IEO
Independent Evaluation Office
*of the* International Monetary Fund

# POSSIBLE TOPICS FOR FUTURE IEO EVALUATIONS

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This note identifies possible topics for future evaluation by the Independent Evaluation Office (IEO). The list is organized under the following categories: (i) IMF surveillance; (ii) IMF lending and program design; (iii) IMF governance and partnerships; and (iv) IMF engagement and advice on specific issues. For each topic, the note provides a rationale for why the topic merits IEO attention.

The IEO welcomes comments and suggestions from country authorities, Executive Directors, IMF management and staff, and outside stakeholders. After consultation, the IEO will initiate work on a selection of these topics as ongoing evaluations are completed.[1] The IEO may also identify other topics as circumstances change.

## I. IMF SURVEILLANCE

1. **Policy Advice on Capital Flows.** Over the last ten years, the IMF has increasingly been faced by the challenge of providing advice to countries on how to handle volatile capital flows. The Fund's Institutional View on Capital Flows (IV), adopted in 2012, has provided a structured framework for the IMF to give guidance on use of capital flows measures (CFM) including when they are appropriate and how they would be sequenced with conventional instruments such as monetary and fiscal policies and FX intervention (IMF, 2012). Experience with the IV was reviewed in 2016 (IMF, 2016), and since then its application has been further clarified by a Board paper on the role of macroprudential policies (IMF, 2017) and by a note to the G20 on the application of the IV in practice (IMF, 2018c). Notwithstanding these efforts, concerns remain about the IMF's policy advice in this area. In implementing the IV, there have been tensions between the goal of providing clear and consistent positions on whether CFMs are warranted, as called for by the IMFC in April 2017, and the need to be evenhanded and to respond to country circumstances. On the overall design of the IV, questions have been raised about: timing issues such as whether CFMs could be applied preemptively or only as a last resort; the approach for using CFMs to deal with capital outflows, an increasingly relevant issue; and the application of the IV to the housing sector where social and other goals may be important. Reflecting these concerns, the evaluation would look at the value added and influence of Fund policy advice on capital flows to individual countries, the consistency and evenhandedness of advice across countries, and the role of the IV in encouraging a consistent multilateral approach to promoting good policy practices on capital flows.

[1] A list of ongoing and completed evaluations is provided in the Annex.

2. **External Assessment.** This evaluation would gauge progress in strengthening the Fund's analytical capacity and traction on external assessment, both for current and capital accounts. In recent years, the Fund has worked hard to enhance its toolkit for current account assessment by enhancing the External Balance Assessment (EBA) methodology and has sought to increase the transparency and impact of its findings, including through implementation of the Integrated Surveillance Decision and through new vehicles such as the External Sector Report (ESR) (e.g., IMF, 2018a). This evaluation would look into how far this new framework has enhanced the IMF's ability to provide technically sound advice and promoted frank assessments in this highly sensitive area of surveillance, assess the impact on policy choices both at the country level and the global level, and consider the scope for further improving the framework (including, for example, greater coverage of structural policies). At the same time, it would also look at other dimensions of external assessment related to the sustainability of capital account flows and adequacy of international reserve positions, which are particularly relevant as external financial conditions for emerging market economies are becoming less friendly, including the new "capital flows at risk" framework. The evaluation would build on the update of the 2007 IEO evaluation of *IMF Exchange Rate Policy Advice* (IEO, 2007) completed in late 2017 (IEO, 2017b) and the 2012 IEO evaluation of *International Reserves: IMF Concerns and Country Perspectives* (IEO, 2012).

3. **IMF Advice on Fiscal Policy as a Counter-Cyclical Tool.** The Fund's advice on fiscal policy has evolved significantly since the global financial crisis (GFC). In the immediate post-crisis period, the Fund pushed for a global fiscal stimulus to help offset the contractionary impact of the crisis. Subsequently, the Fund's advice has been more nuanced, on the one hand looking for space to use fiscal policy as a counter-cyclical tool in a world with large output gaps and diminished ammunition for monetary policy, while on the other hand being concerned to contain fiscal risks and ensure medium-term fiscal sustainability. This advice has been informed by considerable technical work, for example, on how to assess the availability of fiscal space, how to reflect public balance sheets in fiscal sustainability assessments, how to design growth-friendly fiscal reforms, and how to analyze multiplier effects of fiscal policy shifts on economic activity. This evaluation would assess the Fund's advice on fiscal policy since the GFC, looking at issues such as: how well has advice balanced short-term support for the economy and longer term fiscal risks; how advice on fiscal institutions and fiscal rules has reflected concerns for supporting the economy (e.g. through automatic stabilizers); how consistent has advice been across countries and over time; how have multilateral aspects including spillovers been treated; and what progress has been made in upgrading the analytical toolkit.

4. **IMF Involvement in International Trade Policy Issues.** In recent years, trade issues have again taken center-stage as global trade growth has slowed, the benefits of globalization have been questioned, the Doha Round has broken down, and countries are looking for new ways forward in trade negotiations. Against this background, the Fund has stepped up its attention to trade issues, both analytical and advocacy work, including a 2015 Board paper which lays out a strategy for IMF surveillance over trade issues, joint reports with the World Bank and WTO, as well as analysis of trade issues in the *WEO* and surveillance notes for the G20. An update

of the 2009 evaluation of *IMF Involvement in International Trade Policy Issue* (IMF, 2009a) would provide a valuable stock taking of the Fund's work in this area and an opportunity to flag new issues.

5. **Newly Emerging Macro-Structural Issues.** In recent years, the IMF has increasingly recognized that a broad range of macro-structural issues can affect domestic or external stability, and therefore can be macro-critical and warrant attention in IMF surveillance. A number of emerging macro-critical issues have been identified (including inequality, gender, climate change, jobs and growth, and infrastructure), and staff have embarked on analytical work and country pilot studies paving the way for mainstreaming of these activities. This evaluation would assess the effectiveness and impact of these initiatives on IMF surveillance. A central issue would be the approach to ensure the right priorities for the Fund, bringing due attention to the new structural issues without detracting from the Fund's work on core macro and macro-financial issues in a resource-constrained environment. As part of this assessment, the evaluation would consider the extent to which the IMF should develop in-house expertise in these structural issues and how it can best work with external partners.

## II. IMF LENDING AND PROGRAM DESIGN

6. **Adjustment, Debt and Growth in IMF-Supported Programs.** Setting the appropriate balance between adjustment, debt sustainability and growth objectives in IMF-supported programs has long been a challenge for program design. Concerns about getting this balance right have intensified in recent years with increasing awareness that programs that impose austerity and do not deliver tangible growth benefits within a short time span are likely to lose political support and may not be sustainable, and given recent experience with rising public debt levels, even in some programs that have remained on track. Analysis of the issue is complicated because a range of policies can be deployed to shift the relationship between adjustment, debt stabilization, and growth including structural reforms and debt restructuring, but the scope for "bending the curve" will vary with country circumstances. In addition, program choices will be affected by the availability of external financing and national preferences. This evaluation would seek to draw lessons from experience with IMF-supported programs over the past ten years, looking at the following questions: (i) how has the adjustment-growth balance been set in initial program design, looking across the various policy dimensions; (ii) how have outcomes compared to initial program goals and what explains deviations; and (iii) has the treatment of these issues been consistent and even-handed across countries?

7. **Evenhandedness of IMF Lending.** The IMF's handling of a number of recent high-profile lending arrangements has brought new attention to long-standing concerns that smaller, less well-connected and often low-income countries may be treated less well when seeking to use IMF resources. Concerns include more limited access, less favorable macro assumptions and projections, more onerous design and more stringent application of program conditionality, and more constrained staffing of country teams. Assessing the validity of such concerns is challenging because, as understood in the IMF, evenhandedness is guided by the "uniformity of

treatment" principle that requires not that countries be treated identically but rather that members in similar circumstances should be treated in the same way. Under the Conditionality Guidelines, when designing programs the Fund must pay due regard to members' social and political objectives, economic priorities, the causes of balance of payments problems, and administrative capacity, inter alia. Following the 2014 Triennial Surveillance Review (IMF, 2014), the IMF introduced a new policy to promote evenhandedness of IMF surveillance, while attention to concerns about evenhandedness of IMF lending has been deferred. This evaluation would review recent experience with IMF lending arrangements to assess whether the IMF's lending practices are applied consistently and fairly across the member countries. Current IMF lending arrangements would not be included to avoid possible interference with operational activities.

8. **IMF Lending Toolkit.** Since the GFC, the IMF has significantly revamped and augmented its lending toolkit. Changes have been made to the design and terms of concessional and non-concessional lending facilities, and new insurance instruments have been introduced. Access norms and limits have been increased; a new Trust has been established for countries that are hit by catastrophic natural disasters or public health disasters; and there have been changes to related policies, such as "blending" use of the General Resources Account and the Poverty Reduction and Growth Trust for countries that qualify. Further changes are being considered in the review of low-income country facilities now under way, including to better meet the needs of fragile states as recommended in the 2018 evaluation of the *The IMF and Fragile States* (IEO 2018). In some respects, however, less progress has been made, for example, with efforts to develop the Fund's precautionary instruments, as discussions on a new short-term swap facility seem to have stalled. Building on work done for the evaluation of the *IMF Response to the Financial and Economic Crisis* (IEO, 2014b), this evaluation would assess the extent to which the new toolkit responds to members' external financing and insurance needs, including in a non-systemic crisis context, and consider whether there are gaps that still need to be addressed or whether the whole structure has become over-complex.

## III. GOVERNANCE AND PARTNERSHIPS

9. **IMF Transparency Policy.** Most IMF country documents and policy papers are now published, helping to increase public understanding and credibility of the institution. The Fund's transparency policy was last reviewed in 2013 (IMF, 2013b), which led to a series of changes aimed at further increasing public access to the Fund's views and deliberations. Progress towards an open IMF has certainly contributed importantly to raise the Fund's external credibility, but has also led to some strains in the Fund's relations with its members. For example, some members are concerned that the policy over corrections to country documents is applied too inflexibly and not always evenhandedly. Transparency may also have affected the candor of IMF discussions with members on economic policies. This evaluation would seek to assess how transparency policy has been applied since the 2013 review and assess the balance between openness and the Fund's role as trusted advisor. In doing so, it will draw on recent experience at the IMF and also look at how other institutions handle the issue.

10. **The IMF's Framework for Managing Risks to the Institution.** The IMF faces a variety of strategic and operational risks, such as: credit risk to its balance sheet; the reputational risk that surveillance could miss critical vulnerabilities in member countries or that its advice could be seen as biased; and the risk of a breach in IT security. The IMF's framework for identifying, assessing, and mitigating such risks has been substantially extended in recent years. In 2014, a new architecture was established including the Office of Risk Management (ORM), reporting directly to management, and a Fund Risk Committee (FRC), composed of department directors, to complement the work of operational units and the internal audit office. Notwithstanding these mechanisms, by some metrics—including repeated program engagement and more protracted adjustment needs—there has been a buildup of credit risk in recent years. Moreover, as the global environment has become more challenging, the Fund staff has been asked to contribute on a broader range of policy issues, exacerbating reputational and operational risks. The evaluation would examine the IMF's evolving approach to managing risks to the institution. It would review the IMF's record in identifying and mitigating such risks, as well as their possible impact on the IMF's own standing. It will consider the roles and responsibilities for Management, staff (including the Office of Internal Audit, as well as the ORM and the FRC), the Executive Board, and the External Audit Committee under the current framework.

11. **Diversity of IMF Staff.** The IMF has worked for many years to increase the diversity of the staff—the first set of diversity benchmarks were set in 2003. Diversity of the Fund staff is important for the Fund's legitimacy. It also fosters alternative points of view, thus helping to avoid groupthink and contributing to the institution's traction. While progress has been made in some areas, notably on gender diversity, the pace has been slow, and outcomes have tended to fall short of targets. The lack of progress on recruitment and development of staff from some under-represented regions has raised particular concerns. Aspects of staff diversity have featured in earlier IEO evaluations: for example, the 2009 evaluation of *IMF Interactions with Member Countries* pointed to the importance of diversity in staff nationality, and the 2011 evaluation of *The IMF's Performance in the Run-up to the Financial and Economic Crisis* emphasized the need for staff to come from diverse professional backgrounds. This new evaluation would seek to take a fresh look at the reasons for the slow progress being made on diversity across its multiple dimensions. It would review efforts currently underway, both in terms of recruitment and nurturing talent within the institution, and consider what lessons can be learned from the experience of other organizations that have also sought to meet diversity goals.

12. **IMF Collaboration with The World Bank.** As the IMF has deepened its involvement in non-traditional areas (e.g., gender, inequality, climate, structural issues, etc.) and has become more engaged in supporting groups like the G20, it has become increasingly important to ensure effective and efficient collaboration with other international organizations and development partners. Stronger cooperation may enhance the IMF's value added given overlapping mandates and resource constraints. It may also lighten the burden on member countries who borrow and receive TA in parallel from more than one entity. An evaluation specifically of the IMF-World Bank collaboration would seem particularly valuable given the importance and multifaceted

nature of the engagement between the sister institutions, the lapse of the Joint Management Action Plan, and the recent introduction of a number of joint operational initiatives. Building on recent IEO evaluations which covered the relationship with the World Bank on social protection (IEO 2017) and fragile states (IEO 2018), this evaluation would assess how well the organizations have been working in practice, including at both country and strategic levels, the degree to which comparative advantage is effectively leveraged, and the scope for improving such collaboration.

## IV. IMF ENGAGEMENT AND ADVICE ON SPECIFIC ISSUES

13. **The IMF and Capacity Development.** Capacity development (CD) is one of the IMF's core activities, accounting for more than one-quarter of the Fund's budget. The 2005 IEO evaluation of *IMF Technical Assistance* (TA) (IEO, 2005) examined the process of TA prioritization and allocation, the effectiveness of TA delivery, and the monitoring and evaluation of TA. Almost a decade later, an IEO update (IEO, 2014a) noted that much has changed since that evaluation, including greater emphasis on a demand-driven approach and results-based management, efforts to better integrate CD into country engagement strategies, the multiplication of regional TA centers, rising reliance on external funding and partnerships, and the integration of TA and training under the broader function of CD. The evaluation of the *IMF's Role in Fragile States* (IEO, 2018) raised a number of concerns about the effectiveness of Fund's CD work on these countries. The recently concluded review of the IMF's CD strategy (IMF, 2018d) called for further steps to clarify roles and responsibilities of internal and external stakeholders; strengthening of prioritization and monitoring; better tailoring and modernization with a focus on implementation; improved sharing of CD information; and further progress in external coordination, communication and dissemination of information. In this context, concerns were raised about ensuring adequate Board oversight and strategic direction for CD work; the integration of CD work in country engagement strategies; the sustainability and fungibility of external financing; and the need to better incentivize CD work. Against this background, it may be useful for the IEO to launch a second-generation evaluation examining how recent changes have affected the relevance, quality, reliability, and effectiveness of the IMF's CD activities in member countries. To make this manageable, the evaluation could focus on one particular area of CD work. One area that would seem particularly pertinent and timely would be CD work on debt management, which is now being ramped up in light of the increased attention in this area and where there are issues related to both internal and external coordination.

14. ***IMF Interactions with Member Countries/Role as a Trusted Advisor.*** The 2009 evaluation of *IMF Interactions with Member Countries* (IEO, 2009b) found that the effectiveness of IMF interactions with members was uneven and identified a range of concerns including strategic dissonance with advanced economies and questions about relevance, even-handedness, and country understanding for emerging market and developing economies. A subsequent evaluation on *The Role of the IMF as a Trusted Advisor* (IEO, 2013) found some improvement since the GFC, but still identified a number of concerns about the relationship between the Fund and

members. Many of the concerns have continued to recur in recent IEO evaluations and to be highlighted by Executive Directors in Board discussions—such as for example, limited tenure of country assignments and sometimes lack of value added in country dialogue as staff time and resources have been spread thin as the Fund's role has broadened in a resource-limited environment. Against this background, a joint update of the 2009 and 2013 evaluations would provide a useful stocktaking and opportunity to flag emerging issues.

15. **IMF Engagement with Commodity Exporters.** The drop-off in commodity prices in recent years has increased pressures on commodity-exporting countries that had previously benefitted from a period of high prices, particularly as the decline seems likely to be persistent. A number of commodity exporters have approached the IMF for financing, while the IMF has also provided policy advice on how to respond to lower export prices in the context of surveillance. While commodity-exporting countries have a broad range of characteristics, they face some common challenges, including how to judge the right balance between adjustment and financing; appropriate fiscal rules and sovereign wealth fund objectives; approaches to exchange rate management to respond to terms-of-trade shocks especially for countries with more inflexible exchange rate regimes; and strategies for diversification and mitigation of "Dutch disease effects." This evaluation would assess how well the IMF has supported commodity exporters in the face of a shifting external environment, including policy advice both before and after the price drop, application of relevant conceptual frameworks, recognition of local conditions, and the availability of suitable financing instruments.

16. **IMF Engagement with Small States.** The IMF has 34 small state members with a population less than 1.5 million representing 18 percent of the membership although less than 0.2 percent of global GDP. The Fund engages with small state members through bilateral surveillance, financial support, and capacity development. Until 2012, this work tended to be fragmented across departments. In 2013, the Executive Board reviewed the Fund's work with small states and concurred on an approach to enhance engagement (IMF, 2013a). A number of operational changes have been implemented, including to increase access available under lending facilities for emergency natural-disaster assistance. A staff guidance note on engagement with small developing states was issued in January 2018, and work is continuing on how the Fund can contribute to building resilience in small states vulnerable to natural disasters. Nonetheless, there continue to be concerns that small state members do not receive adequate attention from the Fund, in terms of financial or staff resources. This evaluation would assess the extent to which IMF engagement with small states has been strengthened since the launching of the 2013 strategy. Thus, the evaluation would assess the IMF's role in small states across multiple dimensions, including the analytical work program, the appropriateness of the lending toolkit, efforts to strengthen institutional capacity in small states, and the nature of IMF collaboration with multilateral and key bilateral partners in such engagement.

## ANNEX 1. ONGOING AND COMPLETED EVALUATIONS AND EVALUATION UPDATES

### Ongoing evaluations

1. IMF Financial Surveillance
2. IMF Advice on Unconventional Monetary Policies

### Completed evaluations

1. Evaluation of Prolonged Use of IMF Resources (2002)
2. The IMF and Recent Capital Account Crises: Indonesia, Korea, Brazil (2003)
3. Fiscal Adjustment in IMF-Supported Programs (2003)
4. Evaluation of the IMF's Role in PRSPs and the PRGF (2004)
5. The IMF and Argentina, 1991–2001 (2004)
6. IMF Technical Assistance (2005)
7. The IMF's Approach to Capital Account Liberalization (2005)
8. IMF Support to Jordan, 1989–2004 (2005)
9. Financial Sector Assessment Program (2006)
10. Multilateral Surveillance (2006)
11. The IMF and Aid to Sub-Saharan Africa (2007)
12. IMF Exchange Rate Policy Advice (2007)
13. Structural Conditionality in IMF-Supported Programs (2007)
14. Governance of the IMF: An Evaluation (2008)
15. IMF Involvement in International Trade Policy Issues (2009)
16. IMF Interactions with Member Countries (2009)
17. IMF Performance in the Run-Up to the Financial and Economic Crisis: IMF Surveillance in 2004–07 (2011)
18. Research at the IMF: Relevance and Utilization (2011)
19. International Reserves: IMF Concerns and Country Perspectives (2012)
20. The Role of the IMF as Trusted Advisor (2013)
21. IMF Forecasts: Process, Quality, and Country Perspectives (2014)
22. Recurring issues from a Decade of Evaluation: Lessons for the IMF (2014)
23. IMF Response to the Financial and Economic Crisis (2014)
24. Self-Evaluation at the IMF: An IEO Assessment (2015)
25. Behind the Scenes with Data at the IMF: An IEO Evaluation (2016)
26. The IMF and the Crises in Greece, Ireland, and Portugal (2016)
27. The IMF and Social Protection (2017)
28. The IMF and Fragile States (2018)

**Completed evaluation updates**

1. Prolonged Use of IMF Resources—Revisiting the 2002 IEO Evaluation (2013)
2. Fiscal Adjustment in IMF-Supported Programs—Revisiting the 2003 IEO Evaluation (2013)
3. IMF Technical Assistance—Revisiting the 2005 IEO Evaluation (2014)
4. Revisiting the IEO Evaluations of The IMF's Role in PRSPs and the PRGF (2004) and The IMF and Aid to Sub-Saharan Africa (2007) (2014)
5. The IMF's Approach to Capital Account Liberalization—Revisiting the 2005 IEO Evaluation (2015)
6. Multilateral Surveillance—Revisiting the 2006 IEO Evaluation (2017)
7. IMF Exchange Rate Policy Advice—Evaluation Update (2017)
8. Structural Conditionality in IMF-Supported Programs—Evaluation Update (2018)
9. Governance of the IMF—Evaluation Update (2018)

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__________, 2017b, *IMF Exchange Rate Policy Advice—Evaluation Update* (Washington: International Monetary Fund).

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[2] IEO reports are available on the IEO website: www.ieo-imf.org.

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__________, 2018c, “Group of Twenty: The IMF’s Institutional View on Capital Flows in Practice,” July (Washington).

__________, 2018d, “2018 Review of the Fund’s Capacity Development Strategy—Overview Paper,” October (Washington).