

The IEO's Second Decade:

Some Reflections

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Slide 1.

This presentation reflects on experience in the IEO's second decade and aims to set the stage for a discussion of lessons learned from this experience. Ruben Lamdany is my co-author of a more detailed chapter for a book now under preparation on the IEO's second decade, but we have not tried to fully align our views in this presentation.

I will start with a brief primer on the IEO, then lay out the key developments over the second decade, including steps to introduce new evaluation products and to strengthen the follow-up framework.

I will then discuss two key questions arising from our experience: first, what has been the IEO's impact on the Fund, and what scope is there to increase it? Second, how to set the IEO's work agenda and in particular how much attention to pay to current issues of concern.

And I will end up by suggesting some issues for discussion.

Slide 2.

Most of you participating in this conference are already well aware of the IEO, what we do and how we work. But it may be helpful to start with a brief primer.

IEO was established 20 years ago in the wake of the Asia crisis—which also became a crisis for IMF credibility and legitimacy.

Our terms of reference task the IEO with preparing independent and objective evaluations of IMF activities with three goals:

- First, to support Board oversight by evaluating IMF performance in areas of concern.
- Second, to help the IMF as an institution to learn from experience.
- Third, to support the IMF's external credibility by increasing transparency and understanding of what the Fund does.

It's worth recognizing upfront that there may be tensions among these goals particularly the first two, similar to that faced by the Fund more generally between being a ruthless truth teller in offering our assessments and a trusted advisor trying to help the institution learn from experience.

I'd also like to stress that an evaluation office is different from an inspector general or a compliance auditor—the IEO's primary function is not making sure the IMF is following internal rules and procedures in particular cases but to provide an open-ended assessment of how well the IMF as an institution is accomplishing its mandate.

One core principle that allows us to play our role is that the IEO is fully independent of staff and management and has an arms-length relationship with the Board. I am glad to say that this independence is well protected by the governance framework provided by our terms of reference.

Finally, I'd like to emphasize that we are not just about producing interesting reports to sit on a bookshelf but rather fostering institutional change. We are much smaller than counterparts at the World Bank and other MDBs, and produce far fewer reports. But we can have a large impact by being strategic in the issues that we evaluate and having robust follow-up to our reports.

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Looking back over the second decade, the fundamentals of how the IEO works have stayed broadly unchanged. Innovations have focused on adding ways to respond more nimbly to current concerns and reinforce the follow-up process to increase the impact of the IEO's work

Over the decade we have completed 15 evaluations, covering all major areas of the Fund's work, and relevant to all groups of members.

We have added two new products. Evaluation updates were added in 2012 to come back to an evaluation after around ten years to assess progress made in addressing concerns and identify new challenges. And shorter evaluations were introduced in 2019 on a pilot basis to provide more timely input on new issues and concerns. One shorter evaluation has been completed so far, completed in less than a year, rather than the usual 18 months to two years.

Continued efforts have been made to strengthen the follow-up process following evaluations. These include: first, requiring that management implementation plans or MIPs be prepared by staff within six months of the Board discussion. Second, efforts by both IEO and staff to make sure that action items

included in MIPs are SMART: that is to say, specific, measurable, attainable, relevant and timely. Third, since 2015, the Office of Internal Audit has been tasked with preparing an annual review of progress in implementing MIPs, which is now discussed by the full Board. Fourth, a triage process was undertaken last year on a one-off basis to address a significant backlog of action items that were off-track, leading to a commitment to reformulate some key action items.

Efforts have also been made to increase impact by enhancing awareness of and learning from our work through greater outreach, both outside the Fund and inside the Fund. These efforts have been accelerated by increasing use of webinars to reach out to a wider audience, taking advantage of increased comfort with virtual meetings in the wake of the pandemic.

Many of these adaptations to the evaluation processes have responded to recommendations by the three external evaluations that have been completed since 2001, two in the last decade, the Ocampo report in 2013 and the Kaberuka report in 2018. These reports have played a very valuable role by providing external validation of the independence, quality and impact of the IEO's work and by advocating for further strengthening of the evaluation function at the IMF.

The COVID pandemic has been challenging for the IEO. As the Fund shifted to emergency mode to address the needs of the pandemic, there were some delays in bringing evaluations to the Board and in follow-up processes in the face of these pressures, but we are now largely back on track. And we have adapted our work processes and coverage of issues to reflect the new challenges, including launching an early evaluation of the Fund's emergency response to the pandemic.

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Let me now turn to consider the key question of what has been the impact of all this evaluation activity on the IMF. There are many different levels at which such impact can be assessed. First, one can look at the record of implementation of the Board endorsed management implementation plans, the MIPs. Second, one can look at concrete changes in IMF policies and practices more generally. And third one can consider the broader impact of evaluation on the Fund's culture and governance arrangements, including the role of the Executive Board and protections for the integrity of the Fund's data work and technical analysis.

Turning first to the record with management implementation plans, this is assessed each year in the Periodic Monitoring Report or PMR prepared by OIA.

The 11th PMR has just been completed—it covered 122 actions in 10 MIPs completed over 2012-2020. It found good implementation of recent plans, which has been impressive given the continuing work pressures from the pandemic. In all 79 actions were judged to be complete and 19 on track for completion. However, there were also 16 mainly older actions overdue by one year, in part because of pandemic delays in the work program. Plus 8 actions are waiting to be reformulated under the terms of the triage exercise to deal with the backlog of incomplete actions that was conducted last year.

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This next slide goes beyond a numerical exercise of completion of action items to highlight some of the ways in which IEO evaluations have influenced IMF policies and practices in recent years. This perspective focuses on changes that are important and impactful, although attribution to the IEO is less definitive since clearly many factors go into the process of changing IMF policies and practices.

Recent changes in Board approved policies where IEO evaluations have played a part include: increased access limits for rapid financing to enhance Fund's capacity to help fragile states; a new framework on social spending after our evaluation of social protection; a new strategy on data and statistics; new frameworks for program design in currency unions and for collaboration with RFAs following the euro-area crisis evaluation; and a new risk based process for selecting countries for FSAP assessments following our financial surveillance evaluation.

IEO evaluations can also impact IMF capacity and practices more generally. For example, the report on fragile states led to reinforcement of efforts to increase the impact of capacity development work in fragile states and to incentivize staff working on these countries. Last year's reports on financial surveillance and unconventional monetary policy led to hiring of new staff to expand expertise at the core of the IMF's work.

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At a deeper level, evaluation can lead to changes in corporate culture that over time can address underlying issues embedded in the institution's fabric. Such issues are hard to fix with magic bullet solutions from a single evaluation but can be gradually influenced over the sweep of evaluations.

A retrospective prepared at the end of the IEO's first decade identified a number of themes that recurred across multiple evaluations. These themes have continued to be a focus in the second decade. Some progress has certainly been made. For example, over the past decade the Fund has become less susceptible to silo behavior as efforts have been made to integrate work across functions. Attention to risk has been enhanced including through a new office of risk management (ORM). There has also been progress at ensuring evenhandedness particularly in the surveillance context

In other areas progress has been constrained by the need to balance different objectives. For example, increasing attention is paid to country context – but evaluations have continued to raise concerns about too rapid turnover of country teams, which hinders depth of country knowledge.

I'd like to highlight two new themes have recurred in recent evaluations:

The first is concern about the lack of depth of expertise in the Fund's core areas, such as financial issues and monetary policy advice, suggesting that the Fund needs to invest more in nurturing a cadre of world class experts. This has been happening—but is constrained by budget and continuing reliance on fungible macroeconomists as the core model for Fund economists.

Second, as the Fund is increasingly recognizing macro criticality of issues like climate that were traditionally outside the Fund's core expertise—it has to work more with partners institutions. However, repeated IEO evaluations have found that IMF collaboration with partners on issues like climate has been quite uneven and often not brought much return. This experience seems to reflect both the difficulty of collaboration across institutions with different mandates and business practices and in part a culture of self-reliance at the Fund.

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Another way in which the IEO contributes is by supporting Executive Board oversight over the institution.

Note that the IEO is the only office or department reporting to the Board and fully independent of management—unlike OIA, ORM.

How does the IEO support Executive Board oversight?

First, it provides an effective instrument for traction: MIPs are based on Board discussion and have to be approved by the Board and have regular follow up in PMRs, which again must be reviewed by the Board.

Second, it supports institutional memory and perspective: the median tenure of Executive Directors is less than two years and declining. Moreover, typically, Executive Offices are fully involved with immediate operational issues, particularly those covering a large number of countries, many using Fund resources.

Third, the IEO also provides a channel to reflect concerns and views of members outside the largest shareholders and can provide the Board with alternative perspectives on issues to what EDs hears from staff.

Is there scope to do more?

Continuing strong interest among EDs in more timely input from the IEO led to the introduction of shorter evaluations. There was keen Board support for the early evaluation of IMF pandemic response. But is there scope for the IEO to do more evaluation work on timely issues without interfering with operational activities, as required in our terms of reference? This is a difficult line to draw, as I will discuss in a moment. Also, staff have raised concerns about whether the institution has the capacity to fully absorb and follow up on more than two evaluations each year.

Also, there could be scope for more IEO interactions with the Board on issues related to follow-up on past evaluations. For example, the IEO could offer comments on how Board papers prepared by staff as part of implementation plans respond to issues raised in the original evaluation. To do this effectively the IEO would need to be more closely engaged with the staff's ongoing policy work, which could raise concerns about adequate separation of the IEO from the work it is evaluating.

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A related question is how the IEO supports the institutional integrity of the IMF's data and technical work. It should be recognized that political considerations must inevitably play a part in IMF decision-

making on its lending operations, since the Fund is an institution deploying public resources responding to its members' needs. Nevertheless, the Fund's legitimacy, credibility and ultimately effectiveness depend on ensuring that its technical work is based on the highest standards of impartiality and institutional excellence.

IEO is one of many mechanisms at the Fund seeking to safeguard such institutional integrity through its examination of IMF analytical, research and data work and the Fund's decision-making in key activities.

Some past evaluations have found evidence of undue political interference particularly in difficult program situations involving high levels of access. Examples include the 2016 evaluation of the Greek program, the 2004 Argentina evaluation, and the 2003 capital account crisis evaluation.

More generally, however, evaluations have confirmed high technical standards in IMF analysis and serious efforts at being evenhanded in treatment of different members in similar situations. Over the past decade, evaluations of IMF forecasting, IMF research, IMF data work and IMF advice on capital flow did not raise concerns about political interference in technical work. Mistakes and misjudgments where they occurred were often ascribed to groupthink or institutional inertia — shared by management, staff and shareholders — rather than undue political pressures on technical work.

Is there scope for the IEO to do more to safeguard institutional integrity? I believe the answer is “yes” but it is important to recognize constraints on what the IEO can achieve.

- IEO typically does not look at difficult cases for many years due to limits on evaluations of ongoing operational activities. There is also agreement that the IEO should not do evaluations solely on single country cases, but instead on engagement across a range of related cases to maximize opportunities for institutional learning.
- As I mentioned earlier, there can be tension between learning and accountability functions. What is the right balance? IEO experience has shown that political challenges to integrity are often difficult to conclusively prove. Moreover, even when a problem is identified, it's hard to find an appropriate remedy as shown by experience following up the euro-area crisis evaluation, where a recommendation to take steps to reduce political interference with technical work did not have much traction.

Let me turn now to how we set the IEO's work agenda by choosing topics for evaluation. With scope for only a limited number of topics, topic selection must be strategic and geared to ensuring relevance and impact.

In practice, the IEO is careful to consult broadly with the main stakeholders to identify issues of current concern. The Board discusses a menu of options in an informal seminar. Management, staff and outside stakeholders are consulted. The topics chosen are typically ones in which the Board has strong interest and where an IEO evaluation provides timely input into staff's own policy review work. The Board, management, staff and stakeholders are also consulted in preparing a detailed issues paper to make sure the scope of the evaluation is well set, reflecting the broad range of concerns.

Timing is a particular challenge in choosing topics – since many important and relevant IMF policies have only just been changed or are being actively reviewed. And the IEO has to be careful to avoid interfering with operational activities. The interference clause was included in the terms of reference from the outset when the IEO was set up out of concern that evaluation could potentially interfere with delicate negotiations on a current or future program.

New shorter evaluations should in principle be helpful to allow more nimble responses to respond to evolving IMF priorities. The first pilot shorter evaluation on Bank-Fund collaboration on climate and other macrostructural issues was successful in delivering a well-regarded assessment, not hampered unduly by its narrower focus.

Is there more scope to ensure timely and relevant evaluations?

- It would be possible to focus more on shorter more quickly completed evaluations. But this approach could put heavy pressures on the Fund's absorptive capacity, a particular concern given current intense work pressures.
- Another change would be to reconsider the clause in the IEO TOR which requires the IEO to avoid interfering with operational activities. In practice the interference clause has usually not been an issue, especially for surveillance and capacity development work. But it has been a factor in setting the timing and scope of a number of evaluations over the years. While appreciating concerns about possible interference, application of the interference clause too zealously could lead to excessive delays and curtail the IEO's capacity to address issues related to current institutional priorities. This issue has been discussed in successive external evaluations, but no consensus has been achieved at the Board on more precise language.

Slide 10

This final slide highlights four key issues for discussion.

The over-arching question is how can the IEO increase its overall contribution to the institution?

I'd like to put four suggestions on the table.

First, the IEO could be more involved in the follow-up process to its evaluations, working more closely with staff and the Board.

Second, the IEO could shift the product mix towards more timely issues of current concern, possibly after some reconsideration of the non-interference clause.

Third, the IEO could pay more attention to integrity issues. We can look for lessons from past evaluation over the last twenty years. And we could pay more attention to integrity aspects as we embark on new evaluations, in areas where integrity issues can be particularly prominent.

Finally, the IEO could collaborate more closely with other evaluation offices on issues where the IMF is working closely with partner institutions.

In each case I think there are both pros and cons that need to be carefully considered. The issue is often getting the right balance between different objectives and effective deployment of limited resources, in the IEO but also in the Fund. Hopefully this IEO@20 conference can contribute to this discussion.

