

## POSSIBLE TOPICS FOR EVALUATION OVER THE MEDIUM TERM

January 26, 2015

1. This note identifies possible topics for evaluation by the Independent Evaluation Office over the medium term. The list of possible topics is organized under the following categories: (i) surveillance; (ii) program design and lending instruments; (iii) partnerships and governance; and (iv) IMF engagement on specific issues. The IEO welcomes suggestions on additional topics from country authorities, Executive Directors, IMF staff and outside stakeholders. After further consultations, the IEO will initiate work on a selection of these topics as ongoing evaluations are completed.<sup>1</sup> The IEO may also identify other topics as circumstances change.

### I. IMF SURVEILLANCE

2. **Bilateral Surveillance.** The evaluation would assess the effectiveness of bilateral surveillance in influencing national policies, articulating risks, and informing the wider membership. It would do so by addressing issues of both substance and process. It would assess the design, focus, and implementation of bilateral surveillance, taking into account the impact of the Integrated Surveillance Decision (ISD), which became effective in 2013, and the earlier 2007 Surveillance Decision. It would address whether substance and process are sufficiently tailored to countries' circumstances; and whether process changes may be warranted given the changes in the scope of surveillance over the past few years. This evaluation could be phased by country category to allow for more focused analysis.

3. **Regional Surveillance.** The past few years have witnessed an extensive effort by the IMF to enhance regional surveillance, building on the experience with the semi-annual *Regional Economic Outlook (REO)*. In particular, the IMF has devoted considerable attention to moving towards cluster surveillance—whereby Article IV consultations for groups of countries with common characteristics, close economic ties and/or geographic proximity are conducted almost simultaneously. Such cluster surveillance may also develop common themes across Article IVs. The evaluation would assess the relevance and effectiveness of regional surveillance, in particular whether it has improved traction of IMF advice, and it would explore authorities' views on these developments.

---

<sup>1</sup> A list of ongoing and completed evaluations is provided in the Annex.

4. **Financial Sector Surveillance.** Financial system stability and macro-financial linkages have become a central part of IMF surveillance over the past two decades. The IEO has evaluated aspects of financial sector surveillance in several recent evaluations, but not since 2006 has an evaluation focused on these issues. This evaluation would examine the coverage, quality and impact of financial sector surveillance in light of the reforms undertaken in the aftermath of the global financial crisis.<sup>2</sup>

5. **Assessing FSAP Effectiveness.** Since its inception in 1999, the Financial Sector Assessment Program has become a mainstay of the IMF's efforts to discuss risks and reform priorities in the financial sector. Reforms to the FSAP were initiated in 2009 in response to weaknesses that became evident during the financial crisis. In particular, FSAPs were made mandatory in 2010 for the 25 jurisdictions with the largest and most interconnected financial sectors (subsequently expanded to 29 following a change in methodology). These reforms have changed the nature of FSAPs. In 2006 the IEO conducted an evaluation of the program in coordination with a parallel evaluation by the independent evaluation group of the World Bank. IMF staff has conducted several reviews of the program, most recently in 2014.<sup>3</sup> The IEO evaluation would focus on the effectiveness of FSAPs in identifying emerging risks and policies to address them.

6. **Macro-Financial Linkages and Integration with IMF Surveillance.** The IMF has been engaged in an ongoing effort to integrate financial sector analysis into its surveillance exercises, an effort that gained greater prominence following the global financial crisis and the recent FSAP reforms. The post-crisis agenda for the *Global Financial Stability Reports* and associated analytical work also expanded following the crisis, and has included greater focus on the macro-prudential policy agenda. The evaluation would assess the IMF's progress in integrating financial sector analysis into bilateral surveillance, and the extent to which multilateral surveillance now provides an integrated view of macro-financial reform priorities. Particular attention would be given to analyzing the Fund's performance in assessing financial sector risks and their transmission channels. The evaluation would consider whether the IMF's analytical toolkit and forms of engagement are adequate to this task.

7. **IMF Advice on Monetary Policy during the Crisis.** Monetary policy in advanced economies—characterized by low interest rates, central bank asset purchases, and more active forward guidance—carried the brunt of the macroeconomic policy response to the financial crisis. In addition to its impact on the originating economies, the monetary policy utilized generated significant spillovers. The evaluation would assess IMF advice to

---

<sup>2</sup> The next two topics would be components of this evaluation, or could be undertaken as stand-alone studies.

<sup>3</sup> During the Executive Board discussion of the 2014 review some Directors suggested that it was time for a new IEO evaluation.

advanced economies initiating unconventional monetary policies and to a selection of emerging market economies heavily impacted by such policies. In both cases, the evaluation would assess IMF views and advice on the range of policy options available to central banks, and IMF analysis of the repercussions associated with these options. It would also assess the lessons drawn by the IMF from this episode, and the extent to which IMF advice drew from analytical work inside and outside the Fund.

8. **IMF Assessment of Risks and Vulnerabilities.** 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 arising from domestic policies and developments in financial and commodity markets. The shortcomings in surveillance exposed by the global financial crisis have given rise to new initiatives and methodologies, and the creation of new tools for analyzing risk. The evaluation would assess the quality of the overall framework and its main components, as well as its efficacy in warning about recent risks and crises. The analysis would draw, inter alia, on the IMF's 2014 *Triennial Surveillance Review* and the IEO's 2014 evaluation of *IMF Response to the Financial and Economic Crisis*.

## II. PROGRAM DESIGN AND LENDING INSTRUMENTS

9. **Evolution of IMF Program Design.** The design of IMF-supported programs has undergone major changes over the past decade, inter alia, reflecting changes in IMF policies with regard to streamlining of conditionality and the volume and purpose of financing. The evaluation would assess the evolution of program design with a focus on post-crisis changes.<sup>4</sup> 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 utilized across categories of IMF-supported programs.

10. **IMF Lending Facilities and Instruments Reform.** In the wake of the 2008 crisis, the IMF revamped its lending toolkit. Changes were made to the design and terms of the concessional and non-concessional lending toolkits, along with precautionary facilities; and more recently there have been changes to related policies, such as “blending” use of the General Resources Account and the Poverty Reduction and Growth Trust. Building on work done for the evaluation of the *IMF Response to the Financial and Economic Crisis*, this evaluation will examine the effectiveness of the 2009 and more recent reforms. It will assess the extent to which these new toolkits respond to members' needs, including in a non-systemic crisis context, to identify gaps that still need to be addressed.

---

<sup>4</sup> Changes in member countries' monetary policy frameworks also required adjustments in the financial programming underpinning earlier programs.

11. **Social Protection in IMF-supported Programs.** Over the past decade, the IMF has become more engaged in the area of social protection, including in program conditionality. In 2009, the IMF introduced a requirement that PRGT-supported programs aim to safeguard social and other priority expenditures through indicative targets. The IMF's *2011 Review of Conditionality* proposed that program design should aim to mitigate adverse short-term impacts on the most vulnerable such as through adequate safety nets and temporary targeted transfers. A 2014 factsheet highlighted how the Fund helps governments protect social spending and social assistance in the context of IMF-supported programs across country categories. The evaluation would examine the nature and effectiveness of IMF-supported programs in protecting social and other priority expenditures, such as targeted programs for the poor and vulnerable, and initiatives prompted by the reduction of subsidies or loss of employment.

12. **The Policy Support Instrument: Stakeholder Perspectives.** The PSI, introduced in 2005, supports low-income countries that do not want, or need, Fund financial assistance but seek closer IMF monitoring and support as a seal of approval of their policies and as a transition to surveillance-only status. Qualification criteria included strong economic performance and a high quality of institutions. In 2013, the Executive Board approved a staff proposal to make 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 recent adjustments are aligned with the objectives of key stakeholders; and whether further adjustments may be warranted.

13. **IMF Policies on Debt Sustainability and Public Debt Limits.** In recent years, the IMF revised its approach to debt sustainability in market-access countries (MACs), prompted by the recent crisis and rising sustainability concerns in some advanced economies. In coordination with the World Bank, the IMF also refined its debt sustainability framework for low-income countries (LICs), and revised its staff guidance notes for both sets of countries in 2013. In parallel, the IMF decided to adapt its policy on public debt limits in Fund-supported programs for both MACs and LICs, inter alia, to ensure evenhandedness, unified and comprehensive coverage, and appropriate incentives for financing on concessional terms for eligible countries. The evaluation would assess the efficacy of recent changes, their consistency with fiscal conditionality in Fund-supported programs, and the extent to which they incorporate lessons from the recent crisis.

### III. PARTNERSHIPS AND GOVERNANCE

14. **IMF Collaboration with External Partners.** Cooperation between the IMF and other international organizations and country groupings may enhance effectiveness of each organization given overlapping mandates. Cooperation also lightens the burden on member countries who borrow in parallel from more than one entity. Building on recent and ongoing analyses of a selection of IMF-external partnerships (e.g., G20, Financial Stability Board, the

Troika), this evaluation would assess the extent to which these and other joint initiatives and lending arrangements have been working in practice, and the scope for improving such collaboration. IMF-World Bank collaboration offers one area of potential focus, given a lapse of the Joint Monitoring Implementation Plan as well as recent changes to the mode of joint operational initiatives. The evaluation could also assess how the IMF has managed partnerships with the regional development banks, regional financing arrangements, specialized UN agencies, and with country groupings with overlapping or complementary mandates.

15. **Internal Governance: Structures, Processes, and Incentives.** The internal structures and processes of the Fund have remained broadly unchanged for an extended period, 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 environment within which IMF staff operates. It would examine the systems, processes, and division of labor within the institution. The evaluation would examine the factors that impact effective collaboration, cross-fertilization of ideas, and “out-of-the-box” thinking. It would also examine the process by which major decisions are taken in cases where there are significant differences of opinion among management or senior staff.

16. **The IMF’s Framework for Managing Risks to the Institution.** The IMF has longstanding mechanisms in place to manage credit risk. The IMF also faces a variety of other strategic and operational risks, such as the reputational risk that surveillance could miss critical vulnerabilities in member countries or that its advice or priorities be seen as biased; or the risk of a breach in IT security. The IMF’s framework for identifying, assessing, and mitigating such risks has evolved over time. In 2014, a new architecture was established that introduced a new Risk Management Unit, reporting to the First Deputy Managing Director, and Risk Committee, composed of Department Directors, to complement the work of operational units and the internal audit office. The evaluation would examine the IMF’s evolving approach to managing risks to the institution. It would review the IMF’s record in identifying and mitigating such risks and consider the roles and responsibilities for Management, staff, the Executive Board, and the External Audit Committee under the current framework.

#### IV. IMF ENGAGEMENT AND ADVICE ON SPECIFIC ISSUES

17. **IMF Engagement on Reform of the International Monetary System.** The international monetary system has shown significant resilience in the face of unprecedented financial sector and capital flow crises since 2008. At the same time, rapid increases in the growth of the financial sector, volatility of capital flows and global liquidity, changes in the weights and roles of different reserve currencies in global liquidity, and the frequency of financial and currency crises in the post-Bretton Woods era raise questions on the efficacy with which the international monetary and financial system operates. The tenfold increase in

SDR allocations as part of its response to the crisis pointed to the potential role of the IMF in providing global liquidity. Article IV, Section 3 of the IMF's Articles of Agreement indicates the "Fund shall oversee the international monetary system in order to ensure its effective operation ..." This evaluation would examine the IMF's analysis and engagement in pursuit of this mandate taking into account the perceptions of relevant stakeholders.

18. **IMF Engagement in Fragile States.** Fragile states face unique economic challenges, particularly in light of weak institutions, often difficult political environments, and the threat of renewed conflict. The IMF's involvement has been extensive in such states, including through technical assistance, training, and Fund-supported programs. In 2011, the IMF reexamined its engagement in fragile states, and a guidance note was issued in 2012. This evaluation would build on the IMF's 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 states' needs, including catalyzing donor support and laying the groundwork for debt relief? 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 thus be to assess the effectiveness of the IMF's engagement in fragile states, taking into account the different modalities of IMF involvement.

19. **IMF Engagement in Small States.** The Fund engages with small state members through bilateral surveillance, program and financial support, and capacity building. Until 2012, this work tended to be fragmented across departments. Since then, the Executive Board has reviewed the Fund's work with small states and concurred on an approach to enhance engagement, and a number of operational changes have been implemented. This evaluation would assess the Fund's strategy and the extent to which IMF engagement with small states has been impacted by it. Thus the evaluation would assess the IMF's analytical work program and efforts to strengthen institutional capacity in small states, and the nature of IMF collaboration with multilateral and key bilateral partners in such engagement.

20. **IMF Advice on Monetary Policy in Low-Income Countries.** Monetary policy is a central part of policy advice of the Fund. Such policy advice must take into account country specific circumstances, such as economic structure, institutional arrangements, the extent of financial market development, and the exchange rate policy setting. Low-income countries in particular 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 whether IMF advice on monetary policy is appropriately calibrated to take into account institutional and economic structures, and how useful country officials find the IMF's advice on monetary policy issues.

## ANNEX

### Ongoing evaluations

Self-Evaluation at the IMF: Learning from Experience  
 Statistics for Global Economic and Financial Stability: The Role of the IMF  
 The IMF and the Euro Area Crisis

### Completed evaluations

1. Evaluation of Prolonged Use of IMF Resources, 2002
2. The IMF and Recent Capital Account Crises: Indonesia, Korea, Brazil, 2003
3. Fiscal Adjustment in IMF-Supported Programs, 2003
4. Evaluation of the IMF's Role in PRSPs and the PRGF, 2004
5. The IMF and Argentina, 1991–2001, 2004
6. IMF Technical Assistance, 2005
7. The IMF's Approach to Capital Account Liberalization, 2005
8. IMF Support to Jordan, 1989–2004, 2005
9. Financial Sector Assessment Program, 2006
10. Multilateral Surveillance, 2006
11. The IMF and Aid to Sub-Saharan Africa, 2007
12. IMF Exchange Rate Policy Advice, 1999–2005, 2007
13. Structural Conditionality in IMF-Supported Programs, 2007
14. Governance of the IMF: An Evaluation, 2008
15. The IMF's Involvement in International Trade Policy Issues, 2009
16. IMF Interactions with Member Countries, 2009
17. IMF Performance in the Run-Up to the Financial and Economic Crisis: IMF Surveillance in 2004–07, 2011
18. Research at the IMF: Relevance and Utilization, 2011
19. International Reserves: IMF Concerns and Country Perspectives, 2012
20. The Role of the IMF as Trusted Advisor, 2013
21. IMF Forecasts: Process, Quality, and Country Perspectives, 2014
22. Recurring issues from a Decade of Evaluation: Lessons for the IMF, 2014
23. IMF Response to the Financial and Economic Crisis, 2014