

PROGRESS REPORT ON THE ACTIVITIES OF THE INDEPENDENT EVALUATION OFFICE (IEO)

April 3, 2008

1. Since its October 2007 Report to the IMFC, the IEO has released its report on *Structural Conditionality in Fund-Supported Programs*, and continued work on the evaluations of *Aspects of IMF Corporate Governance—including the Role of the Board and Interactions with Member Countries*. Work was also initiated on an evaluation of the *IMF's Approach to International Trade Policy Issues*.
2. IEO's evaluation of *Structural Conditionality in Fund-Supported Programs* examines the factors influencing the effectiveness of conditionality in promoting structural reform, and assesses the impact of the Fund's streamlining initiative. The study finds that during the evaluation period, 1995–2004, conditions became more focused on areas within the Fund's core mandate but one third still remained in areas where the Fund had little or no expertise. Also, conditions remained too numerous and many were not tied to key program goals. In releasing its report in January 2008, IEO noted that “progress has been made in better aligning IMF conditionality with the Fund's core areas of responsibility and expertise, but... achieving the stated objectives of the streamlining initiative—parsimony and criticality—remains an important challenge for the Fund. Greater efforts are needed in this direction.”
3. The report recommends that the IMF:
 - Reaffirm its commitment to reduce the volume of structural conditionality. As a first step, a notional cap could be set at perhaps four or five conditions per year—half the current average.
 - Discontinue use of structural benchmarks.
 - Limit conditionality to the core areas of IMF expertise and measures with high structural content.
 - Develop a monitoring and evaluation framework linking conditions to reforms and goals.
 - Show in program documents how the proposed conditionality is critical to achieve explicit objectives.
4. The IMF Executive Board discussed the report on December 12, 2007. Directors broadly agreed with the findings. While there was not agreement on all the specifics of the recommendations, the Board reiterated the importance of parsimony and criticality in the use of conditionality. Fund management is now preparing an implementation plan for the Board-endorsed recommendations which will be discussed by the Board in the coming months.

5. Work is currently underway on three other evaluations:
- The evaluation of *Aspects of IMF Corporate Governance—including the Role of the Board* focuses on the institutional structure of the Fund and the formal and informal relationships that govern its activities and decision making. (It will not address issues of voting power or the ownership structure of the Fund, as these are currently under active consideration.) The issues paper for this evaluation was finalized in August 2007 and is available on the IEO website; the evaluation is expected to be discussed by the Executive Board sometime after the Spring 2008 meetings.
 - The evaluation of *The IMF's Interactions with its Member Countries* will look at the relationship between staff and country authorities as well as other channels of contact, including between staff and non-governmental institutions. It aims to assess how well the Fund's instruments and modalities of operation are aligned with the needs of policymakers, and how well the relationship with member countries is managed.
 - The evaluation of *IMF's Approach to International Trade Policy Issues* will examine the Fund's advice on trade policy in light of the institution's stated purpose "to facilitate the expansion and balanced growth of international trade". It will assess whether (i) the Fund's objectives are clear; (ii) the advice is well-thought out, unbiased, and consistent across regions and types of countries; and (iii) it is an effective use of Fund expertise.
6. Later this year an evaluation of *The IMF's Research Agenda*—is expected to commence. Also IEO will soon begin consulting with Executive Directors, management, staff and external stakeholders as it considers which new projects to add to its evaluation pipeline.
7. In our last Annual Report, we pointed to the challenge posed by managing institutional change at the Fund and the need to establish clear metrics against which to measure whether change is being achieved. This is particularly important as the Fund engages in its current restructuring exercise. For example, the need for better knowledge and integration of macro- financial linkages into the Fund's work has been highlighted in a number of IEO evaluations (Financial Sector Assessment Program (FSAP), Multilateral Surveillance, IMF Exchange Rate Policy Advice) as well as the 1999 External Evaluation of Surveillance earlier. In discussing the recent staff report on follow-up to IEO recommendations, Directors supported the staff report's call for well-defined and measurable criteria to gauge better the progress in implementing IEO recommendations. Setting out such clear benchmarks to measure progress will be important in managing the current refocusing initiative and in enabling the Board to track the institution's progress.
8. Completed evaluations, issues papers for ongoing evaluations, IEO Annual Reports and other documentation, some in seven languages, are now available on the IEO website, www.ieo-imf.org.