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THE 2009 EVALUATION: KEY FINDINGS AND RECOMMENDATIONS

The 2009 evaluation found that, starting in the early 2000s, the Fund had scaled back its involvement in trade policy issues for several reasons. Externally, these included a long period of growth in global trade and trade liberalization that had reduced interest in IMF advice and conditionality and the growing role of the WTO following its establishment in 1995. Internally, financial sector issues were demanding increasing attention at the Fund, the overall downsizing of the IMF had tightened the availability of resources, and the Executive Board (the Board) approved steps to streamline trade policy surveillance. In this context, the 2009 evaluation focused on five areas: (i) the IMF's mandate and involvement on trade policy issues; (ii) the cooperation of the IMF with other international organizations; (iii) the guidance provided by the Board to staff; (iv) the adequacy of the IMF's work on trade policies in both program and surveillance contexts; and (v) the effectiveness of IMF advice.

The findings of the 2009 evaluation can be summarized as follows:

- ▶ First, with its universal membership, strong procedures for surveillance, and a mandate to promote macroeconomic stability, the IMF had a key role to play in calling attention to systemic and macroeconomic implications of trade policy developments. While the Articles of Agreement did not provide precise direction, they were general enough to underpin a wide spectrum of IMF engagement in trade policy issues. However, after an interventionist phase in the late 1990s, the IMF had generally refrained from taking strong positions on trade policies, even when they had macroeconomic consequences. This retreat was judged to have left a worrisome gap.
- ▶ Second, the record on collaboration with other international organizations was mixed. Most importantly, the Fund's relationship with the WTO, which had been strong during the first part of the evaluation period, declined substantially from the mid-2000s, particularly following closure of the IMF Geneva office in 2008. Working relationships remained cordial, and no major inconsistencies were found between the two organizations. However, prominent joint initiatives were largely absent, and the evaluation raised concern about the potential for tensions. Cooperation with the World Bank had generally been good, but interactions with other institutions, such as the Organisation for Economic Co-operation and Development (OECD) and United Nations Conference on Trade and Development (UNCTAD), were infrequent.
- ▶ Third, the Executive Board's guidance to staff on trade policy issues was found to have been vague. Directors had called for broadening of the range of issues to be covered and simultaneously for greater selectivity. While guidance on traditional trade policy issues was generally clear and focused, this was not the case on newer issues such as Preferential Trade Agreements (PTAs) and trade in services. At the same time, both the Board's and management's interest in trade policies were characterized as cyclical.

- ▶ Fourth, in the context of surveillance, the record of IMF involvement on trade policies was considered uneven across countries and over time. Three areas were highlighted as receiving insufficient attention despite their importance for macroeconomic stability and spillovers: trade in financial services, PTAs, and trade finance. The evaluation also found that the IMF had missed the opportunity to address the “growing multilateral dimensions of trade policy issues” by conducting its trade policy work largely in the context of bilateral surveillance.

At the same time, it concluded that attention to trade in bilateral surveillance had sharply diminished, while the attention trade received in regional surveillance was limited.

- ▶ Fifth, the volume of trade-related conditionality in IMF-supported programs had rightly been scaled back after 2000, correcting excesses in previous years, although the evaluation argued that the Fund should play a strong advisory role on trade policy issues in borrowing countries. It was also found that trade policy conditionality had lacked evenhandedness.

BOX 1. SUMMARY OF RECOMMENDATIONS OF THE 2009 EVALUATION

1. Executive Board guidance. The Board should commit to periodic re-evaluation of its guidance on the objectives of, approaches to, and modalities of staff work on trade policies.

2. Trade policy in use of Fund resources. The IMF must engage on trade issues with borrowing countries through a strong advisory role. Countries need not only to be supported in resisting protectionist pressures but also to have plans for providing trade finance, influencing decisions within their Preferential Trade Agreements (PTAs), and reforming trade policies in ways that reduce the cost of doing business. Staff and the Board need to articulate what role the IMF should play to this end and how it should work with other institutions, especially the World Bank. Another important objective in scaling back conditionality is to eliminate the scope for political interference from member countries with global interests.

3. Surveillance over trade policy issues

- ▶ The Board should establish guidance on the role and approach of the IMF in PTAs and in trade in financial services.
- ▶ Trade policy—particularly involving PTAs—should be addressed periodically in multilateral and regional surveillance.
- ▶ The IMF should recommit to evenhandedness in its trade policy advice.

4. Outreach. IMF staff and the Board must consider ways to: (i) improve outreach to officials inside and outside the ministries that are the IMF’s traditional interlocutors; and (ii) present trade policy issues in a rigorous and persuasive manner.

5. Data, expertise, and organization

- ▶ A minimum level of trade policy expertise is needed.
- ▶ A division solely devoted to trade issues is needed to serve as the locus of interinstitutional cooperation on trade policy issues and a repository of trade expertise on which other staff can draw.
- ▶ Fund staff need access to better data and measures of trade protection.

6. Institutional cooperation. To spearhead such cooperation, management and a small number of senior staff need to commit to regular and formal meetings with counterparts in other key international organizations involved with trade. IMF management should report to the Committee on Liaison with the World Bank and Other International Organizations and/or the Executive Board/International Monetary and Financial Committee on proceedings of the meetings and plans for staff-level coordination.

Source: IEO (2009).

- ▶ Finally, the evaluation found that trade policy analysis was hampered by data deficiencies and lack of trade policy expertise within the Fund and considered that IMF staff should work with other organizations to improve access to data and analytical tools.

Following these findings, the 2009 evaluation made a series of recommendations aimed at strengthening and clarifying the role of the IMF on trade policies (Box 1 above). Primarily, it called for the establishment and periodic re-evaluation of the guidance provided to staff, aimed at fostering a more active advisory role in both surveillance and UFR contexts. The evaluation also recommended improving the Fund’s outreach to country officials and reinforcing the expertise, organizational arrangements, and data internally available for trade policy work. Finally,

a more systematic coordination with other international organizations was considered a must.

In discussing the evaluation in February 2009, Executive Directors broadly agreed with the IEO’s findings, endorsed most recommendations, with the exception of establishing a trade-specific division, and concurred that the “Fund must play an active role in calling attention to systemic and macroeconomic implications of trade policy developments.” Ten months later, in December 2009, the Board approved an implementation plan in response to the Board-endorsed recommendations put together by the staff.² Since then, actions included in the implementation plan have been largely fulfilled, with the swift preparation of two reference notes on trade policy issues in 2010 and the 2015 “Review of the Role of Trade in the Work of the Fund” (2015 Review) (IMF, 2015a).³

² Management Implementation Plans in response to IEO recommendations are followed up in Periodic Monitoring Reports. In this case, the implementation of actions associated with the evaluation recommendations were monitored until 2015, when the 2015 Review was published.

³ Annex 1 presents (i) the original recommendations; (ii) Executive Directors’ responses, as recorded in the summing up; (iii) the actions endorsed by the Executive Board, as shown in the implementation plan (IMF, 2009); and (iv) the IEO’s current assessment regarding implementation.