

PROGRESS REPORT TO THE IMFC ON THE ACTIVITIES OF THE INDEPENDENT EVALUATION OFFICE

April 8, 2011

1. Since its last report in October 2010, the Independent Evaluation Office (IEO) has completed its evaluation of *IMF Performance in the Run-Up to the Financial and Economic Crisis: IMF Surveillance in 2004–07* and has begun work on two new evaluations. The IEO expects to submit its evaluation of *Research at the IMF: Relevance and Utilization* to the Executive Board shortly.
2. *IMF Performance in the Run-up to the Financial and Economic Crisis: IMF Surveillance in 2004–07*. The Executive Board discussed this evaluation on January 26, 2011. The evaluation found that the IMF fell short in warning member countries about risks to the global economy and the buildup of vulnerabilities in their own economies in the run-up to the financial and economic crisis that began to manifest in mid-2007. The evaluation concluded that the IMF's ability to identify the mounting risks was hindered by factors including: a high degree of groupthink; intellectual capture; a general mindset that a major financial crisis in large advanced economies was unlikely; weak internal governance; and an institutional culture that discouraged contrarian views.
3. While acknowledging the many initiatives that the IMF has launched to address weaknesses revealed by the crisis, the evaluation emphasized the need for further action to prepare the institution to address future challenges. Of key importance, the evaluation called on the IMF to recalibrate its analysis in surveillance to emphasize risks and vulnerabilities and to cultivate a culture that is proactive in crisis prevention. The nature of the crisis meant that the report focused on financial sector issues, yet most of its recommendations dealt with institutional changes that would improve the IMF's capacity to scan for risks and vulnerabilities across the board. These recommendations included changes to institutional structures and incentives to strengthen accountability, foster better assessment of risks, promote candor and clarity in messages, and enhance the ability to "speak truth to power." The crisis has highlighted the importance of a strong, effective, and well-equipped IMF. This can only be achieved if the Board, Management, and membership, work closely together to ensure that the problems detected by this report are addressed vigorously.
4. The Managing Director expressed broad agreement with the evaluation's conclusions and recommendations and emphasized the importance of making key recommendations actionable. He highlighted in particular the need for more progress on: promoting diverse and dissenting views within the institution; integrating the analysis prepared across the institution; and delivering clear messages on risks and vulnerabilities.
5. The Executive Board concurred with the general thrust of the evaluation and its recommendations. Executive Directors considered that the evaluation provided a balanced assessment of the failure of Fund surveillance to adequately anticipate and warn about the global crisis. They stressed the need to further enhance capacity to better integrate financial and macroeconomic surveillance and multilateral and bilateral surveillance, noting that improvements were needed in the institutional culture as well as in analytical capacity. While reform initiatives undertaken since the onset of the crisis will help enhance the candor and traction of surveillance, Executive Directors agreed that further action should be considered. Directors generally agreed that more should be done to seek

alternative or dissenting views, to broaden the diversity of staff—including their educational background and skill mix—and to strengthen incentives for the Fund to “speak truth to power.” Directors also considered it crucial that the Fund deliver a consistent message through the *WEO*, *GFSR*, and other publications.

6. Management and staff are now charged with formulating an implementation plan. Implementation of needed changes will require close Management attention and careful oversight by the Executive Board, as well as the support of authorities in member countries.

7. **Ongoing Evaluation Work.** The IEO expects to issue shortly an evaluation of IMF research, focusing on its relevance and utilization, primarily to member country authorities. The IEO has initiated work on two new evaluations: on the role of the IMF as trusted advisor and on IMF advice and country perspectives on international reserves. The IEO is consulting with various stakeholders to help define the proposed focus and approach for each evaluation and will post draft issues papers for public comment.

8. **Follow-up on IEO Evaluations.** In December 2010, the Executive Board considered a supplement to the Management Implementation Plan (MIP) first presented in May 2010 to follow-up on the evaluation of *IMF Interactions with Member Countries*. The Board agreed that the proposals contained within the MIP fulfilled the requirement of a forward-looking implementation plan for Board-endorsed recommendations of IEO reports. The MIP and supplement were released on January 11, 2011, with a Public Information Notice on the Board action.

9. In its October report, the IEO noted widespread concern about weaknesses in the system for following up on IEO evaluations. One issue is the process for monitoring the implementation of IEO recommendations endorsed by the Board. Another concern is how to ensure follow through on broader policy issues raised by IEO evaluations that are of concern to the Board but that go beyond those recommendations endorsed by the Board. There has been discussion of having the next external evaluation of the IEO take up these issues or pursuing alternatives for follow up on IEO evaluations. To support this process, the IEO has begun preparing background material cataloguing its recommendations and action taken in these areas by the Fund.

10. Completed evaluations, IEO Annual Reports, and other documentation are available on the IEO website at www.imo-imf.org.