgent need to address issue (e.g., clarify position in a policy paper and/or revise staff guidance).  |
| <sup>1/</sup> The range of factors considered in this stylized example, particularly in assessing the calibration of surveillance to country circumstances, is only illustrative. This should not be viewed as a rigid or exhaustive list to be followed in an actual assessment of an evenhandedness concern. |                         |   |  |   |

## Example 2. Coverage of Corruption Issues

**Nature of Concern:** Inconsistent treatment of corruption in two countries' latest Article IV consultation reports. An ED is concerned that the Fund's treatment of country A was much tougher than country B, despite it being a similar problem for both countries.

**Within scope:** Yes - recent AIV surveillance (not related to individual staff member(s)).

**Establish facts of treatment for countries A & B:** Reveals clear difference in treatment:

- *Country A:* issue features prominently in latest staff report (e.g., box/annex, dedicated paragraph, and staff appraisal) and strong tone used (i.e., critical on authorities' policies).
- *Country B:* No mention in the staff report.

**Establish country circumstances for countries A & B:** Preliminary analysis of several third party corruption/governance indices reveals that both countries have very similar rankings (e.g., within  $\pm 10$ ).

**Identify comparator countries:** Given similar circumstances in countries A& B, identify 4 countries with similar governance/corruption indices rankings and similar income levels.

**Establish facts of treatment for comparators:** Examine coverage of governance/corruption issues in the Article IV reports for *countries C, D, E, F*.

**Assess evenhandedness:** Closer examination of the surveillance process, country circumstances and the basis for the surveillance treatment of corruption. In this instance, elements of the surveillance process that could help assess whether different treatments reflect calibration to country circumstances or lack of evenhandedness include:

- *Principle 1—Resources:* if corruption is an identified source of risk (e.g., in RAM), are the resources (team size and experience) commensurate with that risk?
- *Principle 2—Analysis:* does the report make a strong case for macrocriticality; given the sensitivities, what analytical tools have been used to support the policy advice (e.g., growth diagnostic tools, cross-country analysis); given the lack of 'in-house' expertise on corruption, to what extent did staff draw on external expertise or evidence (e.g., World Bank or Transparency International reports/databases); to what extent has corruption been prioritized in previous surveillance (e.g., past 3-5 years)?
- *Principle 3—Engagement:* does the prioritization of corruption reflect early and regular dialogue with the authorities (e.g., staff visits, conference calls); does it reflect the authorities' own priorities; are the positions of staff and the authorities articulated clearly, including explanation of differences or similarities with other countries?

**Results:** Several illustrative scenarios and outcomes are set out in Table III-B below:

Annex III. Table B. Illustrative Example of Evenhandedness Concern Regarding the Coverage of Corruption Issues<sup>1/</sup>

| SCENARIO  | 1: Different Treatment Justified by Country Circumstances  | 2: Different Treatment Not Justified by Country Circumstances (one country)  | 3: Different Treatment Not Justified by Country Circumstances (multiple countries)   |   |
|---|--|--|--|---|
| <b>POLICY ADVICE</b>  | <i>Country A and comparators</i> : prominent coverage; detailed advice; direct and critical tone.<br><i>Country B</i> : not mentioned in current report, but prominent coverage in recent reports. | <i>Country A and comparators</i> : prominent coverage; detailed advice; direct and critical tone.<br><i>Country B</i> : not mentioned.   | <i>Country A and comparators</i> : prominent coverage; detailed advice; direct and critical tone.<br><i>Country B</i> : not mentioned.   |   |
| <b>ASSESSING THE CALIBRATION OF SURVEILLANCE TO COUNTRY CIRCUMSTANCES</b> | <b>PRINCIPLE 1: RESOURCES</b>  | <i>Country A and <u>all</u> comparators</i> : teams of same size and experience. Lack corruption expertise but consult World Bank experts.<br><i>Country B</i> : team of similar size and experience. Lack corruption expertise and does not consult World Bank experts during consultation.   | <i>Country A and <u>all</u> comparators</i> : teams of same size and experience. Lack corruption expertise but consult World Bank experts.<br><i>Country B</i> : team of similar size and experience. Lack corruption expertise and does not consult World Bank experts during consultation.   | <i>Country A and <u>some</u> comparators</i> : teams of same size and experience. Lack corruption expertise but consult World Bank experts.<br><i>Country B and <u>other</u> comparators</i> : team of similar size and experience. Lack corruption expertise and does not consult World Bank experts during consultation.  |
|   | <b>PRINCIPLE 2: ANALYSIS</b>   | <i>Country A and <u>all</u> comparators</i> : detailed analysis makes a strong case for macrocriticality. <sup>2/</sup> SIP draws on relevant evidence, including reports/data from other agencies (e.g., World Bank), growth diagnostic tool and cross-country policy lessons.<br><i>Country B</i> : no analysis or reference to readily available evidence demonstrating macrocriticality <sup>2/</sup> (e.g., World Bank report). | <i>Country A and <u>all</u> comparators</i> : detailed analysis makes a strong case for macrocriticality. <sup>2/</sup> SIP draws on relevant evidence, including reports/data from other agencies (e.g., World Bank), growth diagnostic tool and cross-country policy lessons.<br><i>Country B</i> : no analysis or reference to readily available evidence demonstrating macrocriticality <sup>2/</sup> (e.g., World Bank report). | <i>Country A and <u>some</u> comparators</i> : detailed analysis makes a strong case for macrocriticality. <sup>2/</sup> SIP draws on relevant evidence, including reports from other agencies (e.g., World Bank), growth diagnostic tool and cross-country policy lessons.<br><i>Country B and <u>other</u> comparators</i> : no analysis or reference to readily available sources (e.g., previous IMF and World Bank reports) that reveal differences in macrocriticality <sup>2/</sup> between country B and other comparators. For some, issue is pervasive with major macro-impact; for others, issue is sector specific with limited implications. |
|   | <b>PRINCIPLE 3: ENGAGEMENT</b>   | <i>Country A and <u>all</u> comparators</i> : strong policy dialogue with authorities (e.g., early and regular engagement during staff visit and conference calls). Discussed macrocriticality <sup>2/</sup> and similarities/differences with other countries. Authorities fully aware of staff position.<br><i>Country B</i> : issue not discussed with authorities.   | <i>Country A and <u>all</u> comparators</i> : strong policy dialogue with authorities (e.g., early and regular engagement during staff visit and conference calls). Discussed macrocriticality <sup>2/</sup> and similarities/differences with other countries. Authorities fully aware of staff position.<br><i>Country B</i> : issue not discussed with authorities.   | <i>Country A and <u>some</u> comparators</i> : strong policy dialogue with authorities (e.g., early and regular engagement during staff visit and conference calls). Discussed macrocriticality <sup>2/</sup> and similarities/differences with other countries. Authorities fully aware of staff position.<br><i>Country B and <u>other</u> comparators</i> : issue not discussed with authorities. For other comparators, authorities not aware of staff position, surprised by issue's inclusion in staff report and concerned it does not properly capture their views.   |
| <b>CONCLUSION</b>   | Evenhanded   | Not evenhanded   | Not evenhanded   |   |
| <b>RESPONSE</b>   | Surveillance well calibrated for all countries. No problem, systemic or otherwise.   | Surveillance well calibrated for most countries. Country B is an outlier. While problem does not appear systemic, staff to examine issue further and clarify staff guidance, where necessary.  | Surveillance not well calibrated in about half the cases, indicating widespread inconsistencies. Urgent need to address issue (e.g., clarify position in a policy paper and/or revise staff guidance).   |   |

<sup>1/</sup> The range of factors considered in this stylized example, particularly in assessing the calibration of surveillance to country circumstances, is only illustrative. This should not be viewed as a rigid or exhaustive list to be followed in an actual assessment of an evenhandedness concern.

<sup>2/</sup> The test for including an issue in bilateral surveillance is whether it has a significant influence on a member's present or prospective domestic or balance of payments stability (see ISD).