Evaluation, Learning, and Accountability:

The IMF in a Time of Global Crisis

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1. Good morning.

- It's a great honor to be here with such a distinguished group of evaluators.
- I also would like to sincerely thank the Polish Ministry of Regional Development and the Polish Agency for Enterprise Development for the opportunity to join you today at this important conference on "*The Role of Evaluation in the Identification of Opportunities and Threats to Development*".

2. My topic today is evaluation, learning, and accountability at the International Monetary Fund.

- On the face of it, a rather dry topic that may seem distant from today's proceedings.
- But one that takes on far greater interest considering the power and influence the institution is often seen to wield, which also magnifies the importance of its carrying out its activities in a professional and fully-accountable manner.
- Nothing demonstrates this importance more clearly than the dramatic events of the past few weeks, with the rapid unfolding of the global financial crisis—and I will use the example of the Fund's role in the crisis to illustrate my main points today.
- To be useful, evaluation must result in learning. But to do so, I will argue, there also must be accountability—without accountability there is unlikely to be learning. So the three—evaluation, learning and accountability—are inextricably linked.

3. Last weekend in Washington, the world's financial and economic leaders gathered for the IMF/World Bank Annual Meetings. As financial markets around the world plunged, they put their heads together to focus on the crisis—and the scope for coordinated action to address it.

- These are developments of enormous proportions. Given its scale, the crisis itself and the attendant spread of recession around the world will shape the global landscape and adversely affect the lives of billions of people around the world for years to come.
- They provide a compelling test of the effectiveness of evaluation with respect to the adequacy of learning from it (especially as reflected in management follow-up actions), and accountability for any identified lapses.

4. Against this background, I will organize my remarks this afternoon under five broad headings.

- First, I will provide background on the IMF.

- Second, I also will provide background on the IEO, including some of the IEO's completed evaluations to date.

- Third, I will say a few things about the financial crisis, and the Fund's role and involvement in crisis management.

- Fourth, I will set out what I see as the take-away lessons learned for the effectiveness of evaluation—both for Fund Management and for the IEO.

- Fifth, I will draw a few conclusions about the role of evaluation in the identification of opportunities and threats to development, the overarching theme of the conference.

Starting first with some background on the IMF

5. I begin with a few key points about the Fund—its genesis, rationale, and recent evolution—to provide the context for the points I want to make:

- As many of you know, the IMF was created at the end of World War II to avoid the beggar-thy-neighbor policies and currency devaluations that had contributed to the Great Depression and its spread around the world. Concerns about international policy spillovers remain the Fund's central raison d'être.

- Of course, the specifics have changed over time—especially since the breakdown of the Bretton Woods system of fixed exchange rates in the early 1970s. Since then, the Fund's mandate for bilateral and multilateral surveillance has broadened to the wider set of monetary, fiscal, and other policies that determine exchange rate levels.

- These changes put the global financial crisis squarely in the Fund's bailiwick—de jure if not fully de facto—a central theme to which I shall return momentarily.

6. But first, a brief look at what was happening (or not) on evaluation during this period. Actually, as the Fund evolved over its first 50 years, there was little discussion of an evaluation function, even after the World Bank launched its evaluation office in the 1970s and subsequently pursued a very ambitious evaluation agenda, as did many national governments.

- *Yes*—research on key policy and implementation issues was undertaken. Also, there was some self-evaluation of Fund lending programs, carried out by the Fund's policy department. Combined with widespread perceptions about the Fund's effectiveness among major shareholders, these efforts were sufficient to keep at bay suggestions that the Fund follow in others' footsteps along the evaluation path. So, the answer remained *no* to independent evaluation, at least on a resident basis.

- But confidence in the Fund began to wane in the mid-1990s. Concerns arose about its work with several important member groupings. First was its perceived neglect of institutional issues—especially problematic in the context of conditionality on privatization—for example in the Former Soviet Union. Second were long-simmering worries about its effectiveness in Sub-Saharan African and other low-income countries that were looked at anew as other performance weaknesses surfaced. And third was its handling—or mishandling, as Fund critics would have it—of the East Asian Crisis and its subsequent spread to Brazil, Russia, and elsewhere.

Indeed, it was in these crises that the problems were the most central to the institution's core mandate on international financial stability—and the most relevant to my remarks today. There, the Fund was criticized for its surveillance work *before the crisis* in not identifying the problems that ultimately sparked it, particularly in Korea, and later in Indonesia. It was also criticized for its program work *during/after the crisis,* where its stabilization prescriptions did little to fix what was ailing the economy and some have argued, worsened the situation.

As confidence in the Fund eroded, the Fund's Executive Board launched a series of high-profile external evaluations, my second topic…

7. The most germane to my remarks today is the External Evaluation of IMF Surveillance, issued some ten years ago. Better known as the Crow Report, its most important recommendations remain highly relevant—and prescient—in light of today's troubles. Addressing the potential for large adverse spillovers to other countries, the report set out what in today's parlance might be characterized as a "risk-based surveillance strategy", urging the Fund to focus its efforts and resources on:

- the most systemically important countries;
- the international aspects of the systemically important countries' policies;
- and the financial sector/macroeconomic policy interface of the systemically important countries' policies.

Clearly these are the big-ticket risks. The massive sums we have been hearing about in respect to the costs of the current crisis drive home the wisdom of concentrating resources and Management focus on such risks. Quite frankly, if the Fund doesn't get these right, it won't be in a position to help very much with the others.

8. Reflecting the Board's appreciation of the Crow Report, and the other external evaluations, the Independent Evaluation Office was created in 2001, principally to enhance transparency, contribute to learning, and support institutional oversight and accountability. Fourteen major evaluations have now been completed. I will say a few words on three in

particular that deal quite centrally with systemic risks caused by spillover effects from one economy and financial sector to another.

- The first is the 2003 evaluation of the IMF and so-called capital account crises. It was one of the first evaluations carried out by the IEO, and it looked at the Fund's performance in relation to these crises in Indonesia, Korea, and Brazil. I have already mentioned that these crises had helped to motivate the creation of the Fund's evaluation function, so it was natural that an early evaluation would cover them. In the event, the evaluation found that IMF staff had applied conventional macro analysis in their pre-crisis surveillance, and in so doing missed the vulnerabilities that ultimately precipitated the crises, which were due to the large build-up of liabilities in the financial and corporate sectors. It *also* found that the Fund's initial advice on resolving the crises focused on orthodox macroeconomic adjustment, missing critical factors that made much of that advice counterproductive in the context of a vicious circle of contraction, bankruptcies, financial panic, and spiraling economic decline.

- Several years later, the IEO's 2006 evaluation of the financial sector assessment program—FSAP for short—which had been put in place by the Fund and the Bank as part of the systemic response to the East Asia Crisis. The idea was to be able to deal more pro-actively with financial sector risks. The FSAP evaluation found that the Fund had been able to staff up somewhat in several critical areas and field a number of high-quality FSAP missions and reports. However, it also found resistance among staff to integrating FSAP findings into the Fund's bilateral surveillance activities, which retained a more traditional focus on textbook macroeconomic analysis. Of most importance, was the emphasis the report placed on what I call the "FSAP loophole", whereby countries could simply decline to participate in the FSAP program. The evaluation recommended a naming-and-shaming approach to systemically important countries which declined (notably the U.S. and China), hoping to galvanize peer and public pressure for participation. Equally, the evaluation report identified an important need (the lapse of which is incomprehensible today) to incorporate cross-border financial sector linkages more systematically into FSAP analyses.

- The findings of the 2006 IEO evaluation of multilateral surveillance reinforced the messages of the earlier evaluations. Like the Crow Report seven years earlier, it found surveillance biased towards bilateral and country-related issues at the expense of multilateral and spillover-related issues, with "the language of multilateral advice…no more based on explicit consideration of economic linkages and policy spillovers than that of bilateral advice." It also found that financial sector risks identified in the Global Financial Stability Report were not being fully integrated into the economic assessments underlying the bilateral surveillance process or the World Economic Outlook, the main anchor of the Fund's multilateral surveillance.

9. Sadly, many of the themes of these evaluations appear to remain valid—reflecting the limited changes that have taken place in critical areas in the ten years from the Crow Report until today. Indeed, if you look at the IMF work program presented by the Managing Director to the Board in June, it presents many of these issue as though they were coming up for the first time, raising questions as to whether there had been adequate learning from the institution's earlier stumbles and subsequent evaluation work.

- In exploring the macro-financial linkages, the MD's work program states: "The financial market crisis has brought home to the whole world the fact that economic and financial market developments can have effects across sectors, across borders and across both at the same time. Indeed the Fund is uniquely placed to advance the understanding of macro-financial linkages, make the right connections between events and trends, and provide early warning of problems to our members". [1]

- In a similar vein, the work program emphasizes the need to focus on global spillovers in IMF Article IV consultations with systemically important countries along with heightened attention to country-focused financial sector work.

- Make no mistake: I have absolutely no quarrel with the statements or the priorities—they are absolutely spot-on. But I am amazed at the tone of discovery—as though the challenges are new. Of course, Mr. Strauss-Kahn is a new Managing Director and he is right to highlight these issues. But for the Fund, the issues neither are nor should be new: institutional learning and continuity should transcend changes in individuals. This is an essential element of good governance.

10. This disconnect in institutional continuity—and other governance issues—was explored in two hard-hitting evaluation reports. The first was by an external panel of experts, led by Karin Lissakers, who evaluated the IEO itself two years ago. The second more recently by the IEO, which specifically looked at Fund governance, including the role of the Board, management, and Ministers.

- The Lissakers Report found inadequate attention by IMF Management and senior staff to follow-up on IEO findings and recommendations, highlighting a total lack of clarity about who was actually accountable.

- The Board has since agreed with Management on a new implementation procedure and monitoring program—but it still remains to be seen how the undertakings will be translated into effective action.

[1] Statement by the Managing Director on the Work Program of the Executive Board, June 18, 2008, paragraph 9.

- In line with the Lissakers finding, the IEO governance evaluation found accountability to be one of the weaker aspects of governance in the Fund. To me, this finding explains a great deal, as in my view, and to return to my opening observation, without accountability, you cannot have institutional learning.

Nor is this observation an academic point, as is clear from the financial crisis, the third topic on my agenda…

11. I've noted earlier that the crisis is clearly in the Fund's bailiwick.

- And in the margins of last week's meetings in Washington, there were many conversations about the crisis—and announcements of action by some governments.

- But for the most part, the Fund has not been a major player. A convener maybe. But this is because of a coincidence of timing—the crisis struck just before the Annual Meetings.

- Some commentators (Barry Eichengreen, Mohammed El Erian, Raghuram Rajan amongst others) noting that the Fund has been more of an observer—a cheerleader on the sidelines—have raised questions about whether the Fund has actually something to contribute. Whether it has the critical financial sector expertise (both analytic capacity and hands-on experience). Whether it can be sufficiently even-handed and consistent in its advice.

12. This comes despite the decade of signs and concerns that I alluded to earlier showing that the financial sector was increasingly important and that the Fund needed to step up its game.

- The world learned this during the East Asia Crisis ten years ago, as highlighted in the Crow Report, and as amplified in the subsequent IEO evaluations.

- The IEO learned it (again) during the FSAP evaluation—and we had thought Management and staff had too. Indeed, two previous Managing Directors had appointed successive "Eminent Persons' groups" (Lipsky (2002) and McDonough (2006)) to consider and report on how to strengthen IMF work in this area. And the reports of those groups did lead to major organizational changes.

- *Mais plus ca change….*Indeed, despite all the evaluations, recommendations, and apparent changes, questions remain as to whether the Fund has effectively internalized the lessons of the past in this critical area. The result: despite all the lessons and despite the Fund's mandate, questions are being raised as to whether the institution was ready for this crisis. If not, how were decisions made and where does the accountability lie?

13. Even more important, questions have been raised about what the institution did to help *prevent* the crisis.

- Important though the above considerations are for institutional governance, relevance, and pride, the larger issue lies elsewhere.

- Indeed, the most important questions with respect to crisis management need to be asked *before* the fact.

- By a long shot, the most effective (and cost-effective) way to deal with crises is to prevent them.

14. So, what was the Fund's contribution on prevention—or at least on sounding the alarm before the crisis struck or in providing an "early warning"? How did the Fund's different surveillance vehicles—bilateral surveillance through the annual Article IV Consultation, multilateral surveillance through the twice-yearly World Economic Outlooks and Global Financial Stability Reports, and the financial sector check-up through the FSAP—deal with U.S. spillover risks to the global economy?

- First, on *bilateral surveillance* recent Fund documents on the U.S. economy have discussed three spillover risks—the fiscal deficit; global imbalances, and financial sector innovations on credit risk transfer. In discussing these risks in its most recent consultation on the U.S., the Fund Board concluded that: "the U.S. economy has shown impressive resilience in the face of an unprecedented confluence of shocks, and commended the authorities' decisive and swift policy response...[Directors] welcomed the carefully calibrated and targeted fiscal stimulus, the significant easing of monetary policy, and the willingness to introduce innovative mechanisms to support market liquidity. While not without risk, these measures have helped support economic activity, and played an important role in stabilizing financial markets domestically and globally. Looking ahead, Directors cautioned that large uncertainties remain and therefore welcomed the authorities' commitment to carefully monitor developments and continue to respond as necessary to achieve sustainable noninflationary growth and financial stability over the medium term...." Cautions, yes. But hardly a fire alarm. Or even an early warning. That was as recently as on July 23—less than three months ago.

- Yet only three months earlier, in April, in the context of *multilateral surveillance*, the Fund's Global Financial and Stability Report had forecast that the crisis would cost some $1 trillion. Highly contested at the time for being way too large, the April forecast now looks to have been too small. This said, staff working on that report still deserve credit for being closer than most. But the question remains: what happened between that analysis and the bilateral surveillance analysis which seemed so forgiving? Isn't that disconnect exactly what we saw in the multilateral surveillance evaluation issued in 2006? Wasn't closing down that disconnect the point of the Crow Report issued in 1998?

- This brings me to the FSAP, which might have permitted a better understanding of the scale of the decline in credit quality in U.S. financial institutions and instruments, and a better basis for assessing meltdown risks. What did that analysis show? The real scandal here, as some of you may know, is that it showed *nothing*. It was *simply* never done, as the U.S availed itself of the FSAP loophole and declined to volunteer for the FSAP process. (The U.S. has recently agreed to start the FSAP "late in 2009—the proverbial closing of the barn door after all the horses have escaped, except that in this case, the door is being closed long after.). So, a question: How did the Fund staff, management, or the Board, deal with the recommendation of the FSAP evaluation to name and shame the systemically important countries declining to be part of the FSAP process? Answer: It ignored the recommendation….")

15. Now, please don't get me wrong. I am not suggesting that if the Fund had played hardball on the FSAP, the current crisis would have been averted. Or had all relevant IEO recommendations been implemented, the Fund would be sitting pretty in helping to manage the crisis response. But clearly there's a problem here. What I've just sketched is a quick outline of some of the considerations that will need to be looked at in far greater depth, whether in the context of an IEO evaluation or some other evaluation mechanism once we emerge from the current crisis. The Fund's performance in the lead-up to the crisis—both the dialogue with the U.S. ex ante and its preparedness to contribute ex post—must be examined and the requisite corrective actions put in place. Otherwise, what's the point of having the Fund?

Going forward, what have we learned from all this…?

16. I draw five main lessons—two for Fund, two for the IEO itself, and one for both.

- First, it is no secret that the Fund has been going through an existential—and highly distracting—crisis concerning its role in life and its own financial crisis concerning the funding of its activities. Ironically the latter is less than a very small rounding error on the cost of the global crisis, and the former lies in being prepared to help prevent and respond to such crises. The scale of the losses in the current crisis are such that investing resources in hard-hitting assessments of spillover-risks in systemically important countries is a high-pay-off activity, and one that is at the center of the Fund's surveillance mandate. The Fund needs to do the job—and manage its staff and its resources to be able to do the job.

- Second, evaluation and learning from it are not meant to be bureaucratic mind-games, heavy on spin about who won/lost the debate. Rather, they are meant to be serious activities intended to improve the Fund's ability to carry out its mission—including helping to prevent catastrophic crises and/or helping to manage them when prevention fails. When life is good and accountability is weak, it is easy to lose sight of what is at stake when spillover risks are not adequately identified and addressed. But for many people in the developed and developing world—especially the poor—the crisis and its aftermath will entail a major setback. The world can no longer afford lack of accountability at the Fund. It is time for action on this critical issue.

- Third, within the IEO work program, we also need to act. To be sure, internalizing the lessons from evaluation is the job of Management and staff and ultimately, the Board and Governors. But going forward, we must also keep our eyes peeled on this critical issue of systemic crisis prevention and response, given its centrality to the Fund's surveillance mandate, serious questions about the Fund's ability to date to get it right, and the huge price tags that such crises carry. In the circumstances, it requires continued vigilance by all, including by the Fund's watchdog, the IEO.

- Fourth, going forward, we in the IEO need to be even more pointed in challenging Management's and staff's evenhandedness in dealing with members and shareholders—as these have proved to be the institution's Achilles heel in pursuing its mission of global stability. In retrospect, perhaps we should have pushed more on the FSAP issue, when the U.S. declined to "volunteer" for an assessment and the issue was not pursued vigorously. Similarly, on governance, perhaps we should examine more the institution's ability to "speak truth to power", and highlight the risks of not doing so, when the members that pose the greatest systemic risk are also the largest shareholders.

- Finally, both the IMF and the IEO must be bolder in identifying and highlighting downside risks. The Fund in the context of surveillance related assessments, such as the FSAP. The IEO in highlighting Management and staff failures to follow-up on evaluation recommendations. In many ways, this was the greater truth of the Crow Report ten years ago. It remains equally valid today.

In conclusion—and stepping back—what (if anything) might we infer from my remarks about the IMF and the IEO for the theme of this conference—the role of evaluation in identifying opportunities and threats to development…?

17. First, my reading of the IMF-IEO experience is that evaluation clearly has an important role in identifying opportunities and threats to the IMF's ability to carry out of its mission. In the example of the financial crisis that I used, evaluation clearly identified the need for enhancing the Fund's macro-financial sector links; it clearly identified the FSAP loophole as a major issue; and it clearly identified the need for much greater connectivity

between bilateral and multilateral surveillance. The problem is that little happened after the problems were identified.

18. Second, this is not unusual, as identification alone is almost never enough. Lack of knowledge is seldom *the* impediment to change. On rare occasions, we may have a eureka moment of discovery, unlocking the door to effective action. But this is not the norm. More often, things are the way they are *not* out of ignorance, but because someone *wants* them that way or simply doesn't have the energy to change. This is why the IEO's evaluations have increasingly sought to identify the drivers/non-drivers within the Fund—that is, the Board, Management and staff—and to spell out the incentives and other factors that are creating the identified problem(s).

19. But third—I submit— effective evaluation needs to go even further. It must develop a constituency for change, that can use evaluation findings for advocacy—this is why transparency and outreach are so important. To lobby effectively, the constituency also needs to know the roles and responsibilities within the institution, and needs clear metrics for tracking whether the undertakings and goals are being met and to what effect. Evaluation needs to provide them as well.

20. Once we have all these ingredients lined up—evaluation evidence about a problem, an understanding of why it is the way it is, a constituency for change, an understanding of who's in charge of what, and clear indicators for monitoring progress—we as evaluators have a shot at effectiveness. But if we only develop the evaluation evidence, we won't have a prayer. Our efforts will be measured in reports and not in effective learning or change.