CHAPTER 2

IEO Outputs in FY2015

This chapter discusses in further detail the evaluations of *Recurring Issues at the IMF* and the *IMF Response to the Financial and Economic Crisis*, as well as two updates of past evaluations.

Recurring Issues

The evaluation report on *Recurring Issues from a Decade of Evaluation: Lessons for the IMF* was issued on April 30, 2014 and discussed by the Executive Board on June 11, 2014. The evaluation was prepared in response to a concern raised by the 2013 External Evaluation of the IEO that the broader lessons of IEO evaluations tend to be diluted by the follow-up process. The evaluation aimed to examine generic issues that had been repeatedly identified in IEO evaluations as affecting IMF performance. The evaluation identified five such issues:

- *Executive Board guidance and oversight*. Some IEO evaluations pointed to a lack of clear Board guidance in areas such as the longer-term role of the IMF in low-income countries and the appropriate scope and design of structural conditionality. This led, at times, to inconsistencies in advice to member countries and in application of IMF policies.
- *Organizational silos*. Several IEO evaluations concluded that silo behavior contributed to insufficient integration of global perspectives in bilateral surveillance and financial sector issues in macro surveillance; evaluations also highlighted that there were discrepancies in the advice provided in reports prepared by different departments.
- *Insufficient attention to risks in surveillance and program design*. A number of IEO evaluations found inadequate discussion of risks in staff reports, in particular in program requests. Often, this complicated how the IMF responded when events deviated from central scenarios.
- *Country and institutional context in analytical work and policy advice*. Past IEO evaluations identified instances in which country-specific institutional arrangements, implementation capacity, and political constraints were insufficiently considered in program design. They also noted country authority complaints that the analytical framework used in IMF research was overly generic and "one-size-fits-all."
- *Evenhandedness in the treatment of member countries*. IEO evaluations cited differences across country groups, for example, in the analysis underlying IMF policy advice on managing capital flows. They also found a reluctance to deliver candid messages about risks and vulnerabilities to the larger or more advanced economies.

The evaluation found that the IMF had made considerable efforts to improve its effectiveness in these areas. For instance, a number of procedures had been put in place to spell out risks and uncertainties in the IMF's analytical work, and steps had been taken to strengthen the coordination mechanisms for integrating work across departments. However, challenges remained.

The evaluation concluded that these issues had arisen in multiple contexts because they were rooted in the IMF's culture, policies, and governance arrangements. To varying degrees, these issues emanated from the IMF's character as a multilateral institution with multiple objectives and a complex governance structure. Hence, the evaluation report emphasized that efforts to address these issues needed to go beyond the specific contexts in which they had been raised. Further, it underscored that areas inherent to the Fund's complex governance, in particular evenhandedness and Executive Board guidance and oversight, would likely pose ongoing challenges for the institution.

The Managing Director broadly agreed with the findings of the report and indicated Management's commitment to addressing the shortcomings identified. In particular, the Managing Director emphasized that "the Fund takes concerns about lack of evenhandedness (real or perceived) in surveillance or program design very seriously," and pledged to undertake periodic reviews of this issue.

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The Executive Board discussed the evaluation on June 11, 2014. Directors welcomed the report and broadly supported the IEO's recommendation to establish a framework for regularly monitoring recurring issues, periodically reviewing progress to strengthen the Board's oversight, and providing learning opportunities for staff.

The evaluation report, along with a statement by the Managing Director and the Chair's Summing Up of the Executive Board Discussion, are available on the IEO website.

IMF Response to the Financial and Economic Crisis

The IEO released an evaluation of the *IMF Response to the Financial and Economic Crisis* on November 4, 2014. The evaluation examined the IMF response to the financial and economic crisis that followed the Lehman collapse in September 2008, excluding the euro area programs.

The evaluation found that, despite being in a weak position when it erupted, the IMF was prompt in responding to the crisis and helping member countries cope with it. The IMF quadrupled its resource envelope, reformed its lending toolkit, and ramped up lending from almost nil to about $400 billion in 2008–13. The IMF also provided timely and influential advice on the need for a coordinated fiscal expansion, although its subsequent advice in 2010–11 to initiate fiscal consolidation in some of the largest economies was premature.

The evaluation concluded that the IMF played an important role within the global response to the crisis. However, it also determined that more work was needed to equip the IMF to better anticipate and respond to future crises.

The IMF considerably expanded its exercises, tools, and analytical work to be more alert and effective in warning about potential risks and vulnerabilities. However, concerns persisted at the time of the evaluation about the proliferation of exercises and tools, whether these exercises had been effective in providing early and clear warning about impending risks, and whether IMF surveillance was well placed to detect emerging vulnerabilities in systemic financial centers. The evaluation recommended that the IMF prioritize and consolidate these efforts to ensure that key messages reached policymakers in a timely manner and that financial surveillance was organized in a way that emphasized systemic risk, focusing in particular on truly systemic financial centers. Moreover, the evaluation called for the IMF to strive to remain a focal point for debate on macroeconomic and financial risks, and to continue to encourage an environment that remains genuinely open to alternative perspectives.

The large increase in financial support to member countries in response to the crisis was made possible by a resource mobilization effort that quadrupled the IMF's resources to about $1 trillion by 2013. However, the doubling of quotas agreed in 2010 had not become effective at the time the evaluation was concluded—and remained so at the end of FY2015—leaving the IMF dependent on borrowing arrangements for more than two-thirds of its total credit capacity. Implementing the agreed quota increase and realignment of shares is vital to the governance and legitimacy of the institution. It is also important to providing greater certainty that resources will be available when needed.

In responding to the crisis, the IMF collaborated with other organizations including the G20 (particularly on the Mutual Assessment Process) and the Financial Stability Board. These collaborations were largely effective in addressing aspects of the crisis and also enhanced the traction of IMF advice. However, to safeguard its independence and help ensure uniform treatment of all member countries, the evaluation recommended that the IMF define broadly applicable principles of engagement and cooperation with other organizations, while remaining pragmatic and generally flexible, and allowing for adaptation to specific circumstances.

The evaluation report was discussed by the Executive Board on October 28, 2014. During this discussion, Executive Directors welcomed the evaluation and considered that the IEO report provided a generally balanced assessment of the IMF's response. Directors broadly agreed with most of the recommendations. In particular, they endorsed the recommendation that the IMF maintain sufficient resources to contribute to future crisis resolution, relying primarily on member quotas to reduce uncertainty and strengthen its legitimacy. They also generally supported the recommendation to develop guidelines for engagement that establish broadly applicable principles and clarify the IMF's roles and accountabilities, while remaining flexible and pragmatic to allow adaptation to specific circumstances. Finally, they broadly supported the IEO recommendation to consolidate and simplify initiatives to identify and assess risks and vulnerabilities.

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The IMF's Role in Poverty Reduction Strategy Papers (PRSPs) and the Poverty Reduction and Growth Facility (PRGF) and The IMF and Aid to Sub-Saharan Africa

In August 2014, the IEO issued a report on *Revisiting the IEO Evaluations of The IMF's Role in PRSPs and the PRGF (2004) and The IMF and Aid to Sub-Saharan Africa (2007)* that updated past findings on IMF processes and programs in low-income countries.

The report found that the IMF had made significant progress on most of the challenges identified by the two evaluations. Highlights included clarifications of relevant operational policies on a broad front; program measures to protect social and other priority spending; and improved external communications, particularly in Sub-Saharan Africa. The IMF maintained momentum in these areas as it launched a new facilities framework for low-income countries, including replacement of the PRGF with the Extended Credit Facility in 2009. The report noted, however, that more analysis was needed on the quality of social and other priority expenditures to strengthen the analytical framework of IMF support to low-income countries.

Going forward, the report underscored the importance of facilitating effective collaboration with the World Bank in the wake of the Bank's 2014 decision to eliminate the requirement for PRSPs, which had been the main organizing process for Bank-Fund cooperation in low-income countries over the prior decade. Lessons from experience have indicated that collaboration works best where there are clear and complementary institutional mandates, defined links to core Fund and Bank activities, and a shared understanding of respective staff roles and responsibilities. This update report served as an input for the subsequent Executive Board discussions on a new approach to documenting poverty reduction strategies that anchor IMF-supported programs in low-income countries.

The update and a statement issued by the Managing Director are available on the IEO website.

The IMF's Approach to Capital Account Liberalization: Revisiting the 2005 IEO Evaluation

In March 2015, the IEO issued an update of the findings and conclusions of the 2005 evaluation of *The IMF's Approach to Capital Account Liberalization*.

This update found that the IMF had made considerable progress since 2005 in clarifying its approach to the liberalization and management of cross-border capital flows. IMF staff produced and synthesized a substantial amount of academic and operational research on capital account liberalization and capital controls and developed new multilateral surveillance products (e.g., spillover reports) that allow for greater attention to push factors affecting international capital flows. In 2012, the IMF issued the Integrated Surveillance Decision that elucidated the place of capital account issues in bilateral and multilateral surveillance. Also in 2012, the IMF arrived at an institutional view on which to base Fund advice on the liberalization and management of capital flows.

The institutional view recognized that full capital account liberalization may not be an appropriate goal for all countries at all times and that under certain circumstances capital flow management measures could have a place in the macroeconomic policy toolkit. This view helped to shift the public image of the Fund as a doctrinaire proponent of free capital mobility. However, the update concluded that the consensus around this institutional view remained fragile, given the differing perspectives on how to manage capital flows within the IMF, as well as in the academic and policymaking communities. The IEO concluded that continued efforts were needed to ensure consistent advice across the membership on capital flow management issues and to support multilateral cooperation on policies affecting international capital flows, against a backdrop of a patchwork of bilateral, regional, and international agreements regulating cross-border capital flows among different groups of countries.

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