



INDEPENDENT EVALUATION OFFICE (IEO)
of the
INTERNATIONAL MONETARY FUND

WORK PROGRAM FOR FISCAL YEAR 2006

June 24, 2005

1. This note sets out the work program of the IEO for FY2006. As required under the IEO Terms of Reference, the work program has been determined by the Director, taking into account the earlier process of consultation, and is being submitted to the Evaluation Committee (and subsequently the Executive Board) for review only.
2. The status of completed and ongoing projects from earlier years' work programs is summarized in Table 1. One of the projects for the FY2006 work program—an evaluation of IMF structural conditionality—was announced earlier and is already under way; a draft issues paper has been posted on the IEO website (www.imf.org/ieo).

Table 1. Completed and Ongoing IEO Work Programs

Project	Expected Completion 1/
Initial round of evaluation projects	
Prolonged Use of IMF resources	Completed
The IMF and Recent Capital Account Crises (Indonesia, Korea, Brazil)	Completed
Fiscal Adjustment in IMF-Supported Programs	Completed
FY2004 Work Program	
The IMF and Argentina	Completed
Poverty Reduction Strategy Papers/Poverty Reduction Growth Facility	Completed
IMF Technical Assistance	Completed
FY2005 Work Program	
IMF's Approach to Capital Account Liberalization	Completed
IMF Assistance to Jordan	August 2005
Financial Sector Assessment Program	October 2005
Multilateral Surveillance	Last quarter of 2005
FY2006 Work Program	
IMF Structural Conditionality	Second quarter of 2006

1/ The date refers to the time the completed report is expected to be circulated to the Board. The timing of the actual Board discussion of each project is set as part of the overall schedule of the Executive Board and is not under the IEO's control.

3. Following an initial process of consultation with the IMF Executive Board, management and staff as well as a range of external stakeholders, a “short list” of potential evaluation topics for the remaining projects for the FY2006 work program was identified in February 2005:¹

- (i) Bilateral surveillance of large industrial countries;
- (ii) IMF advice on exchange rate policy;
- (iii) an African case study (or studies);
- (iv) a low-income transition economy case study;
- (v) IMF’s role in countries emerging from conflict; or
- (vi) role of the IMF in Turkey

At that point, it was decided that the final choice would be deferred until after the appointment of the new Director of IEO.

4. The new Director has been briefed on the results of the earlier consultations but has had only a limited opportunity to consult personally with interested stakeholders in the time available since assuming the office. During these discussions, questions have been raised on the overall volume of the work program and specifically about the capacity of the IEO to produce four high quality evaluations yearly and of the Executive Board, management and staff to absorb them appropriately and identify the necessary follow up. Suggestions have been made that a target of three evaluations yearly, combined with greater emphasis on the internal and external dissemination of lessons flowing from earlier evaluations, including an enhanced focus on follow-up to Board approved recommendations, may be more appropriate. These issues will be addressed in the context of the work program for FY2007 and beyond, taking into account further consultations with interested stakeholders and any messages which may emerge from the external evaluation of IEO which is scheduled for later this year.

5. Based on these considerations and the information available, it is proposed to proceed in FY2006 with an evaluation on IMF advice on exchange rate policy and on the IMF’s role in selected African countries with respect to the external resource envelope, aid predictability and debt sustainability. Following the conclusion of the current evaluation of multilateral surveillance, and in light of further reflections on the overall workload which may affect the timing, an evaluation of bilateral surveillance will be undertaken. This project will examine the overall process of bilateral surveillance, including issues related to surveillance of large industrial countries which had been suggested earlier.

¹ “Independent Evaluation Office—Budget Proposal for FY 2006,” EB/EVC/05/3, February 17, 2005.

6. The main issues to be covered in each of these projects are discussed briefly below. Following IEO practice, detailed issues papers/terms of reference will be prepared for each project and the IEO will seek comments from internal and external stakeholders before the scope of each evaluation is finalized. The final terms of reference will also be posted on the website and concerned stakeholders will be invited to submit substantive inputs on any aspect of the terms of reference.

A. The IMF's Advice on Exchange Rate Policy

7. Surveillance over members' exchange rate policies is a core responsibility of the IMF. Article IV of the IMF Articles of Agreement clearly states the obligations of members to "avoid manipulating exchange rates" and to "follow exchange policies compatible" with the promotion of orderly exchange rate arrangements and stable exchange rates. The legal basis for much of the IMF's surveillance activities comes from the stipulation of this Article. Yet, a number of previous internal reviews of surveillance have noted that clear and candid treatment of exchange rate remains a challenge. In part, this reflects the market-sensitive nature of exchange rate issues, the deference the IMF has held toward the right of members to choose an exchange arrangement of its own liking, and the lack of professional consensus—hence widely agreed methodology—to assess what constitutes a sustainable exchange rate under a given set of conditions.

8. Advice on exchange rate policy necessarily involves two separate types of issues: (i) exchange rate regime choice and (ii) the level of exchange rates. Correspondingly, the evaluation would ask two separate sets of questions. The first will be about the IMF's policy advice on the choice of exchange rate regime under various sets of circumstances, including advice on the transition from one regime to another and how to integrate such choices with paths of reform in other policy areas. The second set of questions would be about the IMF's methodology to assess or identify competitiveness, exchange rate sustainability, and exchange rate manipulation. It is well known that the IMF advocated the so-called bipolar view of exchange rate policy in the 1990s. Previous reviews, however, have noted that, following the East Asian crisis of 1997–98 and more particularly after the Argentine crisis of 2001–02, the IMF began to promote greater exchange rate flexibility especially for countries with an open capital account. Rather than revisiting an old issue, it seems proper that this evaluation should concentrate more on the IMF's policy advice and practices during the more recent, post-1998 period.

9. In this connection, the evaluation would examine a representative sample of IMF membership in which an exchange rate issue of one type or another has figured prominently in recent years, in order to shed light on what principles have guided the IMF's recent policy advice on exchange rate and related policies and to identify if and how the IMF's procedures and tools could be improved in this area. The sample should cover countries with diverse experiences for which these and other issues have been raised in recent years (either in the IMF's country work or by outside observers), including developing, emerging market, and industrial countries.

B. IMF's Role in Selected African Countries: External Resource Envelope, Aid Predictability and Debt Sustainability

10. This evaluation will examine the IMF's role in setting the medium-term external resource envelope in several low-income African countries, including issues of aid predictability and debt sustainability. Recent years have seen calls by the international community for higher levels of aid, and better modes of delivery, in order to enable low-income countries to reach the MDGs. Scaling up aid flows to low-income countries raises a number of questions with regard to the Fund's analytical inputs and program design, including (i) the extent to which aid-financed expenditures are sustainable; (ii) possible impacts on real exchange rates and competitiveness—and how to address them given that aid flows might not be permanent; and (iii) how to deal with autonomous—and hard to predict—private sector savings and investment decisions that may influence how aid is absorbed in the local economy. It also touches on the Fund's partnership role, including the effectiveness of the signals that its programs send to the donor community—which also has a potential impact on aid predictability. The evaluation will also seek to follow up on some issues raised in earlier IEO evaluations on the extent of the IMF's role in “catalyzing” donor aid.

11. The evaluation will be based on in-depth case studies of a small number of Sub-Saharan African countries. Africa is the only major region where the population living in poverty has continued to expand in recent years and where prospects for reaching the MDGs are considered to be poorest. It is also a highly aid dependent region, where low institutional capacities and social conflict have limited the effectiveness of aid. In this regard, the international effort at “scaling up” resource flows to Africa raises many important issues on the Fund's role in these countries, and the challenges it faces in developing modalities for addressing their financing needs.

12. The focus of the evaluation will be on (i) what has been the Fund's actual policy advice and input into program design in specific country cases; (ii) what has been the analytical basis for this advice; and (iii) what has been the outcome. The issues are as follows:

- How is the setting of the medium-term resource envelope dealt with in practice? What can we learn from the process about the scope and effectiveness of the Fund's analytic, catalytic, and partnership roles?
- How does the Fund deal with absorption, revenue erosion and Dutch disease issues in cases where a significant pick-up in aid flows is in prospect? How does it incorporate assumptions about private sector behavior in response to the additional aid? What is the basis of the analysis and are the policy prescriptions consistent with the available evidence?
- How and on what basis is the issue of debt sustainability addressed in practice?
- In spite of the international drive for increased aid, aid volatility remains a serious impediment to reform. The evaluation will look at how aid projections are derived in

practice in program design and what have been the effects of IMF activities—including the signaling effects of programs and program interruptions.

13. The specific countries to be covered by the case studies will be announced when the draft issues paper is circulated for comments, but it is expected that no more than 3–4 countries will be included.

C. Bilateral Surveillance

14. An evaluation of IMF bilateral surveillance could be especially useful, in light of the increasing emphasis—by the IMFC and the Executive Board—on adequate assessments of the effectiveness of surveillance. The evaluation will seek to address the following broad questions. First, what can be said about the value added—to domestic policy-makers, the international community, and to markets—of surveillance? There are three main aspects to this broad question: (i) is the quality of the analysis good and its scope appropriate; (ii) is it communicated effectively; and (iii) is it influential? In addressing these issues, we will evaluate the various channels through which IMF surveillance is thought to add value and ask what aspects of the analytical content, nature of the policy dialogue with country authorities, modalities of peer review, internal organization and governance of surveillance, as well as the communications strategy influence the effectiveness of these channels.

15. Second, how have the multilateral and bilateral components of surveillance, especially for systematically important economies, been integrated in practice and is there scope for adjusting the modalities (and division of labor) between the two sets of activities to improve the efficiency and effectiveness of surveillance? These aspects of the project will build on IEO's ongoing evaluation of multilateral surveillance by more closely examining the bilateral foundation on which multilateral surveillance exercises are built and the interrelationships between the two channels of surveillance.

16. Third, the evaluation will review internal processes for monitoring IMF surveillance (including the Biennial Review of Surveillance). Tracking the content and analysis of such exercises should provide useful insights into the extent to which the Fund has integrated lessons from the past into the conduct of its surveillance and what, in practice, can be done to monitor the effectiveness of surveillance. It will also provide a framework within which to review the extent to which bilateral surveillance has incorporated the various innovations and initiatives introduced over the past few years to strengthen surveillance and, if earlier lessons have not been absorbed, to examine the reasons why.

17. The evaluation will draw upon cross-country analysis and desk reviews of bilateral surveillance in various groups, including advanced industrial countries, emerging market economies, and lower income developing countries as well as some more detailed case studies. The precise scope of the country analysis, including the relative emphasis to be given to these different groups, will be announced in the draft issues paper and will draw on the results of the evaluation of multilateral surveillance.