

IEO Questions IMF
Exchange Rate Policy
Advice

IEO Evaluates the
Corporate Governance of
the IMF

Follow-up to Evaluation of
IMF and Aid to Sub-
Saharan Africa:
Monitoring Will Be Key

**This newsletter is
also available in:**

Arabic (PDF)
Chinese (PDF)
French (PDF)
Japanese (PDF)
Portuguese (PDF)
Russian (PDF)
Spanish (PDF)

Periscope

In August, IEO Director Tom Bernes delivered a speech entitled, "The Road to Middle-Income Country Status: Evaluation Lessons about the Role and Performance of the IMF in Assisting Low-Income Countries", in Accra at the Bank of Ghana's Golden Jubilee Anniversary Symposium. The full text is available at http://www.ieo-imf.org/pub/speech/Mr_Bernes_Speech_in_Accra_Ghana_Augus

IEO Questions Effectiveness of IMF Exchange Rate Policy Advice



John Hicklin and Shinji Takagi, the two co-leaders of IEO's most recent evaluation, discuss the findings via videoconference.

The Independent Evaluation Office (IEO) most recent report examines IMF exchange rate advice to member countries between 1999 and 2005.¹ Released in May, it calls for a revalidation of the fundamental purpose of IMF surveillance and for concerted effort by IMF staff, management, and the Executive Board to

clarify policies and improve exchange rate advice. Based on the evidence from a variety of sources, IEO Director Tom Bernes said, "IMF is simply not as effective as it needs to be to fulfill its responsibilities for exchange rate surveillance."

Main Findings

One of the IMF's core responsibilities is to advise members on exchange rate policy. In turn, members have an obligation to consider the consequences of their exchange rate policies for other countries.

While acknowledging "many examples of good analysis and dedicated staff teams," the report identifies shortcomings in the IMF's advice on exchange rate policies that amount to an "effectiveness gap" in the IMF's main line of business. The shortcomings were evident in two respects. First, there was insufficient focus on the key analytical issue of the day, including on whether the stability of the international monetary system is best preserved by countries' choices of exchange regimes and exchange rate levels. Too often, the IMF's views on regime choice and level were unclear or insufficiently backed up by analysis.

t_2007.pdf.

The IEO has released its annual report for May 2006–April 2007, which covers recently completed and ongoing evaluations and identifies several cross-cutting messages common to many of IEO's evaluations. It is available at <http://www.imo-imf.org/pub/ar/pdf/2007Report.PDF>.

IEO is currently in the process of selecting a few new staff to join our team. We are pleased to report that we received a very large number of applications for the vacancies advertised in *The Economist* and on our website, www.imo-imf.org, and look forward to welcoming our new colleagues soon.

The next IEO outreach event in Europe will take place in Berlin on November 7–8. Themes of this conference, organized in cooperation with the German think tank InWEnt (<http://www.inwent.org/index.en.shtml>), will include the IEO Evaluation of *IMF Exchange Rate Policy Advice* and consultations on *Aspects of IMF Corporate Governance*.

Second, the IMF's dialogue with member countries was insufficiently effective. IMF advice was sometimes not part of critical debates taking place on exchange rate issues; important aspects remained "off the table" in discussions with IMF staff; and, in some cases, the country authorities did not supply the data needed for a proper discussion. Country authorities often saw IMF staff as out of touch with the practicalities of implementation. Tom Bernes stressed, "These are warning signs that the IMF needs to find a way to re-energize its contribution to members' policy discussions."

"These are warning signs that the IMF needs to find a way to re-energize its contribution to members' policy discussions."

— Tom Bernes, IEO Director

Recommendations and New Developments

The IEO report calls on the IMF to revalidate the primary purpose of surveillance by clarifying the expected roles of both the institution and its members. It also recommends specific steps to improve the management of IMF exchange rate work. Recommendations include undertaking a full Executive Board review of exchange rate policy—the first since 1999; developing greater guidance for staff, given the lack of professional consensus on appropriate exchange rate regimes and levels; requiring staff to document the reasons for their advice to countries; ensuring the effectiveness of dialogue with country authorities; prioritizing exchange rate policy issues and initiatives across the organization; addressing data provision problems; seeking agreement on new procedures to respect members' concerns about the confidentiality of discussions; and giving strategic focus to opportunities for multilateral concerted action.

The IMF Executive Board has this year agreed to an overhaul of the institutional mandate for international surveillance. The 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 their willingness to cooperate within the legal framework, and this will take time and effort. Against the background of ongoing work to strengthen surveillance, IMF staff have developed a plan to implement those IEC recommendations endorsed by the Executive Board.

¹ *IMF Exchange Rate Policy Advice, 1999–2005: An IEO Evaluation*, May 17, 2007. Washington, DC: Independent Evaluation Office, International Monetary Fund. Evidence for the evaluation comes from desk reviews of country documents; interviews with country authorities, IMF staff, Executive Board members, and market practitioners; and surveys of country authorities and staff. The full report together with the reactions of the IMF's management, staff and Executive Directors, is available online at http://www.ieo-imf.org/eval/complete/eval_05172007.html.

[back to top](#)

IEO Evaluates the Corporate Governance of the IMF

A major IEO evaluation currently underway will focus on various aspects of IMF governance, including the role of the IMF Executive Board, the institutional structure, and the formal and informal relationships that govern IMF activities and decision-making. Work is ongoing, and the IEO expects to release the report in mid-2008.

In the six decades since its founding, the IMF has undergone key changes in its membership and mission. While its governance structure has evolved to adapt to such shifts—and has done so effectively, according to some observers—others argue that the structure needs overhaul. According to them, the IMF Executive Board micro-manages to the detriment of effective oversight and strategic guidance. They also complain that the lines of accountability are sometimes unclear and there is a lack of transparency in the selection of the Managing Director as well as in day-to-day decision making. The IEO's evaluation will address the validity of such criticism, while also identifying areas where current governance arrangements can be strengthened. (The evaluation will not address issues of voting power or the ownership structure of the IMF, as these are currently under active consideration.)

Selecting a New Managing Director

As one of several work streams of the ongoing evaluation of *Aspects of IMF Corporate Governance—Including the Role of the Board*, the IEO had commissioned a Background Paper with the title, "*The Process for Selecting and Appointing the Managing Director and First Deputy Managing Director of the IMF*".

The paper authored by David Peretz reviews the current formal and informal selection processes, compares these with other international organizations, and examines reform proposals.

The announcement that Mr. Rodrigo de Rato will leave his post as the International Monetary Fund's Managing Director after the annual meetings brought unexpected topicality to this IEO paper, now available at <http://www.ieo-imf.org/pub/background/pdf/BP071.pdf>.

To this end, the evaluation will examine the governance practices laid out in the IMF's own Articles of Agreement and other internal documents, as well as relevant practices employed by similar inter-governmental organizations and the public and private sectors. In this context, the relationships between the entities at the center of the IMF governance structure—management, the IMF Executive Board, and the International Monetary and Financial Committee (IMFC)—will be analyzed. The IMF Board of Governors, staff, and country groupings will be covered in the context of their interactions with the entities mentioned above.

Together, these three standards for comparison—IMF governing documents, other inter-governmental organizations, and the public and private sectors—should provide robust baseline information and enable a thorough and insightful evaluation, even if the latter two standards, on their own, would likely be unsuitable as benchmarks for IMF governance.

The evaluation will comprise several building blocks which, together with a series of surveys, will inform a chapeau report with the main findings and recommendations. The building blocks include a detailed analysis of the IMF's current governance structure, a historical overview of its evolution, and comparisons of the IMF with a sample of relevant inter-governmental and public and private sector organizations. In addition, the IEO will prepare a series of in-depth case studies to examine how key governance functions, such as strategic thinking, policy implementation, and oversight and accountability, are performed in practice.

[back to top](#)

Follow-up to Evaluation of IMF and Aid to Sub-Saharan Africa: Monitoring Will Be

Key

On June 29, 2007, the IMF Board of Executive Directors (Board) endorsed the management plan for following up on recommendations from the IEO's *Evaluation of the IMF and Aid to Sub-Saharan Africa*.² The endorsed plan sets out a roadmap for action, covering several ongoing work strands that address the specific points raised in the evaluation.

To date, the Board has also discussed papers on two major strands of the roadmap. The most important concerned the IEO recommendation that the IMF clarify its policies on the handling of aid flows in macroeconomic programs supported by the Poverty Reduction and Growth Facility (PRGF). During the discussion, Executive Directors clarified and reaffirmed existing policies on the forecasting of aid and the use of alternative aid scenarios; the spending and absorption of aid; and the formulation of adjusters in PRGFs.

The IMF and Aid to Sub-Saharan Africa recommended that the IMF clarify policies, monitor implementation, communicate candidly, and define the role of the resident representatives.

The Board has also considered follow-up to the IEO recommendation that IMF communications be consistent with IMF policies and practices. These discussions underscored the importance of complementing enhanced policy clarity with measures for ensuring that IMF communication efforts are closely aligned with policies approved by the Board.

The third set of recommendations—on the role and resourcing of resident representatives' and mission chiefs' interactions with donor groups and civil society—is being considered in the context of a forthcoming paper on the role of the IMF in donor coordination and countries' poverty reduction strategies.

Management's forward directions on the IEO recommendations on monitoring and evaluation of the implementation of the clarified policy on PRGFs have not yet taken shape. The next Board review is scheduled to take place in 2010. But, to maximize impact on staff behavior and institutional accountability, an explicit monitoring framework will be needed long before then, setting out the benchmark ;

to be used in measuring and assessing IMF performance.

² The IEO evaluation of *The IMF and Aid to Sub-Saharan Africa* is available in English, French, and Portuguese at www.ieo-imf.org. Public information notice for the original Board discussion of the IEO report and the three board discussions cited in this article are, respectively, available at:

<http://www.imf.org/external/np/sec/pn/2007/pn0793.htm>

<http://www.imf.org/external/np/sec/pn/2007/pn0783.htm>

<http://www.imf.org/external/np/sec/pn/2007/pn0774.htm>

[back to top](#)

Tel. +1 202 623 7312 | Fax. +1 202 623 9990
Website. www.ieo-imf.org

We welcome your thoughts.
Please write to us at feedback@ieo-imf.org