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Independent Evaluation Office
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BACKGROUND PAPER

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The IMF and the Crises in Greece, Ireland, and Portugal: An Evaluation by the Independent Evaluation Office

Summary of Views of a High-Level Advisory Panel

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Summary of Views of a High-Level Advisory Panel

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Members of the High-Level Advisory Panel: Hamad Al Sayari, Jorge Braga de Macedo, Michel Camdessus, Malcolm Knight, Rachel Lomax, Ngozi Okonjo-Iweala, Jean Pisani-Ferry, Guillermo Ortiz, Yaga Venugopal Reddy, and Edwin Truman. Jack Boorman, a former Department Director and Counsellor of the Fund, served as rapporteur.

The views expressed in this Background Paper are those of the advisory panel, as summarized by the rapporteur, and do not necessarily represent those of the IEO, the IMF, or IMF policy. Background Papers report analyses related to the work of the IEO and are published to elicit comments and to further debate.

INTRODUCTION

1. The High-Level Advisory Panel met on April 7, 2016 in London to discuss the draft report prepared by the IEO on "The IMF and the Crises in Greece, Ireland, and Portugal." The discussion was a comprehensive review of the preliminary findings, conclusions, and recommendations of the evaluation. The panel raised many questions and commented at length on the major issues discussed in the draft report.

2. Participants described the draft report as "very good and substantive," and welcomed the "richness of the report." The discussion highlighted the many governance issues that arose in the context of the Fund's management of its response to the crises, especially regarding the program with Greece. What was seen as the weakness of Fund surveillance of Europe before the crises, and its implications for future surveillance, received close attention. Many issues raised in the report that touched on internal procedures, accountability, and transparency were discussed at length. The panel supported the way in which each of these issues was examined in the report. While complimenting the IEO on the analysis provided in the report and agreeing with the broad thrust of its conclusions, the panel suggested that the recommendations could be sharpened to better reflect the strength of that analysis and the conclusions. In addition, the panel emphasized the need to further highlight the governance weaknesses that became apparent during the crisis, including shortcomings in Board oversight and the difficulties encountered by the IEO in obtaining access to some confidential information and documents.

Access by the IEO to Sensitive Information

3. The advisory panel discussed in-depth difficulties that the IEO had encountered in obtaining some sensitive documents thought to be critical to assessing the issues that surfaced during the euro area crises. There was a strong consensus among the panel members that these problems, if not addressed, will undermine the effectiveness of the IEO review process and the Fund's credibility. While possibly of some relevance to the role of the IMF in its assessment of the programs with Ireland and Portugal, the case of Greece was thought to be the most serious. The draft report noted that this had been an issue throughout this evaluation process and the problem was brought to the attention of the Managing Director. A message was reportedly sent to staff to cooperate with the IEO to the fullest extent—and in accord with the terms of reference of the IEO. But, at the time of this meeting, there was still material believed to be important to the evaluation that staff had not made available.[1]

[1] [Note by the IEO: The discussion by the advisory panel, summarized in this background paper, was based on an earlier draft of the evaluation report, which differs from the final evaluation report circulated to the Executive Board. The final evaluation report benefited from the views of panel members and other reviewers, and it incorporates information received subsequent to the meeting of the panel. As explained in the final evaluation report, following the meeting of the panel on April 7, 2016, IMF staff provided the IEO with staff documents on informal Board meetings in late April. In late May and early June, after a draft of the evaluation report had been circulated to staff for comments, the IEO was given access to additional confidential documents on the IMF's

4. The panel discussed various factors that may have led to this situation. These included the policies and practices of the various partners of the IMF in the Troika (the IMF, the European Commission, and the European Central Bank) regarding confidentiality; and the extreme sensitivity that appears to have characterized the various studies by different groups of Fund staff in considering delicate issues such as the sustainability of Greek debt and the analysis of possible contagion from alternative ways of dealing with that debt.

5. The panel raised questions about the clarity of the terms of reference (TOR) of the IEO on the basic issue of access to documents, and the role of the Executive Board in interpreting these TOR. Some participants also raised questions about the governance issues involved, including who, in the end, had authority to determine which documents could be withheld. The advisory panel stressed the importance of this matter, not least for the credibility of the reports issued by the IEO.[2]

6. In the discussion, there was clear support voiced for the mission of the IEO, and the group strongly supported the recommendation in the draft report for the Executive Board to take up with some urgency the matter of the IEO's access to relevant information.

IMF Surveillance in the Lead Up to the Euro Area Crisis

7. The draft report deals at some length with the IMF's treatment of countries in the euro area beyond the key crisis countries. The panel concurred with the report's finding that while issues that ultimately led to the crises were identified through both bilateral and multilateral surveillance, the risks involved were not highlighted—either for the sustainability of the currency area itself, or for the banking sector. The panel welcomed this focus and suggested that more attention be given to the asymmetry of policies of countries in the euro area and the impact of that asymmetry on the crisis countries—as well as the impact of the programs and policies in the crisis countries themselves on others. More generally, some felt that in the run up to the crises, the IMF had failed to bring proper attention to the weaknesses in the euro area stemming from the slow pace of adapting the architecture and creating the institutions necessary for stability in a common currency area. This appeared to stem, in part, from the mindset that "Europe is different" (see below) and the focus of IMF surveillance that gave too much attention to individual countries and too little to the structure of the system and the risk of spillovers of

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contingency planning during 2010–11. To address the difficulties that arose during this evaluation, the IEO and IMF staff are working together to develop a clear protocol to improve the way in which requests for documents are handled.]

[2] More generally, the difficulty of dealing with this issue was admittedly a function of how work is done in the Fund (and elsewhere) as regards minute taking at meetings, in private conversations, and in other communications. Recognition of this difficulty makes it all the more important that there be clear guidelines on how records should be kept, by whom, and with what access to parties beyond those directly involved.

economic policies from one country to another. The panel suggested that the IMF examine these issues in depth outside the context of this evaluation.

Exceptional Access and Other Issues in the Fund Arrangements with the Crisis Countries

8. Much attention was given by the panel to the exceptional level of financing provided to Greece under the Stand-By Arrangement (and, to a lesser extent, to the other crisis countries). One key element of the discussion was the purported pressure the Fund faced to accept the preference of euro area governments and institutions not to restructure Greece's debt. The panel supported the report's conclusion that this situation might well have been avoided if management, staff and the Executive Board had discussed early on all available options and communicated the IMF's analysis and its position on this critical issue to its European partners. Irrespective of the merit of the decision to provide exceptional access financing to Greece, the panel was unanimous in viewing the procedures followed as inadequate.

9. The reasons generally given for the decision to provide exceptional access were the absence of European firewalls, a large debt-service payment by Greece due later in May 2010, and strong opposition to debt restructuring from several large IMF shareholders. While some panel members accepted that this decision may have been appropriate in light of the specific circumstances noted, others suggested that these circumstances were created by decisions of the membership over many years and by decisions taken in the context of this program by staff and management.

10. Participants pointed to the rights of member countries to come to the Fund in the event of financial need, and the responsibility of the Fund to help meet these needs in the context of a sufficiently strong program. In this context, some deplored the inadequacy of quota resources in the Fund that had been allowed to decline to historically low levels relative to the growth of the global economy, the increase in trade, and the explosion of global capital flows. Beyond that, if the country's debt had been judged to be unsustainable—the view of almost all participants—the Fund's provision of financing might well have been accompanied with debt relief.[3] But this issue of debt sustainability had not been brought before the Board, with the required detailed analysis of the capacity of Greece to service its debts, prior to managements' proposal to the Board to approve the Stand-by Arrangement with Greece.

11. Participants emphasized that the reported differences of view among staff regarding the sustainability of Greece's debt and the possible contagion that might be triggered by debt relief should have been resolved through direct involvement of both management and the Executive Board. Management and staff should have reached a consistent view on whether any program of

[3] Or, at a minimum, maintenance of exposure by existing creditors, as had been the case in the crises in Latin America and East Asia, and more recently in the context of the Vienna Initiative.

macroeconomic adjustment for Greece had a reasonable prospect of achieving debt sustainability without an early debt restructuring and presented that conclusion to the Executive Board for discussion. As the IEO report documents, the need for a revision of the exceptional access framework was discussed by the Executive Board only at the Board meeting in which it was asked to approve the program, and with minimal technical analysis and limited time for Board reflection on this critical issue. Some noted that the decision to support Greece with exceptional access financing was a political decision, and the decision to amend the exceptional access framework simply followed from this. A few expressed the view that amending the framework was appropriate under the circumstances, though everyone agreed that the procedure followed was seriously flawed.

12. The panel welcomed the IEO's assessment of the circumstances in which the decisions on Greece had been taken, with implications for the later euro area programs with Ireland and Portugal. The panel also agreed with the report's conclusion that the IMF had failed to adequately address Greece's debt problem in a timely manner after the initial approval of the program. At the same time, participants were deeply concerned that the problems noted regarding access to certain sensitive documents limited the IEO's capacity to fully evaluate this important matter.

Was Europe Treated Differently?

13. The IMF's failure to address Greece's debt problem early on led to a discussion by the panel of other factors that might suggest that the treatment of Europe by the IMF has been different from the treatment of other members of the Fund. The question posed by the panel was "Is Europe different?" The consensus among participants was that "Europe was treated differently." A litany of factors, other than those related to the economic construct of the euro area, were noted:

(i) The panel felt that, traditionally, European economic and financial problems were "downplayed or ignored" by the Fund. Why? Europe has had exceptional power in the IMF—with European Managing Directors and a relatively large number of Executive Directors who hesitated to "wash their dirty laundry in public."

(ii) Participants felt that this was reflected in weaker IMF surveillance of euro area countries than in most other countries and regions—even if its reserve currency status called for more intensive surveillance.[4] There was also a reference to the "advanced country bias," that is, "these countries don't have crises"—which in both past and recent history is, all too obviously, not true. Some participants noted what they saw as a traditional

[4] The report's portrayal of weak IMF surveillance of economic and financial policies echoed the findings of the earlier IEO report on *IMF Performance in the Run-Up to the Financial and Economic Crisis*.

asymmetry in Fund surveillance, with developing and emerging economies facing more demanding surveillance than the more developed economies.

(iii) Some participants referred to a mindset in the IMF that the euro area had a greater capacity to deal with its own problems and a tendency therefore to tolerate regional weaknesses, such as problems in an over-exposed banking system.

14. Participants agreed with the IEO that these problems, which were left to fester, ultimately impacted the way in which the crises in Greece, Ireland, and Portugal were dealt with. This deference was also seen as a factor in the acceptance of a policy of strict austerity in the IMF's arrangements with the euro crisis countries and its failure to press for less asymmetric adjustment within the euro area, the most important feature of which would have been a less restrictive fiscal stance in Germany. Some participants, while broadly agreeing with the IEO's analysis of the "Is Europe Different" question, suggested that the IEO report could be more forceful on these issues and take a stance on them, for example, in advocating that area-wide issues should be tackled more directly and more comprehensively in future programs.

Issues in Individual Crisis Country Programs

15. Panel members supported the comments in the report on the Fund-supported programs with Ireland and Portugal. There was some questioning of the Irish (and euro area) decision to guarantee the liabilities of the Irish banks. This had put a large burden on the budget and substantially increased sovereign debt—from one of the lowest levels in Europe. This action was seen as driven by the weak state of the many over-exposed European banks and the absence of an effective mechanism—in Europe generally and in many individual countries, to deal with the situation in those banks. The panel endorsed the draft report's analysis of these issues and agreed that IMF surveillance before the crisis was to be faulted for not better identifying the significant weaknesses in the European banks. On the other hand, the panel applauded the Fund's role in providing technical assistance to Spain to deal with its banking problems in subsequent years.

16. The panel agreed with the finding that the Fund program with Portugal had helped to stabilize the economy as well as contributing to a structural reform that brought about a significant opening of the economy. Some participants, however, wondered whether the Fund might have exited too early in light of the need for further assistance in bringing about continued structural adjustment.

17. All participants saw the situation in Greece and the Greek program as very different, and generally agreed with the report's treatment of the Greek case. In Greece, as in the other crisis countries, the absence of control over the exchange rate and monetary policy imposed severe constraints over the options to deal with the crisis. In addition, the imbalances that had been allowed to emerge were huge, and the political situation highly unstable. The latter, in particular, was reflected in a serious lack of ownership in the program and a sense that the key elements of the program—both macroeconomic/financial and structural—had been dictated by the IMF and

the European Union (EU), respectively. One instance was mentioned wherein the Prime Minister essentially disavowed the program immediately after having secured its approval in the Parliament. Given the uneven results of the program with Greece—both the elements under the Fund's purview and those negotiated with the EU, it was suggested that a more in-depth analysis of the factors leading to the successes and failures in the program—including the ownership issue, was needed. The panel considered this issue too broad to be part of this evaluation.

The Troika

18. There was a long and substantive discussion of the role and impact of the Troika arrangement. The panel welcomed the IEO's substantive treatment of this issue in the report and supported its conclusions.

19. There was unanimous agreement in the group that dealing with crises, especially when there are multiple outside parties involved, is inevitably somewhat chaotic. There are multiple layers of officials from the countries involved and from multiple institutions. Each institution has its own operating principles and practices, its own legal framework, and its own history of dealing with the borrowing country. There is also the need to keep all parties—including countries that may be involved as providers of financial support, informed of the elements being considered in the design of a program. There is a cacophony of voices endlessly in contact with one another, in an atmosphere where things are changing very rapidly. There are inevitably risks of misunderstandings, unresolvable differences of view on priorities and approaches to policy challenges, and the like.

20. There was general agreement among participants with the report's conclusions that the Troika may have served well both as a forum to bring some order out of the cacophony, and to keep the participants in the Troika aware and informed of the views of their superiors and to convey those views to other involved parties, including the relevant officials in euro area countries who were not members of the Troika. Most panel members concurred with the assessment in the IEO report that the Troika, for the most part, was an efficient coordinating mechanism, especially when viewed from the point of view of the borrowing country. However, some expressed dissenting views.

21. Questions had been raised in various forums as to whether the IMF was a junior partner in the Troika. The IEO report concludes that was not the case, and participants generally agreed with this assessment. While there was some indication that the IMF staff may have modeled its collaboration with the European partners on the IMF-World Bank Concordat, the consensus within the Advisory Panel was that the Concordat was not an appropriate model for such coordination. The panel suggested that the IMF should try to draw lessons from this experience for non-European countries, especially those that are members of currency unions.

22. The panel discussed the role of the European Central Bank (ECB) in the Troika, including the question of which side of the table the ECB should be sitting, an issue raised in the report but

on which it does not reach a firm conclusion. Some viewed the presence of the ECB as a complement to the European Commission. Others believed that in dealing with a country that is a member of a currency union, the union's central bank should be subject to some conditionality as to its operations that affect that country. The panel agreed with the report that this would presumably require a union-wide program—with the union central bank as the counterpart of the IMF. All of this would require a comprehensive rethinking of the role to be played by a currency union central bank when a member country in the union is negotiating an arrangement with the IMF. This would be increasingly important in Europe given the new institutions—as firewalls and as providers of direct support for crisis counties—that have been created in the wake of the euro area crises.

Governance Issues

23. Because of the important governance issues that have arisen for the IMF in dealing with the euro area crises, and especially in the case of Greece, the panel strongly agreed that there was a need to re-examine the way in which the Executive Board should be kept informed of developments and consulted on the most important features being considered in designing a Fund-supported program. The IEO report has identified a number of areas in which the Board appears to have been left in the dark on some key issues. These included, as discussed above, the question of the debt sustainability of Greece; the exceptional access that was proposed under the Greek arrangement; access to documents relevant to an evaluation by the IEO; and others.

24. Governance issues that were raised in the IEO report were taken up in various contexts during the group's discussion. A key section of the report asks "How Well Did the Executive Board Perform Oversight?" The main conclusions in the report were as follows:

(i) The Executive Board played only a pro forma role in key decisions related to the IMF's engagement in the euro area crises.

(ii) The IMF's exceptional access policy was not followed strictly with respect to the role of the Board.

(iii) Management did not consult with the Board "before concluding discussions on a program" or "take special care not to prejudge the Board's exercise of its responsibility to take the final decision."

(iv) The lack of Board involvement was an ongoing feature throughout the euro crisis period. Most members of the Board were not kept informed of ongoing developments that concerned the IMF's role in the euro area.[5]

[5] Some interviewed for this evaluation complained to the IEO that they learned more from the press than from informal Board meetings.

(v) In terms of IMF governance, the experience with the euro area crises posed a fundamental problem: at least some Executive Directors representing euro area countries may have had information that was not available to the other Directors, creating an information asymmetry within the Board.

25. These are all obviously serious concerns and the panel had an in-depth discussion of the report's conclusions and, more importantly, of what needed to be done to avoid a repetition of this experience. At the outset of the discussion, however, panel members stressed that Managing Directors need flexibility to carry out the responsibilities of the office. That said, they must respect the Board, and member countries must send skilled and experienced people to the Board. The Executive Directors are officers of the Fund in addition to being representatives of their countries. The Board's relationship with management should be based on mutual confidence that they are serving the same membership. The Managing Director must assure Directors that they are being kept informed and that they are listened to.

26. The panel agreed that to improve the quality of the interaction, management and the Board must meet as often as necessary, and in the proper format. Strict rules or procedures are not always necessary. Rather, a common understanding by both parties of their respective responsibilities could suffice. The Executive Board is ultimately responsible for the governance of the IMF, and that means holding management accountable. In this episode, the panel believes that Executive Directors should have been more active in demanding involvement, that is, in exercising their oversight responsibilities. Directors whose countries are at the center of the Fund's attention and operations at any time must respect the needs of all other Directors to do their job. This requires a reduction of the asymmetry that sometimes develops in the information available to the entire Board.

Recommendations in the Draft Report

27. The panel, while endorsing the thrust of the recommendations made in the draft IEO report, noted that they could be sharpened to better reflect the strength of the report's findings and conclusions. The IEO agreed to consider the panel's suggestions in the final version.

28. The panel's discussion focused on four key areas in which the IEO had proposed recommendations: (i) governance issues; (ii) oversight by the Board; (iii) need for a protocol to work with counties that are members of currency unions or regional financing arrangements (RFAs); and (iv) the role of independent evaluation in the IMF.

29. While recognizing that some of its suggestions may go beyond the scope of the IEO evaluation, the panel suggested the following:

30. **Governance issues**. Greater emphasis should be given to the need to address the issue of the asymmetry of information available to Executive Directors. Also, when proposing decisions to the Board, management must be concrete and specific in formal meetings. If alternatives are

under consideration, they should be vetted by the Board ahead of time—preferably in informal meetings wherein management and staff could indicate what alternatives may have been considered and the reasons for their rejection. Minutes should be kept of informal Board meetings (e.g., in exceptional access cases) as they are often part of the decision making process of the Fund.

31. **Oversight by the Board.** The Board should be pro-active in the monitoring of the development of programs. The panel pointed to the importance of early consultation by staff and management with the Board on important program decisions ahead of requests for approval or when changes or amendments are needed to a country's program. It understood that changes should be made promptly when warranted, but urged management to consult on a timely basis and not to wait to inform the Board on relevant developments until a formal review is scheduled.

32. **Need for a protocol to work with currency unions or RFAs.** To strengthen the IMF's independence and help ensure uniform treatment among the membership, the panel called for a policy on cooperation with partners, particularly with regional financing arrangements, such as the European Stability Mechanism and similar arrangements in other regions. More generally, the panel encouraged the development of guidelines for structuring engagements with other organizations that should clarify the IMF's roles and accountabilities. In addition, the panel raised a number of general suggestions, including the need for more research on program design in countries belonging to a currency union, and on how to take into account the risk of spillovers in designing programs in potentially systemic circumstances. Panel members recognized the progress made on these issues (e.g., in the 2014 Triennial Surveillance Review and elsewhere), but saw a need for even greater efforts. In this context, some noted the important differences between the euro area and other currency unions that would need to be taken into account in formulating guidelines for IMF operations in member countries of those unions.

33. **The role of independent evaluation in the IMF.** The panel supported the IEO recommendation that the Executive Board and management reaffirm their commitment to accountability and transparency—the keys to good governance—and the role of independent evaluation as part of that commitment. The Board should clarify what the IEO can and cannot evaluate as well as its access to confidential documents. Some panel members added the view that management and the Board should take a public decision stating the criteria that would need to be met in order for IMF staff or management to deny information that the IEO requested when there are legitimate reasons to do so.