

MESSAGE FROM THE DIRECTOR

This third *Annual Report*, the first under my tenure as Director of the IEO, describes the activities of the IEO during the past year and a half. We have aligned the time frame of the report with that of our fiscal and work program years. As a result, during this transitional year, developments over a period exceeding one calendar year are covered.

The last year has been a very important one in the history of the IEO. As envisaged at the time of the creation of the office, the fifth year of operation of the office coincided with a period of reflection about what had been achieved and what changes would help the IEO better fulfill its original mandate of increasing transparency and accountability, as well as strengthening the learning culture of the IMF. As part of that exercise, the Executive Board appointed an External Evaluation Panel and charged it with investigating whether the IEO is meeting its goals.

The Panel's report was discussed by the Executive Board in April 2006. Executive Directors agreed with the report that the IEO had served the IMF well and had earned strong support across a broad range of stakeholders. They also welcomed the Panel's observation that inside and outside interviewees were overwhelmingly of the view that the IEO has acted independently. Directors concurred that a more focused orientation, together with strong support from the Executive Board and Management would help ensure the IEO's continued usefulness and relevance. Chapter I of this *Annual Report* discusses the main findings and recommendations of the Evaluation Panel as well as the reactions of Executive Directors and describes concrete actions taken since then to follow up on the recommendations.

Chapter II of the *Annual Report* summarizes the findings and recommendations of five additional completed evaluations: on IMF Technical Assistance; the IMF's Approach to Capital Account Liberalization; IMF Support to Jordan, 1980–2004; the Financial Sector Assessment Program (FSAP); and Multilateral Surveillance. The status of three ongoing projects, on Structural Conditionality (SC) in IMF-Supported Program, on the Role of the IMF in Determining the External Financing Envelope in Sub-Saharan African Countries, and on IMF Advice on Exchange Rate Policy, is discussed in Chapter III. Finally, Chapter IV describes the recently approved work program for FY2007 and beyond, which adds four projects to the pipeline: Aspects of IMF Corporate Governance (including the role of the Executive Board), the IMF's Interactions with its Member Countries, the IMF's Research Agenda, and the IMF's Approach to International Trade Issues.

Important general lessons pertaining to strengthening IMF surveillance emerged from our two most recent evaluations which are particularly germane as the IMF implements its Medium-Term Strategy. The FSAP evaluation found that much improvement could be achieved in ensuring future coverage of all systemically important countries, in addressing cross-border issues and, more generally, in better integrating financial sector analysis with bilateral surveillance. The Multilateral Surveillance evaluation found that there is room to

achieve a better integration of both financial and macroeconomic dimensions as well as bilateral and multilateral policy analysis and policy prescriptions. It called for a better “customer focus” in IMF products. This evaluation also stressed the need to enhance the impact of the Executive Board and the IMFC and smaller country groupings in multilateral surveillance activities.

Conducting effective evaluations of IMF activities is not possible without the cooperation of those being evaluated and feedback from capitals and external observers. I and the rest of the IEO staff would like to express our thanks to the Executive Board, IMF Management, and the staff for their time and responsiveness. At the same time, we would also express our appreciation to the many outside stakeholders who have shared their thoughts and perspectives with us.

Thomas A. Bernes
Director, IEO