Ewaluacja

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Evaluation, Learning, and Accountability: The IMF in a Time of Crisis

Presentation of Tom Bernes Director,
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Structure of Presentation

- Background on IMF
- Background on IEO
- Global Crisis
- Lessons Learned

Background on IMF

IMF Raison d'Etre

- IMF created at the end of World War
- to avoid beggar-my-neighbor policies and currency devaluations that led to Great Depression.
- Concerns about international policy spillovers remain IMF's raison d'être
- Intervening changes notwithstanding, global financial crisis squarely in the Fund's bailiwick—de jure if not fully de facto

Waning Confidence in Fund

- Confidence in Fund waned during 1990s:
  - ✔ Perceived neglect of institutional issues—especially problematic for conditionality on privatization—in transition economies of Eastern Europe and FSU.
  - ✔ Worries about effectiveness in Sub-Saharan African and other low-income countries.
  - ✔ Perceived mishandling of East Asian Crisis and spread to Brazil, Russia, and elsewhere.

Crow Report

- External Evaluation of IMF Surveillance (Crow Report), issued 10 years ago amid doubts about IMF effectiveness; remains highly relevant
- Set out risk-based surveillance strategy
- Urged Fund to focus on:
  - most systemically important countries;
  - international aspects of systemically important countries' policies; and
  - financial sector/macroeconomic policy interface of systemically important countries' policies.
- Wise strategy in light of big-ticket risks and costs, as seen in current crisis

Background on IEO

Creation of IEO

- Independent Evaluation Office created in 2001
- Reflects Board's appreciation of the Crow Report and other external evaluations—idea fought by Management
- IEO purposes: enhance transparency, contribute to learning, and support institutional oversight and accountability
- Fifteen major evaluations completed so far
- Three in particular deal centrally with systemic risks caused by spillover effects from one financial sector to another—capital account crises, FSAP, multilateral surveillance

IEO: Capital Account Crises

- 2003 IEO evaluation of IMF and Capital Account Crises looked at Indonesia, Korea, and Brazil. Findings:
  - ✔ Fund staff had used textbook macro models in pre-crisis surveillance, and missed huge build-up of liabilities in financial and corporate sectors
  - ✔ Fund's initial advice on resolving the crises stayed very close to narrow textbook models of orthodox macroeconomic adjustment
  - ✔ Initial conditionality missed critical factors that made it counterproductive, given vicious circle of contraction, bankruptcies, financial panic, and spiraling decline

IEO: Financial Sector Assessm't

- FSAP created as part of systemic response to East Asia Crisis to deal more pro-actively with financial sector risks. Evaluation done jointly with World Bank; issued in 2006. Findings:
  - ✔ Much good staff work, but delinked from bilateral surveillance of macro
  - ✔ Criticized "FSAP loophole", whereby countries could decline to "volunteer" for FSAP.
  - ✔ Recommended naming-and-shaming of systemically important countries who declined, to galvanize peer and public pressure for participation.

IEO: Multilateral Surveillance

- 2006 evaluation reinforced earlier evaluations. Findings:
  - ✔ Like Crow Report, surveillance biased towards bilateral and country-related issues at expense of multilateral and spillover-related issues
  - ✔ Global Financial Stability Report "has not adequately distilled the implications of [financial] market developments for the IMF's day-to-day country work."
  - ✔ Financial sector risks not fully integrated into economic assessments underlying bilateral surveillance or World Economic Outlook, anchor for Fund's multilateral surveillance.

Where's the Learning…?

- Most evaluation themes are recurring; recent IMF work program recycles same old issues=> limited institutional learning. For example:
  - "The Fund is uniquely placed to advance the understanding of macro-financial linkages, make the right connections between events and trends, and provide early warning of problems to our members".
  - Work program also emphasizes need to focus bilateral surveillance on global spillovers in systemically important countries along with heightened attention to country-focused financial sector work.
- Right priorities—but not new. What did IMF learn from Crow Report (10 years ago) and IEO evaluations…?

Governance Failures

- Disconnect in institutional continuity—and other governance failures—explored in two evaluation reports; (i) external panel of experts, led by Karin Lissakers, who evaluated the IEO itself two years ago; (ii) evaluation of Fund governance. Findings:
  - ✔ Lissakers: inadequate attention by IMF Management and senior staff to follow-up on IEO findings and recommendations, highlighting total lack of clarity about accountabilities.
  - ✔ IEO governance evaluation: no accountability in IMF
- Explains learning failure: Without accountability, can be no learning

Global Financial Crisis

Where was the IMF?

- In margins of last week's meetings in Washington, all conversation was about the crisis—including announcements of action by some governments.
- But generally, IMF has not been a player. A convener maybe. By accident of timing—crisis struck just before the Annual Meetings.
- Some commentators, seeing IMF as an observer—a cheerleader on the sidelines—have said it has nothing to contribute, reflecting its lack of critical financial sector expertise (both analytic capacity and hands-on experience).
- Yet the crisis is clearly in the Fund's bailiwick.

Failure to Learn…

- This comes despite decade of evidence that financial sector was increasingly important and that IMF needed to step up its game.
- The world learned this during the East Asia Crisis ten years ago, as highlighted in the Crow Report.
- The IEO learned it during the FSAP and other evaluations—and we had thought Management and staff had too.
- But despite all the lessons, the Fund hasn't effectively learned them—and having just lost a large number of senior staff in its own downsizing—leaving it inadequately staffed to offer much expertise in this time of crisis.
- The result: despite past opportunities for learning and despite the Fund's mandate, the institution was not ready for this crisis, focusing on its own internal staffing issues instead of its job….

Prevention is more important

- Even more important, IMF was not ready to help *prevent* crisis.
- Most important questions on crisis management need to be asked *ex-ante*
- Most effective (and cost-effective) way to deal with crises is to prevent them
- This why Fund is empowered to conduct surveillance: *How did IMF surveillance deal with U.S. financial spillover risks?*

IMF Surveillance of U.S.

- Three surveillance vehicles:
  - On bilateral surveillance. IMF Board said: "Financial innovation and stability have been key to U.S. economic success and…financial system has shown impressive resilience, including to recent difficulties … They cautioned, however, that …as financial conditions tighten, unanticipated risk concentrations and links across markets could come to light…." That was on July 23, 2008.
  - Second on multilateral surveillance. Staff have clearly been tracking subprime and related credit market developments, increasing risk factors in recent weeks. But—like others—failed initially to imagine scale of losses. For that, they would have needed access to more information, as in FSAP.
  - What did FSAP analysis show? *Nothing*. It was never done, as the U.S. "declined to volunteer" for FSAP, via "FSAP loophole".

Washington: *we have a problem…*

- Not suggesting that if Fund had played hardball on FSAP, crisis would have been averted. Or had all relevant IEO recommendations been implemented, Fund would be major domo on crisis response.
- But clearly there's a problem here, aside from the crisis.
- Above is quick outline of some considerations that will need to be looked at in far greater depth, whether in IEO evaluation or some other evaluation mechanism.
- Fund's pre-crisis performance—both the dialogue with the U.S. ex ante and its preparedness to contribute ex post—must be examined and the requisite corrective actions put in place.

Takeaway Lessons

Recommendations

- Two for IMF:
  - ✔ Deliver on central mandate of focusing on spillover risks in systemically important countries: Focus on preventing crises; sounding alarms about upcoming crises and risks; and helping to manage crises
  - ✔ Act on previous IEO recommendations in above area—close FSAP loophole: speak truth to powerful shareholders
- Two for IEO:
  - ✔ Monitor IMF follow-up on IEO recommendations
  - ✔ Keep close watch on evenhandedness of Fund surveillance, especially in identifying systemic risks emanating from major shareholders
- One for Both (IMF and IEO):
  - ✔ Be bolder in identifying and highlighting downside risks