

INDEPENDENT EVALUATION OFFICE
OF THE
INTERNATIONAL MONETARY FUND

POSSIBLE TOPICS FOR EVALUATION OVER THE MEDIUM TERM

September 24, 2012

1. This note identifies possible topics for evaluation by the Independent Evaluation Office (IEO) over the medium term.¹ 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. The list of possible topics is organized under the following categories: (i) crisis management; (ii) surveillance and program design; (iii) forecasting and data management; (iv) IMF advice on specific issues and circumstances; and (v) partnerships and governance. After further consultations, the IEO will initiate work on two or three topics in FY2013. The IEO may identify other topics as circumstances change and the initial pipeline is implemented.

I. CRISIS MANAGEMENT

2. **IMF Response to the Global Financial Crisis.** The IMF responded with a multi-faceted approach to managing the global crisis. It played a role in global discussions of responding to the crisis; it encouraged economies to expand fiscal policy to counteract the global downturn; it revamped its surveillance practices and introduced new lending instruments; and it sought and received a large capital increase and put in place financial programs for a number of impacted countries. This evaluation would examine the IMF's response to the crisis from both operational and analytical perspectives.² Thus, for example, it would assess the basis for the IMF's advice to contain financial shocks and their macroeconomic repercussions at the national and global levels; the impact of its lending reforms; and the nature of the lessons it was drawing from the crisis onset and evolution. The

¹ This list builds on the one that was discussed by the Evaluation Committee on September 7, 2010, and reflects suggestions received from country authorities, Executive Directors, management, staff and outside stakeholders.

² As such, it would be a natural follow up to the IEO's report on *IMF Performance in the Run-Up to the Financial and Economic Crisis—IMF Surveillance in 2004–07*.

evaluation would not cover issues specific to the crisis in the Euro area or evaluate IMF-supported programs to Euro area members (which would be covered under the following two topics).

3. **The Euro Area Crisis.** From our initial consultations with authorities, Executive Directors and external stakeholders it is evident that there is considerable interest in the IEO evaluating the IMF's involvement in the euro area crisis. At the same time, many aspects of this involvement are still ongoing, and the IEO needs to exercise caution to avoid "interfering" with ongoing programs.³ To this end, we include in this list of possible topics two related to the euro area crisis. The first evaluation would cover the period until the launching of the IMF-supported programs. This evaluation would be designed to ensure that it did not interfere with these ongoing programs, and so could be launched in the coming months. The second evaluation, focused on the design and implementation of these programs would have to wait for their completion. This sequential approach would allow the IEO to start working on the topic that most stakeholders consider the highest priority, while ensuring that it does not interfere with ongoing programs.
 - i) **The Euro Area Crisis: Antecedents and Management of Initial Phase.** The ongoing crisis has revealed weaknesses in the euro area's institutional architecture for preventing, managing, and resolving economic and financial imbalances. The evaluation would assess how effectively the IMF warned about the vulnerabilities and risks that were mounting in the euro area, through the period till the start of the Greek stand-by program in May 2010.⁴ The evaluation would assess the IMF's advice to individual countries, as well as its dialogue with the principal euro area institutions. It would include questions such as: How effectively did IMF surveillance identify and discuss with authorities the relevant fiscal, monetary and banking sector challenges at the sovereign and euro area levels? Did the IMF provide timely and accurate risk assessments to euro area authorities, particularly after the onset of the global financial crisis?
 - ii) **The Euro Area Crisis: IMF Strategy and IMF-Supported Programs.** This evaluation would cover the period since the launching of the IMF-supported Greek program. It would examine the coordinating role of the IMF in managing the crisis and limiting its spread, and focus on the design and implementation of the IMF-supported programs. It would study the IMF's role in its partnership with the European Commission and European Central Bank.

³ Consistent with its terms of reference, see <http://www.ieo-imf.org/ieo/pages/TermsOfReference.aspx>.

⁴ Thus the evaluation would not cover the IMF's involvement in the Greek or other IMF-supported programs for the Euro area.

II. SURVEILLANCE AND PROGRAM DESIGN

4. **Bilateral Surveillance.** Recent crises have highlighted the importance of effective bilateral surveillance. The evaluation would assess the effectiveness of bilateral surveillance in articulating risks, influencing national policies, and informing the wider membership. It would do so by addressing issues of both substance and process. It would assess the current design, focus, and implementation of bilateral surveillance, taking into account the impact of the 2007 Surveillance Decision as well as the recently approved Integrated Surveillance Decision (ISD).⁵ The evaluation would also assess the surveillance process, which has changed relatively little over a long period of time. It would address issues such as the extent to which the substance and process of bilateral surveillance should vary according to economic circumstances; and whether process changes may be warranted given the significant changes in the scope of surveillance over the past few years. This evaluation could be phased by country categories to allow for more focused analysis.

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, Financial Sector Assessment Program (FSAP) findings are increasingly integrated into staff reports, financial sector issues receive greater coverage in Selected Issues Papers, and the various vulnerability exercises now incorporate financial variables more thoroughly. Nonetheless, recent financial crises have 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 evaluation would consider whether the IMF's analytical toolkit and forms of global engagement are adequate to this task. In this regard, the IMF's role in and contributions to other international institutions and fora on tackling financial sector vulnerabilities could also be assessed.

6. **Early Warning Mechanisms.** The IMF is tasked with promoting economic stability in its member countries and in the international monetary system. To this end, IMF surveillance assesses risks and vulnerabilities in member countries and the global community. This process has evolved substantially, with shortcomings in surveillance and early warning mechanisms exposed by the global financial crisis giving rise to new initiatives and methodologies for analyzing risk. The evaluation would assess the modalities and tools used by the IMF to provide these warnings to policymakers and the global community at large. A key element of this evaluation would be to assess the strengths and weaknesses of the tools used by the IMF to gauge risks, including the vulnerability exercises for emerging

⁵ The IEO would allow for at least one year's experience with the ISD, which becomes effective in January 2013, before initiating this evaluation.

market economies and advanced economies (VEE, VEA), financial soundness indicators (FSI), early warning exercise (EWE), risk assessment matrices (RAM), and debt sustainability analyses.

7. **Evolution of Program Design.** The design of IMF programs has undergone major changes over the past decade reflecting both changes in country policy frameworks as well as in IMF policies with regard to conditionality and financing.⁶ In addition, the crises of the past four years has necessitated rapid and flexible responses in IMF-supported programs. Against this background, the evaluation would assess the evolution of program design over the past decade. It would review the macroeconomic underpinnings of program design (i.e., monetary and fiscal policy assumptions and economic projections), the nature and scope of the macroeconomic and structural conditionality utilized, and the balance between adjustment and financing assumed across IMF-supported programs.

III. FORECASTING AND DATA MANAGEMENT

8. **IMF Forecasts: Process, Quality, and Country Perspectives.** The IMF generates forecasts for its member countries and for the global economy. These projections are used by the IMF in surveillance and for program design and policy advice, and are published in documents such as the *World Economic Outlook* and *Fiscal Monitor* as well as in staff reports following Article IV consultations. The evaluation would document the process by which the IMF's forecasts are generated, and ask whether it is well understood by country authorities and IMF staff. It would assess the extent to which country authorities and analysts in the private sector utilize IMF forecasts in their own projections, and whether there is scope for enhancing the usefulness of the IMF's work in this respect. Finally, the evaluation would explore what impact biases in the forecast, if any, may have had on advice given by the IMF to country authorities in the context of surveillance and program design.

9. **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 faulty data, or the unavailability of relevant information. 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. It would also assess quality assurance processes in place for collection, production, management and dissemination of country data by the Fund. The evaluation would draw on the IMF's periodic Reviews of Data Provision to the Fund for Surveillance Purposes, including the recently completed review in 2012, as well as other relevant IMF documents.

⁶ The IMF's 2011 Review of Conditionality provides a description of many of the changes to program design.

IV. IMF ADVICE ON SPECIFIC ISSUES AND CIRCUMSTANCES

10. **IMF Advice on Monetary Policy in Low Income Countries and Emerging Market Economies.** Monetary policy is a central part of policy advice of the Fund. Such policy advice must take into account country-specific circumstances, since economic structure, institutional arrangements, financial market developments, and the exchange rate policy setting have a crucial bearing on what the appropriate advice should be. Low-income countries in particular, but also a number of emerging market economies, face significant challenges in tailoring their policy frameworks to the evolving stage of their economic and financial development. The evaluation would examine advice regarding the objectives and operational aspects of monetary policy. Thus it would assess: (i) whether IMF advice on monetary policy is appropriately calibrated to take into account institutional and economic structures; and (ii) how useful country officials find the IMF's advice on monetary policy issues.

11. **The Policy Support Instrument: Stakeholder Perspectives.** The PSI supports low-income countries that do not want, or need, Fund financial assistance but seeks closer IMF monitoring and support as a seal of approval of their policies and as a transition to surveillance-only status. Experience with the PSI was recently examined as part of the Fund's Review of Facilities for Low-Income Countries. In concluding this review, Executive Directors saw merit in "making the design of the PSI more flexible while preserving its signaling function." The evaluation would seek the perspectives of country authorities, relevant donors and creditors, and IMF staff to assess: the efficacy of the PSI to date; the extent to which intended reforms are aligned with the objectives of key stakeholders; and whether additional adjustments may be warranted.

12. **IMF Engagement in Fragile States.** Fragile states face unique economic challenges, particularly in light of weak institutions and often difficult political environments. The IMF's involvement has been extensive in such states, including through technical assistance, training, and Fund-supported programs. In July 2011, the IMF re-examined its engagement in fragile states; the Executive Board welcomed preparation of an operational guidance note for work on countries in fragile situations and also looked forward to further discussions on concrete proposals to enhance Fund engagement with these countries. A guidance note was subsequently issued in April 2012. This evaluation would build on the IMF's own assessment, addressing questions such as: Do current modalities allow for IMF support to be appropriately flexible and tailored to evolving macroeconomic circumstances and implementation capacity in fragile states? How does the IMF's work in fragile states fit in with the broader international effort to address the state's needs, including catalyzing donor support and laying the groundwork for debt relief (e.g., HIPC, MDRI initiatives)? Were the IMF's technical assistance and other capacity building activities appropriately calibrated and coordinated with other international institutions and donors? The goal of this evaluation would be to provide an independent perspective on IMF engagement

in fragile states and to contribute to ongoing discussions about the modalities of IMF involvement.

V. PARTNERSHIPS AND GOVERNANCE

13. **IMF Collaboration with External Partners.** Close cooperation between the IMF and other international organizations and country groupings is needed to enhance effectiveness given overlapping mandates, as well as to lighten the burden on member countries who borrow in parallel from more than one organization. An evaluation could assess: the conditions under which joint initiatives are most suitable to address common objectives; how effectively the demarcation of responsibilities across institutions has been working in practice; and the scope for improving collaboration in specific cases. IMF-World Bank collaboration offers one area of potential focus, given the long history of joint initiatives and the 2007 Malan Report on enhancing collaboration. The evaluation could also assess how the IMF has managed partnerships with the regional development banks, with specialized UN agencies, and with other organizations and groupings with overlapping or complementary mandates (e.g., G20, Financial Stability Board).

14. **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. A number of internal and external reviews have concluded that the Fund tends to operate in silos, reducing its effectiveness. This evaluation would document the internal operating environment within which IMF staff operate. It would examine the systems, processes, and division of labor within the institution, as well as the role of its shareholders and other international bodies in shaping policy decisions. The evaluation would examine the factors that impact effective collaboration, cross-fertilization of ideas, and “out-of-the-box” thinking. In this connection, the evaluation could also assess whether the Fund’s internal governance is amenable to the full integration of diverse staff skills, expertise, and backgrounds.