

EB/EVC/08/11

September 18, 2008

To: Members of the Evaluation Committee
(Mr. Moser, Chairman; Mr. Alazzaz, Mr. Gakunu, Mr. Kishore,
Mr. Murray, Mr. Nogueira Batista, Mr. Sadun, and Mr. Silva-Ruete)

From: Padma Gotur, Committee Secretary

Subject: **2008 Annual Report of the Independent Evaluation Office (IEO)**

On behalf of Mr. Moser, Chair of the Evaluation Committee, attached is a copy of the 2008 Annual Report of the Independent Evaluation Office (IEO) for the **information** of Committee members and other Executive Directors.

The Annual Report will be posted shortly on the IEO's website and the extranet.

Att: (1)

Other Distribution:
Members of the Executive Board

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Production: IMF Multimedia Services Division
Cover design: Andrew Sylvester

ISBN 978-1-58906-692-2

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The following conventions are used in this and other IEO reports:

- In tables, a blank cell indicates “not applicable,” ellipsis points (. . .) indicate “not available,” and 0 or 0.0 indicates “zero” or “negligible.” Minor discrepancies between sums of constituent figures and totals are due to rounding.
- An en dash (–) between years or months (for example, 2005–06 or January–June) indicates the years or months covered, including the beginning and ending years or months; a slash or virgule (/) between years or months (for example, 2005/06) indicates a fiscal or financial year, as does the abbreviation FY (for example, FY2006).
- “Billion” means a thousand million; “trillion” means a thousand billion.
- “Basis points” refer to hundredths of 1 percentage point (for example, 25 basis points are equivalent to $\frac{1}{4}$ of 1 percentage point).

As used in these publications, the term “country” does not in all cases refer to a territorial entity that is a state as understood by international law and practice. As used here, the term also covers some territorial entities that are not states but for which statistical data are maintained on a separate and independent basis.

Some of the documents cited and referenced in IEO reports are not available to the public at the time of their publication. Under the current policy on public access to the IMF’s archives, some of these documents will become available five years after their issuance. They may be referenced as EBS/YY/NN and SM/YY/NN, where EBS and SM indicate the series and YY indicates the year of issue. Certain other documents are to become available 10 to 20 years after their issuance, depending on the series.

Message from the Director



This fifth *Annual Report* describes the activities of the Independent Evaluation Office (IEO) during the year to April 30, 2008. This period saw the completion of two evaluations, “Structural Conditionality in IMF-Supported Programs” and “Governance of the IMF,” the reports on which have also been discussed by the Executive Board of the IMF. For the Structural Conditionality evaluation the Executive Board also subsequently discussed the Management Implementation Plan (MIP), prepared by IMF staff in response to the Board-endorsed recommendations arising from that report.

The Executive Board also had a number of other discussions related to IEO reports in FY2008. The report of the evaluation of “IMF Exchange Rate Policy Advice,” which was completed in FY2007, was initially discussed by the Executive Board in May 2007, and the MIP was discussed in September 2007. The Board also discussed the MIP for the evaluation of “The IMF and Aid to Sub-Saharan Africa” in June 2007.

FY2008 saw the realization of a new framework for following up on, and monitoring, the implementation of IEO recommendations approved by the IMF Executive Board. As highlighted above, this framework includes the production of MIPs in response to Board-endorsed recommendations arising from IEO reports, as well as a Periodic Monitoring Report (PMR) on the state of implementation of previous recommendations. This new framework is discussed in more detail in Chapter 1 of this *Annual Report*.

Chapter 2 of the *Annual Report* summarizes the findings and recommendations of the evaluations “Structural Conditionality in IMF-Supported Programs” and “Governance of the IMF.” The chapter also highlights the Executive Board’s assessment of those evaluation reports, as well as providing an overview of the MIP for the Structural Conditionality evaluation. In addition, the chapter includes details on various Executive Board discussions of the reports “The IMF and Aid to Sub-Saharan Africa” and “IMF Exchange Rate Policy Advice” which took place in FY2008.

Chapter 3 presents messages, issues, and themes that are common to many of our evaluations. The central message coming from the IEO’s work in FY2008 is the need to better manage institutional change at the IMF. The recently completed evaluation on “Governance of the IMF” calls for major changes in the governance of the IMF to strengthen its relevance and accountability and allow it to continue to play a central role in global financial and monetary matters into the future. Other cross-cutting lessons from our reports in FY2008, some of which have also been highlighted in previous years’ reports, include the need for greater clarity about the goals of various IMF initiatives and properly aligned external communications, the importance of strengthening partnerships with other international financial institutions and donors, and the desirability of clear metrics to facilitate the assessment of the impact of IMF’s policy advice.

Finally, Chapter 4 discusses ongoing projects and the process leading to the identification of topics of future evaluations.

A handwritten signature in dark ink, appearing to read 'T. Bernes', written over a light background.

Thomas A. Bernes
Director
Independent Evaluation Office

Overview of Developments in Financial Year 2008

The financial year 2008 saw the production of evaluation reports on “Structural Conditionality in IMF-Supported Programs” and “Governance of the IMF.” The Structural Conditionality report was discussed by the Board in FY2008, the Governance report in May 2008. FY2008 also saw Executive Board discussions related to the reports on “The IMF and Aid to Sub-Saharan Africa” and “IMF Exchange Rate Policy Advice.”

Increased Accountability

The IEO has long been mindful of the need to ensure effective follow-up on specific IEO recommendations. This issue was raised in the report of the External Evaluation of the IEO,¹ where the panel noted the problem that “there is no formal mechanism for the Board to follow-up specific recommendations made by the IEO.”

In previous IEO *Annual Reports* a summary has been provided of all IEO recommendations, the Executive Board’s response, and a factual indication (provided by IMF staff upon request of the IEO) of any additional steps taken since the Board discussion of the evaluation report. The External Evaluation noted however that “since the annual report is not discussed formally by the Board, the IEO’s findings regarding implementation—or not—are likely to pass unnoticed by many Directors.”

This process has taken a significant step forward in FY2008, with the realization of a new framework for following up on, and monitoring, the implementation of IEO recommendations approved by the IMF Executive Board. Following agreement in the Executive Board in January 2007 to a more systematic approach and stronger monitoring of the implementation of Board-endorsed IEO recommendations, FY2008 saw the production of the first Management Implementation Plans (MIP) by IMF staff in response to Board-endorsed recommendations arising from IEO reports, and the

first Periodic Monitoring Report (PMR) by IMF staff on the state of implementation of previous recommendations. The IEO welcomes this new framework as an important step forward in maintaining an effective institutional accountability framework, as well as promoting a strong learning culture at the IMF. This new framework improves on the previous process by ensuring that the Executive Board now has the ownership and the accountability for the monitoring of those recommendations it endorses, as was recommended by the External Evaluation.

This is however an evolving process, and there is always room for improvement. At the Executive Board discussion of the first PMR in January 2008, it was highlighted that the IEO has the option to include or refer to the staff’s monitoring assessments in its *Annual Report*, with clear acknowledgment of any such staff work. The IEO may therefore come back to this issue in future *Annual Reports*.

The Executive Board discussion of the first PMR took place in January 2008.² Since this was the first PMR it reviewed the implementation of all Board-endorsed IEO recommendations made from the first ten IEO evaluations, and provided a list of those recommendations that IMF staff viewed as outstanding, together with remedial measures.³ Directors agreed in that discussion that the IEO’s recommendations have had a substantial impact on how the Fund operates, and welcomed that the lessons have generally been absorbed and the recommendations substantially implemented.

One important issue highlighted in the January 2008 Executive Board discussion of the first PMR was that the Board called on the IMF staff to produce well-defined and measurable criteria to gauge better the progress in implementing IEO recommendations. The

²The report can be found at <http://www.imf.org/external/np/sec/pn/2008/pn0825.htm>.

³Since only a short period has elapsed since the three most recent evaluations, namely, “The IMF and Aid to Sub-Saharan Africa,” “IMF Exchange Rate Policy Advice,” and “Structural Conditionality in IMF-Supported Programs,” it was agreed by the Executive Board that progress on the implementation of the Board-endorsed recommendations contained in these evaluations would be reported in the next PMR.

¹The report can be found at <http://www.ieso-imf.org/about/evaluation.html>.

Board also considered that monitoring would benefit from greater specificity and clarity of the follow-up actions required—including in their formulation in Board discussions, their recording in Board summings up, and their articulation by Management in MIPs.

In FY2008 the Executive Board discussed the first MIPs. These were for “The IMF and Aid to Sub-Saharan Africa,” “IMF Exchange Rate Policy Advice,” and “Structural Conditionality in IMF-Supported Programs.” The last of these was prepared in April 2008 and discussed the following month. These reports and discussions are detailed in Chapter 2.

Budget and Staffing

In FY2008 the budget was spent nearly in full (Appendix 1), with the execution rate reaching 94 percent of the approved budget. The FY2009 budget for the IEO must be seen in the context of a significant downsizing of the IMF staff and the offices of the Executive Directors, where the budgetary envelope for financial years 2009–11 implies substantial real savings in administrative expenditures of more than 13½ percent over the medium term. The IEO budget approved for FY2009 stands at \$4.8 million, a 2.8 percent nominal increase (a cut in real terms of about 1.2 percent). The IEO will phase in the loss of one full-time regular staff economist position during FY2009. This decrease means that by FY2010 the IEO will have a regular complement of 12 positions. On a full year basis, the total budget would decrease by 4.2 percent in real terms from FY2008.

The budgetary reductions since FY2006 will have a significant impact on IEO output going forward. Given the constrained budget environment, the IEO revised its work plan underlying the approved budget. The office will attempt, to the extent possible, to work on three evaluations at any point in time, and to complete about two evaluations per year. The number of projects actually completed will depend on their complexity and scope.

Discussions of the IEO’s human resource policies took place in FY2008, which followed up on recommendations made by the External Evaluation of the IEO. These discussions gave rise to some specific changes in IEO staffing policies. First, in September 2007, the Executive Board agreed to amend the terms of reference for the Director of the IEO, and the terms and conditions of appointment for noncontractual employees of the IEO. The more significant elements of the amend-

ments have the effect of: (1) excluding administrative and staff assistants from the requirement that regular positions in the IEO can be limited to a maximum of six years, which is designed to ensure institutional continuity; and (2) removing the minimum initial appointment for noncontractual employees, aimed at relieving the constraints on the recruitment from both the outside and inside the IMF in specific circumstances.

Second, responding to the External Evaluation recommendation that outside IEO hires have a cooling-off period of at least one or two years before they can take a position with the IMF, discussions were held in the Evaluation Committee to decide on the best way to maintain the right incentives for external candidates to seek IEO employment, while being mindful of the need to maintain the actual and perceived independence of the IEO. Following these discussions, in May 2008 the Executive Board agreed that any IEO project leader hired in the future from outside the IMF staff (i.e., with no employment rights to join the IMF staff) would be expected to have a cooling-off period of 12 months before he or she could be employed as an IMF staff member. Since the IEO’s inception, no project leader has so far applied to join the IMF. IEO hires from outside the IMF have no automatic right of IMF staff employment, which means that this policy will have to be implemented by the IMF Management. Updated administrative documents pertaining to the governance of the IEO have been posted on the IEO’s website.

Outreach and Communication Activities

The IEO engages in external outreach activities to disseminate its evaluation findings to a wide audience. The IEO has continued to build on the revamped outreach and communication activities detailed in the 2007 *Annual Report*, which included a new website, active management of the e-mail subscriber list, and the publication of a biannual newsletter. The IEO has now experimented with publishing the biannual newsletter in eight different languages. Given its importance and relevance to the whole membership, the IEO report on “Governance of the IMF” has also been made available in eight languages.

Various outreach events are organized to discuss the work of the IEO, and they are detailed in Appendix 2.

Recently Completed Evaluations

In FY2008, two evaluations were completed, and were subsequently discussed by the Executive Board of the IMF. These were “Structural Conditionality in IMF-Supported Programs” and “Governance of the IMF.” For the Structural Conditionality evaluation the Executive Board also discussed the MIP in response to Board-endorsed recommendations arising from that report.

The Executive Board also had a number of other discussions related to IEO reports in FY2008. The report of the evaluation of “IMF Exchange Rate Policy Advice,” which was completed in FY2007, was initially discussed by the Executive Board in May 2007, and the MIP was discussed in September 2007. The Board also discussed the MIP for the evaluation of “The IMF and Aid to Sub-Saharan Africa” in June 2007.

Structural Conditionality in IMF-Supported Programs

Against the backdrop of continuing debate over the use and effectiveness of structural conditions, the IEO evaluated the use of structural conditionality in IMF-supported programs. The evaluation focused on two distinct issues: the effectiveness of structural conditionality at bringing about lasting economic change and the impact of the 2000 streamlining initiative to achieve greater focus in the use of conditionality in Fund arrangements.

The evaluation found that during the period 1995–2004 there was extensive use of structural conditionality in IMF-supported programs, with an average of 17 conditions per program/year. Most of these conditions had little structural depth and only about half of them were met on time. Compliance was only weakly correlated with subsequent progress in structural reform. Ownership of the reform program by the economic team and by the line ministries in charge of the specific measures was necessary both for compliance and for continuity of the reform. Compliance and effectiveness were higher in the areas of IMF core competency,

such as public expenditure management and tax-related issues, and lower in areas such as privatization and reform of the wider public sector.

The evaluation also found that the streamlining initiative did not reduce the volume of conditionality, partly because structural conditions continued to be used to monitor other initiatives such as donors’ support programs and the European Union accession process. But it helped to shift the composition of conditionality toward IMF core areas and new areas of basic fiduciary reform. At the same time, the IMF moved away from controversial areas where it had little impact and that largely fall within the World Bank’s areas of expertise. Nonetheless, Fund arrangements still included conditions that seem not to have been critical to program objectives.

Recommendations arising from the evaluation included reaffirming the need to reduce the volume of structural conditionality. As a practical first step, the evaluation argued that a notional cap could be set, possibly at four or five conditions per year—half the current average for performance criteria and prior actions. The evaluation also proposed that the use of structural benchmarks should be discontinued and measures with low structural content should not be part of conditionality. Normally, conditionality should be restricted to the core areas of IMF expertise. In other critical areas such as the wider public sector, the IMF should play a subsidiary role to that of the World Bank, which has greater expertise in these areas. Explicit Board guidance would be needed when reforms in noncore areas are deemed critical but effective cooperation with the Bank is unlikely to crystallize in time. The evaluation recommended that the Fund develop a monitoring and evaluation framework linking conditions to reforms and goals, which would provide a more robust basis for assessing program results. Program documents should explain how the proposed conditionality is critical to achieve explicit objectives. For Poverty Reduction and Growth Facility programs in particular, requests should be accompanied by an operational roadmap covering the length of the program, explaining the proposed reforms, their sequencing, and expected impact.

Executive Board discussion and follow-up

The Executive Board discussed the report in December 2007. Directors broadly agreed with the IEO's findings, and noted that the IEO assessment gives a useful impetus to the ongoing effort to make the Fund more focused and relevant. However, not all of the specific recommendations were endorsed by Executive Directors.

The MIP⁴ was released in April 2008. In its discussion in May 2008, the Executive Board generally considered that the plan laid out an appropriate strategy, and that "its specificity and compactness would facilitate the monitoring of its implementation."

Governance of the IMF

The IEO evaluation "Governance of the IMF" assessed the degree to which Fund governance is effective and efficient, and whether it provides sufficient accountability and channels for stakeholders to have their views heard. The focus was on institutional structures as well as on the formal and informal relationships between the Fund's main bodies of governance: the Executive Board, Management, and the International Monetary and Financial Committee (IMFC). The evaluation noted that for much of the past six decades, gradual reforms in its governance allowed the IMF to remain relevant in a changing world economy. But the reforms have not kept pace with changes in the environment in which it operates. Today, the institution's legitimacy and relevance are being questioned. Much attention has recently been focused on quotas and voting power, but broader governance reform also holds the potential to strengthen the Fund's legitimacy, accountability, and effectiveness. The evaluation found that, overall, effectiveness has been the strongest aspect of Fund governance, allowing fast and consistent action particularly in times of systemic crisis. On the other hand, accountability and voice have been its weakest aspects, which if left unaddressed would likely undermine effectiveness over the medium term.

The evaluation had four broad conclusions and recommendations, and it proposed a series of detailed measures specific to each of the main governance bodies. First, the evaluation found that there is a lack of clarity on the respective roles of the different governance bodies, and in particular between the Board and Management. To strengthen the IMF's effectiveness and to facilitate accountability, the IEO recommended that the roles and responsibilities of each of its governance bodies need to be clarified with a view to minimizing overlaps and addressing possible gaps.

⁴The MIP can be found at <http://www.imf.org/external/np/pp/eng/2008/040808.pdf>.

Second, the evaluation argued that the Fund needs more systematic ministerial involvement. The IMFC, as an advisory body, lacks a mandate for setting strategic directions and providing high-level oversight of the institution. To fulfill these functions, the evaluation called for the activation of the Council, as contemplated in the Articles of Agreement, which should operate with a high degree of consensus, perhaps through the use of special majorities.

Third, the evaluation found that the Board's effectiveness is hindered by excessive focus on executive, rather than supervisory, functions. The evaluation recommended that the Board should reorient its activities towards a supervisory role, playing a more active part in formulating strategy, monitoring policy implementation to ensure timely corrective actions, and exercising effective oversight of Management. To this end, the Board would need to change many of its working practices, shifting away from executive, day-to-day operational activities, including through more delegation to committees and possibly to Management.

Finally, the evaluation called for a framework to be put in place to hold Management accountable for its performance, noting that work is under way to set up such a framework, which should specify criteria and a process for regular assessments.

Joint Statement by the Executive Board and the IMF Managing Director

Following the Executive Board's discussion of the report in May 2008,⁵ the Executive Board and the IMF Managing Director, Dominique Strauss-Kahn, made a statement⁶ responding to the report. They welcomed the IEO report "as a very useful contribution to their efforts to help strengthen the Fund's governance." They also emphasized that "many of the issues raised by the report are complex, interrelated, and need to be discussed holistically. They will take time to address. The report's findings should thus be seen as the beginning of a broader discussion. This discussion will require the engagement of all parties at many different levels involving not only the Executive Board and Management, but also the Fund's membership and other stakeholders more broadly." The statement also noted that "we are committed to working together in the coming months to build on this discussion with a view to developing broadly shared ideas among the membership that will enable us to advance further in building a stronger more effective IMF."

⁵While the date of the statement falls into FY2009, it has been included in this report for completeness.

⁶The statement can be found at <http://www.imf.org/external/np/sec/pr/2008/pr08121.htm>.

The IMF and Aid to Sub-Saharan Africa

On June 29, 2007, the Executive Board discussed the MIP⁷ for the evaluation “The IMF and Aid to Sub-Saharan Africa.” In the discussion, Directors reaffirmed that the IEO report had provided “a valuable input into the process of adapting and clarifying the Fund’s work in this area, and noted the relevance of Fund-Bank collaboration.” Directors also supported the intention to build on a number of distinct but complementary work streams, key elements of which they noted were already in the IMF’s work plan.

IMF Exchange Rate Policy Advice

The Executive Board’s discussion of the report on the evaluation of “IMF Exchange Rate Policy Advice” took place in May 2007. While statements issued by the staff

and Management were critical of the report,⁸ Executive Directors welcomed it. They broadly endorsed the conclusion that during 1999–2005 the Fund was not as effective as it needs to be in some important aspects of the Fund’s exchange rate policy advice, and that the Fund should aim at enhancing the effectiveness of its analysis, advice, and dialogue with member countries, as well as address any perception of asymmetry in its exchange rate surveillance.

In September, 2007, the Executive Board discussed the MIP⁹ arising from that report. In their discussion, Directors agreed that “the implementation plan constitutes a broadly appropriate strategy to address the Board-endorsed IEO recommendations, and is a tangible step forward in the Fund’s efforts to improve its surveillance.”

⁷The MIP can be found at <http://www.imf.org/external/np/sec/pn/2007/pn0793.htm>.

⁸Their comments can be found at http://www.ieso-imf.org/eval/complete/eval_05172007.html.

⁹The MIP can be found at <http://www.imf.org/external/np/pp/2007/eng/081607.pdf>.

Cross-Cutting Themes

Previous IEO *Annual Reports* have identified common themes emerging from earlier evaluations. Four themes have been emphasized in particular; they are the need for:

- (1) better management of institutional change at the IMF;
- (2) greater clarity about the goals of various IMF initiatives and a properly aligned external communications policy;
- (3) the IMF to strengthen partnerships with other international financial institutions (IFIs) and donors;
- (4) clearer metrics for the assessment of the impact of IMF's policy advice and whether the IMF is meeting its commitments to countries.

All of these themes remain relevant, and have also been central to the IEO evaluations published in the last year. A fifth theme has also become evident in the last twelve months, and which is closely related to (1), (3), and (4) above, and that is *the need for the IMF to be more explicit about who is accountable for what, and to whom*. The recent evaluation "Governance of the IMF" found that there is a lack of clarity on the respective roles of the different governance bodies, and that to strengthen the IMF's effectiveness and to facilitate accountability, the roles and responsibilities of each of its governance bodies need to be clarified with a view to minimizing overlaps and addressing possible gaps. The IEO's focus is now explicitly on recognizing the different roles of shareholders and the Executive Board in setting policies, and staff in implementing them, with IMF Management as the crucial intermediary.

The theme of needing to better manage institutional change at the IMF has become more central to the findings of the IEO's work since it was identified in a number of previous evaluations. This is one of the key messages from the recently completed evaluation on "Governance of the IMF," which explicitly assesses the degree to which Fund governance is effective and efficient, and whether it provides sufficient accountability and channels for stakeholders to have their views

heard. The evaluation calls for major changes in the governance of the Fund to strengthen its relevance and accountability and allow it to continue to play a central role in global financial and monetary matters into the future. As outlined in Chapter 3, the report on "Governance of the IMF" makes a number of recommendations that address this critical issue of how institutional change can be better managed at the IMF.

The need for better clarity about the goals of various IMF initiatives, which was previously highlighted in a large number of evaluations, including "The IMF and Aid to Sub-Saharan Africa" and "The IMF's Role in PRSPs and the PRGF," was also a finding of the evaluation of "Structural Conditionality in IMF-Supported Programs," which emphasized that IMF staff needed to do more to work with country authorities to identify clearly the main goals of each program and to set structural conditions that contribute significantly to these goals. The evaluation also noted that resistance to and stigma linked to IMF conditionality reflect in part the public's lack of knowledge and understanding about the different sources and types of conditions. That evaluation concluded that the IMF should make a greater outreach effort to clarify these issues. This builds on the finding in the evaluation of "IMF Exchange Rate Policy Advice," which noted the inadequate appreciation of the formal role of the IMF in exchange rate surveillance, and the deleterious effect this has had on the effectiveness of the IMF's advice.

Previous evaluations have highlighted that *the IMF needs to strengthen partnerships with other international financial institutions and donors*. This was, for example, a key finding of those evaluations with implications for low-income countries, notably "Fiscal Adjustment in IMF-Supported Programs," "The IMF's Role in PRSPs and the PRGF," "IMF Technical Assistance," and "The IMF and Aid to Sub-Saharan Africa," all of which have highlighted the importance of effective partnerships. The recently completed evaluation of "Structural Conditionality in IMF-Supported Programs" also made this point, highlighting the need for better cooperation with the World Bank. In this case, the evaluation argued that the sustainability of structural reforms and macroeconomic adjustments often

depends on changes in a country's wider public sector and on restructuring of quasi-fiscal expenditures. In setting structural conditionality in these areas the IMF should play a subsidiary role to that of the World Bank, which has primary responsibility and greater expertise in these areas. The report went on to highlight that the Management of both organizations should consider means to help country authorities to diagnose constraints and prepare homegrown strategies for reform. Explicit Board guidance would still be needed in instances in which policy changes in noncore areas are deemed critical but effective cooperation with the Bank is unlikely to crystallize in time.

The evaluation of "Structural Conditionality in IMF-Supported Programs" also argued that the *assessment of whether structural conditionality in Fund arrange-*

ments was effective is complicated by the lack of an agreed framework to assess results and accountability, and the consequent lack of some of the necessary information. The evaluation called on the Fund to develop a monitoring and evaluation framework linking conditions in each program to reforms and specified goals, which would provide a more robust basis for monitoring the implementation and evaluation of programs, as well as facilitating learning on what works and what does not. These calls echoed those in previous evaluations, including those on the "IMF's Role in PRSPs and the PRGF" and on "The IMF and Aid to Sub-Saharan Africa," which had noted the absence of clear metrics impedes the assessment of the impact of IMF's policy advice and whether the IMF is meeting its commitments to countries.

Ongoing Projects and the Future Menu of Topics

The IEO is currently engaged in the preparation of two evaluation projects: “The IMF’s Interactions with Its Member Countries” and “The IMF’s Approach to International Trade Policy Issues.” One other evaluation, “The IMF’s Research Agenda,” is expected to commence in FY2009. Table 4.1 shows the status of the various evaluations completed, in progress, or in the work program of the IEO. The IEO has now begun a transparent consultation process with the IMF’s Executive Board, Management, and staff, as well as external stakeholders to identify a set of topics to be added to the office’s pipeline in FY2009. This chapter details those evaluations currently in progress.

The IMF’s Interactions with Its Member Countries

To achieve its objectives, the IMF depends in large part on having effective interactions with member countries. Interactions, in this context, are defined to include exchanges of information, analysis, and views between IMF officials and country authorities, or other people or entities in member countries. The evaluation will examine whether the interactions between the IMF and its member countries, carried out in different circumstances and for various objectives, have been effective and well managed. It will cover the period 2001 to early 2008.

There are motivations for evaluating the IMF’s interactions with member countries at this time, besides their inherent importance to the institution’s effectiveness. First, evidence from a variety of sources—including country authorities and civil society—suggests that these interactions could be improved. Both the importance of the interactions and their shortcomings have been recurrent themes in previous evaluations by the IEO, as well as in comments by country authorities, civil society, and academics. Frustrations have also been expressed by IMF staff. Second, the nature of IMF interactions with member countries has evolved in recent years, reflecting changes in policies and pri-

orities, and more changes are in prospect; the ways in which change has been managed is itself an important topic.

The evaluation questions respond to issues raised about the effectiveness of interactions by country authorities and others. Authorities’ views on what has been successful and unsuccessful were sought in confidential interviews. In addition, in examining various criticisms of the interactions and determining the extent of their validity, the evaluation will take account of concerns that have been made public, as well as the changes in Fund policies that have taken place in recent years. The success or otherwise of the new approaches and priorities, some of which have been adopted in response to previous criticisms, is an important aspect of the evaluation.

The evaluation will also examine how the IMF’s interactions have been managed. A key element is to determine *how* adaptations are made to changing priorities, changing country circumstances, and feedback from partners, especially the country authorities. In this respect, the way in which other institutions have managed country or “client” relationships could be relevant and instructive, including the balance between management from head office and by local presence.

The effectiveness of interactions will be evaluated against various criteria. These include criteria based on the guidance provided to IMF staff, issues considered important by country authorities, and additional criteria that may be suggested by referring to policies and practices in other institutions. Two aspects will be examined in particular—the clarity of the purpose and scope of interactions, and the quality of the interactions. The evaluation will assess the IMF’s management of interactions against two metrics: (1) the Fund’s own policies for managing interactions; and (2) the policies and practices of other institutions, and some models of what best practice might be in this area.

The evaluation will be based on evidence provided by seven main elements: a description of the mandate, policies, and guidance governing the IMF’s interactions with member countries; an account of the IMF’s process for managing the interactions with its mem-

Table 4.1. Completed and Ongoing IEO Work Program

Project	Status ¹
Initial round of evaluation projects	
Prolonged Use of IMF Resources	Completed (August 2002)
The IMF and Recent Capital Account Crises (Indonesia, Korea, Brazil)	Completed (May 2003)
Fiscal Adjustment in IMF-Supported Programs	Completed (July 2003)
Additions to work program ²	
FY2004	
The IMF and Argentina, 1991–2001	Completed (July 2004)
Poverty Reduction Strategy Papers/ Poverty Reduction Growth Facility	Completed (June 2004)
IMF Technical Assistance	Completed (January 2005)
FY2005	
The IMF's Approach to Capital Account Liberalization	Completed (April 2005)
IMF Assistance to Jordan	Completed (October 2005)
Financial Sector Assessment Program	Completed (November 2005)
Multilateral Surveillance	Completed (March 2006)
FY2006	
Structural Conditionality in IMF-Supported Programs	Completed (October 2007)
The IMF and Aid to Sub-Saharan Africa	Completed (January 2007)
IMF Exchange Rate Policy Advice	Completed (March 2007)
FY2007	
Governance of the IMF	Completed (April 2008)
The IMF's Interactions with Its Member Countries	In progress
The IMF's Approach to International Trade Policy Issues	In progress
The IMF's Research Agenda	To commence in FY2009

¹The date refers to the time the completed report was, or is expected to be, circulated to the Evaluation Committee of the Executive Board.

²Refers to the fiscal year in which the projects were first added to the work program.

bers; a description, using data from IMF internal sources, of how the interactions with member countries evolved over the evaluation period; a review of other institutions' policies and practices for conducting interactions; opinion surveys of country authorities, civil society, and IMF staff and Executive Directors; and a study of interactions in about 40–50 countries, involving interviews with staff and country authorities; and thematic studies of interactions in a few countries. The evidence, triangulated from various perspectives, will be distilled into a short overview report containing the main findings and recommendations.

The IMF's Approach to International Trade Policy Issues

The IMF's involvement in trade policy issues for well over 25 years has been a source of controversy. It is widely accepted that Article I(ii) of the IMF's Articles of Agreement, imbuing the IMF with the responsibility "to facilitate the expansion and balanced growth of international trade," provides the mandate for its involvement in issues affecting international trade. The mandate is reinforced by references in Article IV

to members' obligations on economic policies in collaborating with the Fund to assure orderly exchange arrangements and in Article V to the IMF's role in assisting members in solving balance of payments problems. But in contrast to exchange rate arrangements and the system of exchange rates, international trade is not under the regulatory jurisdiction of the IMF. Thus, the mandate is less definitive on the specific nature of the IMF's involvement in trade issues than on its role in exchange rate policy.

The relatively soft mandate for IMF involvement in trade policy issues leaves substantial scope for disagreement on whether the IMF has overstepped its proper role on trade policy or not done enough. Moreover, reflecting a fundamental orientation toward furthering free trade, the IMF's involvement in trade policy issues has at times stoked the debate on whether steps toward freer trade are always beneficial for the country concerned or if developmental objectives (particularly in low-income countries) would be better served by programs more tailored to country-specific circumstances. Alongside this debate are charges that IMF advice is not even-handed and pushes harder on developing countries (typically the borrowers from the IMF) than on advanced countries to reduce protectionism. In

recent years, with the increasing complexity of trade policy issues, questions about whether IMF staff have the capacity to address trade policies sufficiently systematically have also arisen.

The evaluation will focus on the clarity and conduct of the IMF's role in trade policy advice and advocacy. It will aim to move beyond the question of whether the IMF's role should be more focused and address questions of whether interpretation of the mandate for involvement in trade policy is well based and clear; whether critics of IMF positions have a solid basis and where the IMF's comparative advantage in trade policy issues lies; how well the IMF has adapted to the establishment of the World Trade Organization (WTO); and whether the IMF's trade policy advice is effective. In its conclusions, the evaluation will consider possible improvements in how the IMF defines its role and executes trade policy advice.

The evaluation will assess the IMF's work on trade within the standard results-chain framework of inputs, outputs, and outcomes. Inputs consist of IMF internal processes such as the guidance provided for trade work by the Board and Management, and research and analysis—from inside and outside the IMF—that focus and challenge the IMF's advice on trade policy. Outputs are defined as assessments, analyses, and communication, in surveillance reports, program documents, technical assistance reports, policy dialogues, communiqués, speeches, and statements, among others. Both inputs and outputs are, to a large extent, within the control of the IMF; thus, IMF accountability for their quality is high. Moving along the results chain, the degree of IMF accountability for results becomes increasingly affected by other factors. Outcomes are defined as country authorities' reception of IMF trade policy advice and changes in trade policies and the trade environment in general.

The evaluation will cover the period since the establishment of the WTO—1996–2007—but may go back further for some questions and focus on the more recent past for others. The main instruments of the evaluation will be desk reviews of policy documents and guidelines issued to staff, Article IV and program documents, Executive Board minutes, and advocacy and outreach items. There will also be case studies of the IMF's involvement with individual countries (or country groupings) and/or trade policy issues that cut across countries (or country groupings). These will be supplemented by surveys and interviews of current and former IMF, WTO, and World Bank staff as well as government and non government representatives (including the media).

The IMF's Research Agenda

Seven years ago, a group of independent experts evaluated the IMF's economic research activities. At that time, the Executive Board agreed with the group's finding that there was “substantial room for improvement in the overall quality of the IMF's research.” Among other conclusions, Directors endorsed the recommendation that the mix of research conducted at the IMF would need to be directed more to areas where it could add the most value and agreed that it could be integrated to a greater extent into policy work—an assessment that has also been shared by external critics of the IMF. The evaluation would be a follow up exercise and look at two areas.

- First, the evaluation would examine the way in which research topics are selected and priorities imposed across the IMF, and the extent to which the recommendation has been carried out to direct research more to areas where it could add the most value and be better integrated into policy work. This will focus both on the use of research for technical assistance purposes, and also in aspects of policy review, dialogue and in recommendations made to member countries. In order to do this, an analysis of the research conducted by all departments in the IMF would be undertaken, using as a starting point the work performed by the existing interdepartmental Research Committee. The evaluation would attempt to identify which pieces of research had been particularly relevant and influential for the country and policy work of the IMF. In addition, a survey of staff and country officials would try to elicit whether some topics could have received greater priority. Given the attempt to streamline and focus IMF activities in recent years, and to seek ways to save costs—issues that will be of even greater importance in the years to come—the evaluation would explore the extent to which decisions on research topics are guided by the opportunities to rely on research conducted outside the IMF, either at other institutions such as the World Bank and the Organization for Economic Cooperation and Development, or in academia.
- Second, the evaluation will investigate aspects of the quality (as opposed to the scope and relevance) of IMF research. The process by which IMF research is supervised and vetted would be examined. The views on a sample of research would be sought from a panel of external experts. Issues such as the degree of innovation and the consistency with first best methodology would be studied.

Appendix I

Administrative Budget: Independent Evaluation Office

(In current U.S. dollars)

	FY2007		FY2008		FY2009
	Budget	Outturn	Budget	Outturn ¹	Approved budget
Total	4,530,786	4,483,619	4,621,402	4,333,799	4,750,642
Regular staff allocation	3,074,600	2,974,050	3,182,800	2,773,017	3,243,450
Discretionary budget	1,456,186	1,509,569	1,438,602	1,560,782	1,507,192
<i>Of which</i>					
Contractual services (including overtime)	825,067	959,708	815,104	1,106,886	791,359
Business travel and seminar program	483,299	423,024	477,463	361,386	557,544
Publications	135,820	108,173	134,180	61,730	140,565
Other fungible budgets	12,000	18,664	11,855	30,780	17,724

¹IEO estimates.

Appendix 2 Outreach Activities in FY2008

June 13–15, 2007, Gothenburg, Sweden

IEO Director's attendance at workshop on civil society and governance

July 25, 2007, Ottawa, Canada

IEO Director's attendance at workshop at the Bank of Canada

July 29–31, 2007, Maputo, Mozambique

IEO Director's attendance at African Caucus meeting

August 4–8, 2007, Accra, Ghana

IEO Director's attendance at Bank of Ghana's 50th Anniversary symposium

November 7–8, 2007, Berlin, Germany

IEO/InWent Seminar

November 24–27, 2007, Tokyo, Japan

Joint seminar with ADBI on exchange rate policy

November 28–30, 2007, Beijing, China

To meet with authorities on various IEO issues

December 3–4, 2007, Singapore, Singapore

Joint Seminar with National University of Singapore on exchange rate policy

December 5–8, 2007, Sydney and Canberra, Australia

To meet with authorities on various IEO issues

January 9–10, 2008, Oslo, Norway

Conference on IMF structural conditionality

January 15–18, 2008, Singapore, Singapore

IEO Director's attendance at conference on IMF reform

January 28, 2008, Santiago, Chile

CEPAL conference

March 4–5, 2008, Paris, France

IEO Director's meetings with OECD

March 6, 2008, London, United Kingdom

IEO Director's participation in Independent Advisory Committee on Development Impact (IACDI) meeting

April 20–26, 2008, Tunis, Tunisia

IEO Director's attendance at Evaluation Cooperation Group (ECG) meetings

April 27–May 1, 2008, Tunis, Tunisia

Presentation of structural conditionality report to AfDB Board