

Director's Message: What the financial crisis tells us about the need for evaluation

The rapid unfolding of the global financial crisis has magnified the importance of the IMF carrying out its activities in a professional and fully accountable manner.

The scale of the crisis itself and the attendant spread of recession around the world will shape the global landscape and adversely affect the lives of billions of people for years to come. For many—especially the poor—the crisis and its aftermath will entail a major setback. These developments provide a compelling test of the effectiveness of the Fund's role in the world economy, and of the evaluation function within the Fund.

The IMF is accountable for preventing and responding to systemic crises as a central part of its mandate. When economies are growing and the financial system seems strong, the demand for accountability is weak, and it is easy to lose sight of what is at stake when spillover risks are not adequately identified and addressed. But today the world can no longer afford a lack of accountability at the Fund.

Crisis prevention requires continued vigilance by all, including by the Fund's watchdog, the IEO. Evaluation clearly has an important role in identifying opportunities and threats to the IMF's ability to carry out its mission— helping to prevent catastrophic crises and manage them when prevention fails. That is why work is beginning on a new IEO evaluation that will assess the Fund's role in the run-up to the current financial and economic crisis, including questions related to the effectiveness of surveillance, particularly of advanced economies, identification of systemic risks, including the vulnerability exercise, and multilateral consultations and treatment of capital account/financial sector advice in some

emerging markets. We will begin work on this immediately. But in the meantime it is worth considering what we have already learned from the crisis. First, we need to be even more pointed in challenging the evenhandedness of Management and staff in dealing with members. Lack of evenhandedness has proved to be the Fund's Achilles heel in pursuing its mission of global stability. In 2005 the IEO recommended that the IMF make it more difficult for large countries to opt out of the Financial Sector Assessment Program (FSAP). Maybe the IEO should have pushed harder after the U.S. declined to volunteer for a financial sector assessment and the Fund did not vigorously request such an assessment.

Second, on governance, perhaps IEO should examine more critically the Fund's ability to "speak truth to power," and highlight the risks of not doing so, when the members that pose the greatest systemic risk are also the largest shareholders.

Third, both the IMF and the IEO must be bolder in identifying and highlighting downside risks: the Fund in the context of surveillance-related assessments such as the FSAP, and the IEO in highlighting Management and staff failures to follow up on evaluation recommendations.

My fourth point expands on this need to follow up on evaluation findings. In the example of the financial crisis, evaluation clearly identified the need to enhance the Fund's macro-financial sector links; it clearly identified the FSAP loophole as a major issue; and it clearly identified the need for much greater connectivity between bilateral and multilateral surveillance. But little happened after these problems were identified.



Tom Bernes, IEO Director

On March 11, after over 10 years of being associated with the development of an independent evaluation function of the IMF, I notified the IMF's Executive Board of my intention to leave the IEO at the end of July 2009. The full text of my letter is available on the IEO's website. Shortly, a search for my successor will be launched by the Executive Board. I wish the IEO, as well as the Fund, great success in the future.

This is not unusual, as problem identification alone is almost never enough. Lack of knowledge is seldom the impediment to change; more often, things are as they are because someone wants them that way or simply lacks the energy to change. This is why the IEO's evaluations have increasingly sought to identify the real drivers of decision making within the Fund—that is, the Executive Board,

Continued on Page 2

Reform of the Fund: Events since the IEO Evaluation of Corporate Governance

Since the IEO released its evaluation of *IMF Governance* in May 2008, the Fund's Executive Directors and Management, the Eminent Persons Group appointed by Management and most recently a working group of the Group of Twenty (G-20), have been preparing proposals for IMF reform. The IEO evaluation has made an important contribution to this rapidly developing debate.

On May 27, 2008, after Executive Board discussions, the Board and the Managing Director issued a joint statement that recognized the evaluation as "a very useful contribution to their efforts to help strengthen the Fund's governance."

"a very useful contribution to their efforts to help strengthen the Fund's governance...a move that places the Fund at the forefront of multilateral organizations"
—Board and the Managing Director

To propose reforms and advise the IMF on how to fulfill its global mandate more effectively, on September 14, 2008, the Managing Director announced the establishment of a Committee on IMF Governance Reform chaired by Trevor

Manuel, Minister of Finance of South Africa. Other members of the Group are former Managing Director Michel Camdessus; Kenneth Dam, Max Pam Professor at the University of Chicago; Mohamed El-Erian, co-CEO and co-CIO of Pacific Investment Management Co.; Sri Mulyani Indrawati, Minister of Finance of Indonesia; Guillermo Ortiz, Governor of the Bank of Mexico; Robert Rubin, Senior Counselor at Citigroup; and Amartya Sen, Lamont University Professor at Harvard University. On March 26, 2009, the Group issued its report with proposals for governance reform, which endorsed many of the IEO recommendations.

Meanwhile, IMF Executive Directors have been debating the best means to follow up on the IEO evaluation. A Working Group of Executive Directors, chaired by Thomas Moser, prepared a work plan for following up the IEO recommendations. Responding to this plan, Directors emphasized the need for "adequate flexibility with respect to the timing of its implementation, to take into account the Fund's overall work priorities" as well as the work on governance being undertaken in the Committee on IMF Governance Reform and the views of civil society and external audiences. Directors and Management established a joint Steering Committee to facilitate and monitor cooperation among the Executive Directors' Working Group, the work of the



Ruben Lamdany (left), IEO Assistant Director and project leader of the evaluation of *IMF Governance*, answers questions about the report at a panel discussion moderated by Vinod Thomas (right), Director General of the World Bank's Independent Evaluation Group.

Committee on IMF Governance Reform, and the engagement of civil society and other concerned external audiences. A number of Directors reiterated that further work on quota and voice reform should be an integral part of the Fund's overall governance reform.

The Group of Twenty (G-20)'s Working Group 3 – devoted to the subject of IMF reform – will review the role, governance, and resource requirements of the IMF. Co-chaired by Lesetja Kganyago, Director General of the South African National Treasury, and Special Envoy International Economy (Australia), Mike Callaghan, the group will look at the appropriateness of the IMF's lending instruments, the effectiveness of its surveillance function, accountability, and the issue of reform of the governance structure. The Working Group was to provide an Issues Note in April 2009.

Director's Message: What the financial crisis tells us about the need for evaluation...continued from Page 1

Management, and staff—and to spell out the incentives and other factors that are creating the identified problems.

However, effective evaluation needs to go even further: it must develop a constituency for change that can use evaluation findings for advocacy. This is why transparency and outreach are so important for IEO. To be effective, this constituency also needs to know the roles and responsibilities within

the institution, and it needs clear metrics for tracking whether the undertakings and goals are being met and to what effect. Evaluation needs to provide these metrics as well.

Once we have all these ingredients lined up—evaluation evidence about a problem, an understanding of why it is the way it is, a constituency for change, an understanding of who's in charge of what, and clear indicators for monitoring progress—we as evaluators have a

good chance of being effective. But if we merely develop the evaluation evidence, our efforts will be measured only in reports and not in effective learning or change.

Tom Bernes, IEO Director

Many of the themes in this article were discussed in a speech delivered in October 2008 in Warsaw, available at http://www.iao-imf.org/pub/speech/warsaw_speech.pdf

Evaluation Work Underway

In addition to the newly announced evaluation, which will be an assessment of the **Fund's role in the run-up to the current financial and economic crisis**, the IEO is currently working on following evaluations:

Trade – The IEO evaluation of the IMF's approach to international trade policy issues will be released in the summer. The evaluation, whose parameters are described in an Issues Paper posted on the IEO's website, focuses on the clarity and conduct of the IMF's role in trade policy advice and advocacy. It addresses questions of whether interpretation of the mandate for involvement in trade policy is well based and clear; whether critiques of IMF positions have a solid basis; 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 considers possible improvements in how the IMF defines its role and executes trade policy advice. The evaluation covers the period since the establishment of the WTO—1996–2007—and includes desk reviews of policy documents and guidelines issued to staff, Article IV and program documents, Executive Board minutes, and advocacy and outreach items as well as surveys and interviews of current and former IMF, WTO, and World Bank staff, government and non-government representatives. The evaluation also features case studies of the IMF's involvement with individual countries.

IMF Interactions with member countries – To achieve its objectives, the IMF depends in large part on having effective interactions with member countries. Interactions take place in the context of relationships established between the IMF and its 185 member countries. The nature and objectives of these relationships vary widely across the membership. Feedback from a variety of sources—including country authorities, civil society, and academics—suggests that these interactions could be improved. Both the importance of the interactions and their shortcomings have been recurrent themes in previous IEO evaluations. This IEO evaluation examines whether the interactions between the IMF and its member countries have been effective and well managed. It assesses the IMF's management of interactions that were carried out in different circumstances and for various objectives between 2001 and early 2008. It also looks at the Fund's own policies for managing interactions, and the policies and practices of other institutions such as the World Bank, Organization for Economic Cooperation and Development, Bank for International Settlements, and some central banks, together with private sector entities, and considers some models of what best practice might be in this area.

An Issues Paper laying out the proposed main direction, areas of focus, and methodology is available at <http://www.imo-fmf.org/eval/ongoing/051508.pdf>. It is expected that the report will be issued to the Executive Board in the summer of 2009.

Research – In 1999, 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 should be directed more to areas where research could add the most value, namely research on developing and transition economies and on financial sector, and in particular cross country work.

The IEO evaluation of research is a follow-up exercise. It will cover the research conducted by all departments in the IMF, and will focus on two issues: the scope and relevance of the research program, and its utilization and impact. It will examine how priorities are set, how research topics are selected, and how research is supervised and vetted across the IMF. The study will assess the extent to which a greater share of the resources have been directed to areas where research could add the most value. It will examine whether research has become better integrated into operational work, i.e., in technical assistance, in internal documents and review, in policy dialogue, and in recommendations made to member countries.

To characterize good practice, the evaluation will attempt to identify pieces of research that have been particularly relevant and influential for the country and policy work of the IMF. Interviews and surveys of staff, country officials and academics will be used to identify topics that could receive greater attention, and others where the Fund could rely on outside research.

Periscope

The IEO is seeking Economists/Senior Economists or Evaluators/Senior Evaluators for its office in Washington, DC. Candidates are required to hold an advanced university degree in Economics or a related field and a minimum of 5 years of professional experience in the management and/or evaluation of economic policy, or experience in an academic or research environment. Qualified candidates are encouraged to apply online at www.imf.org/jobs by April 30, 2009 by making specific reference to vacancy no. 9000262.

In September 2008 Tom Bernes, IEO Director, traveled to London, where he participated in a seminar on *IMF governance* held at the Overseas Development Institute, organized by the Bretton Woods Project.

In October Tom Bernes delivered a speech on evaluation, learning, and accountability, *The IMF in a Time of Global Crisis*, at the Fourth Evaluation Conference organized by the Polish Agency for Enterprise Development in Warsaw.

In November in Paris, Tom Bernes attended the eighth meeting of the DAC Evaluation Network—a body that brings together evaluation managers and specialists from OECD development cooperation agencies and multilateral development institutions. IEO Assistant Director Ruben Lamdany presented the IEO evaluation of *Structural Conditionality in IMF-Supported Programs* at the Annual Meetings of the Latin American and Caribbean Economic Association (LACEA) that took place in Brazil.



Independent Evaluation Office
of the International Monetary Fund

International Monetary Fund
700 19th Street, N.W., Washington D.C., 20431, U.S.A.

Tel. +1 202 623 7312
Fax. +1 202 623 9990
Website. www.ieu-imf.org

We welcome your thoughts

Please write to us at feedback@ieu-imf.org

The Independent Evaluation Office (IEO) was established in 2001 to conduct independent and objective evaluations on issues relevant to the mandate of the Fund. It is fully independent from the Management of the IMF and operates at arm's length from the Board of Executive Directors, representing the 185 member countries of the IMF. Since 2005, the IEO is directed by Thomas A. Bernes.

Periscope...continued from page 3

In December Tom Bernes presented the findings of the IEO evaluation of *IMF Governance* in Tokyo and Osaka.

In January 2009 Ruben Lamdany presented the results of the IEO evaluation of *IMF Governance* at a panel organized by the World Bank's Independent Evaluation

Group (IEG). Vinod Thomas, IEG's Director General, moderated the discussion. Also in January, Mr. Lamdany delivered a keynote presentation on the governance of the IMF at the 21st Regional Seminar on Fiscal Policy of the UN Economic Commission for Latin America and the Caribbean (ECLAC).

In February in Berlin, the IEO co-hosted, together with InWent, a seminar on recent and ongoing IEO evaluations. Also in February, Mr. Bernes presented the findings of the IEO evaluation of *IMF Governance* to government officials in Manila and Bangkok. Also in February, John Hicklin, IEO Deputy Director, attended a conference organized by the Robert S. Strauss Center for International Security and Law at the University of Texas at Austin. Mr. Lamdany presented the findings of the IEO evaluation of *IMF Governance* at a symposium for industry and other members of civil society organized by the Kansai Institute for Social and Economic Research and at the conference on *Global Imbalances and Financial Crisis*, in Osaka, Japan. In Tokyo, Mr. Lamdany presented the evaluation of *Structural Conditionality in IMF-Supported Programs* to the staff of the Japan Bank for International Cooperation, the Japan International Cooperation Agency, and the Ministry of Finance; and at a symposium on the global financial crisis at the International Christian University.



Senior officials and academics from around the world, along with IEO staff, attend a seminar in Berlin co-hosted by InWent and the IEO.