



Independent Evaluation Office
of the International Monetary Fund



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

October 9, 2020

1. **Overview.** The IEO is advancing its work program while adapting to the challenges from the COVID-19 pandemic. While evaluation is not part of the frontline response that has dominated IMF activity over the past six months, independent evaluation remains a key function for learning from experience and drawing lessons for the Fund as it focuses on meeting members' urgent and evolving needs. Since April, IEO engagement with the Executive Board has resumed, including formal discussion of the recently completed evaluation of *IMF Advice on Capital Flows* and an informal seminar on Bank-Fund collaboration on climate issues. Work continues on evaluations of adjustment and growth in IMF-supported programs and IMF engagement with small states, and a new evaluation is being launched on IMF capacity development.

2. **Capital flows evaluation—Key findings.** The evaluation of *IMF Advice on Capital Flows* was discussed by the Executive Board in September. The evaluation looked at IMF advice on handling volatile capital flows and capital account liberalization; it complements the work by staff on developing an Integrated Policy Framework (IPF) for handling exogenous shocks. The relevance of this topic has been highlighted by the volatile capital flows after the COVID-19 crisis broke out and the uncertain future prospects. The evaluation credited the Fund for upgrading its framework for advice on capital flow issues by approving the Institutional View (IV) in 2012 and found that the IV has generally been applied carefully and consistently across countries. However, both recent country experience and research—including from the IPF work stream—have raised concerns about the value added and influence of the Fund's advice in this area. A key issue is that the blanket guidance that capital flow measures (CFMs) not be used pre-emptively or in a lasting manner seems too restrictive, since both country experience and research suggest that in certain circumstances well-targeted measures can be helpful for financial stability purposes, to increase macroeconomic policy space, or to address social concerns like housing affordability. The evaluation also found that disagreements on the labelling of measures often crowded out time for serious policy discussion; suggested that greater attention be placed on broader implications of capital account liberalization, including distributional issues; raised concerns about the limited impact of the IMF's engagement on source country policies affecting capital flow volatility; and pointed to potential tensions with other multilateral frameworks relevant to capital flows.

3. **Capital flows evaluation—Recommendations and follow-up.** Considering these concerns, the evaluation recommended that the IMF refresh its approach to dealing with capital account issues to reflect country experience and recent research. Such a revisit need not involve a wholesale overhaul of the IV, the broad principles of which remain valid, but should consider some

well-defined extensions of the circumstances in which capital flow measures could provide a helpful part of the policy toolbox, particularly when their preemptive and longer-lasting use could be justified. To complement this revisit of the IV, the evaluation also recommended that the IMF sustain a strong, adequately resourced, medium-term work program on capital account issues and strengthen cooperation with multilateral partners on issues related to capital flows, including the OECD, the BIS, and the FSB. In discussing the evaluation, Executive Directors expressed appreciation for the IEO's contribution and broadly supported its recommendations while expressing a range of views on the extent of revisions required on specific elements of the IV. The Managing Director also welcomed the report, noting that it would inform the upcoming review of the IV scheduled for next year. IMF management will work with staff to propose a follow-up implementation plan by March 2021.

4. **Bank-Fund collaboration.** As reported in April, the IEO has completed its evaluation of *IMF Collaboration with the World Bank on Macro-Structural Issues*. This evaluation assessed how effective the IMF has been in collaborating with the World Bank, focusing in particular on IMF pilot initiatives to enhance coverage of inequality, gender, energy/climate, and macro-structural reform in Article IV surveillance. Board discussion of this evaluation, scheduled for March, was delayed as the Fund focused on the emergency response to the COVID-19 crisis. In June, the IEO presented an informal seminar to the Board on material from the evaluation relevant to climate change, reflecting the increasing attention in the IMF to this important issue and ahead of staff engagement with the Board on the integration of climate change in surveillance. Board discussion of the full evaluation, which is intended to feed into the Comprehensive Surveillance Review, is scheduled for later this year.

5. **Reformulation of off-track actions.** Given reprioritization of IMF staff's work due to the COVID-19 crisis, preparation of Management Implementation Plans (MIPs) to reformulate off-track actions identified in the 2019 report on Categorization of Open Actions has been delayed. While recognizing continuing pressures on the staff's work agenda, it will be important to advance this work to bring these new MIPs for Board approval in due course.

6. **IEO work program.** The work program has been adjusted to reflect new challenges. The evaluation of adjustment and growth in IMF-supported programs, which will assess how well IMF-supported programs have helped to sustain economic growth while delivering necessary adjustment for external viability, has taken on added relevance in view of the large adjustment needs and growth challenges during recovery from the pandemic. The evaluation of IMF engagement with small states will examine how the Fund has supported a group of countries that have been particularly hard hit by the collapse of global tourism and that have limited institutional capacity to respond to climate and health shocks. The newly launched evaluation of the IMF's capacity development activities will take a broad look at this growing component of IMF activities ahead of the next strategic review scheduled for 2023. The small states and capacity development evaluations will take stock of the IMF's early response to the COVID-19 crisis as relevant to these two topics. Looking further ahead, the IEO is now considering a range of possible future topics, and will consult broadly with stakeholders to provide input into the selection process.