

**PROGRESS REPORT TO THE IMFC ON THE ACTIVITIES OF THE
INDEPENDENT EVALUATION OFFICE OF THE IMF**

April 16, 2018

1. Since the October 2017 report to the IMFC, the IEO has completed an evaluation of the IMF's work in fragile states and an update of its 2007 evaluation of IMF exchange rate policy advice. The office continued work on two evaluations, on IMF financial surveillance and on IMF advice on unconventional monetary policies, as well as an update of the 2008 evaluation of structural conditionality. It also launched an update of IEO's 2008 *Evaluation of IMF Governance*. The IEO welcomes recent steps taken by the IMF to follow through on Board-endorsed recommendations of its 2016–17 evaluations.

2. **The IMF and fragile states.** The IMF Executive Board discussed the IEO evaluation of IMF engagement in countries in fragile and conflict situations (FCS) on March 22, 2018. The evaluation found that the IMF has played an important role in helping FCS to restore macroeconomic stability and rebuild core macroeconomic institutions. The IMF has catalyzed donor support through its assessment of a country's economic policies and prospects, even while the IMF itself has provided relatively little direct financing.

3. Notwithstanding this positive assessment, however, the evaluation concluded that the IMF's impact on FCS has fallen short of what could be achieved. Past efforts to adapt IMF policies and practices to FCS needs have often not been sufficiently bold or adequately sustained, and the staff has tended to revert to treating fragile states using IMF-wide norms, rather than as countries needing special attention. The Managing Director welcomed the report, noting that the analysis and findings provided a thorough stock-taking and resonated with staff.

4. During the March Board discussion, Executive Directors welcomed the evaluation report and its findings that the IMF has played a critical role and made important contributions in its work on fragile states. At the same time, Directors agreed that the IMF could achieve more through further efforts taking into account the unique circumstances and challenges facing fragile states. Directors expressed broad support for the evaluation's recommendations to:

- Prepare a statement on the importance of work on fragile states for the IMF that could be endorsed by the IMFC;
- Establish an effective institutional mechanism to better coordinate the work by the IMF and other stakeholders;

- Develop forward-looking and holistic strategies for each individual FCS country;
- Consider modifications to the IMF lending toolkit in the context of the 2018 review of facilities for low-income countries;
- Take practical steps to strengthen the impact of IMF capacity development support to FCS; and
- Provide robust incentives for high-quality and experienced staff to work on FCS.

5. **IMF exchange rate policy advice.** In October 2017, the IEO completed an update of its 2007 evaluation of *IMF Exchange Rate Policy Advice* and presented the report to the Executive Board at an informal seminar. This update found that, over the last decade, the IMF had substantially overhauled its approach to exchange rate policy advice, including by adopting a more comprehensive approach under the 2012 Integrated Surveillance Decision, developing enhanced analytical tools, and introducing an annual External Sector Report. The update noted that increased attention to spillovers and adoption of an institutional view on capital flow management had also helped enhance IMF work related to exchange rate policy. Nonetheless, the report concluded that, despite ongoing efforts, challenges remain for the effectiveness of the IMF's work in an area central to its mandate. Of note, the IMF's approach and tools for assessing external balances and exchange rates remain contentious, in part reflecting differing views across the membership about the process of external adjustment. Consequently, concerns remain about the evenhandedness and traction of IMF analysis and advice on exchange rates. The IEO intends to undertake a full evaluation of the IMF's approach to external sector assessment as part of its medium-term work program.

6. **IEO work program.** The IEO has advanced its work on two evaluations and one update. The evaluation of the IMF's ongoing efforts to strengthen financial surveillance is on track for completion by the end of this year. Work on the evaluation of the IMF's advice on unconventional monetary policies is also well underway and targeted for completion in early 2019. An update of the 2007 evaluation of *Structural Conditionality in IMF Programs* is nearing completion and will be presented in an Executive Board seminar in May. In addition, the IEO initiated an update of its 2008 evaluation of Governance of the IMF. This update will assess the current relevance of the findings and recommendations of the 2008 evaluation in the areas of effectiveness, efficiency, accountability, and voice. The update will focus on the role of the IMFC, the Executive Board, and Management; it will not cover issues related to quotas.

7. **Follow-up on past evaluations.** In January 2018, the Executive Board approved a Management Implementation Plan (MIP) prepared by IMF staff to follow up on the 2017 evaluation of *The IMF and Social Protection*. IMF staff will prepare a paper laying out a strategic framework to guide IMF involvement in social protection, for consideration by the Board in February 2019. This framework will discuss how to assess the macro-criticality of social protection, highlighting the relevance of both the affordability and efficiency of social protection

systems, the potential forms that the Fund's engagement might take, and the form of collaboration and engagement with other institutions. It will underscore the IMF's commitment to tailor its advice to country conditions and provide guidance on how to do so, as well as lay out more effective approaches to program design for both concessional and non-concessional lending to mitigate adverse impacts of program measures on the most vulnerable.

8. In the last few months, the IMF has taken important actions to follow up on earlier evaluations. In February, the Executive Board approved general guidance on Fund engagement with currency unions when the policies of union-level institutions are critical to the success of Fund-supported programs—a step recommended in the 2016 evaluation of *The IMF and the Crises in Greece, Ireland, and Portugal*. Acting on recommendations of the 2016 IEO evaluation of *Data at the IMF*, the Executive Board approved an “Overarching Strategy on Data and Statistics at the Fund in the Digital Age” that sets a course for the IMF to better respond to the challenges and opportunities of digitalization. Directors welcomed the strategy's six strategic priorities, which include: an integrated approach to prioritizing the Fund's evolving data needs; establishment of a global data common; the use of Big Data and other innovations; seamless access and sharing of data within the Fund; the production of data that are comparable across countries; and addressing weaknesses in official data.

9. **External evaluation of the IEO.** The panel undertaking the third evaluation of the IEO—Donald Kaberuka (chair), Pernilla Meyersson, and Der Jiun Chia—is expected to issue a report to the Executive Board in mid-2018. Terms of reference for the external evaluation are posted on the IEO website.