IMF SURVEY
www.imf.org
International Monetary Fund
VOLUME 29
NUMBER 17
August 28, 2000

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Review process

IMF Executive Board discusses making independent Evaluation Office operational

In a press release issued on August 18, the IMF Executive Board announced that on August 3 it had discussed making the independent Evaluation Office operational (see Press Release No. 00/27) and agreed to the publication of the background paper that provided the basis for the discussion, as well as the Chairman's concluding remarks.

Executive Directors welcomed the paper by the Evaluation Group of the Executive Board and considered that the proposals were an important step forward in making the IMF's independent Evaluation Office operational. The Executive Board will be reporting on the establishment of the Evaluation Office to the Board of Governors at the Prague Annual Meetings in September. Executive Directors expect the office to be operational before the spring 2001 meeting of the International Monetary and Financial Committee in Washington. They viewed the Evaluation Office as an important complement to the overall review and evaluation work undertaken in the IMF and believe that it will enable the institution to better absorb lessons for improvements in its future work.

Edited excerpts from IMF Managing Director Horst Köhler's concluding remarks follow. The full text and Press Release Nos. 00/27 and 00/49 and the background paper are available on the IMF's website (www.imf.org).

"A key consideration in the discussion was how to ensure that the work of the Evaluation Office would fully support the Executive Board's oversight role and contribute to transparency and the learning culture in the IMF. Various views were expressed on the nature of the evaluations to be undertaken and on the relation between the office's

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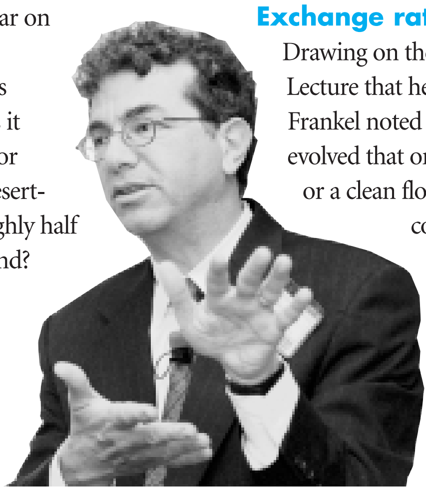
IMF Institute seminar

Frankel challenges current consensus on need for pure fixed or floating exchange rate regimes

Jeffrey Frankel came to Washington to enlist IMF economists in his search for the "missing middle"—the wide center ground that fills the spectrum between the extremes of fixed and floating exchange rates. In a lively presentation at an IMF Institute seminar on August 7, Frankel reviewed current issues in research and policy on exchange rate regimes but chiefly focused on a conundrum. Why is it that while it is the post-Asian crisis fashion for economists and policymakers to advocate deserting intermediate exchange rate regimes, roughly half of all countries still inhabit this middle ground?

In an effort to unravel the mystery of the missing middle, the Harpel Chair professor of Harvard University's School of Government explored whether exchange rate regimes matter for the real economy, weighed the respective advantages of fixed versus floating rates, and examined new criteria for optimum currency areas. Ultimately, Frankel argued, the real culprit is not intermediate exchange rate regimes but the notion that any single currency regime is right for all countries at all times.



Frankel: No single currency regime is right for all countries at all times.

Exchange rate goals

Drawing on the Princeton University Graham Lecture that he presented in April this year, Frankel noted that in the late 1990s, a view evolved that only a rigidly fixed exchange rate or a clean float would solve the problems that come with modern globalized financial markets. This hypothesis, Frankel observed, seems to be held as a corollary of the "impossible trinity," which posits that a country can pick only two goals from the tripartite menu of exchange rate stability,

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Evaluation Office to be part of IMF review process

(Continued from front page) work and the other review and evaluation work undertaken by the IMF. Directors considered that the office should primarily cover issues related to general policies and their implementation, comparative cross-country analyses, and completed country operations. At the same time, there is broad agreement that the office must avoid interfering with ongoing operational activities or micromanaging responsibilities in the institution. Policies and procedures under active discussion in the IMF and current IMF programs would not, therefore, be appropriate areas for the office's evaluation. As the office becomes fully operational and gains some initial experience, this issue will become clearer and will be reviewed again before final decisions on the Evaluation Office are made.

Independence of Evaluation Office

"There was broad consensus that the office should be independent from IMF management and staff and should operate at arm's length from the Board. This means that, once established by the Board, the office must be operationally independent. The office will be expected to report fully on individual evaluations to the Executive Board and to allow the Board, management, and staff an opportunity to comment on its assessments. The Board and management will be responsible for following up on the conclusions drawn by the Board from its consideration of the evaluation reports. In developing its work program and choosing evaluation topics, Directors expected that the Evaluation Office, while maintaining its independence, would seek the views of Executive Directors, management, staff, and interested parties outside the IMF. How the work program of the office will be given its final form is another operational issue to which Executive Directors will need to return.

"Directors discussed the merits and disadvantages of developing a full-scale charter for the Evaluation Office to guide its work. They concluded that, on balance, a fully elaborated charter risks imposing excessive rigidity on the office's work, especially at the outset. Accordingly, Directors agreed that the office should be guided by terms of reference, which should provide the safeguards on the office's independence that all Directors support, while not constraining the office's freedom of action unduly. The Board will establish such terms of reference in the period ahead.

Executive Board and Evaluation Office

"There was broad consensus that the whole Board should continue to be involved with the Evaluation Office. A number of Directors considered that, after the office becomes operational, the role of the Evaluation Group of Executive Directors may need to be reexamined.

"The budget of the Evaluation Office will be determined annually by the Board, without intermediation by IMF management or staff. Regarding the size of the office, Directors generally supported the recommendation that it be limited to no more than 11 individuals. There was broad agreement that the work of the office would be considerably enhanced by the fresh approach and perspective that individuals from outside the IMF would bring to bear. Accordingly, Directors suggested that external recruits and consultants should constitute a significant, if not the major, part of the office's staffing, thereby adding value to the institutional insight and experience that individuals drawn from the IMF staff would contribute. Executive Directors supported the selection of the Director of the Evaluation Office by the Executive Board, assisted as appropriate by an external search firm. Once appointed, the Director of the Evaluation Office should be free to choose high-caliber individuals to staff the office. Ultimately, of course, the office's success will be assured by the professionalism and integrity of the Director of the Evaluation Office and its staff.

"Executive Directors were in favor of the office being fully accountable to the Executive Board and expected the Director of the Evaluation Office to report regularly to the Executive Board. In addition, the International Monetary and Financial Committee would also expect to receive reports on the office's activities.

Publication

"Directors were of the view that, as a rule, Evaluation Office findings should be published, with appropriate safeguards for confidential material. Publication would be accompanied by comments on the evaluation from management and staff, and others where appropriate, along with the conclusions reached by the Board in considering the evaluation report. Publication would enhance the accountability and transparency of the evaluation process.

"With regard to next steps, the Evaluation Group will prepare a revised paper based on comments made during this discussion. This paper will be submitted to the Executive Board for approval shortly, possibly on a lapse-of-time basis. The revised paper will be posted on the IMF's website for public comments, along with these concluding remarks. Taking into account those comments, a final report on the Evaluation Office will be presented to the International Monetary and Financial Committee in Prague and will indicate that the Executive Board has taken the necessary decisions to make the office operational.

"Finally, these remarks reflect understandings that are still preliminary and will need to be revisited before the Board reaches final decisions on all aspects of the Evaluation Office." ■