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

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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**

**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

**US**
- **GDP Share (Market)**
  - 2008: 25, 2016: 22
  - 2008: 15, 2016: 13
  - 2008: 20, 2016: 18
- **GDP Share (PPP)**
  - 2008: 15, 2016: 13
  - 2008: 10, 2016: 8
  - 2008: 12, 2016: 10
- **Quota Share**
  - 2008: 12, 2016: 10
  - 2008: 9, 2016: 7
  - 2008: 11, 2016: 9

**Euro area**
- **GDP Share (Market)**
  - 2008: 25, 2016: 22
  - 2008: 15, 2016: 13
  - 2008: 20, 2016: 18
- **GDP Share (PPP)**
  - 2008: 15, 2016: 13
  - 2008: 10, 2016: 8
  - 2008: 12, 2016: 10
- **Quota Share**
  - 2008: 12, 2016: 10
  - 2008: 9, 2016: 7
  - 2008: 11, 2016: 9

**China**
- **GDP Share (Market)**
  - 2008: 5, 2016: 4
  - 2008: 10, 2016: 8
  - 2008: 12, 2016: 10
- **GDP Share (PPP)**
  - 2008: 5, 2016: 4
  - 2008: 10, 2016: 8
  - 2008: 12, 2016: 10
- **Quota Share**
  - 2008: 2, 2016: 1
  - 2008: 5, 2016: 4
  - 2008: 7, 2016: 6

**Other BRIC**
- **GDP Share (Market)**
  - 2008: 2, 2016: 5
  - 2008: 10, 2016: 8
  - 2008: 12, 2016: 10
- **GDP Share (PPP)**
  - 2008: 2, 2016: 5
  - 2008: 10, 2016: 8
  - 2008: 12, 2016: 10
- **Quota Share**
  - 2008: 2, 2016: 5
  - 2008: 10, 2016: 8
  - 2008: 12, 2016: 10
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 \(\frac{1}{2}\) percent of total) but subject to same control process
- External reviews every five years
### IEO Strategic Focus — “Less is More”

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

- 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

Source: Eighth Periodic Monitoring Report.
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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