Evaluating the IMF's Performance in the Global Financial Crisis

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Abstract

The 2008 global financial crisis had a dramatic impact on the International Monetary Fund, moving it back to the center stage of global economic governance after a period where it had lost relevance and legitimacy. This paper evaluates the IMF's crisis-related performance by examining its *ex ante,* midterm, and *ex-post* output performance. Output performance is a useful metric for evaluating the IMF's ability to *predict* the crisis through its surveillance; *respond,* by lending quickly and effectively; and *revise* its policies and procedures in order to be better prepared to prevent the next crisis. The IMF's performance was mixed. It did a poor job addressing global imbalances ahead of the crisis through its surveillance activities, and an excellent job acting quickly and decisively in the first days and months of the crisis. In the third category a positive set of institutional reforms has been overshadowed by the absence of broader governance reforms.

The onset of the global financial crisis was a major test of the IMF's importance and role in the global economy and in global economic governance. Before the crisis ignited in September 2008, many argued the IMF was losing credibility and relevance. Its lending was declining and its staff was shrinking. Many countries were not paying close attention to IMF surveillance. The crisis dramatically changed the IMF, infusing it with fresh life and importance as the centerpiece of global economic governance. The G20 leaders turned to the IMF to be a financial firefighter, including agreement on a dramatic tripling of IMF lending resources up to $750 billion. By 2013 the IMF's resources had reached nearly $1 trillion. IMF lending skyrocketed between 2007 and 2011, from a modest SDR 600 million (less than $1 billion) to a peak of more than SDR 143 billion (over $220 billion). Once the euro crisis exploded in the spring of 2010, the IMF became part of the "Troika" of creditors, along with the European Commission and European Central Bank, that has played a central role in Europe's crisis response. But the IMF's move back to center stage in global economic governance in the wake of the global financial crisis was not the result of its excellent pre-crisis performance but rather the fact that the IMF was the right institution in the right place at the right time.

The IMF's response to the crisis is therefore critical to its future legitimacy and relevance. Yet, there is little analysis of this response. Much of the literature on the crisis sees the IMF as part of a larger story of weak or robust response by global economic governance institutions. But singling out the IMF is important given the central role it is supposed to play in global economic governance and ongoing scrutiny of the institution's credibility. After all, the IMF's purpose is to safeguard international monetary stability to promote economic growth.

The case of the IMF's performance in the global financial crisis is helpful in probing the utility of a broader conceptualization of *output performance* as a tool for evaluating IO performance.[2] As Tallberg et al. note, output performance helps us to identify an IO's ability to produce "rules, policies, and programs" that may be evaluated.[3] Outputs therefore reflect the adequacy and appropriateness of specific institutional

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[2] On process-based and outcome-based metrics of IO performance, see Tamar Gutner and Alexander
[3] Jonas Tallberg et al., "The Performance of International Organizations: An Output-Based Approach,"(Paper prepared for the Annual Meeting of the American Political Science Association Conference2015).

actions. As such, they signal intention, responsiveness, and adaptation, which feed into other measures of performance as well as broader perceptions about organizational leadership, legitimacy, and utility. This paper applies a metric for evaluating output performance: *ex ante*, midterm, and *ex-post* evaluation. In the case of the IMF's crisis-related performance this maps onto three categories: its ability to *predict* the crisis through its surveillance; *respond*, by lending quickly and effectively during the crisis; and *revise* its policies and procedures in order to be better prepared to prevent the next crisis.[4]

The IMF's output performance in this episode was mixed. It did a poor job addressing global imbalances ahead of the crisis through its surveillance activities, and an excellent job acting quickly and decisively in the first days and months of the crisis. There is some debate about the effectiveness of its advice in the aftermath of the crisis. In the third category, the IMF launched a positive set of institutional reforms, but these are currently overshadowed by U.S. Congress' blockage of a specific set of governance reforms agreed to do by other IMF members in 2010, which impact the fund's broader credibility.

The paper is divided into five sections. It first reviews the basic facts of the financial crisis to situate the IMF's role. The subsequent section conceptualizes the IMF's performance in the crisis, highlighting the role, utility, and limits of output performance as a metric of evaluation. The following three sections review the IMF's role in the three categories listed above, before drawing conclusions on the implications of mixed performance on the IMF's future.

The Crisis

The global financial crisis erupted in September 2008, triggered by the collapse of Lehman Brothers, which shocked global markets and created financial panic as credit markets seized up, causing economic and unemployment crises. The roots of the global crisis were in a subprime housing loan crisis in the United States, itself caused by rising housing prices, seemingly stable short-term interest rates, the availability of easy-to-

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[4] These three categories can be found in IFI self-evaluation exercises, but have not been adopted in the scholarly literature on IO performance. See Independent Evaluation Office, "Self-Evaluation at the IMF: An IEO Assessment,"(Washington, D.C.: IMF, 2015).

obtain mortgages even for highly risky borrowers, and weak regulatory oversight. Mortgages were securitized, creating risky instruments. When interest rates started to rise, people began defaulting on mortgages, housing sales slowed, and the bubble popped. Flimsy regulation also played a role in the meltdown. In the United States, there was no real attempt to address the housing bubble. European central bankers did not actively address a surge in borrowing, either. International capital ratios for banks were also weak. Banks could get away with holding minimal capital aside, and they were also adept at moving debt off balance sheet or doing other creative accounting to allow them to take on more debt than was wise.

Lehman was the oldest and one of the largest investment banks in the United States, with $600 billion in assets and 25,000 employees. It had been hit hard by the subprime mortgage crisis and its stock had sharply declined in value throughout the year. Its bankruptcy was the largest in history. The decision by the U.S. Federal Reserve and U.S. Treasury to let Lehman die remains controversial, since it did not stop the financial meltdown and it happened shortly after the Fed extended billions of dollars to support the sale of securities firm Bear Stearns to JPMorgan Chase.

The resulting “Great Recession” was the worst the world had experienced since the Great Depression of the 1930s and put enormous stress on existing efforts to further global economic governance. Capital flows dried up, trade contracted dramatically, and unemployment rose in the subsequent months. Global economic growth of 1.9 percent in 2008 slid into a contraction of 2.1 percent the following year, which marked the first such decline in over sixty years.[5] Major banks were in bad shape, with some absorbed by others, or converted from investment banks to bank holding companies in order to survive. The human impact was arguably much greater. Food and oil prices had already been in the midst of a price boom by 2008, which was already taking a toll on low-income countries. The World Bank anticipated that the recession would push over 60 million more people into extreme poverty, which also significantly increased the number of people who were chronically hungry.[6] Top Fed staff economists estimated that if the U.S. economy continued along its pre-crisis trajectory, it would have produced a

[5] World Bank, "Annual Report 2009,"(Washington, D.C.: World Bank, 2009), 12; "Annual Report 2010,"(Washington, D.C.: World Bank, 2010).
[6] "Annual Report 2009," 13; "Annual Report 2010," 10.

staggering $1 trillion more in goods and services each year.[7] The crisis made all governments painfully aware that more cooperation was needed to rethink financial regulations and practices in ways to prevent a catastrophe from turning into something even worse, or from repeating itself.

Conceptualizing IMF Performance

Many scholars and analysts view the crisis and responses to it as indicative of the failures of global economic governance, which implies that the IMF was somehow lacking in leadership, ideas, or coordination—either before, during and/or after—given its historic role in global economic governance. Most analysis is broadly critical, not singling out any one particular actor. This makes sense since the most powerful states are the major actors in global economic governance, and this crisis originated in the United States and first spread to other rich countries. The initial story of the financial crisis is one about major U.S. and European financial institutions and their regulators and governments. Frieden, Pettis, Rodrik and Zedillo argued that "the structure of international cooperation on economic issues seems seriously deficient" and in most global economic issue areas other than monetary cooperation, "international cooperation is stalled, flawed, or non-existent." The reasons, they argued, include the fact that governments face domestic political obstacles to increased cooperation, and that the major international economic players have different goals and interests on some of the major issues.[8] Barma, Ratner, and Weber argued that there has not been much progress on how international cooperation would prevent system collapse in the future. Member states still have different interests, which has made coordinated response elusive.[9] Bremer and Roubini argued that instead of living in a "G20 world," we are in a "G-Zero world," because "no single country or bloc of countries has the political and economic leverage—or the will—to drive a truly international agenda." They predict more, not less, conflict over international macroeconomic coordination and financial regulatory reform among

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[7] Cited in David Wessel, "Top Economists Rethink Post-Crisis Policy; Old Remedies Not Helpful for Spurring Growth, Preventing Calamity," *Wall Street Journal (Online)*, November 13 2013.

[8] Jeffry Frieden et al., "After the Fall: The Future of Global Cooperation," in *Geneva Reports on the World Economy*(Geneva, Switzerland: ICMB International Center for Monetary and Banking Studies, 2012), 1-2.

[9] Naazneen Barma, Ely Ratner, and Steven Weber, "The Mythical Liberal Order," *The National Interest* (2013).

other issues. The strong consensus seen at the November 2008 and April 2009 G20 meetings were more the result of common fear, but once this abated, so did the forward movement.[10] IMF staff economists argued that the crisis was "a story of fragmented surveillance in silos of expertise; of a policy debate disbursed in numerous fora (BIS, Gs, FSF, IMF); of limited collaboration among national financial regulators; of ad-hoc bilateral, regional, and multilateral facilities to address financing and liquidity needs; and of an overall failure to engage key decision-makers around the world."[11]

One notable exception to criticism of global economic governance during the crisis is Drezner's argument that the "system worked," in the sense that "global economic governance responded quickly and robustly" to the crisis with a remarkable degree of "institutional resiliency and flexibility."[12] He measured performance in terms of economic outcomes, policy outputs, and institutional resilience, and finds in all cases we are no worse off and at times better off than at the height of the crisis. Global economic growth, trade flows, and foreign direct investment all rebounded. His evidence included the rapid response by central banks, finance ministries, the G20, and the IMF in 2008-09. He also saw Germany's decision to implement a large fiscal stimulus, which had not been its initial preference, as a sign of policy coordination. He also pointed to the G20's approval in November 2010 of a set of stronger banking standards, the Basel III agreement, although there is debate about how effective this will be in practice.

Most of the recent scholarly and policy literature focusing the fund's performance more generally has not addressed the global financial crisis. There is a rich literature focusing on the "effects" of IMF programs toward individual countries, for example looking at before-after or with-without scenarios, and controlling for specific observed variables.[13] The specific literature on the IMF and the crisis is slim. The IMF's Independent Evaluation Office (IEO) produced two reports—one on the fund's role in the

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[10] Ian Bremmer and Nouriel Roubini, "A G-Zero World," *Foreign Affairs* (2011).
[11] International Monetary Fund, "Initial Lessons of the Crisis,"(Washington, D.C.February 6), 1.
[12] Daniel W. Drezner, "The System Worked: Global Economic Governance During the Great Recession," *World Politics* 66, no. 1 (2014).
[13] See, for example, chapter 4 in James Raymond Vreeland, *The International Monetary Fund: Politics of Conditional Lending*, (New York, NY: Routledge, 2007); James R. Vreeland, "IMF Program Compliance: Aggregate Index Versus Policy Specific Research Strategies," *Review of International Organizations* 1, no. 4 (2006); Muhammet A. Bas and Randall W. Stone, "Adverse Selection and Growth under IMF Programs," ibid.9, no. 1 (2014).

run-up to the crisis, and one on the fund's role in the aftermath.[14] It does not explicitly define performance, but offers its views on the strengths and weaknesses of the IMF's advice and actions and some hypotheses behind its observations. The first report slammed the IMF for being "woefully unprepared" for the crisis, attributing the absence of clear warnings to a host of causes:

> The IMF's ability to correctly identify the mounting risks was hindered by a high degree of group-think, intellectual capture, a general mindset that a major financial crisis in large advanced economies was unlikely, and inadequate analytical approaches. Weak internal governance, lack of incentives to work across units and raise contrarian views, and a review process that did not "connect the dots" or ensure follow-up also played an important role, while political constraints may have also had some impact.[15]

The second report was critical of the IMF's call in 2010 for countries to withdraw fiscal stimulus when unemployment was still high, arguing that this slowed economic recovery.[16] Joyce, in turn, argued that the IMF underestimated the global financial system's state of health and stability before the crisis, during the crisis, but it also reacted quickly to provide assistance, which contributed to the subsequent economic recovery.[17] Moschella offered positive analysis of the profound transformation in IMF surveillance post-crisis to one that is systemic, evaluating the overall financial system. She argued this was prompted by a process of lagged learning, incremental changes that add up to a substantive change.[18]

The Utility of Output Performance

The evaluation of three categories of IMF output performance shows the extent to which the IMF fulfilled its goal of adequately warning countries of the possibility of global financial crisis, its ability to get financial resources out the door quickly to help

[14] The IEO is both internal and independent, operating at an arms-length from the IMF's board. The IEO's work program is not approved by the IMF's board, although its budget is.
[15] Independent Evaluation Office of the International Monetary Fund, "IMF Performance in the Run-up to the Financial and Economic Crisis: IMF Surveillance in 2004-07,"(Washington, D.C.: International Monetary Fund, 2011), 1.
[16] "IMF Response to the Financial and Economic Crisis,"(Washington, D.C.: International Monetary Fund, 2014).
[17] Joseph P. Joyce, *The IMF and Global Financial Crises: Phoenix Rising?*(New York: Cambridge University Press, 2013), 177.
[18] Manuela Moschella, "Lagged Learning and the Response to Equilibrium Shock: The Global Financial Crisis and IMF Surveillance," *Journal of Public Policy* 31, no. 2 (2011).

countries cope with some of the effects of the crisis on their economies, and its ability to revise its policies, ideas, approaches, lending facilities, and governance structure so that it can either avert the next crisis or help member states be better prepared for one.

Output performance is the middle level of the standard logic model that many IOs (and other organizations) have used for at least two decades to consider their own performance, coming after *inputs* (resources that go into outputs) and before *outcomes* (short- and long-term implementation of outputs) and *impact* (intended or unintended changes as a result of organization's activities). Outcome and impact are especially challenging to identify and measure in evaluating the performance of any IO, given the existence of a multitude of factors outside of the IO's control. Causality is often highly complex. Outcome- and impact- based metrics are most useful in narrowly defined issue areas with actions and solutions are easy to measure.[19]

IR scholars have not yet widely used the standard logic or the related "results-based management" seen inside many development donor organizations, and certainly there are critiques about such techniques, including their reliance on quantifiable measures that may not reflect some important positive or negative outcomes and impacts.[20] Yet, an evaluation of output performance is important in identifying steps the IO has taken as a foundation for achieving the desired outcome and impact. It can offer meso-level evidence of institutional responsiveness or flexibility through adaptation and/or learning. Responsiveness, in turn, impacts perceptions of an institution's credibility, accountability, legitimacy, and utility. An evaluation of output performance provides important information on the presence of institutional ingredients that are necessary but not sufficient for successful outcomes. An IO that is not properly fulfilling its tasks, or adjusting its ideas or policies given new information or an evolving external context is less likely to have a major impact on addressing the problems that those activities are meant to address.[21]

But the utility of output performance is bounded. It is necessary but not sufficient in our understanding institutional performance because there are many examples of IOs

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[19] Gutner and Thompson, "The Politics of IO Performance: A Framework," 234-35.
[20] See, for example, chapter 8 in Jacqueline Best, *Governing Failure: Provisional Expertise and the Transformation of Global Development Finance*(New York: Cambridge University Press, 2014).
[21] Gutner and Thompson, "The Politics of IO Performance: A Framework," 235.

with strong policies, rules, or programs where implementation and/or impact is problematic. Many things can and do go wrong between output and outcome and impact. Outputs are vital, but incomplete, pieces of the performance picture. In this case, an evaluation of the IMF's output performance, which includes surveillance reports, lending, and organizational policy reforms, is not sufficient for making conclusive remarks about the fund's causal role in an individual country's economic health or in ending the crisis. But it has important analytical utility because it can tell us whether the IMF's policies and actions were appropriate or adequate given its institutional goals and specific operational objectives. Evidence of early warning, rapid response, and institutional reform also tie into perceptions of IMF leadership and legitimacy.

IMF Surveillance Pre-Crisis

Surveillance is the fund's system of monitoring the global economy and member states' economic and financial policies. It advises countries on risks and the policies they might adopt to promote economic stability and reduce their vulnerability to crises. The term was first used officially in the mid 1970s and in the late 70s it was written into the Second Amendment of the Fund's Articles of Agreement.[22] It is seen as a central to the fund's role in overseeing the international financial system, although surveillance recommendations are not binding upon member states.

The two types of surveillance are multilateral (focusing on the stability of the global economy) and bilateral (addressing individual members). Since 1981, the IMF has published *World Economic Outlook*, which is the main document reflecting its multilateral surveillance operations. A second important annual surveillance document is the *Global Financial Stability Report*, which was first published in 2002. In terms of bilateral surveillance, IMF staff typically meet annually with each member country for what are called Article IV consultations, which are a required part of a country's membership in the IMF. IMF staff missions assess the country's economic and financial conditions and policies, meeting with government and central bank officials. IMF staff often also meet with other domestic actors, including members of parliament, and

[22] James M. Boughton, *Silent Revolution: The International Monetary Fund 1979-1989*(Washington, D.C.: International Monetary Fund, 2001), 67.

representatives of business, labor, and civil society more broadly. The IMF Executive Board then reviews the staff report to assess the member state's actions and policies and ensure that it is complying with the IMF Articles of Agreement. In 2007 the Board clarified that a country's external economic stability is the driving goal behind the Article IV consultations.[23]

The IMF was not a major player right when the market imploded. As noted above, this crisis was not immediately about emerging markets or other developing countries, the IMF's main clients. Nonetheless, the IMF did a poor job of raising any type of red flag during its surveillance ahead of the crisis. It did not anticipate the crisis. It did notice that housing prices were unstable in many advanced economies, but right up until the crisis itself, it was forecasting stable conditions because it did not understand what would happen to banks and other financial institutions if housing prices took a sharp downward turn.[24] In fact, its *World Economic Outlook* in April 2007 concluded that risks to the global economy were very low. In retrospect, this was when the US housing bubble had already popped, decreases in sales had accelerated, the US subprime mortgage crisis began to impact broader credit markets. The same month as the WEO report, the largest U.S. subprime lender, New Century Financial, filed for bankruptcy protection, with liabilities of over $100 million.[25] By the end of the year, large financial institutions were reporting huge losses, much of which were due to their holdings of securities linked to subprime mortgages.

The IEO's 2011 report was especially critical about the IMF's ability to provide any warnings about mounting risks. The IMF appeared to identify some risks, for example, flagging members about the possible impact of global imbalances on the dollar. But even where risks were identified, the message was not effective. The messages "were given in general terms, without an assessment of the scale of the problems or the severity of their potential impact, and were undermined by the accompanying sanguine overall

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[23] Independent Evaluation Office of the International Monetary Fund, "IMF Performance in the Run-up to the Financial and Economic Crisis: IMF Surveillance in 2004-07," 4.
[24] Joyce, *The IMF and Global Financial Crises: Phoenix Rising?*, 153.
[25] International Monetary Fund, "Global Financial Stability Report "(Washington, D.C. : International Monetary Fund, 2008).

outlook."[26] In the run up to the crisis, the IMF even praised the United States for having regulation that allowed for the financial innovation that played such a prominent role in triggering the crisis, and even recommended that other advanced countries follow such approaches to innovating their own financial sectors.[27] IMF leadership and staff acknowledged criticisms of its weak pre-crisis surveillance. IMF Managing Director Dominique Strauss-Kahn agreed in 2011 that the fund did not sound an alarm "in a sufficiently early, pointed, and effective way."[28]

Worth recalling is that there was also an absence of alarm bells from leading economists and government bodies, as few people predicted the crisis. Economists and policymakers either assumed financial firms could self-regulate, did not pay enough attention to the financial sector's issues, and/or did not pay heed to other relevant indicators. Many thought that the United States could not fall prey to crisis, given its large capital markets and innovative financial system.[29] Predicting crisis is also much more of an art than a science, and economists and other observers also face the challenge of issuing false alarms on crises that never occur.

IMF Immediate Response

The IMF moved quickly once the crisis hit to get money out the door and help coordinate global and regional initiatives. Once the global economy began to contract, countries lined up for help from the IMF. Strauss-Kahn made clear he wanted IMF staff to keep conditionality for loans narrowed to issues related to the crisis, and to lower conditionality where possible.[30] By the end of October 2008, the fund used its Emergency Financing Mechanism to give out assistance in a speedy process. Under the mechanism the IMF board would approve loans rapidly, within 48-72 hours after the IMF and the national government had reached their own agreement. Between mid-September and

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[26] Independent Evaluation Office of the International Monetary Fund, "IMF Performance in the Run-up to the Financial and Economic Crisis: IMF Surveillance in 2004-07," 7.
[27] Ibid.
[28] "IMF Management and Staff Respond to the Report by the Independent Evaluation Office on IMF Performance on the Run-up to the Financial and Economic Crisis," (Washington, DC: International Monetary Fund, 2011).
[29] Carmen M. Reinhart and Kenneth S. Rogoff, *This Time Is Different: Eight Centuries of Financial Folly*(Princeton: Princeton University Press, 2009), 214.
[30] Kathryn C. Lavelle, *Legislating International Organization: The US Congress, the IMF, and the World Bank*(New York: Oxford University Press, 2011), 159.

November 2008 alone, the IMF agreed to over $43 billion in loans—$750 million to Georgia, $16.5 billion to Ukraine, $15.7 billion to Hungary, $7.6 billion to Pakistan, $518 million to Serbia, and $2.1 billion to Iceland. The latter was especially dramatic, since it followed the collapse of Iceland's banking system and was the first time a Western European country had borrowed from the IMF in over 30 years. These loans, as well as loans to Armenia and Latvia in fiscal 2009, were provided under the Emergency Financing Mechanism. The majority of these IMF loans were supported by other commitments, which showed a coordinated response and meant that total financing could be much higher than the IMF loan itself. For example, the total resources that went to Hungary totaled almost $26 billion, as the IMF loan was accompanied by resources from the EU and the World Bank.[31] This was the first program jointly supported by the IMF and the EU, which reflected the urgency of Hungary's economic situation. Additional resources to Iceland, including from Denmark, Finland, Norway, and Sweden, gave the country a total of $11.3 billion.[32] The $17 billion stand-by for Romania, at 1,111% of its quota, was supplemented with resources from the EU, EBRD, World Bank, IFC, and European Investment Bank, bringing the total to $27 billion.[33]

The IMF's rapid response to the countries severely impacted by the crisis reflected the fact that they were vulnerable to external shocks. Hungary, for example, was facing the possibility its own financial meltdown shortly after the crisis began, amid a sell-off in government bonds and downward pressure on the forint. The fund feared this could spark regional contagion.[34] Romania was also hard hit by the crisis, and struggled with sharp declines in its capital inflows, its stock market and the value of its currency. Ukraine, which received a large $16.4 billion stand-by under a fast-track mechanism, was also struggling with financial and economic instability in the wake of the crisis.[35]

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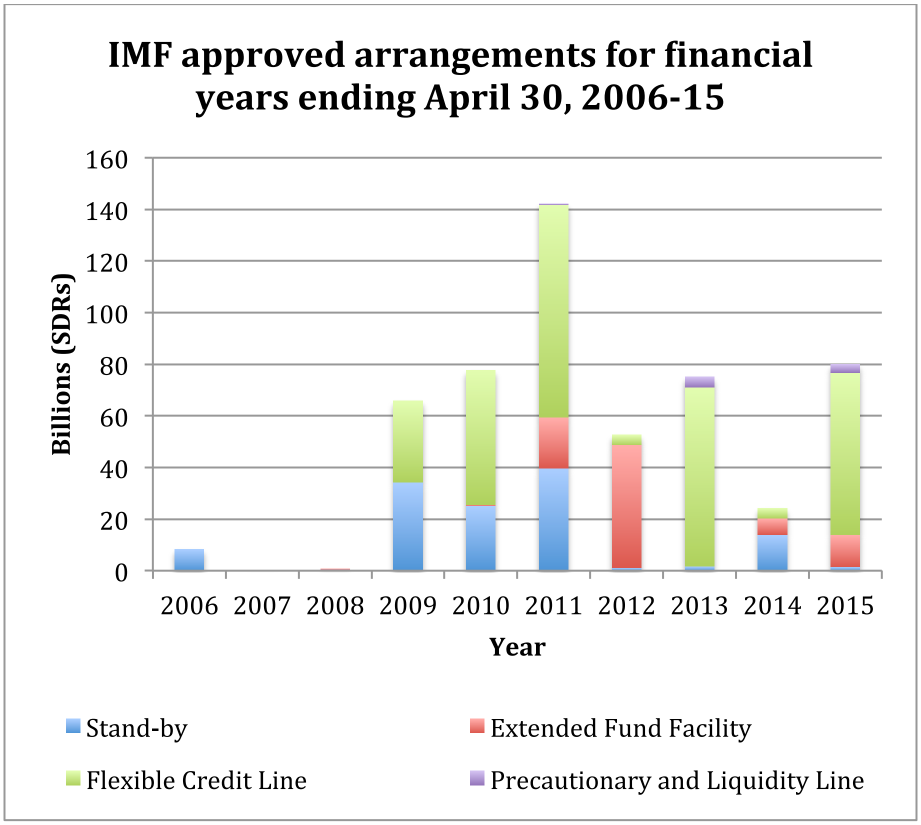
[31] International Monetary Fund, "IMF Executive Board Approves 12.3 Billion Euro Stand-by Arrangement for Hungary," International Monetary Fund, http://www.imf.org/external/np/sec/pr/2008/pr08275.htm.
[32] Joyce, *The IMF and Global Financial Crises: Phoenix Rising?*, 170. Lavelle, *Legislating International Organization: The US Congress, the IMF, and the World Bank*, 159.
[33] IMF, "IMF Executive Board Approves €12.9 Billion Stand-by Arrangement for Romania," news release, May 4, 2009.
[34] "Hungary: Ex Post Evaluation of Exceptional Access under the 2008 Stand-by Arrangement,"(Washington, D.C.: IMF, 2011), 7.
[35] "IMF Approves US$16.4 Billion Stand-by Arrangement for Ukraine," news release, November 5, 2008.

The IMF also announced plans to set up a $100 billion new short-term lending facility (Short-Term Liquidity Facility) to provide loans of up to three months to middle-income countries that included Mexico, South Korea, and Brazil. This would be especially novel in that the loans did not include policy conditionality, which would ideally help get the money disbursed quickly. This later turned into the Flexible Credit Line (FCL) in 2009, which had even more flexibility on issues such as repayment period and the existence of a cap to fund resources (FCL had no cap, and the STLF had a cap of 500% of quota).

The immediate crisis-related lending shows up in the IMF's fiscal 2009 year, which ran from May 1, 2008 through April 30, 2009. IMF arrangements approved and augmented in fiscal 2009 surged to a record SDR 66.7 billion (around $100 billion) in lending to 28 countries, compared to SDR 1.3 billion the year before. This included 14 stand-by arrangements, the largest number of any year between 2006-2015, the first FCL (SDR 31.5 billion for Mexico) and 13 PRGT commitments through the Poverty Reduction and Growth Trust (a concessional lending facility). Table 1 shows the IMF lending pre- and post-crisis, 2006-2015. The peak of lending in 2011 includes SDR 82.5 billion in FCLs for Colombia, Mexico, and Poland; SDR 40 billion in stand-by loans, with exceptional access for Greece, Ireland, and Ukraine; and SDR 20 billion in Extended Fund Facility funds for Armenia and Ireland.[36] By 2012, IMF lending was focused on the euro crisis, with 90% of the new gross commitments going to two countries: Greece and Portugal.

[36] "Annual Report 2011,"(Washington, D.C. 2011), 23.



Source: IMF Annual Report 2015

To put things into perspective, it is also important to note that at the height of the crisis the Fed was the main lender of last resort, injecting over $600 billion in liquidity, which it generated through central bank swap arrangements with a number of European central banks, the ECB itself, and the central banks of Japan, Canada, and Australia, and New Zealand. It also set up $30 billion swap lines to the central banks of Brazil, South Korea, Mexico, and Singapore in October 2008, ending in April 2009. The U.S. Troubled Asset Relief Program, in turn, was initially authorized at $700 billion but ended up totaling $475 billion to stabilize U.S. banking institutions and jumpstart credit markets, and consumers avoid foreclosure. Before the financial crisis, the IMF had never lent more than 32 billion SDR (around $40 billion) in a single year.[37] Nonetheless, the IMF was needed to help other economies around the world, and quickly. Its nimble response to the 2008 crisis was significant and widely praised. Its actions helped its

[37] This was 1998**.** "Annual Report,"(Washington, D.C.: IMF, 2000), 115.

borrowers cope with the impact of the crisis on their economies, soothing investor concerns and, in some cases, possibly averting contagion.

An evaluation of how IMF policy and lending outputs were translated into economic outcomes is beyond the scope of this paper. But it is worth noting that addressing the impact of IMF financing is complex, given the many ways a program can be evaluated and the additional problem of isolating causality. The IMF's own evaluation of its programs mainly takes place in the ex post evaluation (EPE), for exceptionally large access programs, and the ex post assessment (EPA), for programs with prolonged use. The latter will end after 2016. The EPEs typically examine major categories such as whether the program design was appropriate, whether the package was adequate, whether it met specific criteria, whether the conditionality was appropriate, and whether the program achieved its objectives. One can also evaluate lessons learned from past programs and see if they were incorporated into newer programs.[38] An evaluation can also focus on a specific component of a program, for example, how well the IMF interacted with domestic institutions. One can also explore the "eye of the beholder" issue. How did the country or individual domestic institutions or actors view the program? While additional research is important to assess how IMF policy and lending outputs translate into improved economic outcomes, a cursory glance shows that the picture is likely mixed. Some are still struggling, and for reasons that well beyond the financial crisis. For example, Ukraine, one of the first recipients of an IMF program during the crisis, is facing enormous problems given an undeclared war with Russia over its annexation of Crimea and invasion of Ukraine's eastern territories, and an economy on the edge of financial collapse. It recently concluded a $19 billion debt restructuring, and received pledges from the IMF for an additional $11 billion by late 2018.[39] Belarus has been impacted by the falling Russian ruble and slowing Russian economy, among other things, and faces continued recession. Others are doing better, such as Iceland and Hungary.

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[38] Office, "Self-Evaluation at the IMF: An IEO Assessment."; David Goldsbrough, "Review of Ex Post Assessments of Countries with Longer-Term Program Engagement and of Ex Post Evaluations of Exceptional Access Arrangements," in *IEO Background Paper*, ed. Independent Evaluation Office(Washington, D.C.: IMF, 2015).
[39] "Tinkering around the Edges: Ukraine's Deal with Its Creditors Is Less Impressive Than It Appears," *The Economist*, August 29 2015.

Receiving a G20 Boost

An extraordinary first meeting of the G20 heads of state and finance ministers took place November 14-15, 2008, in Washington DC, and gave a huge boost to the role of the IMF in the crisis and beyond. The leaders of 19 large, industrialized economies, plus the EU assembled on relatively short notice at US President George W. Bush's invitation, to craft a response to the global financial crisis, which included a 47-point action plan.[40] The leaders agreed that they would implement reforms aimed at strengthening financial markets and regulation. They stressed IMF's "important role" in the crisis, and agreed to "ensure that the IMF, World Bank and other MDBs have sufficient resources to continue playing their role in overcoming the crisis." They also announced they were committed to reforming voting power in the IMF and World Bank so that emerging and developing countries would have a greater voice. G20 members account for 63.4% of votes at the IMF. Right before the global summit, Japan announced it would offer up to $100 billion to the IMF to help emerging economies facing emergency.[41] This was the single largest supplemental contribution ever by an IMF member.[42]

In April 2009, the G20 leaders met again, this time in London. They announced agreement on a dramatic tripling of the IMF's lending resources. This included $250 billion to be made available immediately by the EU and Japan. They also agreed to at minimum double the IMF's concessional resources for low-income countries and to increase the IMF's allocation of SDRs by the equivalent of $250 billion, which would help to inject liquidity into the global economy. Finally, they agreed to sell $6 billion worth of IMF gold, to provide more concessional finance for poorest countries. "Together with the measures we have each taken nationally," the leaders stated in their communiqué, "this constitutes a global plan for recovery on an unprecedented scale." The leaders announced they were deeply engaged in "unprecedented" fiscal stimulus policies,

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[40] The G20 consists of Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, United Kingdom, United States and the European Union, represented by the European Central Bank and the president of the European Council.

[41] Yoko Nishikawa, "Japan to Offer IMF up to $100 Billion from Fx Reserves," *Reuters*, November 13 2008.

[42] International Monetary Fund, "Annual Report,"(Washington, D.C.: Intenrational Monetary Fund, 2009), 27.

and that they would work to build stronger regulatory and supervisory frameworks for their financial sectors.[43] This seemed to marry the U.S. emphasis on the importance of fiscal stimulus, and the interest of major European countries, such as France and Germany, to focus on an overhaul of financial sector rules. As a step to strengthening the global financial system, the leaders agreed to create a new Financial Stability Board (FSB) to succeed the Financial Stability Forum (FSF). It would include the FSF's members along with the rest of the G20 members, Spain and the European Community.[44] The FSB's job is to help coordinate financial stability efforts and promote effective implementation of related policies.

The G20 also pledged to reform the IMF's and other international financial institutions "mandates, scope and governance." This pledge included their commitment to implementing IMF reforms on quotas and voting that was previously agreed to in April 2008. The 2008 reforms were intended to increase the role and voice low-income countries on the IMF's board. Further, they agreed that the leadership of the top IFIs should be appointment in "an open, transparent, and merit-based process," in response to criticism of the old-boy network way of doing things in past, where the leader of the World Bank was always an American, and the leader of the IMF was always a European.[45]

The G20's interest in strengthening the IMF was ambiguous in parts. For example, at the next G20 summit in September 2009 it called for both modernizing IMF governance but also gave the IMF a subsidiary role when the G20 created a Mutual Assessment Process, or MAP, by which countries would work directly with each other to correct global imbalances, in a sort of "peer review mechanism."[46] Later on, at the G20 Seoul meeting in 2010, the IMF was asked to play a larger role in the MAP, possibly because the MAP had not made much impact in correcting macroeconomic imbalances.

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[43] "London Summit-Leader's Statement," (International Monetary Fund 2009); Joyce, *The IMF and Global Financial Crises: Phoenix Rising?*, 175.
[44] The FSF was created following the 1997-98 Asian financial crisis with a goal of promoting international financial stability. Its small secretariat was based at the Bank for International Settlements in Basel, Switzerland. Its members included bankers and finance officials from the US, Japan, Germany, UK, France, Italy, Canada, Australia, Netherlands, Hong Kong, and Singapore, international financial institutions, central bank experts, and the European Central Bank. It has made recommendations calling for private banks to be better prepared for crisis while endorsing self-regulation in some areas.
[45] "London Summit-Leader's Statement."
[46] Frieden et al., "After the Fall: The Future of Global Cooperation," 26-27.

For the remainder of the year into the first half of 2010, the global economy showed signs of uneven recovery. Growth had improved in many parts of the world, although unemployment remained high and the Eurozone was succumbing to crisis. Major countries led the way in cutting their interest rates as low as possible, and many of them increased government spending to jump-start their economies. As noted above, the IEO was critical of the fund's shift in 2010 to endorsing fiscal consolidation after being a leading voice for global fiscal stimulus in 2008-09. Its argument was also echoed in research from IMF staff economists, who agreed that it was too early to change policy gears, given how modest the recovery was in most rich countries and especially short-lived in the Eurozone, which began sinking into the euro crisis in early 2010. The IMF emphasis was on using easier monetary policy to drive aggregate demand, but it began changing its tune in 2012 when it was clear that the economic recovery in advanced countries was below expectations.[47]

Institutional Response

The IMF was painfully aware that to address the pre-crisis drop in lending and to be seen as stepping up to make a difference to countries tackling the crisis, it needed to adapt itself to the new environment. It therefore launched a large number of new policies and initiatives and other institutional reforms since the crisis to be more responsive in its lending and better equipped to prepare countries for future crises.

In terms of adapting its lending framework, it sought to increase flexibility and make it easier for countries to access fund resources. The example of the new FCL was noted above, a move to allow countries with strong economic fundamentals access to credit without new conditionality. The Rapid Financing Instrument (2011), now called the Precautionary and Liquidity Line, is for countries that are ineligible for the FCL. For low-income countries there are new concessional facilities, which have higher access limits and more concessional financing terms. The fund also announced it would speed up the ability of low-income countries access to its Exogenous Shocks Facilities. The

[47] Independent Evaluation Office of the International Monetary Fund, "IMF Response to the Financial and Economic Crisis," 8.

fund also moved to simplify conditionality and add flexibility to its regular stand-by arrangement, its “workhorse lending instrument.”

In terms of surveillance, the fund has worked to better integrate its multilateral and bilateral surveillance. It created in 2011 a new Spillover Report to examine the impact on the “systemic five” largest economies (China, euro area, Japan, United States, United Kingdom) on other economies. The following year it launched a new External Sector Report as another way to examine the impact of the large economies on the rest of the world. The fund has worked to better tailor its policy advice to individual countries, and it has moved strengthen its financial surveillance. It also created a new global risk assessment matrix. The fund has also sharply increased the money it provides under its nonconcessional financing facilities.

IMF research has turned more to issues like policies for better managing global capital flows, the adequacy of international reserves, and how to respond to gaps in data that were noticeable in the crisis. The fund is also collaborating with the Financial Stability Board (FSB) on Early Warning Exercises to assess a range of risks to the global economy and suggests ways of mitigating them. The fund issued an updated communication strategy that emphasized the importance of being more response to individual country’s needs and helping to build trust. Recent internal reviews, such as the 2014 Triennial Surveillance Review, call for the fund to do more to strengthen policy dialogue by doing better at “delivering difficult messages,” being more candid in its surveillance, and following up on past policy advice beyond implementation.[48]

There is little analysis of how effective changes have been, in part become many of them are fairly new and are still being integrated into the fund’s daily work. But the changes do show willingness by the fund to respond to the problems identified by staff, major states, and external observers. However, these advances have been overshadowed by U.S. blockage of a set of IMF quota and governance reforms agreed to in 2010. The reforms agreed to in 2008 went live in 2011, giving 54 member states quota increases, which would translate into stronger voting power for these countries. In late 2010, finance ministers decided to go further, with a larger reform package. This package called

[48] International Monetary Fund, "2014 Triennial Surveillance Review--Overview Paper,"(Washington, D.C.: International Monetary Fund, 2014).

for doubling quotas by more than $700 billion, to increase the IMF's core funding. It also called for giving emerging market economies and other developing countries an additional 6% of quota shares. The proposed move would lift the BRIC countries (Brazil, Russia, India, and China) into the top 10 fund shareholders, meaning their economic power would be better reflected in their voting power. China, for example, would jump to being the third largest IMF member, behind the United States and Japan, the same as with the World Bank. The big European countries on the Board agreed to reduce their combined presence from eight of the 24 EDs to six. The reforms also called for all board members to be elected instead of appointed.[49]

This second set of reforms remains stalled due to opposition by conservative Republicans in the U.S. House of Representatives. Under IMF rules, three-fifths of its members representing 85% of total voting power must approve. In effect, support by the United States, with 16.75% of total voting power, is critical, giving the United States the ability to veto major IMF decisions. Even though the United States has been a leader in calling for IMF reform, the reforms were tied to the U.S. budget approval process. One obstacle to approval occurred with the Republican-dominated House Appropriations Committee sought to link IMF reform funding with White House compromises in health care and the Internal Revenue Service.[50]

The absence of these reforms is one of the reasons behind China and the other BRIC countries' decision to set up their own new multilateral development bank (the New Development Bank) and China's decision to set up a new Asian Investment Infrastructure Development Bank (AIIB). While new multilateral development banks compete directly with the World Bank and other regional development banks, not the IMF, the moves reflect frustration that the existing IFIs are stuck in the past and do not adequately represent these important contributors to global economic growth, especially China. The creation of these new institutions has prompted discussion in policy circles about whether they will threaten the prominence and credibility of the World Bank and IMF. Ultimately, the many small initiatives undertaken by the IMF to improve its ability

[49] International Monetary Fund, "Annual Report 2011,"(Washington, D.C.: International Monetary Fund, 2011), 37.
[50] John B. Taylor, "Obama and the IMF Are Unhappy with Congress? Good; the International Monetary Fund Needs to Get Its House in Order before Washington Green-Lights More Money," *The Wall Street Journal*, February 13 2014.

to respond to crises are overshadowed by the absence of broader governance reform that is having a greater impact on the fund's overall credibility. As a committee of eminent people appointed by Strauss-Kahn on reforming IMF governance noted in 2009, the IMF "…needs a re-energized multilateral mandate to reflect the evolution in the world economy and to increase its legitimacy and effectiveness in addressing today's global challenges."[51] The IMF board reviews quotas periodically (with the 2008 reform an additional ad hoc measure), so this issue will not disappear despite the U.S. blockage of the current reform package.

Conclusion

The global financial crisis of 2008 triggered a rapid response by powerful states and their central banks, and resulted in moving the IMF back onto the center state of global economic governance after a period of declining demand for its lending and advice. However, the IMF's newfound importance was not a result of past excellent performance, but its position as the "go-to" institution in times of economic trouble. It was the recipient of a large infusion of resources and became a crisis manager, quickly moving billions of dollars out the door to countries in need. But its output performance following the crisis was mixed in key areas. It dropped the ball in terms of foreseeing a crisis. After the crisis hit, the IMF responded quickly and effectively. It created new instruments, streamlined old ones, reformed its governance structure, and even adjusted some of its long-standing views on appropriate economic policies. While it is too early to evaluate the impact of some of its changes, one particularly positive note is that IMF actions in the third category reflect its intention to adapt and learn following its failure in the first category.

This case highlights the importance and limits of using output performance as a tool for evaluating the work of major IOs. In areas where the factors shaping outcomes are complex and go well beyond the actions of an IO, the evaluation of institutional outputs provides a means to track the IO's progress in achieving its mandates. The standard logic model is typically used to evaluate narrower sets of performance activities, but can usefully be applied to broader issues of IO performance. How we understand an

[51] "Committee on IMF Governance Reform: Final Report," (Washington, D.C.March 24, 2009).

IO's performance can have powerful ripple effects on its policies, activities, legitimacy, and credibility.

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