

IEO

Independent Evaluation Office
of the International Monetary Fund

BUILDING A BETTER IMF: LESSONS FROM INDEPENDENT EVALUATIONS OF IMF PERFORMANCE

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ICRIER, New Delhi, February 23, 2018

Roadmap

▶ **Challenges** faced by the IMF

- Crises
- Changing world

▶ **Adaptation:** How has the IMF responded?

- Surveillance, lending, technical assistance
- Governance

▶ **Evaluation:** How well has the IMF adapted?

- Role of the IEO
- Lessons from IEO evaluations

CHALLENGES

WHAT CHALLENGES HAS THE IMF FACED?

Crises

- 1971** Collapse of the Bretton Woods system
- 1982** Latin American debt crisis
- 1991** Collapse of the Soviet Union
- 1994** Tequila crisis (“First crisis of the 21st century”)
- 1997** Asia crisis
- 2002** Latin American crisis 2.0
- 2008** Global financial crisis
- 2011** Euro area crisis
- 20??** ????



Dealing with a Globalized, Multipolar World

- ▶ Fall of the Soviet Union: demise of central planning
- ▶ Trade opening, cross-border supply chains
- ▶ Open capital accounts, massive volatile capital flows;
- ▶ Exchange rate variability
- ▶ Rise of emerging markets
- ▶ Expansion of the European Union



Dealing with Discontent

Periodic crises

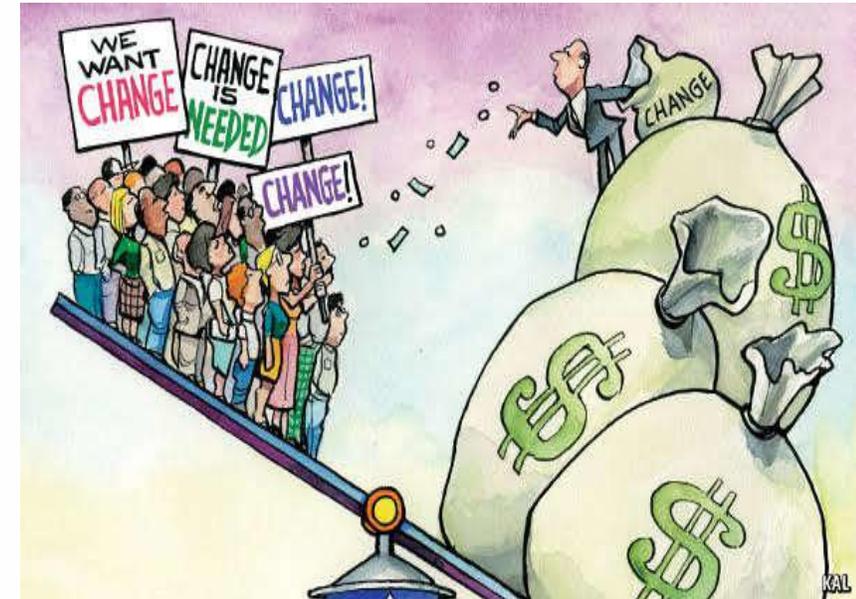
- ▶ EM crises in 1997-2002; AE crises in 2008-12

Secular stagnation

- ▶ Declining productivity growth; aging populations
- ▶ Falling real interest rates/search for yield

Secular exclusion

- ▶ Stagnant median incomes in advanced economies
- ▶ Rising inequality within many countries, advanced and emerging
- ▶ Stalled process of income convergence
- ▶ Global challenges: fragile states; climate change



ADAPTATION

HOW HAS THE IMF RESPONDED TO THE
CHALLENGES?

How has the IMF Adapted: Surveillance

- ▶ Increased **transparency**
 - Publish annual consultations with countries; increased outreach
- ▶ Built up **tool kit**
 - Better forecasts; risk and vulnerability assessments; spillover analysis
- ▶ Bolstered work on **external sector** issues
 - External Sector Report; “Institutional view” on capital account liberalization
- ▶ Reinforced **financial surveillance**
 - Financial Sector Assessment Program; mainstreaming macro-financial work
- ▶ Toward an **inclusive growth paradigm**: new macro-critical areas
 - Labor markets; Inequality; gender; climate change

How has the IMF Adapted: Lending

- ▶ Lending capacity tripled to around \$750 billion
- ▶ Exceptional access
 - Greece (2010) – 3,200% of quota, Korea (1997) – 1,900% of quota
- ▶ Working with regional partners
 - European Commission, Chiang Mai Initiative
- ▶ Introduce insurance facilities/global financial safety net
- ▶ More resources for concessional financing
- ▶ New support for natural disasters/post conflict

How has the IMF Adapted: Capacity Building

- ▶ Rising external funding
- ▶ Regional technical assistance centers
- ▶ Training to build staff financial expertise
- ▶ Increased technical assistance on regulation and supervision/financial stability

How has the IMF Adapted: Governance

- ▶ Quota and voice reform
 - 6 percentage point shift to emerging markets and developing economies
 - All BRIC among top ten IMF shareholders

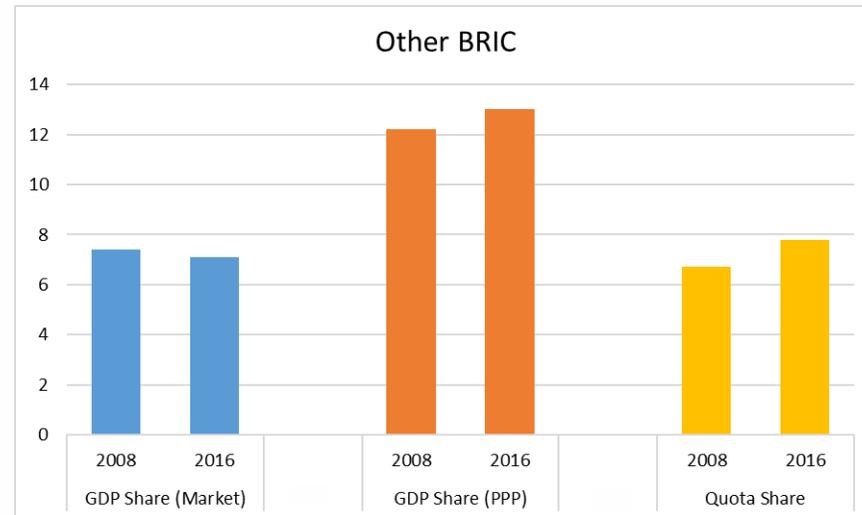
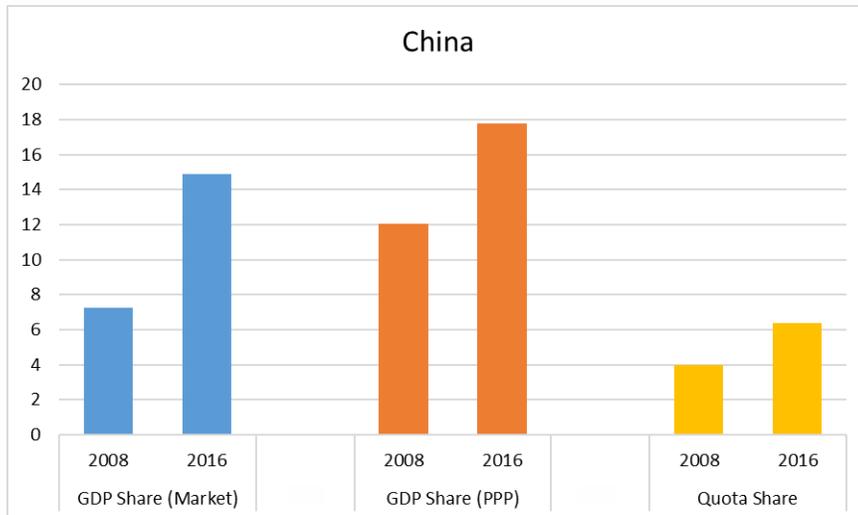
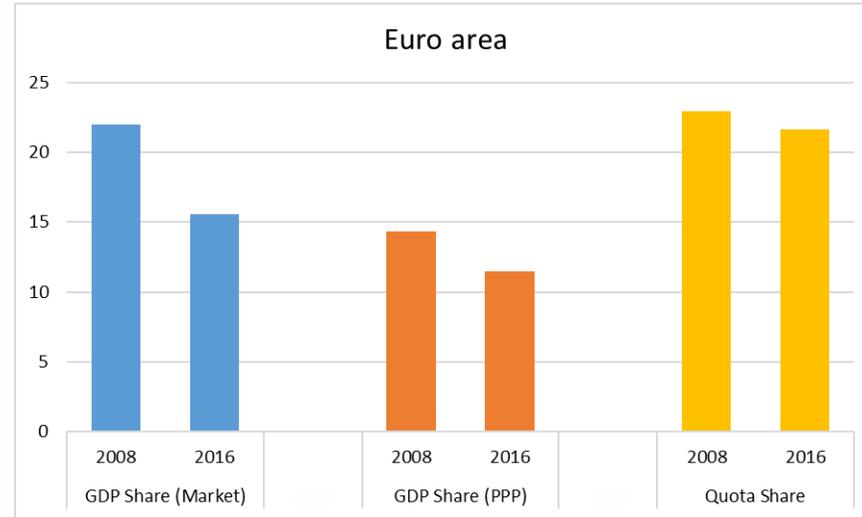
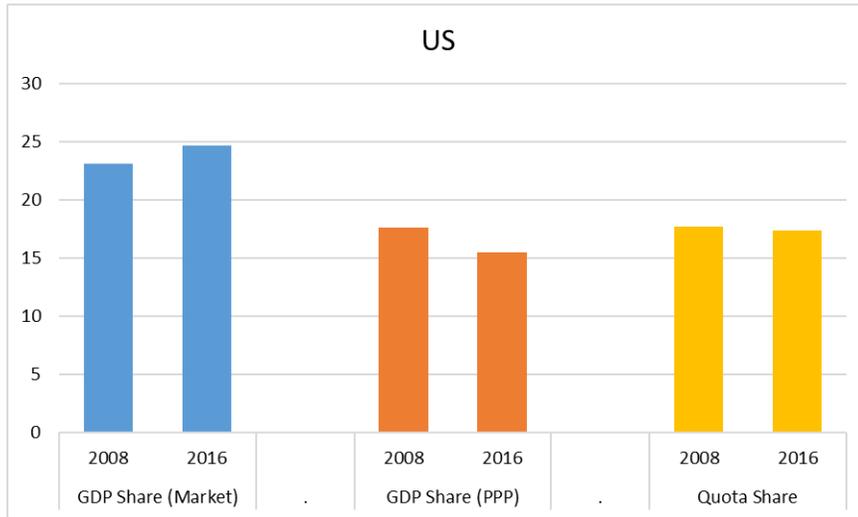
- ▶ SDR reform
 - RMB recognized as freely usable currency and included in the SDR basket

- ▶ From G7 to G20

- ▶ Dealing with regional entities (“troika”)

- ▶ Evaluation and institutional learning
 - Setting up of the IEO is one of the adaptations

Governance: IMF Quota Share vs. GDP Share



EVALUATION

HOW WELL HAS THE IMF ADAPTED?

IEO Origins and Mandate

- ▶ Established in 2001
- ▶ Conducts independent and objective evaluations of Fund policies, activities, and products
- ▶ Three interrelated objectives:
 - “Support the Executive Board's institutional governance and oversight responsibilities” by supporting **accountability**
 - “Enhance the **learning** culture within the Fund” by increasing the ability to draw lessons and integrate improvements
 - “Strengthen the Fund's external credibility” through enhanced **transparency** and two-way communication
- ▶ Constraint: don't interfere with current operations

IEO Governance — “Independence is Crucial”

- ▶ Independent of IMF Management and Staff
- ▶ Operates at “arm’s length” from the Executive Board
 - Director responsible for topic selection and hiring
- ▶ Entitled to access all internal information with limited exceptions
- ▶ Budget independent from the IMF’s (about ½ percent of total) but subject to same control process
- ▶ External reviews every five years

IEO Strategic Focus — “Less is More”

	AfDB	AsDB	EIB	IADB	IEO	WBG
Total Administrative Budget (% of parent institution)	1.7	1.9	0.4	1.3	0.5	1.3
Total staff (number)	36	54	14	47	15	104
Consultants (% budget)	47	30	40	25	20	50

Source: Evaluation Cooperation Group

The Evaluation Cycle

Topic Selection

- *Consultations with stakeholders on the work program*

Draft Issues Paper

- *Posted on website and comments solicited*

Evaluation Work

- *Interviews and surveys of key stakeholders*

Draft Report

- *Shared with IMF staff for factual corrections only*

Final Report Issued to the Executive Board

- *Published with Management comments and Summary*

Follow Up Process

Board Discussion

- *Explicit endorsement of recommendations that receive support*

Management Implementation Plan (MIP)

- *Actions to implement endorsed recommendations*

Periodic Monitoring Review (PMR)

- *Annual stocktaking on implementation of MIPs*

Recurring Issues Report

- *Five-year cross-cutting look at recurring issues*

Evaluation Update

- *Ten-year revisit to review progress*

IEO Outreach

- *Outward (civil society, think tanks) and inward (IMF Board and staff)*

IEO — Recent Work

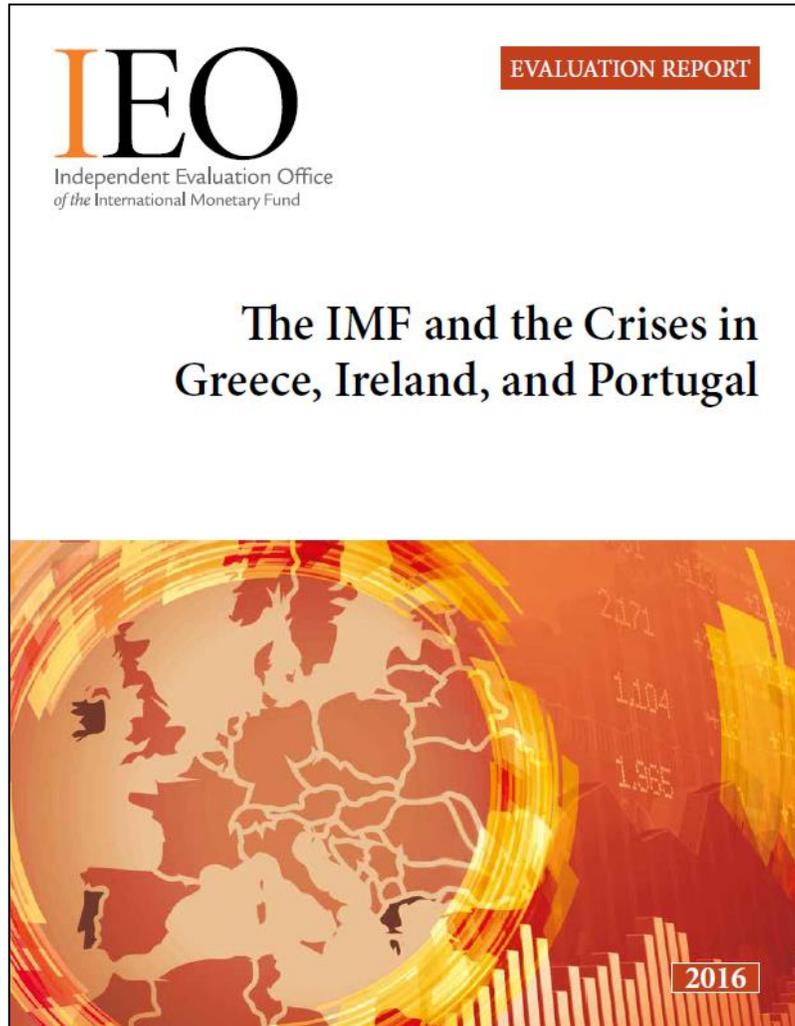
Recent evaluations:

- ▶ The IMF and Social Protection (2017)
- ▶ The IMF and the Crises in Greece, Ireland, and Portugal (2016)
- ▶ Behind the Scenes with Data at the IMF (2016)

Recent Updates:

- ▶ IMF Exchange Rate Policy Advice (2017)
- ▶ Multilateral Surveillance (2017)

The IMF and the Crises in Greece, Ireland and Portugal



Why this evaluation?

- ▶ Major challenge for IMF crisis management
 - Scale of financing need and potential sovereign debt problems
 - Need to work with European partners
 - Questions about evenhandedness and transparency

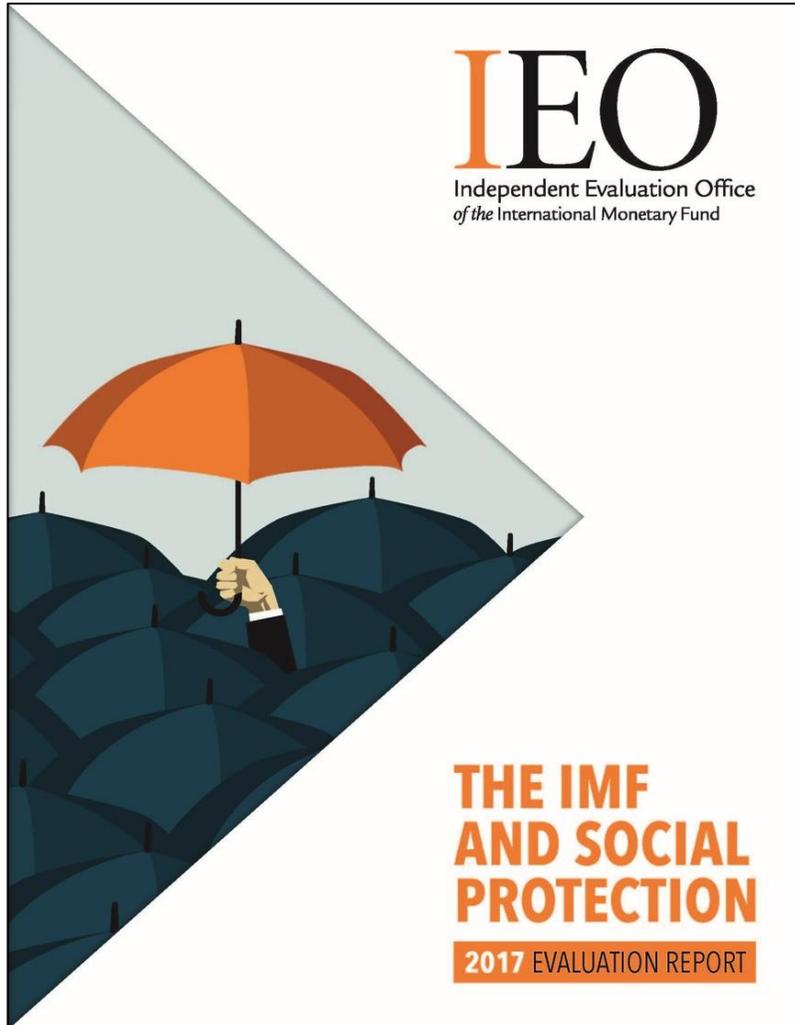
The IMF and the Crises in Greece, Ireland and Portugal — Key Findings

- ▶ **Surveillance:** IMF, like others, underestimated build-up of risks
- ▶ **Decision-making:** Rushed modification to exceptional access policy, reduced role of Executive Board
- ▶ **Working with European partners:**
 - compromised agility as crisis manager
 - political pressures on technical judgements
 - Lack of framework for working with currency unions/RFAs
- ▶ **Program design:** lack of realism in projections led to underestimation of scale of problem
- ▶ **Accountability and transparency:** need for improved Board record keeping and renewed commitment for IEO access to sensitive documents

The IMF and the Crises in Greece, Ireland and Portugal — Reactions and Follow-Up

- ▶ **Commitment:** Management and Board reiterated need for IMF technical analysis to remain independent and that policies should not be changed without careful deliberation
- ▶ **Board papers to establish IMF policy** on:
 - IMF cooperation with Regional Financial Arrangements
 - Program design for currency union members (under way)
- ▶ **Accountability and transparency:**
 - Improved Board record keeping
 - New protocol for IEO/staff cooperation

The IMF and Social Protection



Why this evaluation?

- ▶ Social protection is not an explicit part of the IMF's mandate but has received increasing attention from the Fund as an important contributor to macroeconomic stability
- ▶ Fund continues to be criticized for prioritizing adjustment over protection of vulnerable groups
- ▶ The IMF has only limited capacity and expertise on social protection issues and needs to work closely with development partners

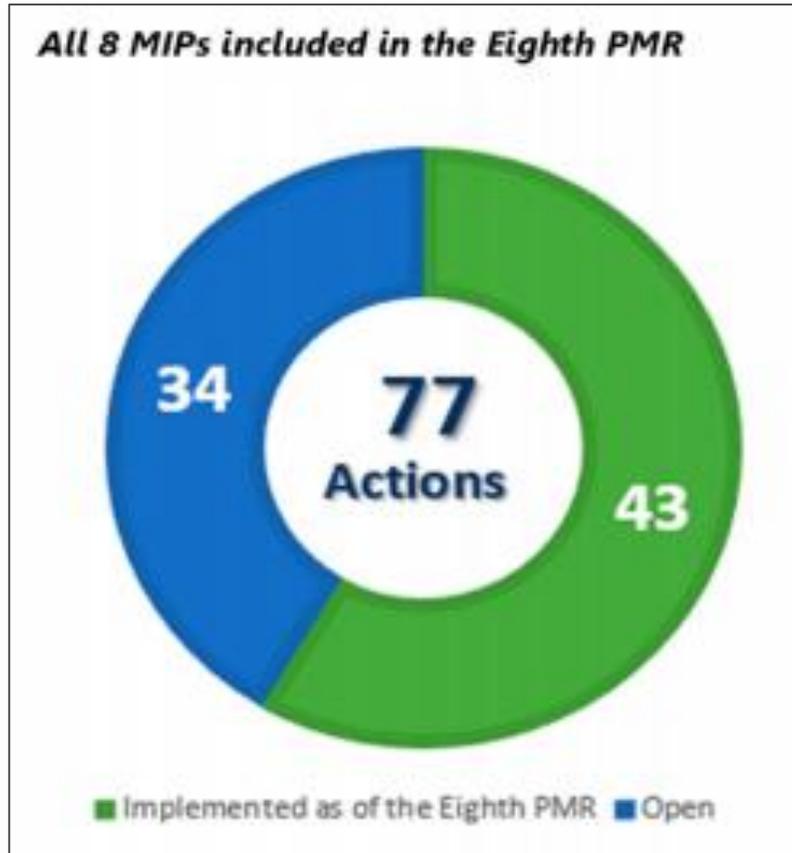
IMF and Social Protection — Key Findings

- ▶ Over the past decade, the IMF has expanded its work on social protection in **surveillance**, **lending**, and **technical assistance**
- ▶ Extent of **IMF involvement** varied across countries and time
- ▶ In the **program context**:
 - The IMF took account of social protection concerns as a general practice
 - But efforts to mitigate adverse effects of program measures on vulnerable groups had mixed success
- ▶ In **surveillance**, the IMF's policy advice was not always very deep, especially when it moved beyond fiscal concerns
- ▶ **Cooperation** with World Bank worked well but may be challenges ahead
- ▶ Credibility gap in **external communications**

IMF and Social Protection — Reactions and Follow-Up

- ▶ **Management and Executive Board** endorsed the need for the IMF to work in this area given the increasing recognition of the macro relevance of inequality and social strains and **supported all IEO recommendations**
- ▶ Report attracted broad attention from **civil society**
- ▶ Management and staff prepared an **implementation plan** which was approved by the Board
- ▶ Plan build around a Board paper to provide an “**institutional view**” to guide the Fund’s engagement on social protection

17 Years of IEO's Work — Impact



Source: Eighth Periodic Monitoring Report.

- ▶ 85% of all recommendations endorsed by the Board
- ▶ Some action taken on 75% of these, of which, about 30% fully implemented
- ▶ But many actions still open many years after evaluation
- ▶ Lessons:
 - Need for recommendations to be concrete and monitorable
 - Seriously addressing intractable issues takes time
 - Follow-up process could be given more teeth

16 Years of IEO's Work — Recurring Issues

- ▶ **Wishful thinking** and **group think**: attention to risks and uncertainty in surveillance and program design
- ▶ Insufficient **country specificity** and institutional context in analytical work and policy advice
- ▶ Need for greater **evenhandedness** in analysis and advice across members
- ▶ **Mission creep**: sustaining core expertise while meeting new challenges
- ▶ Organizational **silos**; difficult to integrate work across different parts of the institution
- ▶ Lack of **guidance** by the Executive Board

Evaluating the Evaluators

Regular external evaluations of the IEO provide a valuable stock-taking and provide opportunities to strengthen the evaluation framework

2006 Lissakers Report found that “IEO has served the IMF well.” To enhance its role:

- ▶ IEO should not shy away from sensitive topics
- ▶ IEO staff should be more diverse
- ▶ Management and Executive Board should play a more active role in follow-up
- ▶ IEO should increase outreach

2013 Ocampo Report: “IEO has been a successful institution”

- ▶ Executive Board needs to own follow-up process.
- ▶ IMF Management and staff are sometimes defensive; more dialogue needed.
- ▶ IEO should increase in-reach activities

IEO Current Work Program

Evaluations in progress:

- ▶ The IMF and Fragile States (March 2018)
- ▶ IMF Financial Surveillance (September 2018)
- ▶ IMF Advice on Unconventional Monetary Policy (Early 2019)

Updates in progress:

- ▶ Structural Conditionality (May 2018)
- ▶ IMF Governance (Fall 2018)

External evaluation of IEO:

- ▶ Kaberuka Report (Summer 2018)

Issues for Discussion

- ▶ How well has the IMF adapted to new realities?
- ▶ Does the IMF's governance structure allow it to achieve traction and impact?
- ▶ Has the IEO helped enhance transparency and the IMF's external credibility?
- ▶ How can the IEO's impact be further enhanced?
- ▶ What topics should the IEO consider for future evaluations?

THANK YOU!
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