

**PROGRESS REPORT TO THE
INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE (IMFC)
ON THE ACTIVITIES OF THE
INDEPENDENT EVALUATION OFFICE OF THE IMF (IEO)**

April 11, 2013

1. Since October 2012, the Executive Board has discussed two IEO evaluation reports, *International Reserves—IMF Concerns and Country Perspectives* on December 7, 2012, and *The Role of the IMF as Trusted Advisor* on February 1, 2013. The Board also discussed the *External Evaluation of the IEO* on March 21, 2013. In addition, the IEO advanced work on the ongoing “Assessment of Self-Evaluation in the IMF,” which will go forward to the Executive Board in coming months. Following consultations on possible topics, the IEO has also initiated evaluations on IMF forecasting, country statistics, and the IMF’s response to the global financial crisis.¹

2. ***International Reserves.*** This evaluation emphasized two distinct aspects of the IMF’s analysis on international reserves: the role of reserve adequacy assessments in the context of bilateral surveillance, and the effect of reserves on the stability of the international monetary system. The evaluation concluded that IMF discussions of international reserves in the context of bilateral surveillance were often pro forma, overly reliant on traditional indicators, and insufficiently attuned to country circumstances. To address these concerns, the evaluation recommended that the IMF apply reserve adequacy indicators flexibly and in a way that incorporates country-specific circumstances; recognize the multiple tradeoffs involved in decisions on reserves; and integrate advice on reserves with advice in related areas, directing this advice not just to emerging market countries but also to advanced countries where appropriate. In the multilateral context, the IEO welcomed the Fund’s broader workstream on the international monetary system but noted that it had not sufficiently informed the analysis and recommendations regarding reserves. The IEO recommended that the IMF take a comprehensive approach to threats to financial stability when discussing reserve accumulation, and that when addressing systemic externalities, IMF’s policy initiatives must take into account the relative size of countries’ contributions to the externality. During its discussion of the evaluation, the Executive Board generally supported the IEO’s recommendations, while recognizing that the Fund had already made progress in many of these areas in the broader context of its work on the international monetary system.

3. ***The Role of the IMF as Trusted Advisor.*** This evaluation found that, in the aftermath of the global crisis, the IMF’s image had improved markedly, with the institution being

¹ An issues paper for the forecasts evaluation was shared with the Executive Board and was posted on the IEO website for public comment on February 21, 2013.

viewed as more flexible and responsive than in the past. Nonetheless, the degree to which the Fund was viewed as a trusted advisor differed by region and country type, with authorities in Asia, Latin America, and large emerging markets the most skeptical, and those in large advanced countries the most indifferent. Recognizing that there will always be an inherent tension between the Fund's roles as a global watchdog and as a trusted advisor to member country authorities, the evaluation explored how the IMF could sustain the more positive image it had achieved recently. The evaluation recommended that the IMF take action to enhance the value-added of Article IV consultations; strengthen the continuity of the relationship between the IMF and member countries; reduce unnecessary disclosure concerns; work closely with country authorities on outreach; and implement the Fund's transparency policy in a uniform and fair manner. In discussing the evaluation, the Executive Board agreed on the need for additional efforts to enhance the role of the Fund as a trusted advisor to the membership. Directors generally endorsed the IEO's high-level recommendations, while expressing different views on specific steps to implement them.

4. **Follow-up on IEO evaluations.** The Executive Board approved the Management Implementation Plan for the *International Reserves* evaluation. It also reviewed the *Fifth Periodic Monitoring Report on the Status of Implementation Plans in Response to Board-Endorsed IEO Recommendations* and agreed with Staff that appropriate actions had been taken or were on track for completion to follow up on the evaluation of *IMF Interactions with Member Countries*. At the same time, Board members noted the need for continued efforts in monitoring implementation of past IEO recommendations.

5. **External evaluation.** In January 2013, an external panel commissioned by the Executive Board and composed of José Antonio Ocampo, Stephen Pickford, and Cyrus Rustomjee completed its evaluation of the IEO and its work since 2006. The panel concluded that the IEO has been a successful institution, that it has played an important role in improving the governance and transparency of the IMF, and that it has helped develop a learning culture within the Fund. In discussing the external evaluation report, on March 21, 2013, the Executive Board broadly agreed with the report findings and conclusions; and it concurred with the Managing Director that the IEO has increased the integrity and quality of the Fund's work, and that the IEO is seen as independent by all stakeholders. At the same time, the external evaluation highlighted a number of key areas for improvement, including the need to improve the follow-up process for IEO evaluations; clarify the appropriate timing of IEO evaluations to ensure that they address relevant issues while not interfering in current operations; and enhance engagement and communication between the IEO and IMF Management and Staff. Further discussions will be held to determine how to move forward in key areas. The IEO looks forward to incorporating the lessons from the external evaluation in its work.