

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

October 2, 2007

1. Since its April 2007 Report to the IMFC, the IEO has released its report on *The IMF's Advice on Exchange Rate Policy*, continued work on three other evaluations, and issued its Annual Report for 2006–07.
2. The evaluation of *The IMF's Advice on Exchange Rate Policy*, which covered the period 1999–2005, was discussed by the Executive Board and released publicly in May. It concluded that the Fund was not as effective as it needs to be to fulfill its core responsibility for exchange rate surveillance. The report called for a major refocus of efforts aimed at enhancing the effectiveness of the Fund's analysis and advice, as well as re-energizing its contribution to policy dialogue with authorities; and this view was broadly endorsed by the Executive Board. Recommendations included:
 - clarify the rules of the game for the IMF and its member countries;
 - develop practical policy guidance on key analytical issues. Priorities include (i) work on the stability of the system, requiring a full Executive Board review of exchange rate policy—the first since 1999; and (ii) the use and limits of intervention;
 - give much greater management attention to ensure effective dialogue with country authorities;
 - resolve inconsistencies and ambiguity over exchange rate regime classification;
 - back up advice on exchange rate regimes with more explicit analysis;
 - improve assessments of the exchange rate level;
 - address serious data provision problems;
 - better integrate analysis of spillovers into surveillance;
 - bring better focus to exchange rate work by clarifying responsibilities and accountability, and reconsidering the structure of staff teams;
 - agree on procedures and accountability to respect members' concerns about the confidentiality of discussions; and
 - give strategic focus to opportunities for multilateral concerted action.

3. The problems highlighted in the evaluation of exchange rate policy advice cannot be solved overnight, and it will take time to implement the report's recommendations. The IMF has recently pursued a number of exchange rate-related policy initiatives, including adopting the new Surveillance Decision in June. The IEO report points out, however, that there are problems identified that must be addressed regardless of changes made to the Surveillance Decision. The key to solving them lies in ensuring the trust of member countries and willingness to cooperate within the legal framework. This will take time and concerted effort.

4. In response to a recommendation of the 2006 external evaluation of the IEO, new procedures have been introduced for Executive Board discussion of the follow up to IEO evaluations. Implementation plans were prepared by staff in response to Board-endorsed recommendations arising from the evaluation of the *IMF and Aid to Sub-Saharan Africa*, and the *IMF's Exchange Rate Policy Advice*. In both cases, the implementation plan and the Executive Board's Summing Up have been published.

5. Work is underway on three evaluations:

- The evaluation of *Structural Conditionality in IMF-Supported Programs* addresses two main issues: (i) the effectiveness of the Fund's structural conditionality in promoting medium-term structural reform in member countries; and (ii) the impact of the streamlining initiative of 2000 and the 2002 Conditionality Guidelines. It is being completed and will be issued to the Executive Board in the next few days.
- 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 was finalized in August 2007; the evaluation is expected to be completed by spring 2008.
- 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-government 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. A draft issues note will be issued shortly, and the evaluation is expected to be completed by end-2008.

6. Two other evaluations added to the pipeline last year—*The IMF's Approach to International Trade Issues* and *The IMF's Research Agenda*—are expected to commence in the next six months. In this period we will also conduct a consultation process with the Executive Board, management, staff and external stakeholders before deciding on additional projects to be added to the pipeline.

7. The IEO's latest Annual Report, released in August, highlights a number of common messages that have emerged from IEO evaluations. Key among these are:

- the *need to better manage institutional change at the Fund*. Evaluations have identified gaps between Executive Board policy decisions and their implementation—these have been traced to various reasons such as loss of momentum, and a “silo” structure that discourages cooperation among departments. Overcoming this problem will require strong leadership from management and support from the Executive Board.
- the *need for greater clarity about the goals* of various Fund initiatives and a properly aligned external communications policy;
- the *importance of strengthening partnerships* with other IFIs and donors; and
- the *desirability of clear metrics* to facilitate the assessment of the impact of the Fund's policy advice.

8. Completed evaluations, issues papers for ongoing evaluations, IEO Annual Reports and other documentation, some in seven languages, are now available on the newly redesigned IEO website, www.ieso-imf.org.