

## **OBJECTIVES AND MODES OF OPERATION OF THE IEO**

### **A. Purpose of the IEO<sup>30</sup>**

The purpose of the IEO, as outlined in its Terms of Reference, is to systematically conduct objective and independent evaluations “on issues, and on the basis of criteria, of relevance to the mandate of the IMF.” The terms of reference further elaborate that the IEO is intended to:<sup>31</sup>

- Serve as a means of enhancing the learning culture of the IMF;
- Strengthen the IMF’s external credibility;
- Promote greater understanding of the work of the IMF throughout its membership; and
- Provide independent feedback to the Executive Board in its governance and oversight responsibilities over the IMF.

The work of the IEO is envisaged as complementing the review and evaluation work being conducted within the IMF and is expected to improve the IMF’s ability to draw lessons from its experience and to more quickly integrate improvements into its future work.

### **B. Independence**

Independence of evaluation is critical if it is to be credible. This aspect of evaluation was emphasized in the Executive Board discussions that led to the establishment of the Independent Evaluation Office. The Terms of Reference explicitly state that the “IEO will be independent of IMF management and staff and will operate at arm’s length from the IMF’s Executive Board.” The following provisions are designed to achieve this objective:

- The Director of the IEO is appointed solely by the Executive Board, IMF management, while it may be consulted in the selection process, is not involved in

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<sup>30</sup> Additional background to the thinking behind the goals and mode of operations of the office is given in “Making the IMF’s Independent Evaluation Office Operational: A Background Paper,” prepared by the Evaluation Group of Executive Directors, August 7, 2000 ([www.imf.org/external/np/eval/evo/2000/Eng/evo.htm](http://www.imf.org/external/np/eval/evo/2000/Eng/evo.htm)).

<sup>31</sup> For the full terms of reference of the IEO, see <http://www.imf.org/external/np/ieo/tor.htm>.

making the selection.<sup>32</sup> The Director is specifically precluded from appointment or reappointment to an IMF regular staff position at the end of the term of office.

- With a view to ensuring that the IEO is staffed with independent and highly qualified individuals, the Director of the IEO is solely responsible for the selection of IEO personnel, a majority of whom must come from outside the IMF.<sup>33</sup> IEO staff report exclusively to the Director of the IEO and not to IMF management.
- The budget of the IEO is prepared by the Director and submitted directly to the Executive Board for approval. IMF management is not involved at any stage of the process.
- The IEO's work program is determined by the Director in light of consultations with members of the Executive Board and other interested stakeholders, from both inside and outside the IMF. The work program determined by the Director is presented to the Executive Board for review, but is not subject to the Board's approval.

### **C. Transparency and Accountability**

The IEO has developed procedures which allow for extensive consultations in designing each evaluation project and also for receiving substantive inputs during implementation.

To ensure consultation at the design stage, each evaluation begins with the preparation of an issues paper that identifies the questions to be addressed and, to the extent possible, the methodology to be followed. The issues paper is posted on the IEO website ([www.imf.org/ieo](http://www.imf.org/ieo)) to elicit comments from a wide set of interested external observers. The IEO also seeks comments from Executive Directors, IMF staff and management, and member country governments (especially in the case of evaluations involving individual countries). The comments received are taken into account in determining the final terms of reference for the study, which is also posted on the website.

The responsibility for the research undertaken and the conclusions reached must necessarily rest with the IEO. However, in conducting its evaluations the IEO interacts extensively with concerned parties both inside and outside the IMF. A unique feature of IEO evaluations, which distinguishes it from other external analyses of IMF activities, is that the IEO has access to internal IMF documents not normally made public and can also interview IMF staff concerned with the subject of the evaluation. For evaluations involving individual countries,

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<sup>32</sup> The initial terms of reference provided for a four-year term, renewable for a second term of up to three years. In November 2004, the Board modified these terms to provide for a single nonrenewable terms of six years. The new Director, Mr. Thomas Bernes, was appointed on these terms in June 2005.

<sup>33</sup> The maximum length of appointment for full-time staff in the IEO is six years.

consultations are held in the country concerned with both the authorities and a broad range of other interested parties, including civil society. Furthermore, the issues paper posted on the IEO website specifically invites interested parties to make submissions to the IEO on issues covered by the issues paper.

An important aspect of transparency and credibility is the assurance that IEO reports will be published and disseminated to a wide audience. The IEO's Terms of Reference provide that the reports, once they have been considered by the Executive Board, will be promptly published "unless in exceptional circumstances the Executive Board were to decide otherwise." All evaluation reports prepared by the office have been published.

To ensure full transparency, IEO reports are published in the form in which they were submitted to the Executive Board, without being changed in any way in light of comments received from management.<sup>34</sup> Comments received on the evaluation report from IMF management and staff, along with the IEO's reactions to those comments, if any, are submitted to the Executive Board as separate documents for the Board meeting at which the evaluation report is discussed. These documents are published together with the evaluation report and a summary of the Executive Board discussion. Once released to the public, the report is immediately posted on the IEO's website, followed by publication of the print version.<sup>35</sup>

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<sup>34</sup> The only exception would be for purely factual corrections, for which an errata page, identifying the specific corrections made, would be issued.

<sup>35</sup> A full list of IEO publications is available on the IEO website at [www.imf.org/external/np/ieo/pap.asp](http://www.imf.org/external/np/ieo/pap.asp).

Revised Administrative Budget: Independent Evaluation Office  
(In current U.S. Dollars) 1/

	FY2005		FY2006		FY2007
	Budget	Outcomes 2/	Revised Budget 3/	Projected 4/	Budget
<b>Total</b>	<b>4,300,147</b>	<b>3,727,515</b>	<b>4,459,850</b>	<b>4,457,383</b>	<b>4,530,786</b>
Regular staff allocation 3/	2,800,380	2,436,953	2,902,420	2,902,420	3,074,600
<i>Of which:</i>					
Contractual staff (temporary fill-in of vacancies) 3/			...	109,364	
Discretionary Budget	1,373,100	1,198,082	1,426,203	1,444,963	1,320,366
Experts and contractuels 5/	860,600	759,171	891,203	935,841	825,067
Business travel and seminars	500,000	433,404	523,000	491,352	483,299
Other fungible budgets	12,500	5,507	12,000	17,770	12,000
Publications	126,667	92,480	131,227	110,000	135,820

1/ In this presentation, the IEO's budget includes the costs of publications, which previously had been treated as part of a centrally managed budget.

2/ The outcome for 2005 excludes the cost of the search for the new IEO Director (\$96,000).

3/ The original FY2006 budget was increased by \$82,280. This amount had been netted from the initial budget proposal reflecting an average expected vacancy rate IMF-wide. The projected outturn for FY2006 makes full use of the regular staff allocation.

4/ As of July 13, 2005.

5/ Excludes contractual staff under regular staff allocation.

### **IEO OUTREACH SEMINARS AND WORKSHOPS IN 2005–06**

The IEO seeks to reach as broad an audience as possible in its outreach efforts, consistent with its budgetary constraints. The following is a list of events in which IEO staff participated in 2005 and the first four months of 2006.

***January 17–19, 2005, Johannesburg, South Africa***

Presentation on PRGF/PRSP evaluation at Strategic Partnership for Africa seminar

***February 8, 2005, Washington, DC, U.S.A.***

Discussion at the Institute for International Economics on capital account liberalization.

***March 16, 2005, London, U.K.***

Workshop on TA evaluation results attended by officials and NGOs.

***April 23–27, 2005, Tokyo, Japan***

Workshop on PRSP/PRGF evaluation at the Ministry of Finance, attended by senior officials and academics who are members of the advisory panel on MDBs.

***August 15–16, 2005, Rabat, Morocco***

IEO Director's consultations with authorities on IEO role and activities.

***August 17, 2005, Tunis, Tunisia***

IEO Director's consultations with authorities on IEO role and activities.

***August 18–19, 2005, Algiers, Algeria***

IEO Director's consultations with authorities on IEO role and activities.

***August 25, 2005, Beijing, China***

Presentation at the People's Bank of China on capital account liberalization.

***October 10, 2005, Singapore, Singapore***

IEO Director's consultations with authorities on IEO role and activities.

***October 13–14, 2005, Bangkok, Thailand***

IEO Director's consultations with authorities on IEO role and activities.

***November 1–2, 2005, Berlin, Germany***

International Experts Meeting on IEO evaluation projects, jointly hosted by Capacity Building International, Germany (InWent) and the IEO. Focus was on the capital account liberalization, TA, and FSAP evaluations.

***November 7–8, 2005, London, U.K.***

Consultations with NGOs, senior officials, and academics on IEO role and activities.

***November 28, 2005 Abu Dhabi, U.A.E***

IEO Director's consultations with authorities on IEO role and activities.

***December 12–13, 2005, Zurich, Switzerland***

Presentation on the role and activities of the IEO.

***December 14, 2005, Berne, Switzerland***

Seminar on capital account liberalization.

***February 22, 2006, Basle, Switzerland***

Seminar on FSAP at the Bank of International Settlements.

***February 26, 2006, Bangkok, Thailand***

Seminar on FSAP sponsored by the Bank of Thailand.

***April 21, 2006, Washington, D.C., U.S.A.***

Workshop on the IMF's Role in the Determination of the External Resource Envelope in Sub-Saharan African Countries, organized by IEO.

***May 15, 2006, Washington, D.C., U.S.A.***

Informal Workshop to discuss the IEO's Evaluation of the IMF's Advice on Exchange Rate Policy, May 15, 2006, organized by IEO.

**TERMS OF REFERENCE FOR THE EXTERNAL EVALUATORS OF IEO**  
**SEPTEMBER 14, 2005**

**Purpose of the evaluation**

As foreseen in the terms of reference of the Independent Evaluation Office (IEO), the Executive Board has decided to initiate an external evaluation of the IEO. The purpose of the evaluation is to assess the effectiveness of the IEO and to consider possible improvements to its structure, mandate, operational modalities, or terms of reference. The main points of reference for the assessment are the IEO's goals, as set out in its terms of reference, namely to:

- serve as a means to enhance the learning culture within the IMF;
- strengthen the IMF's external credibility;
- promote greater understanding of the work of the IMF throughout its membership;
- support the Executive Board's institutional governance and oversight responsibilities.

**Focus of the evaluation**

In assessing the IEO's goals as set out in Section 1, the evaluators are requested to give particular attention to the following topics:

- (i) *Independence of the IEO.* The actual and perceived independence of the IEO is a key element for its successful operation. Has the framework defining the relationships between the IEO, Management, and the Executive Board ensured its independence? Has the staffing of the office (internally and externally recruited personnel) and of the evaluation teams (full-time IEO personnel and external consultants) contributed to its independence? How independent are IEO evaluations perceived inside and outside the IMF?
- (ii) *Topics for evaluation.* The IEO terms of reference contains only very broad guidelines regarding the choice of evaluation topics. Has the choice of topics been appropriate in view of the IEO's goals, as set out in Section 1, and the IMF's institutional needs? How has the broad-based consultation process worked in defining evaluation topics? Has the guideline regarding the avoidance of interfering with operational activities or attempting to micro-manage the institution been effective? Is there an appropriate division of labor between the IEO, the Office of Internal Audit, and the self-evaluation efforts? Should the IEO's role in assessing the IMF's organizational structure and internal processes be strengthened?

(iii) *Conduct of evaluation.* Providing the opportunity for different parties to comment an evaluation before its finalization while ensuring its independence constitutes a difficult trade-off. How have these issues been dealt with?

(iv) *Evaluation results.* The effectiveness of independent evaluations hinges on the quality of the reports and the relevance and usefulness of their recommendations. How do target audiences (both internal and external) perceive the overall quality of IEO reports? Were the recommendations generally perceived as useful by staff, management, the Board, and external audiences? Was an appropriate balance achieved between generality and specificity of the recommendations? Are follow-up procedures sufficient to ensure effective implementation of approved recommendations? Should the IEO's role in monitoring follow-up be strengthened? Is the current number of evaluations appropriate in terms of the IMF's ability to react effectively to the recommendations? Have the IEO's dissemination and outreach activities within and outside the IMF been appropriate and effective?

### **Evaluators**

The evaluation will be carried out by Ms. Karin Lissakers (Chairperson), Mr. Ishrat Husain and Ms. Ngaire Woods. They shall conduct their work freely and objectively and shall render impartial judgment and make recommendations to the best of their professional abilities. As noted in the IEO's terms of reference, an important element of the evaluation would be the solicitation of input from a broad range of stakeholders, both from the official as well as the non-governmental community.

### **Access to confidential information and protection of confidentiality**

The evaluators shall have unrestricted access to interview staff, Management, and Executive Board members, as well as to access all relevant IMF and IEO documents, minutes, and internal staff memoranda needed to carry out their task.

The evaluators undertake not to disclose, deliver, or use for personal gain or for the benefit of any person or entity without the consent of the IMF, any restricted or confidential information in possession of the IMF that they receive in the course of the evaluation. The Chairman of the Evaluation Committee will request an appropriate officer of the IMF to review the draft evaluation report with the purpose of pointing out to the evaluators any inadvertent disclosure of restricted or confidential information.

The evaluators are free to request information from country authorities and other sources outside the IMF as they deem appropriate.

### **Evaluation report: publication, Executive Board consideration, and comments**

The IMF reserves the exclusive right to publish the report, and the evaluators undertake not to publish any part of the report separately. The staff, Management, the Executive Board, and



the IEO will have the opportunity to respond to relevant parts of the evaluation report in draft form, as well as in final form. Evaluators are free to take account of any comments on the draft evaluation report.

Comments on the final evaluation report shall be considered part of the official record. There is a strong presumption that the Executive Board will decide to publish the evaluation report, any comments thereon, as well as the conclusions of the Executive Board consideration of the report.

### **Resources and timing**

The budget for the external evaluation of the IEO is expected to be US\$175,000 (excluding any administrative support from Executive Directors or IMF/IEO staff that might be requested by the evaluators). Within this total, and in consultation with the Chairman of the Evaluation Committee, the evaluators may arrange for research assistant support. The IMF will provide administrative support for the external evaluation.

The evaluators shall be provided with a letter of engagement, setting forth the terms and conditions approved by the Chairman of the Evaluation Committee. The “Terms of Reference of the External Evaluation of the Independent Evaluation Office,” dated September 14, 2005, shall be attached to the letter and acceptance of the engagement by the evaluators shall also mean acceptance of the “Terms of Reference.” The engagement will expire with delivery of the evaluation report and its consideration by the Executive Board, or if the Executive Board determines that the engagement should be terminated for any reason.

Evaluators will begin work in September 2005; completion of the evaluation report is expected for January 2006. The evaluators will keep the Chairman of the Evaluation Committee informed of the progress of the work.

**EVALUATION OF PROLONGED USE OF IMF RESOURCES: RECOMMENDATIONS, BOARD RESPONSE,  
AND SUBSEQUENT FOLLOW-UP 1/**

IEO Recommendation	Executive Board Response 2/	Staff Task Force Recommendations and Board Response 3/	Follow-Up 4/
<i>Institutional Arrangements and Rationale for IMF Involvement</i>			
<p>Adopt an operational definition of prolonged use, as a trigger for enhanced “due diligence” (i.e. ex-post assessments and forward-looking consideration of “exit” strategies). The criterion could distinguish between general and concessional resources.</p> <p>Make greater efforts to judge whether countries are ready to implement credible programs and be more selective in extending financial support. Use of IMF Resources proposals should contain an explicit and frank assessment of the readiness of borrowers to implement programs.</p> <p>Aim to provide the international community with credible alternatives to IMF lending arrangements as a condition for other official flows.</p>	<p>Directors saw merit in a definition to trigger greater due diligence. Many Directors noted that a definition should carefully differentiate low income-countries relying on concessional resources. Several Directors cautioned that a definition should not be interpreted as creating a new classification of member countries and that there should not be an a priori judgment that prolonged use necessarily implies a problem.</p> <p>Directors supported the recommendation that staff papers be more candid in assessing institutional capacity and ownership. They emphasized the importance of explaining downside risks and avoiding any bias towards overoptimism. Implementation of initiatives relating to ownership would be an ongoing process, sometimes involving difficult judgments, in particular regarding more selectivity in the provision of IMF financial assistance, where strong country ownership is lacking. A number of Directors stressed that greater selectivity should not imply giving up on difficult cases.</p> <p>Directors noted that it would be desirable to develop credible alternatives to indicate to the outside world the IMF’s approval of members’ policies and looked forward to a discussion of the signaling function. They noted need for care in preparation and consultation, including with the Paris Club.</p>	<p>For general resources cases, prolonged users should be defined as countries that have spent seven or more of the last ten years under stand-by or extended arrangements, including precautionary arrangements, which was the definition used in the IEO evaluation.</p> <p>For concessional resources, enhanced assessment and strategy procedures would be triggered after a country has gone through two multi-year arrangements under concessional facilities.</p> <p>Efforts to improve program design should be accompanied by greater selectivity in extending IMF financial support, based in part on the assessment of implementation capacity and ownership.</p> <p>The IMF should have effective ways to signal its views on policies to a country’s donors and creditors outside a IMF-supported program. Article IV staff reports, Press Information Notices and “assessment letters” provide important vehicles. This topic should be taken further in the review of IMF role in low-income countries. Donors’ and other lenders’ concerns about burden-sharing should not lead to inappropriate lending decisions by the IMF.</p>	<p>Definition adopted. The Board reviewed the policy on longer term program engagement in May 2006. Directors agreed to make two changes in the LTPE definition. First, all members will now be considered as having LTPE if they have spent at least seven out of the last ten years under programs supported by the IMF. Second, time spent under precautionary arrangements that remain undrawn does not count toward LTPE, parallel to the treatment of members using the Policy Support Instrument.</p> <p>Semi-annual reporting of the incidence of prolonged use is taking take place on this basis.</p> <p>Principal case-by-case follow-up will be through the internal review process and Board review of individual country cases, with periodic assessments as part of the regular conditionality review.</p> <p>The issue of signaling was taken up in the Board’s subsequent discussion on Signaling Assessments of Members Policies, although it did not address all the relevant issues brought up in the evaluation. This review resulted in the discontinuation of Staff Monitored Programs for signaling purposes. The Board discussed the issue of signaling on several occasions in 2004–05, culminating in the establishment in October 2005 of the Policy Support Instrument, which provides policy support and endorsement to low-income countries that do not need IMF financing and whose policies meet the standards of upper credit tranche conditionality.</p>

**EVALUATION OF PROLONGED USE OF IMF RESOURCES: RECOMMENDATIONS, BOARD RESPONSE,  
AND SUBSEQUENT FOLLOW-UP (CONTINUED) 1/**

<b>IEO Recommendation</b>	<b>Executive Board Response 2/</b>	<b>Staff Task Force Recommendations and Board Response 3/</b>	<b>Follow-Up 4/</b>
Programs for identified prolonged users should include an explicit exit strategy.	Directors stressed the desirability, where appropriate, of the elaboration of corrective measures as part of a conscious "exit strategy."	The proposed assessment and strategic planning exercises (see below) would include an explicit "exit strategy" where appropriate for ending prolonged use. An element of such a strategy would include helping countries widen their options for external financing.	Policy adopted, with an explicit definition of prolonged use as the trigger (see above).
Introduce a differentiated rate of charge for prolonged users as a signaling device.	The Board did not support a differentiated rate of charge for prolonged users.	Not recommended	Recommendation rejected. No follow-up necessary.
<b><i>Program Design</i></b>			
Specific operational procedures should be developed to ensure greater emphasis in program design on the domestic policy formulation process, in order to maximize ownership: (i) modify procedures towards the authorities having the initial responsibility for proposing a reform program; (ii) encourage a process whereby core program elements are subject first to a policy debate within the member's own political institutions; (iii) surveillance should help create a better understanding of what would be expected if a program should become necessary; (iv) more explicit discussion of major uncertainties and how policies would be adapted if things turn out differently.	Directors broadly agreed with the recommendations. Many Directors underscored that they should be seen as part of a broader effort to ensure greater effectiveness of programs. They saw a need for continuing effort to improve program design, which would draw on the fresh perspectives provided by the report.	IEO's recommendations were consistent with lessons emerging from recent country experience. The revised conditionality guidelines, 5/ incorporate many of the recommendations and provide the appropriate vehicle to put them into practice.	The internal 2005 review of the conditionality guidelines found that substantial changes have been made in the direction of increasing national ownership, and made suggestions to enable further progress in this direction. Key cross-country findings were also assessed in the review of EPAs discussed by the Board in May 2006.
Programs should emphasize key institutional changes and strengthening implementation capacity more.	Directors underscored the importance of increasing the effectiveness of technical assistance in support of institutional capacity building.	The Task Force recommended that ongoing efforts to address these issues in operational work should be enriched by future work on program design, including research efforts, focusing on links between structural reforms and program objectives.	Regular conditionality reviews will monitor progress.  The August 2005 Review of PRGF Program Design examined the role of institutions in supporting growth and avoiding crises.

**EVALUATION OF PROLONGED USE OF IMF RESOURCES: RECOMMENDATIONS, BOARD RESPONSE,  
AND SUBSEQUENT FOLLOW-UP (CONTINUED) 1/**

<b>IEO Recommendation</b>	<b>Executive Board Response 2/</b>	<b>Staff Task Force Recommendations and Board Response 3/</b>	<b>Follow-Up 4/</b>
<p>Greater selectivity in program content with: (i) further strengthening collaboration with the World Bank; (ii) a more differentiated use of conditionality; (iii) greater efforts to tailor the time frame of program design to foreseeable length of reform and adjustment; (iv) more in-depth analysis of real economy responses to key policy elements and less attention to fine-tuning financial programming.</p> <p>Systematic ex post assessment of programs, with priority to identified prolonged users and key messages reported to the Board. Key internal database on program targets and outcomes (MONA) should be upgraded to facilitate such assessments.</p>	<p>Directors were encouraged that recommendations on streamlining of IMF conditionality and need for more effective collaboration with the World Bank were already being internalized as part of the review of conditionality.</p> <p>Directors endorsed the recommendations.</p>	<p>The Task Force agreed with the IEO recommendations, many of which were already incorporated into the revised conditionality guidelines. Directors stressed importance of continued efforts to improve program design, including improved collaboration with the World Bank. Directors looked forward to further work by the staff on the relationship between external financing, adjustment, and sustainability; on the analytic framework for program design; on trade-offs between macroeconomic and structural policies; and on the parameters for assessing program success.</p> <p>The Task Force proposed that a process of ex post assessment and strategic planning would take place for all prolonged users, with lessons presented to the Executive Board.</p>	<p>The 2005 review of the conditionality guidelines found major shifts in the coverage of structural conditionality, consistent with a greater focus on critical measures.</p> <p>Design of IMF-supported Programs, discussed by the Board in December 2004, examined in detail issues regarding program success, financing, adjustment and debt sustainability, analytical frameworks used in program design, and specific macroeconomic and structural policies.</p> <p>Policy adopted. As of end-June 2006, 42 ex post assessments had been completed. A number of these assessments were led by staff from outside the area department.</p> <p>The MONA database is being upgraded.</p>
<b>Surveillance</b>			
<p>Steps should be taken to further strengthen surveillance in program cases. A case exists for greater institutional separation between surveillance and programs, especially in the context of prolonged use.</p>	<p>Regular IMF surveillance of program countries should reassess economic developments and strategy from a fresh perspective.</p>	<p>The Task Force agreed with the overall thrust of the IEO recommendations which it believed would be best addressed through continuing implementation and refinement of recently revised (i.e., 2002) surveillance guidelines. These guidelines proposed that surveillance should assess more carefully social and political realities; reach out more widely to legislative bodies and line ministries and ensure that timing of consultations is such as to enable them to influence policy.</p> <p>Directors concurred with the priority given to increasing effectiveness of surveillance, including the need to combine clarity and candor with recognition of social and political realities. They highlighted the importance of efforts to ensure that Article IV consultations in program countries "step back" from program context.</p>	<p>Progress will be monitored as part of regular biennial reviews of surveillance. At the 2004 review, Directors concluded that the quality of surveillance in program countries had improved since 2002. 6/</p>

**EVALUATION OF PROLONGED USE OF IMF RESOURCES: RECOMMENDATIONS, BOARD RESPONSE,  
AND SUBSEQUENT FOLLOW-UP (CONCLUDED) 1/**

<b>IEO Recommendation</b>	<b>Executive Board Response 2/</b>	<b>Staff Task Force Recommendations and Board Response 3/</b>	<b>Follow-Up 4/</b>
<i>Internal Governance Issues</i>			
<p>The ability of staff to analyze political economy issues should be strengthened.</p> <p>Procedures should be evolved to help avoid the appearance of political interference in determining whether programs deserve support. All programs should be prefaced by an explicit assessment of implementation risks. When management suggests risks are high, the Executive Board should be given an opportunity to express on the record its own assessment of the tradeoffs.</p> <p>A review of internal incentives facing staff should be undertaken with a view to minimizing turnover of staff working on countries and to foster increased candor and accountability.</p>	<p>Most Directors encouraged the staff to enhance its analysis and reporting of political economy issues in staff reports. Some Directors cautioned that IMF should be careful in venturing into this area, given its comparative advantage in technical analysis and the need to avoid intruding on internal political matters.</p> <p>Directors underscored the importance of distinguishing clearly between technical and political judgments and that staff should be candid in its assessment of risks.</p> <p>Recommendations are largely management responsibility. They have important implications for internal governance and deserve careful consideration.</p>	<p>The Task Force recommended an effort to enhance reporting and analysis of political issues, when it has important implications for economic policy. Staff capacities could be strengthened through a modest investment in training.</p> <p>The Task Force noted that there can be no question about the responsibility of management for recommending and the Executive Board for considering and approving, all requests for the use of IMF resources. Staff nonetheless has an important responsibility for providing candid technical assessment of risks and tradeoffs, and should continue to strengthen both substance and presentation of this material.</p> <p>While overall personnel policies do not need to be changed, management should consider guidelines and incentives to reduce excessive mobility in country teams. The best way to guard against excessive mobility would be to reestablish spare staff capacity to absorb changing demands.</p>	<p>Training courses in political economy have now been established.</p> <p>Greater candor on risks is being adopted in presentations to the Executive Board. Staff reports increasingly emphasize the risks to the IMF, including the political risks to implementation.</p> <p>The Human Resources Department, at the request of management, is developing a more centralized approach to mobility. As part of an effort to ensure appropriate incentives, the Human Resources Department, in collaboration with departmental senior personnel managers provides career counseling that emphasizes the acquisition of new competencies rather than frequent mobility.</p>

1/ Following the Board discussion of the IEO report on September 23, 2002, management established a Task Force to follow-up on the recommendations contained in the evaluation report. The specific proposals of the Task Force were then discussed by the Executive Board on March 7, 2003.

2/ This column summarize the reaction of the Executive Board on each recommendation as reported in the summing up by the Chair. Readers are invited to refer to the full text of the summary of the discussion which is included in the published version of the report and can be accessed from the IEO website ([www.imf.org/External/NP/ieo/2002/pu/index.htm](http://www.imf.org/External/NP/ieo/2002/pu/index.htm)).

3/ "Conclusions of the Task Force on Prolonged Use of IMF Resources," February 4, 2003. The Task Force report and the summing up of the subsequent Board discussion on that report are available at [www.imf.org/external/np/pdr/ufr/2003/020403.pdf](http://www.imf.org/external/np/pdr/ufr/2003/020403.pdf).

4/ The column on follow-up is meant to provide factual information on additional steps taken after the Board discussion of the Task Force report. It is not intended to be an evaluation of any follow-up by management or the Executive Board.

5/ "Guidelines on Conditionality," September 8, 2002. Available at [www.imf.org/External/np/pdr/cond/2002/eng/guid/092302.htm](http://www.imf.org/External/np/pdr/cond/2002/eng/guid/092302.htm).

6/ See Public Information Notice at [www.imf.org/external/np/pdr/surv/2004/082404.pdf#pin](http://www.imf.org/external/np/pdr/surv/2004/082404.pdf#pin).

**EVALUATION OF THE ROLE OF THE IMF IN RECENT CAPITAL ACCOUNT CRISES: RECOMMENDATIONS, BOARD RESPONSE,  
AND SUBSEQUENT FOLLOW-UP**

IEO Recommendation	Executive Board Response 1/	Follow-Up 2/
<p><i>Pre-Crisis Surveillance</i></p> <p>Article IV consultations should take a stress-testing approach to exposure to a potential capital account crisis, extending and systematizing existing approaches. Staff should assess the potential impact of itemized risks. Staff should develop greater understanding of political constraints on policy, in part through wider dialogue. Market views and political economy analysis should be reflected in staff reports.</p> <p>Management and the Executive Board should take additional steps to increase the impact of surveillance, including through making staff assessments more candid and more accessible to the public. In particular, there should be a presumption of publication for Article IV staff reports. A clear presumption of publication for country-related staff working papers should also be established. Biennial reviews of surveillance should focus on assessing the impact of surveillance on key systemic issues in major emerging market economies.</p> <p>The Executive Board should agree on a systematic plan to provide institutional incentives for greater candor in the assessment of country risks and vulnerabilities, possibly including measures to give greater independence to surveillance teams.</p>		
	<p>Directors concurred with the overriding message of the report for surveillance: to strengthen the effectiveness of IMF surveillance by extending and systematizing current guidelines for assessing vulnerabilities. They supported the call to itemize major potential shocks. Directors emphasized that stress-testing should not be over-generalized and mechanical, but should focus on key risks facing a particular country. Most agreed that the IMF should develop greater understanding of political constraints on policy while cautioning that this should not lead to interference in domestic affairs. A number cautioned that this could be counterproductive if it causes staff to lose focus and press for policies and reforms that are not macro-critical. Most Directors saw great value in systematic discussions with the domestic and the international financial and business communities—but emphasized that the staff would need to assess private sector views critically.</p> <p>Directors strongly supported greater candor in the assessment of country risks and vulnerabilities in staff reports, building on the increase in candor that has already occurred. Nevertheless, Directors expressed a range of views regarding the potential conflict between candor and transparency, and the implications of the proposed shift from voluntary to presumed publication of staff reports. Many Directors warned that greater candor could adversely affect both the IMF’s dialogue with countries and market confidence in the context of the publication of staff reports. Some of these Directors felt that what really matters is candor in face-to-face consultations with the key decision-makers in a country, rather than in the staff report. Many other Directors strongly supported presumed publication. These believed that concerns about candor are overstated, and that surveillance would be more effective in building ownership and influencing policy if IMF analyses and recommendations are made public. It was agreed that the Board would return to the issue of presumed publication of staff reports during the discussion on transparency.</p> <p>Many Directors were not in favor of shifting from voluntary to presumed publication of staff reports, but a number strongly supported presumed publication.</p> <p>Directors encouraged the provision of institutional incentives to the staff to facilitate candor.</p>	<p>The Board paper for the August 2004 Biennial Review of Surveillance noted that the IMF had substantially strengthened its capacity to identify vulnerabilities in member countries. In particular, it noted that balance sheet issues had received substantial attention in surveillance of advanced and emerging market economies, although various components of vulnerability assessments were not well integrated when presented in staff reports.</p> <p>Since then, the identification of balance sheet vulnerabilities has been highlighted as a key area in guidance to staff on surveillance, and methodological tools and training have been developed that will help gradually mainstream balance sheet analysis in IMF surveillance..</p> <p>The May 2006 version of the Operational Guidance Note for staff on Document Publication notes that staff reports should be drafted independently of the authorities’ publication intentions and should include the staff’s candid assessment of risks, their frank views on the authorities’ policy stance and their policy advice on all areas deemed relevant.</p> <p>Since July 1, 2004, publication of staff reports for Article IV consultations is now “voluntary but presumed.” Moreover, the member’s agreement to publish staff reports is now required for management to recommend a program with exceptional access to the Board. This policy was confirmed at the time of the June 2005 review of transparency policies. Rules regarding modifications of reports prior to publication (including deletions) were also tightened at that time. Moreover, publication of country-related staff working papers is not subject to the consent of the member countries concerned.</p> <p>Increasing the impact of surveillance is one of the key objectives of the IMF’s Medium-Term Strategy (MTS) . Staff have been encouraged to develop regional and country-level outreach strategies for this purpose. A broader, institution-wide communications strategy will be brought to the Board in Spring 2007.</p> <p>Some area departments have experimented with having a different mission chief for Article IV consultations with program countries or have a senior staff member not assigned to the country concerned participate in Article IV consultation missions.</p> <p>Biennial reviews of surveillance will remain the main vehicle for assessing progress.</p>

**EVALUATION OF THE ROLE OF THE IMF IN RECENT CAPITAL ACCOUNT CRISES: RECOMMENDATIONS, BOARD RESPONSE, AND SUBSEQUENT FOLLOW-UP (CONTINUED)**

<b>IEO Recommendation</b>	<b>Executive Board Response 1/</b>	<b>Follow-Up 2/</b>
<p>Escalated signaling should be used when key vulnerabilities identified over several rounds of surveillance are not addressed. Such a policy would help strike the necessary balance between the role of the IMF as confidential advisor and its role as a vehicle for transmitting peer reviews on members' policies and for providing quality information to markets.</p> <p>Moreover, management and the Board should explore the possibility of seeking "second opinions" from outside the IMF as part of the surveillance process when the authorities disagree with the staff's assessment on issues that are judged to be of systemic importance. This would also serve as a building block for the idea of escalated signaling.</p>	<p>Many Directors considered that escalated signaling might be an idea worth pursuing. A number of these Directors reserved judgment on the suggestion until they had more information about how it would work. A few Directors felt that escalated signaling would undermine the IMF's role as confidential advisor, and doubted that it would help in preventing crises or designing more effective programs.</p> <p>Many Directors were not in favor of inviting second opinions from outside the IMF. Whereas some Directors considered that a second opinion would bring a fresh perspective that could help resolve differences of opinions with the authorities, many were concerned that it could encroach on the role of the Board, and undermine the work of the staff. A few Directors also noted that this approach has been tried and has failed.</p>	<p>There was no consensus in the Board on escalated signaling or second opinions.</p>
<b>Program Design</b>		
<p>A comprehensive review of the IMF's approach to program design in capital account crises should be undertaken. In particular, (i) greater attention should be paid to balance-sheet interactions and their consequences for aggregate demand; (ii) program design should allow for a flexible response, in case unfavorable outcomes materialize; (iii) conventional financial programming-based conditionality should be reviewed, and possibly adapted for capital account crisis circumstances; (iv) parsimony and focus should be basic principles of structural conditionality and crises should not be used for pushing reforms that are not critical to crisis resolution, however desirable they may be in the long run; and (v) there should be an agreed communications strategy, characterized by a high degree of transparency.</p>	<p>Directors endorsed these recommendations and hoped forthcoming staff papers on program design and balance sheet effects would give due attention to them. They endorsed the report's focus on the restoration of confidence, and the importance of balance sheet effects on key macroeconomic variables. The balance sheet approach should be closely linked to debt sustainability analysis. There should also be more work on twin (banking and capital account) crises. Directors agreed that design should allow for a flexible response to unfavorable developments; that the conventional financial programming conditionality should be reviewed; and that there should be an agreed communications strategy. Nevertheless, a few Directors cautioned against excessive emphasis on risks and alternative scenarios in program documents, since it would be difficult to know all risks upfront and since such emphasis could erode the program's effectiveness in building confidence in the chosen action plan.</p>	<p>The December 2004 review of the design of IMF-supported programs examined the analytical toolkit for program design; including tools for balance sheet and debt sustainability analysis, and the performance of these tools for macro projections underlying program design. In April 2006, staff also completed a review of whether there were any systematic differences between precautionary and non-precautionary programs in terms of policies, conditionality, and macroeconomic outcomes, and whether these differences were attributable to the nature of the arrangement or to the member's economic problems. In the context of designing programs for crisis prevention, a recent staff study found that during periods of heightened vulnerability, IMF financing over the preceding year as a share of short-term debt can be effective in lowering the likelihood of a crisis.</p> <p>The 2005 review of the conditionality guidelines found that substantial changes have been made in the direction of greater parsimony in structural conditionality, and made suggestions to enable further progress in this direction.</p>
<b>The IMF as Crisis Coordinator</b>		
<p>The IMF should ensure that financing packages provided in response to capital account crises are sufficient to generate confidence and be of credible quality. In particular, (i) packages should not rely on parallel official financing unless the terms of access are transparently linked to IMF-supported strategy; and (ii) terms for the involvement of other institutions providing parallel financing should be specified at the outset.</p>	<p>The Board agreed with the recommendation, while noting that there are limitations on the IMF's influence on other sources of financing. The Board stressed that the recently revised access policy must be observed and emphasized the importance of program credibility, not large financing packages, as the heart of IMF involvement. Directors fully supported the idea of moving toward more explicit procedures for collaboration with regional development banks and others and clear delineation of responsibilities, while noting that such procedures do not by themselves guarantee effective coordination.</p>	

**EVALUATION OF THE ROLE OF THE IMF IN RECENT CAPITAL ACCOUNT CRISES: RECOMMENDATIONS, BOARD RESPONSE, AND SUBSEQUENT FOLLOW-UP (CONCLUDED)**

IEO Recommendation	Executive Board Response 1/	Follow-Up 2/
<i>Internal Governance Issues</i>		
<p>The IMF should be proactive in its role as crisis coordinator. In particular, (i) management should provide a candid assessment of the probability of success to the Executive Board and shareholders; (ii) management should ensure that the technical judgment of staff is protected from excessive political interference; and (iii) the nature of private sector involvement will have to be determined on a case by case basis. The IMF should play a central role in identifying circumstances where concerted efforts can help overcome "collective action" problems, based on meaningful dialogue with the private sector.</p> <p>Human resource management should be adapted to develop and better utilize country expertise, including political economy skills, and to establish "centers of expertise" on crisis management issues. In particular, (i) the length of staff assignments should be monitored to ensure continuity of staff expertise and a critical mass of country expertise in each systemically important emerging market economy should be developed; (ii) Resident Representatives should play a more central role in surveillance and program design; and (iii) internal procedures should protect those who raise uncomfortable issues through proper channels, but consequently attract complaints from the authorities.</p>	<p>The Board endorsed the recommendations. While Directors were in favor of early involvement of the Board in program discussions, a number of them observed that the Board and major members should not seek to micro-manage the operational details of programs or influence IMF missions in the field. Many Directors attached particular importance to the early involvement of the private sector as an integral element of crisis resolution.</p> <p>The Board generally agreed on the need for institutional change to ensure that the IMF is in a position to respond rapidly to member countries facing crises. Some Directors supported creation of centers of expertise in crisis management, whereas others put greater emphasis on mechanisms for drawing upon available expertise and experience in the event of a crisis. A number of Directors favored longer country desk assignments, while others noted the importance of staff mobility in broadening the experience and perspectives of the staff and maintaining its impartiality. Most Directors favored a greater role for Resident Representatives with a few noting that only relatively senior resident representatives would be sufficiently acceptable to the authorities to play such a role. Directors supported modification of internal guidelines and human resource procedures. They also noted that human resource issues are management's responsibility.</p>	<p>The new framework for exceptional access decisions provides a mechanism for encouraging more systematic early consideration of circumstances in which the success of a program would be enhanced by voluntary efforts to address collective action problems among private creditors and where steps to address an unsustainable debt burden need to be part of a strategy to restore growth and financial viability.</p> <p>The Monetary and Financial Systems Department was reorganized, with steps taken to provide a center of expertise on banking crisis resolution issues.</p> <p>An Internal Task Force is reviewing broad strategic issues related to the IMF's Resident Representative program.</p> <p>The Board paper for the August 2004 Biennial Review of Surveillance (BSR) called for a reassessment of mechanisms for staff rotation and mobility to achieve greater continuity in the policy dialogue, enhance mutual trust, and build up country-specific knowledge. Guidance issued to staff following the 2004 BSR highlights a number of steps to foster good policy dialogue with the authorities. The internal review process has also been strengthened to provide greater continuity, for instance through the mainstreaming of pre-brief meetings. The introduction by the MTS of three-year surveillance agendas providing a medium-term framework to guide staff's work should also go a long way in providing the needed continuity.</p>

1/ This column summarizes the reaction of the Executive Board on each recommendation as reported in the summing up by the Chairman of the July 16, 2003 Board meeting. Although care has been taken to ensure accuracy, readers are invited to refer to the full text of the summary of the discussion which is included in the published version of the report and can be accessed from the IEO website ([www.imf.org/external/np/ieo/2003/cac/index.htm](http://www.imf.org/external/np/ieo/2003/cac/index.htm)).

2/ The description of follow-up is intended to provide a factual indication of any additional steps taken since the Board discussion of the evaluation report. It is not intended to be an evaluation of any follow-up by management or the Executive Board. Where staff internal assessments have been made of relevant issues, these are reported but have not been subject to any independent confirmation by the IEO.



# EVALUATION ON FISCAL ADJUSTMENT IN IMF-SUPPORTED PROGRAMS: RECOMMENDATIONS, BOARD RESPONSE, AND SUBSEQUENT FOLLOW-UP

IEO Recommendation	Executive Board Response 1/	Follow-Up 2/
<b>Program Design and Internal Review</b>		
<p>Program documentation should provide a more in-depth and coherent justification for the magnitude and pace of programmed fiscal adjustment and how it is linked with assumptions about the recovery of private sector activity and growth. It will also facilitate the review process and discussions at the Board, as well as provide external audiences with a more convincing explanation for the rationale for the program and identify possible risks and subsequent corrective measures.</p> <p>The internal review mechanism should place more emphasis on the early stages of the process. A more intensive process of brainstorming is needed at the time of the initial brief, and the brief should also articulate more clearly the basis for the fiscal program, and its links with debt sustainability issues.</p> <p>Programs should give greater emphasis to the formulation and implementation of key institutional reforms in the fiscal area, even if (as is likely) they cannot be fully implemented during the program period. Programs should make stronger efforts to specify those structural reforms which should be carried out during the program horizon as part of a broader road map of priority reforms. This road map, and its prioritization, should ideally have emerged in the course of surveillance and be updated regularly as outlined below.</p>	<p>Directors supported this recommendation, and deemed that this initiative would instill greater discipline in program design, enhance transparency, and provide the public and the private sector with a more convincing rationale for the program, thereby helping to overcome political obstacles to implementation. Nevertheless, they recognized that uncertainties regarding key macroeconomic variables, particularly in countries in crisis, and concern about the implementation of policy measures and reforms complicate this task. A few Directors cautioned against spurious precision in such justifications, and others noted that the magnitude and pace of programmed fiscal adjustment may also reflect political constraints. Several Directors stressed the importance of better integrating debt sustainability analyses into program work. Directors looked forward to further staff analysis of growth projections in the context of program design discussions.</p> <p>Directors supported this recommendation. They welcomed management's recent initiative aimed at enhancing the effectiveness of the review process, which, <i>inter alia</i>, encourages early consultation between departments.</p> <p>Directors agreed that key institutional reforms can be more critical for fiscal sustainability than short-term expenditure and revenue measures. However, they recognized that short-term measures are hard to avoid in many cases, especially if the immediate objective is economic stabilization. Medium-term institutional reform may be of particular relevance in countries that have achieved macroeconomic stability and where "second generation" reforms are necessary to foster growth and reduce longer-term vulnerabilities. Some Directors agreed with the report's suggestion that reforms should be broken down into those that require executive action, legislation, and capacity building.</p> <p>Directors, however, pointed out that in crisis situations, the pressing need to resolve the crisis may pose serious constraints on a medium-term approach. They reiterated the conclusion of the discussion on the Evaluation of the Role of the IMF in Recent Capital Account Crises (BUFF/03/125) that a crisis should not be used as an opportunity to force long-awaited reforms, however desirable they may be, in areas that are not critical to the resolution of the crisis or to address vulnerability to future crises. Careful judgment will continue to be needed to focus conditionality on those reforms judged critical while at the same time ensuring that adequate progress is made in addressing vulnerabilities and achieving the program's goals during the period of the arrangement, thus safeguarding the IMF's resources.</p>	<p>The Fiscal Affairs Department (FAD) has prepared a guidance note to staff on how reports might best present the appropriate size, pattern and composition of fiscal adjustment.</p> <p>Following a recent assessment of the internal review process by a staff task force, management endorsed several changes to the process, including more systematic discussions of key issues prior to the preparation of briefing papers. In particular, pre-brief meetings that bring together originating and reviewing departments for a discussion of the main policy issues are required for all Article IV consultations and new program briefs.</p> <p>See below.</p>

**EVALUATION ON FISCAL ADJUSTMENT IN IMF-SUPPORTED PROGRAMS: RECOMMENDATIONS, BOARD RESPONSE,  
AND SUBSEQUENT FOLLOW-UP (CONTINUED)**

IEO Recommendation	Executive Board Response 1/	Follow-Up 2/
Surveillance		
<p>The surveillance process should be used more explicitly to provide a longer-term road map for fiscal reforms and to assess progress achieved.</p> <ul style="list-style-type: none"><li>• In collaboration with the authorities, the IMF should clearly identify in surveillance reports the most critical distortions in a country’s public finances from the perspectives of equity and efficiency.</li><li>• Such an analysis would provide a road map for fiscal reform in the future, with a clear sense of priorities. It would help to provide the basis for identifying critical reforms—particularly in areas where these reforms have been lagging—that would need to be addressed should IMF financing be required in the future.</li><li>• The identification in advance of areas considered critical will allow the authorities flexibility in the timing and packaging of reforms which is often lost if these reforms are flagged at the last minute in the context of a crisis situation. This approach would also help foster greater domestic debate on key reforms and hence would encourage homegrown solutions and greater ownership. Early and clear prioritization of reforms is also consistent with streamlining objectives—it will avoid last minute bunching of reforms under crisis situations.</li><li>• The analysis of fiscal reform priorities should be accompanied by an assessment of why certain important distortions were not addressed in the past and what lessons have been learned from past experience. This should include an effort to identify and unbundle the various constraints to critical reforms, including lack of technical capacity, areas where additional legislative action is necessary, and areas where key decisions from the executive branch are required.</li><li>• Surveillance should include more systematic efforts to estimate the extent of tax evasion and tax exemptions, including the use of cross-country comparisons.</li><li>• Public debt sustainability could help anchor the road map of fiscal reform priorities proposed above and to assess tradeoffs over time. At the same time, debt analysis provides a check of cumulative progress in improving fiscal systems that could also be reported in successive surveillance reports.</li></ul>	<p>Most Directors agreed that Article IV consultations should play a stronger role in identifying longer-term reform priorities and the causes of past failures in addressing fiscal problems, and that these analyses should inform subsequent program design. In this respect, the various initiatives to distinguish Article IV surveillance from program work are aimed at providing fresh perspectives.</p> <p>Some Directors considered the current framework of surveillance to be adequate for achieving the objectives of the IEO’s recommendation. Directors also called for staff reports to set out in more detail the progress in implementing the recommendations of ROSC and technical assistance missions, as well as key reform priorities. Nevertheless, they underscored that the ultimate responsibility to develop a fiscal reform agenda resides with the individual country authorities, while the IMF should stand ready to provide advice.</p> <p>Directors also stressed that, consistent with the IMF’s mandate, surveillance needs to focus on key issues of macroeconomic relevance, which will be different in each country, and should draw on the expertise of other institutions as appropriate. They encouraged the use of cross-country experiences and comparisons, including inputs from regional and multilateral surveillance, to assist in program design. Most Directors viewed Article IV consultations as the appropriate vehicle for staff to identify countries in need of an in-depth fiscal review, stressing that this identification process should be applied uniformly to all member countries of the IMF. In most cases, these needs could be accommodated through technical assistance and ROSCs.</p>	<p>A pilot exercise was conducted in 16 countries with a view to strengthening discussion of structural fiscal issues, building on fiscal strategy briefs produced by the FAD. Following on from this pilot, FAD now maintains and regularly updates fiscal strategy briefs for about 55 countries. These briefs can be used by area departments to inform discussions with the authorities on critical structural and institutional fiscal issues that can subsequently be covered in Article IV and program reports. In a number of countries, staff reports have included enhanced coverage of structural fiscal issues and prioritized agendas for reform.</p>

**EVALUATION ON FISCAL ADJUSTMENT IN IMF-SUPPORTED PROGRAMS: RECOMMENDATIONS, BOARD RESPONSE,  
AND SUBSEQUENT FOLLOW-UP (CONCLUDED)**

IEO Recommendation	Executive Board Response 1/	Follow-Up 2/
<b><i>Role of the IMF in Social Protection</i></b>		
<p>The IMF should clearly delineate the operational framework in which social issues will be addressed within program design in non-PRGF countries. This should include a clear indication of the IMF's responsibilities and activities in this area.</p> <p>The objective should be to assist middle-income countries to prepare and improve their institutional framework to allocate resources to critical social programs and to establish mechanisms to protect the most vulnerable groups in the face of external shocks and budgetary retrenchment.</p> <ul style="list-style-type: none"> <li>• The IMF could invite the authorities regularly during Article IV consultations to identify the existing critical social programs and social services that they would like to see protected in the event of adverse shocks. Participation on the part of the authorities would clearly be voluntary.</li> <li>• Successful implementation will depend heavily on having better and more transparent expenditure monitoring systems. On the basis of the priorities identified by the authorities, the IMF and the World Bank could join their accelerated efforts to reform public expenditure management (PEM) systems, specifically geared toward the social area, with a view to protecting the specified programs and spending categories.</li> <li>• This concrete application of the PEM initiative is particularly important because in many cases where there is an IMF-supported program the World Bank is also active with adjustment lending supporting the budget.</li> <li>• Surveillance would routinely report on these initiatives and their progress over time.</li> </ul>	<p>Directors agreed that an important aim of program design should be to protect critical social expenditures. However, they stressed, as recognized in the report, that the IMF should not become involved in the detailed selection and design of social policy; this task is outside both the IMF's mandate and its expertise. A number of Directors supported the IEO's call for updating of the 1997 guidelines that direct IMF work in the social area, in order to improve their clarity and effectiveness as an operational tool in protecting the most vulnerable from economic shocks and budgetary retrenchment. Other Directors, however, viewed the existing guidelines as adequate, and a few considered that the annual and medium-term budgets of non-PRGF countries already adequately identify critical social sector programs. These Directors recalled that the new framework for Bank-IMF collaboration on public expenditure issues should enhance countries' public expenditure reform strategies, including measures to protect critical social spending. Most Directors agreed with the recommendation that staff should inquire, during Article IV consultations, whether the authorities have identified social programs that they would like to protect in the event of a crisis, as they believed this would help dispel the criticism that IMF-supported programs unduly curtail social spending. A few others considered this recommendation impractical, as it would create significant costs and pressures for the authorities with little benefit.</p>	<p>During the discussions of the 2004 Biennial Review of IMF Surveillance, the Executive Board concluded that, "In members where shocks could have a sizeable impact on social conditions, most Directors were of the view that Article IV consultations and other contacts can offer an opportunity to solicit interested members' views on protection of social safety nets or of other priority expenditures in times of economic stress." The surveillance guidance note issued to staff in early 2005 calls for social and related issues—such as poverty, income distribution, social safety nets, and social expenditures—to be addressed, with due regard to principles of focus and selectivity. However, the guidelines do not mention the specific recommendation noted in the first bullet of column 1. 3/</p>

1/ This column summarizes the reaction of the Executive Board on each recommendation as reported in the Acting Chairman's Summing Up of the August 29, 2003 Board meeting. Although care has been taken to ensure accuracy, readers are invited to refer to the full text of the summary of the discussion, which is included in the published version of the report and can be accessed on the IEO website at [www.imf.org/External/NP/ieo/2003/fis/index.htm](http://www.imf.org/External/NP/ieo/2003/fis/index.htm).

2/ The column on follow-up is meant to provide factual information on additional steps taken after the Board discussion. It is not intended to be an evaluation of any follow-up by management or by the Executive Board.

3/ See Surveillance Guidance Note, May 2005.

**EVALUATION OF POVERTY REDUCTION STRATEGY PAPERS AND THE POVERTY REDUCTION AND GROWTH FACILITY: RECOMMENDATIONS,  
BOARD RESPONSE, AND SUBSEQUENT FOLLOW-UP**

<b>IEO Recommendation</b>	<b>Executive Board Response</b>	<b>Follow-Up 1/</b>
<i>Aligning incentives and objectives</i>		
<p>1. Introduce greater flexibility in the implementation of the PRS approach to fit better the needs of countries at different stages of the process and with different capacities and political and administrative systems.</p> <p>Countries would be put more firmly in the driver's seat by determining themselves:</p> <ul style="list-style-type: none"> <li>i) How the policy formulation, implementation, and monitoring processes will be built up over time. Progress would be monitored against an explicit set of country-determined intermediate benchmarks.</li> <li>ii) What the output of these processes will be in terms of documents, with IMF process requirements minimized.</li> </ul>	<p>Directors broadly endorsed the recommendation, agreeing that the PRS approach will need to be implemented flexibly taking due account of country-specific circumstances and the core objectives of the PRS approach.</p>	<p>Several changes have been made to introduce greater flexibility. In addition to the shift in focus from the JSA to the Joint Staff Advisory Note (JSAN) (see below), the Annual Progress Report can now be more closely aligned with domestic processes, giving the country an opportunity to assess progress and set the agenda for the period ahead. In most cases, APRs will not be discussed by the IMF and World Bank Boards and will be distributed for their information only.</p> <p>The requirement that the PRS and the PRGF be fully consistent has been eased, with the aim of eliminating the need for last-minute formal adjustments to the strategy document.</p>
<p>2. Shift the emphasis of the initiative from the production of documents to the development of sound domestic policy formulation and implementation processes.</p> <p>This would involve the following elements:</p> <ul style="list-style-type: none"> <li>i) Build in greater results orientation.</li> <li>ii) Shift the emphasis of the incentives structure to achieving substantive changes in domestic policies and processes that are objectively measured.</li> </ul>	<p>Directors agreed that there should be less emphasis on document preparation and more on improving the capability of countries to develop and implement policies. Some Directors agreed that countries should set explicit criteria for judging progress toward key intermediate objectives, but many Directors cautioned that this should not imply excessive IMF involvement in assessing the country's decision-making process and should not establish an unwarranted direct linkage between such assessments and the IMF's lending decisions. Directors noted that further discussion was needed on how the IMF should react in cases where it believes that the pace of progress chosen is not ambitious enough.</p>	<p>JSANs (see below) are to provide constructive feedback to the authorities, focusing on a limited number of suggested key improvements that could be made to the strategy. This increased selectivity is intended to focus efforts on substantive changes in policies and processes.</p>
<p>3. Clarify the purpose of the Joint Staff Assessment and redefine the vehicle accordingly.</p>	<p>Directors called for a reformulation of the JSA with an emphasis on graduated rather than binary assessments.</p>	<p>The Board subsequently accepted the staff proposal to replace the JSA with a JSAN that focuses on providing feedback to the authorities on the PRSP and that drops the binary (yes or no) assessment of the suitability of the PRSP as a basis for concessional lending.</p>

**EVALUATION OF POVERTY REDUCTION STRATEGY PAPERS AND THE POVERTY REDUCTION AND GROWTH FACILITY: RECOMMENDATIONS,  
BOARD RESPONSE, AND SUBSEQUENT FOLLOW-UP (CONCLUDED)**

IEO Recommendation	Executive Board Response	Follow-Up 1/
<i>Clarifying the IMF's role and improving its effectiveness</i>		
<p>4. Clarify what the PRS approach implies for the IMF's own operations and strengthen the implementation of the agreed role. This would affect the following areas:</p> <p>i) IMF engagement in the PRS process.</p> <p>ii) PRGF-related activities including clarifying the IMF role where the PRSP does not yet provide an operational road map.</p> <p>iii) Streamline IMF documentation and Board scrutiny.</p>	<p>Directors agreed that the IMF needs to set out more clearly its role in the PRS approach in each country, based on the IMF's core mandate in macroeconomic and related structural policy issues.</p> <p>Many Directors also supported a more active role for the IMF in the public debate on macroeconomic policy design and implementation. Where PRSPs are not yet operationally viable, the IMF should not insist on immediate tight alignment between the PRSP and PRGF-supported program. Instead, IMF staff should work with these members to strengthen their macroeconomic frameworks in PRSPs. However, increased flexibility should not imply delinking the PRGF from the PRSP, and the IMF would still seek to apply the PRSP principles in its program work.</p>	<p>Additional work on the PRSP process will be done in the context of the Managing Director's Report on the IMF's Medium-Term Strategy and a planned paper on the role of the IMF in the PRS process and in donor collaboration will be prepared.</p> <p>Board scrutiny has been simplified, as PRS documents and corresponding JSANs will no longer be put automatically on the Board agenda. Instead, they will be issued for information and discussed only at an Executive Director's request.</p> <p>Where PRS documents do not provide an operational strategy, this can be set out in the context of PRGF-supported programs. Where the strategy has weaknesses that are critical to the success of PRGF-supported programs, the LOI/MEFP and staff report for the PRGF request or review is expected to set out how the weaknesses have been addressed.</p> <p>A separate JSAN is no longer required for PRSP preparation status reports; instead, a brief discussion of the status report is included in the PRGF staff report.</p>
<p>5. Strengthen prioritization and accountability on what the IMF itself is supposed to deliver within the broader partnership framework, built around the priorities emerging from the PRS process, and ensure resources match commitments.</p>	<p>Directors welcomed the emphasis on better defining priorities for the IMF's work in low-income countries and indicated that the prioritization of budget resources must be guided by the IMF's overall mandate. They called for a careful assessment of the resource implications of adapting the IMF's role along the lines of the report's recommendations.</p>	<p>See response to number 4 above.</p>
<p>6. The IMF should encourage a strengthening of the framework for establishing the external resources envelope as part of the PRS approach.</p>	<p>Directors indicated that the IMF should play a supportive role with donors and low-income members to help ensure adequate provision of aid to achieve the MDGs. In this regard, the IMF needs to consider how its signals can be clear and useful to its members.</p>	<p>The IMF and World Bank are working with a number of countries to develop alternative macroeconomic framework that reflect the larger amount of aid needed to meet MDGs.</p> <p>The Board has established a new policy support instrument and an exogenous shock facility (under the PRGF) for low-income countries that may not need a PRGF arrangement but seek IMF assessment and endorsement of their economic policies.</p>

1/ This column summarizes the reaction of the Executive Board on each recommendation as reported in the Acting Chairman's Summing Up of the July 21, 2004 Board meeting. Although care has been taken to ensure accuracy, readers are invited to refer to the full text of the summary of the discussion, which is included in the published version of the report and can be accessed on the IEO website at [www.imf.org/External/NP/ieo/2004/prspgrgf/eng/index.htm](http://www.imf.org/External/NP/ieo/2004/prspgrgf/eng/index.htm).

**EVALUATION OF THE ROLE OF THE IMF IN ARGENTINA, 1991–2001: RECOMMENDATIONS, BOARD RESPONSE,  
AND SUBSEQUENT FOLLOW-UP**

IEO Recommendation	Executive Board Response 1/	Follow-Up 2/
<i>Crisis Management</i>		
<p>The IMF should have a contingency strategy from the outset of a crisis, including in particular “stop-loss rules”—that is, a set of criteria to determine if the initial strategy is working and to guide the decision on when a change in approach is needed.</p> <p>Where the sustainability of debt or the exchange rate is in question, the IMF should indicate that its support is conditional upon a meaningful shift in the country’s policy while remaining actively engaged to foster such a shift. High priority should be given to defining the role of the IMF when a country seeking exceptional access has a solvency problem.</p>	<p>Most Directors viewed contingency planning as useful, but many noted that in a crisis or precrisis setting, it is not always possible to assess the various contingencies that might occur. Concern was also expressed that any indication that the IMF was developing contingent strategies could undermine confidence in the program. As regards specific stop-loss rules, while some Directors supported their consideration, most felt that defining and implementing such rules would be difficult or impractical.</p> <p>Directors agreed with the IEO’s recommendation. At the same time, they noted that assessing exchange rate or debt sustainability will necessarily entail judgment, and it is essential that the Board be provided with up-to-date and comprehensive information and analysis. Steps have already been taken since the Argentine crisis to strengthen the basis on which debt and exchange rate sustainability assessments are made. Directors indicated that they looked forward to an opportunity to assess whether further changes may be needed.</p>	<p>No consensus emerged in the Board meeting.</p> <p>In June 2002, the Board adopted a framework for more objective and standardized debt sustainability analysis; refinements to this framework were endorsed by the Board in July 2003.</p> <p>Debt sustainability analyses are now regularly included in staff reports for Article IV consultations and use of IMF resources. They play a central role in considering exceptional access and in the Evian approach of Paris Club creditors.</p> <p>Some progress is being made in the Board to define the role of the IMF in solvency problem cases, with emphasis on the use of Collective Action Clauses.</p>
<i>Surveillance</i>		
<p>Medium-term exchange rate and debt sustainability should form the core focus of IMF surveillance. To fulfill these objectives (which are already current policy), the IMF needs to improve tools for assessing the equilibrium real exchange rate that are more forward-looking and rely on a variety of criteria, examine debt profiles from the perspective of “debt intolerance,” and take a longer-term perspective on vulnerabilities that could surface over the medium term</p>	<p>Directors concurred with the IEO’s recommendation that medium-term exchange rate and debt sustainability should form the core focus of IMF surveillance. They cautioned that finding an appropriate operational measure of exchange rate sustainability would be difficult, but a few suggested that the development of such a measure by the staff should be a priority. Directors saw a continued need for greater candor in the treatment of exchange rate policy in the context of Article IV discussions. In order to avoid triggering a potentially destabilizing market reaction, some suggested that the scope for establishing procedures for handling sensitive topics during surveillance exercises should be explored by staff. As to debt sustainability, recent events have led to a reassessment of what level of debt is sustainable for emerging market countries, which is already reflected in the IMF’s work. Directors asked staff to continue to sharpen its analytical tools, and a few called for examining ways to strengthen the organization and independence of debt sustainability analysis work.</p>	<p>Upon completing the 2004 Biennial Review of Surveillance, the Executive Board established sharper exchange rate surveillance and improved analysis of debt sustainability as priority objectives. Since then, both areas have been receiving special emphasis in staff guidance, training, research and in the internal review process.</p>

**EVALUATION OF THE ROLE OF THE IMF IN ARGENTINA, 1991–2001: RECOMMENDATIONS, BOARD RESPONSE,  
AND SUBSEQUENT FOLLOW-UP (CONCLUDED)**

IEO Recommendation	Executive Board Response 1/	Follow-Up 2/
<b><i>Program Relationship</i></b>		
<p>The IMF should refrain from entering or maintaining a program relationship with a member country (in the form of a precautionary arrangement) when there is no immediate balance of payments need and there are serious political obstacles to needed policy adjustment or structural reform.</p> <p>Exceptional access should entail a presumption of close cooperation between the authorities and the IMF, and special incentives to forge such close collaboration should be adopted, including mandatory disclosure to the Executive Board of any critical issue or information that the authorities refuse to discuss with (or disclose to) staff or management.</p>	<p>Directors noted the possible risks associated with precautionary IMF arrangements, especially where there are serious political obstacles to needed policies and reforms, but most did not support the implication that the IMF should not enter into a program relationship with a member country when there is no immediate balance of payments need. They reiterated the value of precautionary arrangements as an important tool for supporting sound policies, while agreeing that there is a need to ensure that program standards and requirements are the same as those for all other arrangements.</p> <p>Directors stressed that all cases of the use of IMF resources, particularly cases of exceptional access, should entail a presumption of close cooperation. Many Directors agreed that there should be a requirement of mandatory disclosure to the Board of any critical issues which the authorities refuse to discuss.</p>	<p>The Board did not support the recommendation, so no explicit follow-up is expected. However, in response to the expiration of the Contingent Credit Line, there is an ongoing debate on the need for, and desirability of, a new policy that would clarify the use of exceptional access under precautionary arrangements. Many Directors support the existing IMF policies as adequate.</p>
<b><i>The Decision-making Process</i></b>		
<p>In order to strengthen the role of the Executive Board, procedures should be adopted to encourage (i) effective Board oversight of decisions under management's purview; (ii) provision of candid and full information to the Board on all issues relevant to decision making; and (iii) open exchanges of views between management and the Board on all topics, including the most sensitive ones.</p>	<p>Directors noted that the procedures for exceptional access adopted since the Argentine crisis have generally worked to strengthen the Board's involvement and ensure that decisions to continue program engagement under exceptional access are adequately informed. A number of Directors, however, saw a need for further discussion of approaches to strengthen the role of the Board. Further efforts to enhance decision making by the Board would include improvements in the provision of full information on all relevant issues and open exchanges of views between management and the Board on all topics, including the most sensitive ones.</p>	

1/ This column summarizes the reaction of the Executive Board on each recommendation as reported in the summing up by the Chair. Although care has been taken to ensure accuracy, readers are invited to refer to the full text of the summary of the discussion which is included in the published version of the report and can be accessed from the IEO website ([www.imf.org/ieo](http://www.imf.org/ieo)).

2/ The description of follow-up is intended to provide a factual indication of any additional steps taken since the Board discussion. It is not intended to be an evaluation of any follow-up by management or the Board.

## EVALUATION OF IMF TECHNICAL ASSISTANCE

IEO Recommendations	Executive Board Response	Task Force Recommendations 1/	Follow-Up 2/
<p><b>1. Prioritization and resource allocation</b></p> <p>The IMF should develop a medium-term country policy framework for setting TA priorities, incorporating country-specific strategic directions and linked to more systematic assessments of factors underlying past performance.</p>	<p>Directors endorsed this recommendation and generally supported the managerial approaches suggested for carrying it forward. In particular, most Directors agreed that in low-income countries, the PRSP should increasingly serve as a vehicle for identifying medium-term TA needs and improving coordination among agencies, although in a number of cases, the focus of PRSPs will need to be sharpened to carry out this role effectively. In other countries, Directors stressed the importance of developing country-centered frameworks for identifying TA needs and noted that a variety of approaches—possibly including greater use of Article IV consultations to assess needs—may be appropriate.</p>	<p>Short <i>TA Country Strategy Notes</i> (TACSNs) should be prepared for “intensive IMF TA users” and systemically important TA countries. With a strategic perspective developed in their surveillance or UFR activities, area departments would identify the issues/problems to be addressed by TA. TACSNs would present the IMF’s TA strategy to the authorities, and seek their input into that strategy. TACSNs should provide area and functional departments with a solid information base to further their dialogue on TA prioritization decisions. In view of the possible significant resource implications of this proposal and an inconclusive earlier experience with Technical Consultations, the proposal would be launched on a pilot basis.</p>	<p>Area departments already include TA monitoring on their Resident Representative terms of reference when applicable. 3/</p> <p>TACSN pilot has been completed in April 2006. An evaluation of experience with the TACSN pilot is currently ongoing, with a view to preparing a possible guidance note on the form and content for a next set of TACSNs under guidance from the Technical Assistance (TA) Subcommittee of the MTS Committee on Capacity Building (CCB).</p>
<p><b>2. Tracking progress and reasons for shortfalls</b></p> <p>The IMF should develop more systematic approaches to track progress on major TA activities and to identify reasons behind major shortfalls.</p>	<p>Directors supported the recommendation that at the outset of major TA activities, staff and authorities should agree on measurable indicators of progress covering all major stages of the TA life cycle. Better tracking includes careful explanation of shortfalls in execution, and candid staff reporting on obstacles to progress. However, on these endeavors staff should avoid imposing conditions on members without their consent. While supporting the view that implementation records should be an important guide in weighing TA requests, a number of Directors cautioned against using tracking indicators mechanistically for TA resource allocations.</p>	<p>The Task Force notes the IEO’s view on the TA Information Management System (TAIMS) that was being developed as “an opportunity to systematically improve tracking and monitoring of TA on a IMF-wide basis,” and a “vehicle through which enhanced monitoring practices become unified and more transparent across the institution.” Agreeing with that view, it notes that TAIMS is expected to systematically include clear ex ante set of progress indicators and identified risk factors, to record outputs and other measurable indicators, and to provide for their monitoring.</p>	<p>In the context of the Task Force on Performance Indicators, staff is seeking to identify different types of TA outputs for the purpose of tracking and monitoring performance.</p> <p>TAIMS now generates monthly mission activity reports.</p> <p>TAIMS is being extended to the IMF’s regional TA centers, and further work is ongoing on enhancing TAIMS as a monitoring tool. In particular, the Working Group on Monitoring and Evaluation (WGME) has been reconvened to explore and pursue the next steps in TAIMS’s development.</p>



### EVALUATION OF IMF TECHNICAL ASSISTANCE (CONTINUED)

IEO Recommendations	Executive Board Response	Task Force Recommendations 1/	Follow-Up 2/
<p><b>3. Interaction with authorities and local experts</b></p> <p>Greater involvement by the authorities and counterparts in the design of TA activities and arrangements for follow-up should be emphasized as a signal of ownership and commitment.</p>	<p>Directors concurred that greater involvement and ownership by the recipient authorities and discussion of options are crucial to greater TA effectiveness. They welcomed the proposals for more participation by country authorities in drawing up terms of reference (TORs) while systematically seeking their tangible commitments to the contemplated TA strategy or advice early on. However, a number of Directors cautioned that these indications of commitment should not be treated as conditionality for access to TA.</p>	<p>TA departments should further strengthen the dialogue with country authorities when drafting TORs for short- and long-term experts, and systematically seek their inputs. To enhance the likelihood of implementation, foster lessons learning, and disseminate best practices, those departments should systematically seek the authorities' consent to disseminate TA reports among the country's technical staff, IMF Executive Board, and selected donors. Broader circulation and availability of the TA reports could help in building consensus around proposed reforms and strengthen the authorities' resolve to follow up on recommendations.</p>	<p>TA departments have made efforts to enhance the dialogue with the authorities, including efforts to clearly lay out the authorities' and TA departments' expectations for TA operations. Actions suggested by the Task Force are being implemented by all departments. The preparation of TACSNs, in consultation with country authorities, would also contribute to the fulfillment of this objective.</p>
<p><b>4. Enhancing identification of options</b></p> <p>Stronger efforts should be made by TA experts to identify options and discuss alternatives with local officials prior to drafting TA recommendations.</p>		<p>When relevant, TA reports should record discussions with the authorities on alternative policy options, the considerations leading to them, and when there were differences of views summarize the authorities' views on key issues and recommendations.</p>	<p>Actions recommended by the Task Force are being implemented by TA departments. A department reports the adoption of practices whereby authorities are engaged in discussions of preliminary findings and alternative responses prior to drafting reports.</p>
<p><b>5. Ex post evaluations</b></p> <p>The program of ex post evaluations of TA should be widened and more systematic procedures for disseminating lessons put in place.</p>	<p>Directors highlighted the importance of ensuring that the scope of ex-post evaluations be carefully considered and integrated into a broader strategy to make TA delivery more effective. They concurred that external evaluations are a useful tool to enhance accountability and provide a fresh perspective, and that the Office of Technical Assistance Management (OTM), in collaboration with other departments, should continue to prepare and update its program of ex post evaluations and to assess shifts in TA demands across subject areas.</p>	<p>For larger TA projects, it is recommended that functional departments produce standardized self-assessments within three months of the conclusion of the project and include them in TAIMS. These self-assessments could be used as input to institutional lesson-learning and for ex post evaluations. To assist in this effort, it is proposed that OTM manage a TA self-assessment/evaluation knowledge base, which could be incorporated into future TA and made available to all IMF staff to maximize its potential benefits.</p>	<p>As a first step to designing a standardized data base on evaluations, TA departments have listed their existing evaluation practices and completed evaluations. The IMF-wide TA evaluation program has been completed for 2006, and the respective Board papers issued (<a href="http://www.imf.org/external/np/pp/eng/2006/071206.htm">http://www.imf.org/external/np/pp/eng/2006/071206.htm</a>).</p>

## EVALUATION OF IMF TECHNICAL ASSISTANCE (CONCLUDED)

IEO Recommendations	Executive Board Response	Task Force Recommendations 1/	Follow-Up
<p><b>6. Strategic decisions and tradeoffs</b></p> <p>The prioritization filters should be discontinued or replaced by ones that would more effectively guide TA allocation. Either course of action involves strategic decisions on trade-offs that need to be taken explicitly.</p>	<p>While Directors concurred that the case for discontinuing the current filters was strong, several of them observed that elements of this approach might usefully be preserved. TA resources prioritization should flow from a shared vision of the IMF's overall medium-term objectives—reflecting its core competencies—while at the same time retaining the flexibility to respond to the urgent needs of members. Directors agreed that the IEO's recommendations would entail more staff-intensive approaches to providing TA, including greater collaboration with country authorities and other TA providers. Going forward, Directors welcomed management's proposal to task staff to make concrete proposals on how to implement the IEO recommendations, taking into account budgetary costs, and implications for work practices and TA delivery, and looked forward to future discussion of these proposals, including on prioritization, before their implementation.</p>	<p>It is recommended that the current set of prioritization filters—deemed ineffective—be discontinued as the proposed remedial actions encompass the key ingredients for an effective prioritization of TA resources. If fully implemented, they would form a basic accountability framework for all the stages of the TA life cycle—prioritization, delivery, and monitoring and evaluation—against which the effectiveness of IMF TA can be gauged. To make it viable however a number of management and organizational challenges must be overcome, while its linkage to the efficient allocation of TA resources—the budget perspective—needs to be developed. The provision of adequate incentives for staff to implement the proposals, in particular for area department staff and resident representatives is critical.</p> <p>It is important that these proposals also feed into mechanisms that result in an efficient allocation of TA resources across countries, sectors, and policy initiatives on an evolving basis. Thus beyond the annual exercise, resource allocations for TA through the Medium Term Budget Framework will need to be informed by strategic decisions, which in turn, will require that emerging trends across departments be identified in a timely way.</p>	<p>Prioritization filters were discontinued. In their place, the TA Subcommittee has recommended a closer integration of the RAPs with the budgetary processes of both functional and area departments. To that end, and given the nexus between the RAP, TACSNs, and TA budgets, the TA Subcommittee has decided to set up a Working Group on Technical Assistance Resource Planning. The overall remit of the working group is to make recommendations with a view to improving procedures for allocating TA resources in a collaborative manner that is consistent with the strategic objectives of the IMF and country authorities. It is expected that the working group will present its initial findings and recommendations to the TA Subcommittee by the end of October 2006.</p>

1/ The Task Force was created by management on March 31, 2005 in response to the Executive Board discussion of the IEO's evaluation. Their report was discussed by the Executive Board on July 27, 2005.

2/ The description of follow-up is intended to provide a factual indication of any additional steps taken since the Board discussion of the evaluation report. It is not intended to be an evaluation of any follow-up by management or the Executive Board. Where staff internal assessments have been made of relevant issues, these are reported but have not been subject to any independent confirmation by the IEO.

3/ Terms of Reference for Resident Representatives in countries which are major TA recipients should list among their responsibilities an active involvement on TA implementation, follow-up TA activities by other providers in areas of interest to the IMF, while coordinating activities where those providers are receptive to this approach.

## EVALUATION OF THE IMF'S APPROACH TO CAPITAL ACCOUNT LIBERALIZATION

IEO recommendations	Executive Board response 1/	Follow-Up 2/
<p><b>Recommendation 1:</b> There is a need for more clarity on the IMF's approach to capital account issues:</p> <ul style="list-style-type: none"> <li>• The place of capital account issues in IMF surveillance could be clarified.</li> <li>• The IMF could sharpen its advice on capital account issues, based on solid analysis of the particular situation and risks facing specific countries.</li> <li>• The Executive Board could issue a statement clarifying the common elements of agreement on capital account liberalization.</li> </ul>	<p>Some Directors saw merit in further clarifying the scope of IMF surveillance to recognize explicitly the central importance of capital account policies; Directors also saw scope for sharpening the IMF's advice on capital account issues, urging the staff to base its policy advice on solid analysis of individual country situations. However, a variety of views were expressed on "the merit of an Executive Board statement clarifying the elements of agreement on capital account issues." Directors noted that they would have an opportunity to come back to this issue in the context of the IMF's ongoing strategic review.</p>	<p>Staff has been working on multiple research projects on various dimensions of capital account liberalization. RES has recently produced a comprehensive study providing a unified conceptual framework to organize the vast literature on the benefits and costs of financial globalization (IMF WP/06/189). In addition, research has been underway examining macroeconomic policies which could help developing economies effectively manage financial globalization.</p> <p>Staff initiated further analytical work, with a special focus on the interaction of prudential measures and capital controls that updates the integrated approach for the sequencing of capital account liberalization.</p> <p>A paper was presented to the Board in July 2006 which analyzed how countries can use domestic policies to reduce their vulnerability to shocks and, in particular, to sudden stops in capital flows or to external debt crises (Country Insurance: The Role of Domestic Policies, <a href="http://www.imf.org/external/np/pp/eng/2006/061906.pdf">http://www.imf.org/external/np/pp/eng/2006/061906.pdf</a>).</p>
<p><b>Recommendation 2:</b> The IMF's analysis and surveillance should give greater attention to the supply-side factors of international capital flows and what can be done to minimize the volatility of capital movements.</p>	<p>Directors welcomed the various initiatives under way in the IMF to strengthen research, analysis, and surveillance of the supply side of capital flows, and encouraged the staff to continue to build on the work already being undertaken at the IMF in order to further its understanding of supply-side factors and their operational and policy implications.</p>	

1/ This column summarizes the reaction of the Executive Board on each recommendations as reported in the Summing Up by the Chairman of the May 11, 2005 Board meeting. Although care has been taken to ensure accuracy, readers are invited to refer to the full text of the summary of the discussion, which is included in the published version of the report and can be accessed from the IEO website (<http://www.imf.org/External/NP/ieo/2005/cal/eng/index.htm>).

2/ The description of follow-up is intended to provide a factual indication of any additional steps taken since the Board discussion of the evaluation report. It is not intended to be an evaluation of any follow-up by management or the Executive Board. Where staff internal assessments have been made of relevant issues, these are reported but have not been subject to any independent confirmation by the IEO.

## EVALUATION OF THE IMF SUPPORT TO JORDAN 1989–2004: RECOMMENDATIONS, BOARD RESPONSE, AND SUBSEQUENT FOLLOW-UP

IEO Recommendation 1/	Executive Board Response 2/	Follow-Up 3/
<b><i>Broad lessons suggested by the IMF experience in Jordan</i></b>		
<p>The underlying rationale for key program design elements should be explained clearly in Board papers. In particular, judgments on the magnitude and composition of targeted adjustment need to be grounded in an explicit assessment of external and public debt sustainability over the medium term.</p> <p>In certain circumstances, structural conditionality can have significant value added in terms of encouraging and monitoring progress on reforms. However, underlying issues such as large and abrupt surges in grants require that programs be set in an explicitly longer-term perspective. Timetables need to be designed carefully, taking account of the political economy situation, especially when legislative action is involved.</p> <p>The IMF's program involvement would have been more effective if programs had given greater emphasis at an earlier stage to the formulation of key institutional reforms in the fiscal area.</p> <p>A wider dissemination of IMF TA reports would have contributed to more informed public discourse and shed light on the rationale for IMF policy advice on key issues.</p>	<p>Many Directors agreed that the Jordanian experience reinforces the need for Board papers to provide clearly the underlying rationale for key elements of program design. They also supported the IEO's call for greater candor in staff report assessments, especially of the risks to the program and recommendations on how best to mitigate and manage them.</p> <p>Directors agreed with the report's overall assessment: Jordan's long engagement in IMF-supported programs helped the authorities address macroeconomic stabilization challenges successfully, although structural rigidities remain to be addressed.</p> <p>While agreeing that structural conditionality had been well designed, many Directors also pointed to the lessons for the timing of these conditions offered by the Jordanian experience. In particular, they noted the importance of ambitious but realistic timetables that take into account a country's implementation capacity as well as the prevailing political and social environment.</p> <p>Directors considered that a longer-term perspective, with greater emphasis at an earlier stage on the formulation of key institutional reforms in the fiscal area, would have increased the effectiveness of IMF-supported programs</p> <p>Directors concurred with the IEO's lesson that a wider dissemination of IMF TA reports could have contributed to more informed public discourse and shed light on the IMF policy advice on key issues. At the same time, Directors noted that decisions on disseminating such reports are ones for the authorities to take.</p>	<p>Jordan has been under Post Program Monitoring (PPM) since July 2004. The macroeconomic framework and adjustment profile is based on the fiscal and external debt sustainability analysis. Staff reports under PPM have become more candid (see in particular EBS/05/154).</p>
<b><i>The IMF's future role in Jordan</i></b>		
<p>Help Jordan manage the projected decline in grants in a manner that preserves the gains made in the areas of macroeconomic stability and longer-term fiscal sustainability. This will be done by (a) helping the authorities design a macroeconomic framework that will achieve a smooth transition and (b) focusing on helping to design strategies to tackle Jordan's key remaining fiscal rigidities, including exploring alternative policy options to achieve the necessary structural reforms in the fiscal area.</p>	<p>The Board shared the view that Jordan still faces the challenges of adjusting to a sharply lower level of foreign grants and reducing fiscal rigidities. Most Directors noted that these challenges would have been less daunting had more progress been made on critical reforms during Jordan's longer-term program engagement.</p>	<p>The authorities have made progress in formulating their own medium-term macroeconomic adjustment strategy. Going forward, the staff remains in close consultation with the authorities through surveillance and the provision of technical assistance. The focus of future consultations will be on helping the authorities design a macro-fiscal framework that would preserve macroeconomic stability and ensure debt sustainability in the environment of high oil prices and declining grants, and to reduce the remaining fiscal rigidities by improving tax administration and reforming the system of fuel subsidies.</p>

1/ The Jordan Evaluation report made no explicit recommendations, presenting instead a number of lessons arising from IMF experience in Jordan.

2/ This column summarizes the reaction of the Executive Board on the lessons presented in the Jordan evaluation as reported in the Summing Up by the Acting Chair. Readers are invited to refer to the full text of the summary of the discussion, which is included in the published version of the report and can be accessed on the IEO website ([www.imf.org/external/NP/ieo/2005/jor/eng/pdf/sumup.pdf](http://www.imf.org/external/NP/ieo/2005/jor/eng/pdf/sumup.pdf)).

3/ There was no explicit follow-up strategy. However, Jordan's Ex-Post Assessment was done about the same time as IEO's Evaluation of IMF support to Jordan (and presented to the Executive Board on the same day); there was cooperation between the teams carrying out these evaluations.

**EVALUATION OF THE FINANCIAL SECTOR ASSESSMENT PROGRAM: RECOMMENDATIONS, BOARD RESPONSE,  
AND SUBSEQUENT FOLLOW-UP**

IEO Recommendation	Executive Board Response 1/	Follow-Up 2/
<i>Incentives for participation, clarifying priorities, and strengthening the links with surveillance</i>		
<p><b>Recommendation 1.</b> The IMF Board and management should refine the criteria for setting priorities on IMF resource inputs into financial sector surveillance, including the FSAP. Based on these priorities, IMF staff should indicate, as part of its medium-term planning, what components are needed for strengthening financial sector surveillance in each country, drawing upon a range of possible modalities. These strategies would form the basis for more explicit accountability on results.</p>	<p>While some did not see sufficient evidence that current mechanisms are inadequate, many Directors agreed on the need for clearer guidance—including on the trade-off between assessments of vulnerability and development issues—as part of a medium-term strategy aimed at efficient resource allocation in line with the IMF’s core mandate.</p>	<p>Consideration being given to the three pillars of recommendations in the context of ongoing work on the Medium Term Strategy and a task force on integration of regular and financial sector surveillance.</p> <p>The country prioritization process has been strengthened by distinguishing more clearly between the intrinsic country priorities—in a program that over time should cover all countries—and the likely work program that is affected by authorities willingness to participate.</p> <p>On a region-wide basis, FSAP prioritization is carried out every 6 months through consultations between MCM and area departments and through the FSLC,</p> <p>The modalities of financial sector surveillance in individual countries, including an initial assessment or FSAP update, are assessed in Article IV briefing papers and staff reports, and other country-specific discussions between MCM and area departments.</p>
<p><b>Recommendation 2.</b> To strengthen incentives and drawing upon these country-specific plans, IMF management should clearly signal to the Board those countries that it sees as the highest priorities for FSAPs and Updates, irrespective of whether these countries have volunteered. These lists should be the basis for periodic discussions by the Board of country-specific priorities.</p>	<p>Most Directors agreed with the IEO proposal that, to better align FSAP coverage with the needs of surveillance, management should indicate to the Board which countries it considers the highest priorities for FSAP assessments and updates. Annual reporting on participation could provide useful information to guide discussion of priorities.</p>	<p>The IMF-Bank FSLC has already identified countries that should be given the highest priority under the FSAP, following the general criteria approved by the IMF and Bank Boards and based on inputs from staff of both institutions.</p> <p>Staff plan to use a two-pronged approach, using (i) the regular Article IV process to signal a need for intensified financial sector surveillance and to indicate the need to explicitly recommend in the Article IV report an initial FSAP or FSAP update in priority cases, and (ii) providing more frequent information on FSAP participation.</p> <p>Staff plan to use the annual report on FSAP participation (introduced in the 2005 Board review of the FSAP) to provide the Executive Board with overall information on program coverage, including information on the relative size of systems covered and not covered. The first such report was sent to management and the Board in June 2006.</p>

**EVALUATION OF THE FINANCIAL SECTOR ASSESSMENT PROGRAM: RECOMMENDATIONS, BOARD RESPONSE,  
AND SUBSEQUENT FOLLOW-UP (CONTINUED)**

IEO Recommendation	Executive Board Response 1/	Follow-Up 2/
<p><b>Recommendation 3.</b> Strengthen the links between the FSAP and surveillance by mainstreaming FSAPs and follow-up work into regular surveillance activities.</p>	<p>Directors concurred with the recommendation to strengthen links between FSAPs and surveillance. They underscored the need to follow up on key vulnerabilities and gaps and integrate such issues into Article IV surveillance reports. Directors stressed that in cases where financial stability issues, including any potential global repercussions, are judged to be of high importance, they should be a major focus of Article IV consultations.</p>	<p>Following the MTS, area departments are to identify a senior staff member who will be responsible for the departments' financial sector surveillance (FSS) and coordination of the FSS work program with MCM. FSS training will be provided to staff at all levels as needed.</p> <p>Moreover, the introduction (by the MTS) of country-specific 3-year surveillance agendas (SAs) should help ensure adequate follow through of financial sector surveillance priorities.</p> <p>A Financial Sector Steering Group including representatives of area and relevant functional departments has been set up by the managing director to ensure high level coordination of the work of all departments involved in FSS. Separately, an ad hoc internal Financial Sector Task Force is preparing specific recommendations on how to integrate the analysis of financial sector issues into bilateral surveillance.</p> <p>The internal review process of FSAP related documents and Article IV reports is being strengthened to ensure that the Executive Summary summarizes the main macro-relevant findings using candid language, the FSSAs clearly highlight and summarize macro relevant findings, and that these findings are adequately reflected and incorporated in the analysis of the Article IV report.</p>
<p><i>Improving the quality and impact of the FSAP and organizational changes</i></p>		
<p><b>Recommendation 4.</b> Implement steps to improve further the quality of the FSAP and strengthen its impact.</p>	<p>Directors encouraged the staff to follow up on IEO recommendations to improve further the quality of FSAPs and strengthen their impact. They noted that recommendations should be clearly prioritized and the potential consequences candidly discussed. Directors emphasized in particular the importance of treating financial sector and cross-border linkages more systematically in FSAP analysis.</p>	<p>FSAP procedures are being revised to stress that (i) recommendations need to be candidly discussed and clearly prioritized, given the authorities' capacity constraints (ii) missions should cover all major risks, including those that may be politically sensitive. In cases where adequate data are lacking, potential major risks should nevertheless be explicitly identified and limitations transparently discussed. The revised procedures will also stress the need to have more informative and candid discussions on methodological and data limitations in FSSAs.</p> <p>Staff is developing the stress testing methodology and establishing "minimum standards" for stress tests, to ensure that stress test methodologies are applied more consistently across countries.</p> <p>Work on regional financial sector assessments and cross-border issues has been stepped up and off-shore financial center (OFC) reports are now expected to include a section on cross-border cooperation and information exchange.</p> <p>A program is being initiated to improve standards assessments, including the establishment of a core set of experienced assessors; the role of cooperating institutions and standard setters; and the review process and quality control. An internal review was conducted to evaluate BCP, IOSCO, and IAIS assessments in order to improve the quality and consistency of the assessments. Staff will participate in a December 2006 IOSCO meeting to improve standards assessments.</p> <p>Regular courses and seminars are offered to IMF staff on the use of financial sector indicators, stress testing and relevant financial sector issues to enhance practical experience and expertise.</p>

**EVALUATION OF THE FINANCIAL SECTOR ASSESSMENT PROGRAM: RECOMMENDATIONS, BOARD RESPONSE,  
AND SUBSEQUENT FOLLOW-UP (CONCLUDED)**

IEO Recommendation	Executive Board Response 1/	Follow-Up 2/
<b>Recommendation 5.</b> Introduce changes in the organization of IMF mission activities to utilize scarce financial sector technical expertise (especially in MFD and ICM) more effectively in the surveillance process.	Many Directors welcomed the IEO's recommendation to introduce changes in the organization of IMF mission activities to utilize more effectively scarce financial sector expertise within the IMF. Directors noted that this will be considered in the broader context of improving financial sector surveillance, as part of the medium-term strategic review.	The modalities to do this are being assessed as part of the MTS and also in the assessment of the pilot project on financial sector surveillance.
<b>Joint IMF-World Bank Nature of the FSAP</b>		
<b>Recommendation 6.</b> Maintain the current joint approach, but clarify further the distinctive contributions the IMF and Bank can make, with the IMF taking the lead where significant domestic or global stability issues are present, and the Bank taking the lead where financial sector development issues are more paramount. Such clarity should include a clear delineation of primary responsibilities for setting priorities (and contributing resources).	Directors were in broad agreement with the recommendations regarding Bank-IMF collaboration. They concurred that the current joint approach, including the central role for the Bank-IMF FSLC, should be maintained. At the same time, further efforts should be made to take full advantage of the distinctive contributions that the two institutions can make—with the IMF focusing on stability issues and the Bank on financial sector development and institution building.	The delineation of responsibilities between the Bank and the IMF will be addressed more fully by the Bank-IMF Collaboration Task Force. Staff will step up its efforts to ensure at the scoping stage that the Bank indeed takes the lead regarding financial sector development issues.
<b>Recommendation 7.</b> The IMF, in conjunction with the World Bank and other technical assistance providers, should seek to establish a clearer framework for coordinating follow-up capacity-building technical assistance activities, based on the country's own action plans.	Directors concurred that there is room to improve the coordination of FSAP-related technical assistance activities, based on the country's own action plan. At the same time, Directors cautioned against overburdening the FSAP with additional expectations regarding the technical assistance needs.	Staff has organized post-FSAP TA meetings in some recent cases. Staff will include in the transmittal letter for the FSAP package, when appropriate, a suggestion that a follow-up meeting or "providers forum" on technical assistance be organized. The decision on whether to include such a suggestion will be based on discussion with the area departments and the World Bank, and following the Board's guidance not to overburden the FSAP with additional expectations and excessively formal approaches to follow-up.

1/ This column summarizes the reaction of the Executive Board on each recommendation as reported in the summing up by the Chair. Although care has been taken to ensure accuracy, readers are invited to refer to the full text of the summary of the discussion which is included in the published version of the report and can be accessed from the IEO website ([www.imf.org/ieo](http://www.imf.org/ieo)).

2/ The description of follow-up is intended to provide a factual indication of any additional steps taken since the Board discussion. It is not intended to be an evaluation of any follow-up by management or the Board.

## EVALUATION OF THE IMF’S MULTILATERAL SURVEILLANCE: RECOMMENDATIONS, BOARD RESPONSE, AND SUBSEQUENT FOLLOW-UP

IEO Recommendation	Executive Board Response 1/	Follow-Up 2/
<b>Recommendation 1.</b> Strengthen the IMF’s role at the center of a more robust global peer review system by establishing a more proactive engagement with relevant intergovernmental groups.	<p>Most Directors concurred that, while the Executive Board and the IMFC remain the most appropriate forums for discussing policy spillovers and possible responses, the IMF should also participate more actively in other forums—such as, but not limited to, the G-7 and the G-20—which provide opportunities for a frank exchange of views on multilateral issues.</p> <p>Directors noted that multilateral surveillance would have a larger effect on the global policy debate if they were better targeted to their core audiences, streamlined, and focused on key issues.</p> <p>Directors agreed that it would be beneficial to clarify the operational goals of multilateral surveillance, but were not persuaded about the need for broad organizational changes. Priority should be given to strengthening the integration between multilateral and bilateral surveillance, particularly for countries that have an impact on global financial stability.</p>	A new multilateral consultation process has commenced, with key players involved in the solution of issues of shared global or regional interest.
<b>Recommendation 2.</b> Enhance the roles of the Executive Board and the IMFC in multilateral surveillance.		
<b>Recommendation 3.</b> Streamline and better focus the products of multilateral surveillance, present shorter and clearer messages, and deliver them more strategically to target groups.		The WEO is being reconfigured to highlight key cross-country messages and strengthen risk analysis. Work is ongoing to focus post-WEO outreach on issues of particular concern in specific regions.
<b>Recommendation 4.</b> Define more clearly the goals of multilateral surveillance and the mechanisms to achieve them. Particular effort should also go into better integrating multilateral perspectives into bilateral surveillance.		Consistent with the Medium-Term Strategy (MTS), Article IV reports for systemically important countries will be expected to include analysis and discussion of regional or global spillover effects, and all Article IV consultations are expected to make a greater use of cross-country analysis and to bring to bear other countries’ experience in addressing similar problems. To aid integration of bilateral and multilateral surveillance the results of the WEO will be presented to staff in an internal seminar.

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