

IMF FINANCIAL SURVEILLANCE—SUBSTANTIAL UPGRADES AND ONGOING CHALLENGES



The IEO evaluation of *IMF Financial Surveillance*, completed in January, found that the IMF had substantially upgraded its financial surveillance work in the period since the Global Financial Crisis but it also identified considerable room for further improvement.

Among the IMF's key achievements were: delivery of high-quality, in-depth assessments of the most systemically important financial jurisdictions under the Financial Sector Assessment Program (FSAP); contributions to the development of a broad range of diagnostic tools (such as stress tests) and new policy approaches (such as macroprudential instruments); increased attention in Article IV surveillance to macrofinancial linkages; and the establishment of the *Global Financial Stability Report* and the Early Warning Exercise as leading sources of analysis and insight on the global financial system.

Notwithstanding this progress, the IMF's financial surveillance has been uneven. There is still a need to strengthen financial and macrofinancial work in Article IV consultations. The allocation of resources in the FSAP is weighted toward systemic jurisdictions, where the program seems to be at risk of diminishing returns. Moreover, resource constraints and talent management policies have slowed the needed build-up of financial and macrofinancial expertise. These are critical issues, given the IMF's position as the only



Rubén Lamdany, IEO Deputy Director, presents findings of the IEO evaluation of *IMF Financial Surveillance*, alongside Charles Collyns, IEO Director.

international financial institution with the mandate to conduct financial surveillance in all countries as well as for the global economy, and given that these issues are at the core of the IMF's responsibilities.

The IEO made six inter-related recommendations in the evaluation report, aimed at strengthening IMF financial surveillance through a combination of new initiatives and adjustments to existing programs.

- ▶ Deepen financial and macrofinancial analysis in Article IV consultations, including by taking practical steps to better integrate FSAP analysis.
- ▶ Revisit the current approach to allocating FSAP resources to achieve a more flexible, risk-based allocation across countries and issues.
- ▶ Continue to enhance the impact of multilateral surveillance by increasing rigor and transparency and by deepening collaboration with international partners.
- ▶ Strengthen efforts to be a center of excellence for financial and macrofinancial research.
- ▶ Intensify efforts to attract, develop, and retain a deeper pool of financial talent.
- ▶ Consider devoting significant additional resources to financial surveillance.

The Managing Director welcomed the report, noting that it offered valuable and constructive insights on how to further improve the quality and impact of financial surveillance. Executive Directors broadly supported the report's recommendations in a Board discussion on January 15, 2019. Management will prepare an implementation plan (MIP) for consideration by the Board by June 2019. In addition, the report findings and recommendations will feed into the upcoming 2020 Comprehensive Surveillance Review, FSAP Review, and human resources strategy and compensation benefits reviews now underway, as well as into budget discussions about resource priorities.

WHERE NEXT? FOUR NEW EVALUATIONS UNDER WAY

The IEO's evaluation of the IMF advice on unconventional monetary policies is in its final stages and will be presented to the Executive Board after the Spring Meetings. Anticipating its completion, the IEO is now launching a new round of evaluations. As a first step, consistent with an enhanced process for topic selection, the IEO consulted with stakeholders about its future work program. A list of possible topics was published on the IEO website in January for public comment and discussed with Executive Directors. In February, the IEO announced topics for its next set of evaluations.

- ▶ An update of the 2009 evaluation on *IMF Involvement in International Trade Policy Issues*.
- ▶ Two new full-scale evaluations: IMF policy advice on capital flows; and adjustment, debt, and growth in IMF-supported programs.
- ▶ A shorter evaluation on IMF collaboration with the World Bank on macro-structural issues, using a new format for such evaluations.



Jo Marie Griesgraber, *New Rules for Global Finance*, participates in an IEO workshop.

INCREASING THE IMPACT OF EVALUATION: FOLLOW-UP ON THE EXTERNAL EVALUATION OF THE IEO

The *Third External Evaluation of the IEO*, completed by a panel of external experts led by Donald Kaberuka in July 2018, has provided an important opportunity for the IEO to learn from experience and seek ways to strengthen its impact. The external evaluation found that the IEO had cemented its reputation for high-quality and independent work and endorsed recent steps by the IEO to engage more closely with staff and management as well as the Executive Board. Nonetheless, the external evaluation concluded that there was room to enhance the traction of IEO work further and called for greater commitment from all parties to increase the IEO's capacity to act as a change agent for the institution. In discussing the report, Directors agreed that enhancing the IEO's impact is a joint responsibility and concurred on the need to strengthen the process for following up on IEO evaluations.

The last six months have seen good progress toward this end.

- ▶ The IEO refined its process for selecting topics for future evaluations, in particular to enhance transparency and inclusivity. In this context, the Executive Board endorsed an IEO proposal to introduce a new, shorter evaluation product on a pilot basis to allow the IEO to respond more nimbly to Board concerns.
- ▶ The Board approved a framework to deal with the significant number of actions to follow up on past IEO evaluations that have remained outstanding for a long period of time. This framework provides the basis for a process of sorting through outstanding actions and determining which ones need reinforcement and which should be retired. This “triage” process will be carried out later this year in the context of the Tenth Periodic Monitoring Report (PMR) on the status of IMF actions to implement past Board-endorsed IEO recommendations.
- ▶ Several other important procedural changes have been made. The IEO will now have greater involvement in the preparation of Summings Up for Board discussions of IEO evaluation reports. In designing follow-up on IEO recommendations, the IMF will work to make actions more specific, measurable, actionable, and relevant. To further strengthen oversight of the follow-up process, PMRs will be discussed in formal Board meetings. All parties are also working to further enhance collaboration between the IEO, management, and staff.



IEO staff.

OUTREACH

NOVEMBER 2018

Workshop on “Independent Evaluation at the IMF—Where Next?” Center for Global Development, Washington, D.C.

DECEMBER 2018

Presentation on “Assessing the Role of the IMF in Fragile States” during a workshop on Macroeconomic Policy in Fragile States held at the Blavatnik School of Government at Oxford University, U.K.

Workshop on “Independent Evaluation at the IMF—Where Next?” Bretton Woods Project, London, U.K.



Miriam Brett, Bretton Woods Project, and Masood Ahmed, Director of the Center for Global Development, participate in an IEO workshop.

FEBRUARY 2019

Seminars on the main findings and recommendations of the evaluation of *IMF Financial Surveillance* at: the European Bank for Reconstruction and Development and the Bank of England, London, U.K.; the Bundesbank and at the European Central Bank, Frankfurt, Germany; the Bank for International Settlements, Basel, Switzerland; and the Banco de Espana, Madrid, Spain.

Presentation on the role of independent evaluation at Bocconi University, Milan, Italy.

APRIL 2019

Seminar on the evaluation of *IMF Financial Surveillance* during the Spring Meetings, Civil Society Policy Forum, Washington, D.C.

Presentation on the evaluation of *IMF Financial Surveillance* during the G-24 Deputies Meeting, Washington, D.C.

ABOUT THE IEO

The Independent Evaluation Office (IEO) was established in 2001 to conduct independent and objective evaluations of IMF policies and activities. Under its Terms of Reference, the IEO is fully independent from the management of the IMF and operates at arm's length from the Executive Board. The IEO's mission is to enhance the learning culture within the Fund, strengthen the IMF's external credibility, and support the Executive Board's institutional governance and oversight responsibilities.