

Report to the International Monetary and Financial Committee (IMFC) on the Activities of the Independent Evaluation Office (IEO)

1. Since its **April 2004 Status Report**, the IEO has made considerable progress in implementing its work program for FY2004.

2. The Evaluation of the Fund's Role in the PRSP and PRGF initiative was presented to the Executive Board in July 2004 and published shortly thereafter, along with background country case studies (for Guinea, Mozambique, Nicaragua, Tajikistan, Tanzania, and Vietnam). The evaluation found that, while the initiative has significant potential, its implementation has fallen short, particularly in areas of relevance to the IMF. It identified a need to shift incentives within the initiative more toward improving underlying domestic policy making processes and institutions and away from the production of documents. It raised a number of questions on the role of the IMF in the implementation of the initiative and made several recommendations on how the Fund can adapt its "way of doing business" to better support the objectives of the PRS approach. In its response to the report, the Executive Board indicated that careful follow-up would be needed. Indeed, initiatives to address some of the issues raised in the evaluation are already underway, including in the context of the management-led Committee on Low-Income Country Work. The IEO is currently engaged in a series of outreach exercises to disseminate lessons and recommendations from the evaluation to a broad range of stakeholders.

3. The IEO's evaluation of the Role of the Fund in Argentina (1991 to 2001) was also discussed by the Board and published in July 2004. It found that while the main responsibility for the crisis of 2001 lay with Argentine policy makers, who were firmly in the driver's seat throughout the period, the Fund erred in supporting inadequate policies for too long. These errors initially reflected weaknesses in surveillance and program design, whereas the run-up to the crisis revealed flaws in the Fund's decision-making process. While lessons have already begun to be drawn, Executive Directors agreed that it would be important to set up a process through which the relevant lessons and recommendations could be incorporated into the Fund's operational and policy development work.

4. Work is well underway on the Evaluation of Technical Assistance Provided by the IMF which is expected to be brought to the Executive Board at the end of 2004.

5. As already reported, the IEO work program for the current fiscal year (FY2005) consists of the following four projects:

- The IMF's approach to capital account liberalization;
- Financial Sector Assessment Program (FSAP) and Financial Sector Stability Assessments (FSSA);
- The role of multilateral surveillance; and
- A single country case study.

6. Terms of Reference for the evaluation of the IMF's approach to capital account liberalization are available on the IEO website and work on the evaluation is underway. Work has also begun on the evaluation of the Financial Sector Assessment Program (FSAP) and Financial Sector Stability Assessments (FSSA), which is being done in parallel with a review being conducted by the Operations Evaluation Department of the World Bank. Draft Terms of Reference have been posted on the IEO website for public comment.

7. After careful consideration, Jordan was selected for the single country case study from a short-list of prolonged users of IMF resources that were neither PRGF nor capital account crisis cases. Among other aspects, the evaluation will provide an opportunity to learn from an in-depth assessment of program design and structural reform in a specific country context. Draft Terms of Reference should be available for public comment by mid-October 2004.

8. While not formally part of this year's work program, the IEO is starting to prepare an Evaluation of IMF Structural Conditionality, which is expected to be part of its work program for FY2006. The IEO will be seeking feedback on the terms of reference from a broad range of interested parties later this year.

9. The IEO expects to publish its second Annual Report in November/December. As with the first Annual Report, it will use the opportunity to take stock of progress in implementing those recommendations from completed IEO evaluations that were endorsed by the Executive Board.

10. The IEO Work Program for FY 2005 and evaluation reports and related documentation are available on the IEO website (www.imf.org/ieo).