

**IMMEDIATE
ATTENTION**

EBAP/08/128

September 29, 2008

To: Members of the Executive Board

From: The Secretary

Subject: **Progress Report on the Activities of the Independent Evaluation Office**

The attached progress report on the activities of the Independent Evaluation Office was reviewed by the Evaluation Committee on a lapse of time basis. In the absence of a request by the **close of business on Thursday, October 2, 2008** that this matter be brought to the Board's agenda, the attached report will be made available to the International Monetary and Financial Committee, and posted to the Fund's external website.

Questions may be referred to Mr. Bernes (ext. 39980), Mr. Hicklin (ext. 37137), and Mr. Lamdany (ext. 34156) in IEO.

Att: (1)

Other Distribution:
Department Heads

PROGRESS REPORT ON THE ACTIVITIES OF THE INDEPENDENT EVALUATION OFFICE (IEO)

September 29, 2008

1. Since its last report to the IMFC in April 2008, the IEO has released its evaluation report on *Aspects of IMF Corporate Governance—Including the Role of the Board* (thereafter referred to as the *Governance of the IMF*), as well as the 2008 Annual Report. In addition, work is progressing or has been initiated on a number of new topics identified in the last report.
2. The evaluation of the *Governance of the IMF* differs from previous IEO studies in several ways. Its focus is on institutional structures as well as on the formal and informal relationships among the Fund's main bodies of governance, while previous evaluations focused largely on the implementation of policies. It discusses mainly the workings of the Executive Board, Management, and the IMFC, while previous evaluations centered around Management and staff. Finally, because of the nature of the recommendations, follow-up will require stronger involvement of Governors and the authorities of member countries than for other evaluations.
3. The report *Governance of the IMF* assesses the degree to which the governance of the International Monetary Fund is effective and efficient, and whether it provides sufficient accountability and channels for stakeholders to have their views heard. It found that some of the structures and practices that had served the Fund well in the past have become obsolete, both because the Fund has changed and because of changes in the environment in which it operates. Still, the Fund remains relatively effective, especially compared with other international organizations with almost universal membership. On the other hand, accountability and voice have been its weakest aspects, undermining legitimacy and, if left unaddressed, would likely undermine effectiveness.
4. The evaluation has four main conclusions and recommendations, complemented by a series of more specific recommendations directed at each of the governance bodies.
 - First, the roles and responsibilities of each of the governance bodies need to be clarified to minimize overlaps and to address gaps.
 - Second, the evaluation calls for the activation of the Council of Governors and/or Ministers, contemplated in the Articles of Agreement, to set overarching goals and to provide high-level oversight.
 - Third, the Board should reorient its activities, shifting away from day-to-day operational issues 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.

- Finally, a framework needs to be put in place to hold Management accountable for its performance.

Examples of more specific recommendations include: reform the selection process for the Managing Director to make it more inclusive, transparent and not reserved for certain nationalities; make all Executive Board chairs elected chairs; clarify and strengthen the ethics and conflict of interest framework for Board and Management (including by clarifying how they are covered by whistle blower mechanisms); create a Board Audit committee; and improve the summing up process for Board meetings to provide greater clarity about Fund policies and practices.

5. The IMF Executive Board discussed this evaluation on May 21, 2008. Following the discussion, the Board and the IMF Managing Director released a statement welcoming the IEO report as a very useful contribution to their efforts to help strengthen the Fund's governance. It indicated that the report's findings should be seen as the beginning of a broader discussion that will require the engagement not only of the Executive Board and Management, but also of the Fund's membership and other stakeholders more broadly. The Executive Directors and Management indicated their commitment to working together in the coming months to develop broadly shared ideas among the membership to build a stronger, more effective IMF. As part of these efforts, the Dean of the Executive Board established a Working Group of Executive Directors on IMF Corporate Governance that on July 31, 2008, issued a report with recommendations for follow-up on the IEO report and other related initiatives. As an additional follow-up, on September 4, 2008, the Managing Director announced the appointment of a committee of eminent persons to assess the adequacy of the Fund's current framework for decision making and advise on any modifications that might enable the institution to fulfill its global mandate more effectively.

6. The IEO's 2008 Annual Report, released in September, presents a number of messages that have emerged from IEO evaluations. Key among these are the need *to better manage institutional change, to clarify the goals* of various Fund initiatives and to align external communications policy. The IMF needs *to establish clear metrics* to be able to assess the impact of its operations and advice; and it needs *to strengthen its partnerships* with other IFIs and donors. Many of these themes have also been highlighted in previous Annual Reports. The 2008 Annual Report also highlights the need for the IMF *to be more explicit about who is accountable for what and to whom* within the institution. This year's Annual Report no longer includes a matrix with staff description of follow-up on recommendations from previous IEO evaluations. IMF staff now present their description as part of their Periodic Monitoring Report. Also, following each new IEO evaluation, IMF staff produce implementation plans of Board-endorsed IEO recommendations. On May 2, 2008, the Board

discussed the implementation plan arising from the evaluation of *Structural Conditionality in IMF-Supported Programs*.

7. The Issues Paper for the evaluation of the *IMF's Approach to International Trade Policy Issues* was released on June 19, 2008. This study will examine the Fund's advice on trade policy in light of the institution's stated purpose "to facilitate the expansion and balanced growth of international trade." It will assess whether (i) the Fund's objectives are clear; (ii) the advice is well-thought out, unbiased, and consistent across regions and types of countries; and (iii) it is an effective use of Fund expertise. It is expected that the Trade evaluation will be completed before the next meeting of the IMFC. A draft issues paper for the evaluation of *The IMF's Interactions with its Member Countries* was posted on May 15, 2008. Work on this evaluation is expected to be completed by next summer. The evaluation examines whether the interactions between the IMF and its member countries have been effective and well managed. The evaluation will focus on the interaction of the IMF staff with country authorities, though other channels will be examined to the extent they affect this key relationship.

8. Over the coming months, the IEO is planning to launch an evaluation of the Research Agenda of the IMF. On August 5, 2008, the IEO posted on its website a note with a broad list of possible topics for future evaluations, based on suggestions received from outside stakeholders as well as IMF Executive Directors, Management, and staff. The IEO is now consulting widely to decide which projects will be included in the work program for the next few years.

9. Completed evaluations, issues papers for ongoing evaluations, IEO Annual Reports and other documentation, some in seven languages, are now available on the IEO website, www.ieo-imf.org.