

INDEPENDENT EVALUATION OFFICE (IEO)
OF THE
International Monetary Fund

POSSIBLE TOPICS FOR EVALUATION OVER THE MEDIUM TERM

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INTRODUCTION

1. This note identifies possible topics for evaluation by the Independent Evaluation Office (IEO) over the medium term. What follows is a broad list reflecting the many suggestions received from country authorities, Executive Directors, management, staff and outside stakeholders. The criteria for inclusion on the list include consistency with the IEO's objectives of enhancing the learning culture within the Fund, strengthening the Fund's external credibility, promoting greater understanding of the work of the Fund throughout the membership, and supporting the Executive Board's institutional governance and oversight responsibilities. After further consultations, the IEO will decide on two topics for evaluations to be launched over the coming year. The IEO may also identify topics for future consideration as the initial pipeline is implemented. The list is organized in thematic groups covering four main areas: (i) surveillance; (ii) technical and design issues; (iii) the IMF's internal governance; and (iv) interactions with external stakeholders. Within each group, there is a significant degree of overlap. It is intended that the IEO's work program will provide some balance between the different thematic groups.

2. In addition to the above thematic groups, there are several topics related to the IMF's response to the current financial and economic crisis that the IEO is considering to evaluate once the crisis has subsided. These include the IMF's contributions to crisis management through policy coordination, advice, and lending.

I. SURVEILLANCE

3. **Bilateral Surveillance.** The current crisis has highlighted the importance of effective bilateral surveillance. The evaluation would assess the effectiveness of surveillance in influencing national policies and in informing the wider membership. It would assess whether the current design, focus, and implementation of bilateral surveillance remains appropriate in light of the evolving international financial architecture and in particular of its performance in the run-up to the current crisis. It would also examine the impact to date of

the 2007 Surveillance Decision. The evaluation would also assess how the faster turnaround of mission work over the past few years has affected the depth and scope of the analysis, and whether it has impacted the effectiveness of the Article IV process. It is anticipated that this evaluation would be structured by category of countries (i.e., low-income countries utilizing PRGFs, other countries with IMF-supported programs, and other emerging and advanced economies), since the process and often the content of the surveillance work tends to differ across these categories. This evaluation could be phased by country categories to allow for more focused analysis. In any case, a chapeau report would compare the findings and bring together cross-cutting lessons. The evaluation would draw on the recent IEO evaluation of *IMF Interactions with Member Countries* (IMC) and the ongoing evaluation of IMF Performance in the Run-Up to the Current Financial and Economic Crisis.

4. **Integration of Bilateral and Multilateral Surveillance.** The IMF's work on surveillance—comprised primarily of the Article IV bilateral surveillance of individual countries, and the biannual *World Economic Outlook* and *Global Financial Stability Report*—is intended to help head off risks to international monetary and financial stability, alert the institution's member countries to potential risks and vulnerabilities, and advise members of needed policy adjustments. The evaluation would explore how these two strands of surveillance are integrated, and assess whether it is possible to generate greater synergies from these exercises. To this end, it would address the following questions: Is greater clarity needed on which surveillance exercise should take the “lead” across critical risks and vulnerabilities? Are risks and vulnerabilities treated evenhandedly across country categories? Is surveillance, in its current form, able to effectively capture the possible extent of spillovers and contagion from national policies onto the regional or global economy? The evaluation would draw on the findings of the IEO evaluation on *Multilateral Surveillance* and the ongoing evaluation of IMF Performance in the Run-Up to the Current Financial and Economic Crisis.

5. **Macro-Financial Linkages and Integration with IMF Surveillance.** The past few years have witnessed an expanding effort by the IMF to incorporate financial sector analysis into its surveillance exercises. For example, FSAP findings are increasingly integrated into staff reports, financial sector issues receive greater coverage in the form of Selected Issues Papers, and the various vulnerability exercises have begun to incorporate financial variables more thoroughly. Nonetheless, the recent financial crisis has exposed major gaps in data and understanding of financial vulnerabilities and their systemic repercussions. The evaluation would assess the IMF's progress in integrating financial sector analysis into both bilateral and multilateral surveillance. Particular attention would be given to analyzing the Fund's performance in assessing financial sector risks and their transmission channels into the real economy (and vice versa); the adequacy and management of financial sector data; and the IMF's expertise in addressing financial sector issues. Given the increasingly interconnected international financial system, the evaluation would consider whether the IMF's analytical toolkit and forms of global engagement are adequate to the task. In this regard, the IMF's role in and contributions to other international institutions and fora on tackling financial

sector vulnerabilities would also be assessed. The IEO's past *Financial Sector Assessment Program* evaluation of would serve as an important input into this study.

II. TECHNICAL AND DESIGN ISSUES

6. **Country Statistics: Quality Assurance, Oversight and Data Management.** Recent events have highlighted the importance of accurate data for surveillance, whether for public sector deficits and debt, or for a range of financial sector variables needed to assess vulnerability and stability. In some cases, the IMF's analysis was undermined by the provision of faulty data, or the unavailability of relevant information to financial regulators or IMF staff. The evaluation would examine the status of the IMF's efforts to acquire accurate data, the scope to question authorities on issues of accuracy and consistency, the extent to which Article IV and FSAP missions address the need for accurate statistics, and technical assistance efforts aimed at addressing data weaknesses. The evaluation would assess whether enhanced authority to acquire accurate data is needed to be able to conduct effective surveillance. It would also assess the process by which country data are collected, produced, disseminated and managed within the Fund.

7. **Transparency and Accountability in Member Countries.** The last decade has seen a dramatic rise in the emphasis given to transparency to improve policy making and monitoring of policies and implementation, and in this way strengthen accountability. The evaluation would examine the role and effectiveness of the IMF in contributing to greater transparency and accountability in member countries, through such efforts as standard-setting (e.g., the Special Data Dissemination Standard or SDDS); assessment of the observance of standards and codes (e.g., the Reports on Standards and Codes or ROSCs); publication policy for country documents; and communications strategy. This study would build on internal self-assessments conducted on aspects of these initiatives.

8. **Treatment of the Public Sector Balance in IMF Analysis and Advice.** The current crisis has highlighted the need for accuracy and comprehensiveness in measuring public sector deficits as well as consistency in treatment across countries. In practice, however, the availability and quality of data measuring public sector deficits outside the central government vary widely, as do conventions on how thoroughly quasi-fiscal deficits and contingent liabilities should be incorporated into the fiscal accounts. The evaluation would assess the consistency with which the IMF addresses the broader treatment of the public sector across countries, including the incorporation of accounts of state-owned enterprises, local governments, extra-budgetary funds, publicly-administered pension and health funds, central bank profit and losses, and the contingent liabilities stemming from government involvement in these or other activities.

9. **The Accuracy of IMF Forecasting.** The IMF generates forecasts for a number of economic variables in all its member countries and for the global economy. These projections are used by the IMF for surveillance and for program and policy design, and are reproduced

in staff reports for Article IV consultations and in other official documents such as the *World Economic Outlook*. Officials in member countries have raised concerns about the accuracy of IMF projections. The evaluation would assess whether systematic biases in forecasting may be present at the national, regional or global levels; and it would explore the repercussions of forecasting errors, if any, on Fund advice and program design. For example, if growth and, hence, revenue generation are consistently overestimated in program design, public sector deficit targets may be harder to attain than intended.

10. **IMF Advice on the Appropriate Level of Inflation.** The IMF has traditionally promoted the desirability of targeting low inflation. Concerns have been voiced about the appropriateness of such targets and the need for more differentiated advice according to country circumstances. An evaluation would examine the IMF's advice on the appropriate level of inflation to address questions such as the following: On what basis are inflation targets derived, particularly in program countries? How responsive are such targets to structural changes that economies may be undergoing, and to the nature of the shocks to which they are subjected? How robust are the analytical foundations of the advice provided on inflation? Has the advice evolved over time and, if so, on what basis?

11. **IMF Advice on the Appropriate Level of Reserves.** The staff has argued for some time that many countries maintain reserves well in excess of what appears optimal, based on models of current account transactions as well as liquidity and capital account considerations. Moreover, persistent intervention in the foreign exchange markets may undermine monetary policy objectives and exacerbate global imbalances. A number of country authorities and IMF Board members have responded that models of optimal reserve accumulation appear to ignore other important considerations. First, countries with higher reserves have fared better in the current as well as in previous crises. Moreover, the costs of enduring a balance of payments crisis are so great that it is considered better to err on the side of caution in building reserves beyond what may be optimal. Second, intervention is often motivated by the desire to maintain a certain level of exchange rate rather than any particular reserve accumulation objective. The IEO would explore the soundness of staff recommendations in light of the persistence of divergent views on this issue.

III. GOVERNANCE ISSUES

12. **Review of Implementation of Board-Endorsed IEO Recommendations.** The evaluation would assess the IMF's implementation of Board-endorsed recommendations in the IEO evaluations issued over the past decade. It would identify impediments that have hindered implementation. Special attention would be given to assessing the effectiveness of Management Implementation Plans and Periodic Monitoring Reports.

13. **Self-Evaluation and Learning at the IMF.** An evaluation could examine the structure and effectiveness of self-assessment systems in the IMF, and how well they contribute to the Fund's ability to learn from past experience. The study would identify and

analyze processes and products used for self-evaluation, among them the Ex Post Assessments (EPAs) that are required for members having longer-term program engagement, and the Triennial Surveillance Review. It would examine whether the current allocation of evaluation responsibilities within the Fund is well suited to effective learning and dissemination of lessons, and whether internal processes and incentives foster candid discussions, adequate peer review and learning.

14. **Managing the IMF’s Dual Roles of Confidential Advisor and Conveyor of Surveillance Assessments to the Membership as a Whole.** The IMF is well placed to provide policy advice on a wide range of economic issues, including some sensitive areas. However, it has been suggested by many authorities that they are reluctant to seek IMF advice commensurate with its perceived expertise because of the concern that discussions would be made public. The evaluation would assess members’ proclivities to seek confidential advice from the Fund and the factors that may undermine this role. It will explore authorities’ views on how best to balance the IMF’s surveillance obligations, which carry with them enhanced transparency requirements, and the attractiveness of the Fund as a source of advice on sensitive issues, which requires a high degree of confidentiality and, at times, secrecy. This evaluation would draw on the findings of the IMC evaluation.

15. **Internal Governance: Structures, Processes, and Incentives.** The internal structures and processes of the Fund have remained broadly unchanged for a long time, even as the scope, complexity and diversity of its workload have changed significantly. Several internal and external reviews have concluded that the Fund tends to operate in silos, reducing the effectiveness of its operations. Similarly, there are questions about the effectiveness of efforts to incorporate financial sector issues into surveillance in a culture that evolved when work was focused on macroeconomic issues. The evaluation would examine the following issues: Are the existing systems, processes, and current division of labor within the institution conducive to its effective operation in a globalized world with regional and global spillovers? Do internal incentives promote or detract from effective collaboration, cross-fertilization of ideas, and “out-of-the-box” thinking? Is the internal governance of the Fund amenable to the full integration of diverse staff skills, expertise, and backgrounds? Is it resilient to increasing turnover among senior staff?

IV. INTERACTIONS WITH EXTERNAL STAKEHOLDERS

16. **IMF Collaboration with other International Organizations.** Effective cooperation between the IMF and other international organizations has the potential to enhance effectiveness in their areas of responsibility. An evaluation could assess: the conditions under which joint initiatives are most suitable to address common objectives; whether collaboration has indeed improved the effectiveness of relevant IMF activities; and how effectively the demarcation of responsibilities across institutions has been working in practice. IMF-World Bank collaboration would be a reasonable place to focus, given the longer history of joint initiatives, the 2007 Malan Report on enhancing collaboration, and the subsequent Joint

Management Action Plan (JMAP). Other areas of focus could include the demarcation of responsibilities with the Financial Stability Forum/Board. The lessons from more sporadic collaboration with other International Financial Institutions could also be utilized.

17. **IMF Outreach Activities and External Stakeholders' Perception of the Role of the IMF.** Think tanks, bilateral aid agencies and academia play an important role in shaping public opinion and policies. Outreach to these entities enables the Fund to benefit from different intellectual perspectives and to incorporate their views in its operations. This type of interaction allows the Fund to better communicate with the public and to build support for its work. The Fund has broadened its efforts to engage with external stakeholders and to address their concerns, including perceptions of a “one-size-fits-all” approach to program design, particularly in low-income countries. The evaluation would assess the Fund’s success in its outreach activities, the impact of its actions on the referred organizations, and their perceptions of the relevance and effectiveness of the IMF. This evaluation would draw on the findings of the IEO’s IMC and *The IMF and Aid to Sub-Saharan Africa* evaluation reports.