

Conclusions and Recommendations from Previous IEO Evaluations

This annex lists selected conclusions and recommendations from four previous IEO evaluations dealing with crisis management and surveillance activities aimed at detecting risks and vulnerabilities in the international monetary and financial system.

1. The IMF and Recent Capital Account Crises: Indonesia, Korea, Brazil (IEO, 2003)

To increase the effectiveness of surveillance, Article IV consultations should take a “stress-testing” approach.

Management and the Board should take additional steps to increase the impact of surveillance, including by making staff assessments more candid and accessible to the public.

The IMF should play a proactive role as a crisis-response coordinator, strengthen integration of crisis management work, and ensure that the financing package is sufficient to generate confidence.

When parallel financing is sought from other institutions, the terms of reference for their engagement should be specified at the outset, including mechanisms to resolve differences of view and the manner in which their inputs are reflected in program design.

The IMF should ensure, particularly in high-access cases, that the technical judgment of staff is protected from political interference.

The IMF should focus conditionality on areas critical for crisis resolution and not use crises as an opportunity to force long-outstanding reforms, however desirable they may be, in areas that are not critical to the resolution of a crisis.

Program design should include an agreed strategy to communicate the logic of the program and any subsequent program-related information to the public and the markets.

2. Multilateral Surveillance (IEO, 2006)

The content and form of multilateral surveillance outputs should be streamlined and focused on key issues and, if necessary, existing publications should be consolidated.

The IMF should include coverage of banking sector risks in multilateral surveillance outputs.

The IMF should increase integration between *WEO* and *GFSR* and bilateral and multilateral surveillance (silo structure; bottom-up approach; too many products, too little focus).

The IMF needs to strengthen the multilateral dimension of surveillance, particularly for systemically important countries, by clarifying operational goals, organizational strategies, and accountability.

The IMF should become more proactive with respect to intergovernmental groups, particularly the G7 and the G20. Increasingly, the IMF must draw on its strength (universal membership) and comparative advantage to provide leadership to the global system.

3. Financial Sector Assessment Program (IEO, 2006)

The most systematic shortcoming in FSAPs was insufficient attention to cross-border financial linkages and their potential consequences. In a minority of the assessments, there was insufficient linkage between macro-economic and financial sector components.

Candor was sometimes lost at the critically important stage in the preparation of Article IV surveillance reports. The degree of country ownership and the degree of integration between the work of the FSAP team and area department team influenced how well key FSSA messages were integrated into Article IV reports.

The IMF should strengthen links between FSAPs and Article IV surveillance by mainstreaming FSAPs and

follow-up work into regular surveillance activities; it should also strengthen the internal review process to ensure that key messages on macro-financial stability are fully reflected in Article IV surveillance.

The IMF should improve the quality and impact of FSAPs through clearer prioritization of recommendations; improved stress-testing analysis; and more systemic inclusion in the analysis of cross-border, financial sector linkages. It should also utilize financial sector expertise more effectively in the surveillance process.

4. IMF Performance in the Run-Up to the Financial and Economic Crisis: IMF Surveillance in 2004–07 (IEO, 2011)

The IMF's ability to correctly identify mounting risks was hindered by a high degree of groupthink, intellectual

capture, a general mindset that a major financial crisis in large advanced economies was unlikely, and inadequate analytical approaches.

The IMF should create a risk assessment unit that reports directly to Management, with the purpose of developing risk scenarios for the systemically important countries and analyzing tail risks for the global economy.

The IMF needs to: create an environment that encourages candor and considers dissenting views; modify incentives to “speak truth to power;” better integrate macroeconomic and financial sector issues; overcome the silo mentality and insular culture; and deliver a clear, consistent message on the global outlook and risks. To this end, it should foster greater cross-departmental collaboration, and provide clarity in rules and responsibilities for internal review processes.