CHAPTER 6

THE EVOLVING ROLE OF THE IMF AND IMPLICATIONS FOR EVALUATION

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INTRODUCTION

The International Monetary Fund (IMF) and the World Bank, its Bretton Woods twin, were set up in 1944 to foster the adoption of policies that would help maintain full employment in the short run and increase living standards over time, in part through increased economic integration of nations ("globalization"). At their 50th birthday celebration—the 1994 IMF-World Bank annual meeting held in Madrid—the institutions felt a sense of "Mission Accomplished": since their creation, global incomes had increased, as had life expectancy, and poverty had fallen. Trade had flourished and freer mobility of capital was in the works.

In 1996, the IMF announced what it called the "Eleven Commandments," an update of the Madrid Declaration issued at the 1994 IMF-World Bank annual meeting, to which it urged adherence (IMF 1996). The commandments included: fiscal discipline and improvements in the quality and composition of fiscal adjustment; low inflation; bold labor and product market reforms to promote efficiency; continued trade liberalization; and "careful progress toward increased freedom of capital movements." IMF Managing Director Michel Camdessus told finance ministers and central bankers assembled at the 1996 annual meeting:

"… this is not just another declaration … It is something quite special: it is the distillation of Fund surveillance … Its message is thus universal … I trust you will use this declaration to guide your policies" (Camdessus, September 29, 1996).

This chapter focuses on the evolution of the IMF in the 25 years since the commandments were issued. It describes how the institution has adapted its policy advice and operations in the face of challenges and criticisms, and how the IMF's Independent Evaluation Office (IEO)—which came into being early on in this period, in 2001—has helped the IMF in this process. This assessment of past IMF performance—and the IEO's role in bringing about improvements—is then used to look ahead and draw lessons for the coming decade: what challenges might the IMF face and how can evaluation help it to confront them?

In the first part of this chapter, we describe two key developments that have shaped the IMF's work. First, the IMF has had to manage frequent financial crises, particularly in emerging markets over the 1994–2002 period, and then in advanced economies during the global financial crisis of 2008–09. These crises have not stopped the long-term upward course of global incomes, but they have led to considerable turmoil and, for individual countries, have sometimes led to as much as a lost decade in income growth—Argentina, Indonesia, and Greece are some of the prominent examples.

Second, while average incomes have gone up in most countries, they have done so by vastly different amounts across countries and within countries. Increasing recognition of this has led the IMF to balance the stability and efficiency focus of the commandments with policies to foster more inclusive growth, particularly by adjusting its fiscal policy advice.

Hence, over the past 25 years there has been an increase in demand for the IMF's core work of managing crises in the global economic system with increasing attention to macro financial elements. And at the same time, there has been a need to give greater attention to fostering inclusive growth, which has taken the IMF into areas that many consider outside its core mandate. We discuss how IEO evaluations have helped the IMF adapt its policies on these two fronts.

In the second half of the chapter, we look ahead to the next 10 years. Our view is that the IMF will have to maintain the scale and intensity of its financial sector work amid an evolving global monetary order while also dealing with crises that are not just financial, but rather "super-crises" originating in multiple, correlated global shocks, such as the COVID-19 pandemic, and geopolitical crises, such as the Russian war on Ukraine. Thus, more resources will likely be needed, especially because many of the shocks on the horizon are likely to be triggered by environmental and climate phenomena—an area most agree is critically important, but that some still regard as outside the IMF's core mandate. In short, it's likely the IMF will face continued tension between its core and non-core work, leading to debates about the IMF's mandate and the overall size and allocation of its resources. This section also lays out our blue-sky thinking on how evaluation at the IMF could evolve to help the institution better face these challenges.

THE IMF'S EVOLVING ROLE

The IMF as Crisis Manager: Mexican Crisis to Global Financial Crisis

While financial crises have been a consistent feature since the creation of the IMF (Boughton 2004), the frequency and severity of crises were particularly intense in the decade after the Mexican crisis of 1994, often described as the "first major crisis of globalized financial markets" or "the first financial crisis of the 21st century."[1] The Mexican crisis was followed by the Asian crisis of 1997–98 and crises in Russia in 1998, Turkey in 2000, and Argentina in 2001. While the causes of each crisis were complex, they occurred against the backdrop of the rapid growth in private international capital flows and the deregulation of financial markets in many countries. In contrast to current account crises, the IMF's handling of these capital account crises was less sure-footed and came in for fairly intense criticism. There was a respite as the period around the mid-2000s was "unusual in terms of the low incidence of crises" (Laeven and Valencia 2013) and balanced growth across countries (Lipsky 2007). This led to some euphoria that policymakers had succeeded in figuring out how to tame financial crises in emerging markets, while advanced economies were credited for successful financial innovation. This feel-good bubble was burst by the eruption of the global financial crisis, which made it clear that "financial crises are an equal opportunity menace" for all countries (Reinhart and Rogoff 2009).

Changes at the IMF

The crises led to two big changes in the IMF's operations, namely the expansion of financial sector work and the adoption of an Institutional View on capital account issues. The IEO—which was set up in the aftermath of the Asian crisis—helped guide these changes through the findings of its evaluations and recommendations.

Expansion of Financial Sector Work

A major step was the 1996 launch of the Financial Sector Assessment Program (FSAP), created as a joint IMF-World Bank initiative to provide detailed policy advice to address financial sector weaknesses. In a 2006 evaluation, the IEO lauded the FSAP as "a distinct improvement in the IMF's ability to conduct financial sector

[1] Though the latter description is commonly attributed to IMF Managing Director Michel Camdessus, his 1995 speech indicates he was not its author: "The crisis in Mexico has been described, by I don't know whom, as the first financial crisis of the 21st century" (IMF 1995).

surveillance." In response to the global financial crisis, the IMF mandated periodic financial stability assessments for countries with systemically important financial sectors, along with other steps to integrate financial and macroeconomic analysis in its bilateral and multilateral surveillance. The IEO's 2019 evaluation of *IMF Financial Surveillance* concluded that there had been a substantial upgrade of the Fund's financial surveillance work and that the FSAP had provided "high-quality in-depth assessments" of countries' financial systems (IEO 2019a). Nevertheless, the IEO recommended that the IMF expand resources for financial surveillance to maintain the quality and intensity of this work, particularly to alleviate the competition for scarce FSAP resources.

Advice on Capital Account Issues

The crises in emerging markets led the IMF to address the perception that it had been urging countries to open up their capital accounts before they were ready to do so. The IEO's 2005 evaluation of *The IMF's Approach to Capital Account Liberalization* (IEO 2005) found no evidence that the IMF had pushed countries to move faster than they were willing to go, but also found that the IMF did not highlight the risks of liberalization sufficiently, and that any recognition of the risks and preconditions did not translate into timely and consistent operational advice on pace and sequencing.[2] The IEO urged the IMF to adopt a statement that would give official standing to what it saw as the new paradigm taking shape that "upholds the role of country ownership in determining pace and sequencing; takes a more consistently cautious and nuanced approach to encouraging capital account convertibility; and acknowledges the usefulness of capital controls under certain conditions."

Institutional View

In 2012, the IMF adopted an Institutional View (IV) along the lines suggested by the IEO, spurred by the recommendation and by the measures that many emerging markets were taking to protect themselves from capital inflows from advanced economies during the global financial crisis. The view noted that full capital account liberalization is not an appropriate goal for all countries at all times and it laid out conditions under which the use of capital controls would be justified (IMF 2012). The IEO's 2015 update of its initial evaluation (IEO 2015) found that the IMF had made considerable progress in clarifying its position on capital account issues. A more recent evaluation of *IMF Advice on Capital Flows* (IEO 2020a) found broad

[2] A later IEO evaluation also found that the IMF's policy advice was directed more toward helping emerging market recipients to manage boom-and-bust cycles in capital flows, while little policy advice was offered on how source countries might help to reduce the volatility of capital flows; the evaluation found that while the IMF had tried hard to remedy this aspect, it had gained little traction with source countries (IEO 2019b).

satisfaction among the membership with the IV, though the IEO also recommended that additional flexibility in dealing with capital flow volatility would benefit many countries. In line with this recommendation, the IV was recently updated to acknowledge the occasional need for preemptive use of capital controls to increase resilience against volatile capital flows (Korinek, Loungani, and Ostry 2022).

Other Relevant Findings of IEO Evaluations

Some other findings of IEO evaluations are worth mentioning here as they are discussed later in this chapter. The evaluation on the run-up to the global financial crisis (IEO 2011a) found that "groupthink" and "intellectual capture" had hampered the IMF's ability to foresee the crisis, while an evaluation of IMF research found that staff did not feel that they were free to break taboos and explore new perspectives (IEO 2011b). The evaluations of the IMF's work on unconventional monetary policies (IEO 2019b) and other evaluations found that many country authorities regarded the IMF's policy advice as "generic" and not very helpful in dealing with deep operational issues, a defect they attributed partly to a lack of detailed technical expertise and partly to a lack of country-specific knowledge due to frequent rotation of staff across assignments.

Other Sources of Crises

While financial crises are still at the core of the IMF's work, the Fund has also been drawn into helping countries cope with crises such as those stemming from the effects of conflicts and other sources of fragility; natural disasters; and epidemics. An evaluation of the IMF's work on fragile and conflict-affected states (FCS) assessed the IMF's work during such crises (IEO 2018) and the evaluation's findings contributed to adoption in 2022 of a strengthened strategy for IMF support for FCS. A recently concluded evaluation of the IMF's work on small developing states (IEO 2022), which appear more prone to effects from natural disasters, acknowledges progress made by the IMF in raising its support for these countries while suggesting additional steps to recognize their special circumstances. An evaluation on the early response to the COVID-19 pandemic (IEO 2023) examines how the IMF responded to help members address the unprecedented global shock arising from the pandemic.

IMF Inches Toward Concern for Inclusive Growth

Roadmap

Over the past two decades, the IMF has balanced its focus on the policies embodied in the Eleven Commandments with greater endorsement of policies that deliver "inclusive growth"—growth that is widely shared among broad segments of society (Loungani 2017a; 2017b). This has come about not as a result of a strategy crafted and communicated at the outset but as a piecemeal response to criticisms, external developments, and policy preferences of IMF management. Around the turn of the millennium, the IMF embraced the goal of poverty reduction as essential to its efforts in low-income countries, a central part of which involved making its fiscal policy advice "kinder and gentler." Over the past decade, the IMF has expanded its work to cover other aspects of inclusion: labor market advice, inequality, and gender issues.

Criticism of "Structural Adjustment"

In the 1980s, the World Bank and the IMF faced criticism that their programs and policy prescriptions, far from being growth-enhancing, were responsible for hardship in low-income countries. Critics felt that the institutions asked for excessive "adjustment" that kept countries from achieving their goals, particularly poverty reduction. In response, the World Bank, which was more in the frontline of the criticism from civil society organizations, partly because of its larger field presence, started to champion policies that would deliver inclusive growth.[3]

Embracing Poverty Reduction as a Goal

Though poverty reduction is by now well accepted as a goal of the IMF's work, it was not an easy sell to the staff of the institution in the 1990s. Former IMF First Deputy Managing Director Stanley Fischer has recalled that staff felt that delivering growth was their job and poverty reduction was that of others—he likened this attitude to a "Von Braun defense—I just put the rockets up, and it's someone else's business where they fall" (Loungani 2002). It took an intense internal effort—including organization of conferences where staff were exposed to the views of preeminent outside experts such as Angus Deaton and Amartya Sen—to make the case for incorporating poverty reduction into the IMF's work. In 1999, the IMF embraced a new anti-poverty focus for its work in low-income countries, replacing its Enhanced Structural Adjustment Facility with a Poverty Reduction and Growth

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[3] The IEO's first Director, Montek Ahluwalia, provided one of the clearest expositions of the concept of inclusive growth (Ahluwalia 2007).

Facility designed to ensure that lending programs are pro-poor and in line with each country's own strategy for reducing poverty (IMF 1999) The Poverty Reduction and Growth Facility has now been renamed as Poverty Reduction and Growth Trust.

The IEO conducted two early evaluations of the IMF's new initiative (IEO 2004; 2007), asserting that while it would be it would be too soon to judge whether the goal of poverty reduction had been attained, it was important to move quickly to identify shortcomings that may require course corrections in the design and implementation of the initiative (IEO 2004). Both evaluations found an increasing program focus on fiscal governance and support for spending on the poor, but also room for improvement in the initiative. A 2014 update found that progress had been made on most of the challenges identified by the two evaluations, including clarifications of relevant operational policies; program measures to protect social and other priority spending; and improved external communications (IEO 2014).

A "Kinder, Gentler" Fiscal Policy

Along with recognizing poverty reduction as an explicit goal, the IMF began addressing concerns that its programs called for fiscal policies that were excessively contractionary and unnecessarily squeezed social expenditures. The IEO's 2003 evaluation concluded that the evidence does not support the perception that programs always involve austerity, nor did it find evidence of a decline in public spending on either health or education during program periods (IEO 2003). However, the evaluation found that the rationale for fiscal targets was not adequately explained; the 2013 update of the evaluation found "considerable progress" on this front (IEO 2013). A 2017 evaluation found that the IMF had stepped up its attention to social protection and moved beyond its traditional focus on fiscal sustainability to recognize that social protection can also be macro-critical for broader reasons, including social and political stability concerns (IEO 2017). A recent comprehensive evaluation looked at whether IMF programs between 2008–19 were able to sustain economic growth while delivering needed fiscal adjustment. Although its extensive empirical analysis found no consistent bias towards excessive austerity in IMF-supported programs (IEO 2021), it still identified considerable scope to increase the IMF's attention to supporting growth in the program context.

Labor Market Advice

IMF staff have typically regarded labor market issues as outside their core competencies. Civil society organizations, labor unions, and the International Labor Organization (ILO) have long argued that despite this lack of expertise, the IMF has pushed labor market advice that focuses almost exclusively on efficiency considerations and ignores equity and social rights. Efforts were launched during the 1990s to bring about some meeting of the minds between the IMF and its critics, including to promote greater collaboration between the ILO and the Bretton Woods institutions (ILO 2000). At the start of the global financial crisis, there were fears that unemployment might rise to levels not seen since the Great Depression, a prospect that worried IMF management and senior staff.[4] This led to an attempt to show that the rise in unemployment was largely due to a shortfall in aggregate demand (and thus not the result of any fault of those unemployed) and to document the human costs of unemployment, as reflected in background work conducted for a joint ILO-IMF conference in 2010 (ILO-IMF 2010; Dao and Loungani 2010).

As recovery from the global financial crisis took hold and worries about the near-term unemployment situation subsided, the IMF turned to assessing its advice to countries on labor market issues more broadly. For advanced economies, the IMF's self-assessment was that efficiency and equity considerations were appropriately balanced, though striking the balance had proved difficult for countries in crisis, such as Greece (Blanchard, Jaumotte, and Loungani 2013). For emerging markets and frontier economies, the findings were more modest, but there was evidence that over time efficiency and equity considerations were being better integrated into the provision of advice on labor markets, consistent with the increasing emphasis of the institution on inclusive growth (Duval and Loungani 2021).[5]

Inequality and Gender Issues

The IMF was a surprise entrant in the work on inequality. The trigger was a 2010 visit by Managing Director Dominique Strauss-Kahn to Tunisia, which he gave a clean bill of health on the basis of its macroeconomic indicators, shortly before the country erupted in protests and triggered the "Arab Spring," a political manifestation of a demand across the region for greater economic equity (Ostry, Loungani, and Berg 2019). IMF management, particularly the Managing Director and Deputy Managing Director Min Zhu, felt that the IMF could not avoid issues that were being actively debated in global and country policy circles, even if the issue of inequality was regarded as outside the IMF's core mandate. Berg and Ostry (2017), drawing on the implications of earlier research, found that inequality

[4] Managing Director Dominique Strauss-Kahn had a keen interest in labor market issues and chief economist Olivier Blanchard was a preeminent authority on unemployment.

[5] A 2019 IEO update looks at the IMF's attention to labor market developments as part of the IMF's involvement in trade policy issues (IEO 2019c).

was detrimental to sustained growth, which proved influential in bringing the topic within the IMF's domain. It was accompanied by other research on how the policies that the IMF advocated, unless carefully designed, could contribute to inequality. IMF Managing Director Christine Lagarde became a strong proponent of the IMF's work on inequality and pushed to have issues of gender inequality become a prominent part of the agenda.[6] The IMF launched two pilot programs to include inequality and gender issues in its surveillance. The IEO examined these pilots through the lens of how well the IMF worked with the World Bank and other partners on these and other "macro-structural" issues and suggested a number of steps to encourage deeper collaboration, including clearer frameworks for collaboration on key issues of strategic importance (IEO 2020b).

THE COMING DECADE AND IMPLICATIONS FOR EVALUATION

Challenges over the Coming Decade

Evolution of "Known Knowns"

Each decade of the IMF's existence has been marked by known challenges and others that would have been difficult to predict. For instance, few would have expected in the mid-1980s that the IMF would spend the decade that followed helping countries of the former Soviet Union make the transition to market economies. We do not attempt to speculate on how such "unknown unknowns" might impact the IMF's work; we have the more modest goal of describing how the two challenges we have discussed—the need to scale up core work to manage financial crises and the incursion into non-core work—are likely to play out over the coming decade.

Financial Sector Work

There seems little doubt that the IMF will have to maintain the scale and intensity of its financial sector work. The IMF's failure to predict past financial crises has not led to any diminution in its role as the key global financial crisis manager or in its efforts to strengthen its diagnostic capabilities. There has been a lull in financial crises in the last few years, but the experience of the mid-2000s lull being followed by the global financial crisis serves as an effective reminder that the IMF cannot let down its guard in scouting the landscape for financial-sector vulnerabilities.

[6] The IMF's Executive Board approved the institution's first gender strategy in July 2022 to integrate gender into the Fund's core activities—surveillance, capacity development, and lending.

Super-crises

It seems likely that the crises that the IMF will have to manage in the future will be amalgams of financial crises and some other type of crisis—environmental, health, geopolitical—with implications for the IMF's toolkit and policy advice (for example, on fiscal policy). We call these "super-crises" by virtue of their multiple shocks, global scale, and long-legacy connotations. The events of 2020–22 offer a good example. In 2020, the COVID-19 pandemic struck a devastating blow to the global economy. The COVID-19 shock was followed in 2022 by Russia's invasion of Ukraine, the fallout from which has compounded a number of adverse global economic trends, including rising inflation—a legacy of the disruption of global supply chains and deglobalization during the pandemic—and a rise in extreme poverty and food insecurity (Batini, Lomax, and Mehra 2020; Furceri and others 2022). The combined effects of the pandemic and Russia's war on Ukraine—"a crisis upon a crisis"—has also worsened the already tenuous debt situations in many countries, and the sanctions imposed on Russia may lead to geo-economic fragmentation (Georgieva, Gopinath, and Pazarbasioglu 2022). This may occur in part by a move away from the euro- and dollar-based monetary system toward commodity-based currencies (Pozsar 2022), potentially igniting systemic financial crises in dollar-denominated markets (Macleod 2022).

Core vs. Non-core Work

Second, we also expect a further expansion of the IMF's non-core work and a blurring of the lines between its core and non-core work. The IMF's work on climate change has already expanded considerably with approval of a new climate strategy in 2021 and an augmentation of budgetary resources to increase expertise on climate-related issues. There are misgivings among some IMF shareholders on how far the IMF should expand its work on climate change. But it seems to us that the IMF will be unable to sit on the sidelines of the major global policy priority of our times given the wide-ranging economic implications of the changes needed in the energy and agriculture sectors to stabilize the Earth's climate during this decade and beyond (Batini 2021). The strong engagement of central banks and other financial agencies in this work signals the importance that others in the IMF's sphere assign to their involvement in climate-change issues (Barkawi 2020).

Likewise, we expect work on inclusive growth to be scaled up and become more deeply entrenched in IMF policy advice and lending activity. Both the pandemic and climate change have a strong regressive impact on low-income and vulnerable countries (as well as on low-income sections of the population within countries). The ability of low-income countries to improve their prospects through the outlet of mass migration has been checked somewhat by the anti-immigrant backlash and rising populism in advanced countries. Looking ahead, the low-income countries are the ones most likely to be adversely impacted by climate change and least able to act without assistance from the global community. Recognizing this, the IMF has set up a Resilience and Sustainability Trust to help countries cope with climate change, pandemic preparedness, and longer-term structural challenges that carry significant macroeconomic risks. The Resilience and Sustainability Trust complements the IMF's existing toolkit and supports policy solutions in areas that can benefit all countries.

In sum, we predict the tensions evident over the last decade regarding the IMF's mandate will continue and likely even intensify, and, relatedly, encompass the adequacy of overall IMF resources and their allocation between core and non-core issues. Unless its budget expands considerably, the IMF will need to be more committed to working closely with partners with much greater depth and expertise in areas such as climate change and inequality.

Leave It to Self-reliant Fungible Macroeconomists?

In addition, the likely course of evolution toward "non-core" issues will surface tensions related to two other recurring findings of IEO evaluations:

(1) The IMF's human resources (HR) model: can the IMF provide expert advice on non-core issues using an HR model centered around "fungible macroeconomists" who rotate frequently among assignments?

(2) The IMF's collaboration with other agencies: is the IMF's "culture of self-reliance" suitable for analysis and advice on topics in which other agencies have the comparative advantage?

The very first evaluation conducted by the IEO concluded:

"A broad review of explicit and implicit incentives facing IMF staff should be undertaken, in particular with a view to reducing the excessive turnover of staff working on countries" (IEO 2002).

Since then, concerns about the deleterious impact of excessive turnover on the quality of IMF policy advice have repeatedly been expressed by the Executive Board and have surfaced in several IEO evaluations. However, progress in increasing the length of country assignments has been slow. The evaluations of IMF financial surveillance and advice on unconventional monetary policies (IEO 2019a; 2019b) found a lack of in-depth expertise and saw a need to adapt the HR model to provide adequate career opportunities for specialist economists as well as generalists.

Difficulties in IMF-World Bank collaboration have also been highlighted in several IEO evaluations. A detailed investigation of collaboration between the two institutions on topics such as inequality and climate change found that while informal consultation was widespread, the IMF did not systematically leverage World Bank expertise, and there were relatively few examples of in-depth collaboration (IEO 2020b). The evaluation noted that as emphasis encompasses non-core areas, the IMF would have to transition from its “culture of self-reliance” and invest more in working with other agencies that have comparative advantage in those areas.

Implications for Evaluation

Building on IEO Achievements

In its first decade, the IEO established its credibility with in-depth evaluation reports, supplemented by background papers often written by well-known external experts. Over its second decade, the IEO continued releasing detailed evaluations as its main product, while introducing innovations such as updates and, more recently, shorter evaluations (which are more narrowly focused and produced in a more compressed time frame of about a year). As discussed earlier in this chapter, the IEO’s evaluations have played an important role in shaping the IMF’s work on financial-sector issues as well as some aspects of its work on inclusive growth (notably, adaptations in fiscal policy).[7] Given this success, and the support that the IEO’s current approach enjoys with the IMF’s Executive Board, there is a strong case against making any changes going into the IEO’s third decade: ”Don’t mess with success,” and ”if it ain’t broke, don’t fix it,” are persuasive arguments. Nevertheless, we feel that the IEO must also be ready to adapt and innovate to help the IMF strengthen its capacity to manage the challenges we have outlined previously in this chapter. In particular, we suggest two possible shifts in the IEO’s activities: first, more ambitious topics for evaluations and, second, more adaptation in the instruments and resources used.

More Ambitious Evaluation Topics

The IEO will have to evaluate more systematically the IMF’s work in emergent non-core macro-critical areas, notably in the areas of climate change and inclusive growth. So far, these areas of IMF operations have received less attention from

[7] Other chapters in this book provide more extensive discussions of the IEO’s impact.

the IEO, on the grounds that there is limited experience to evaluate. But as the IMF increasingly steers its operations in this direction and adopts important new strategies (as it has on climate issues and on gender), the IEO can conduct early formative evaluations of how well the strategies are working and recommend course corrections to help avoid costly mistakes. As previously noted, the IEO thought it important to provide an early evaluation of the IMF's poverty reduction strategy, adopted in 1999, to identify shortcomings that might require course corrections in the design and implementation of the strategy (IEO 2004).

The IEO may also usefully consider the broader questions related to the IMF's institutional mandate, including by evaluating the way the IMF balances attention to core and non-core activities. By pursuing this broader and more ambitious agenda, the IEO can help foster a dialogue between the IMF's shareholders—many of whom favor a narrow view of the IMF's mandate—and the wider group of stakeholders, particularly in civil society, who favor a broader view of the IMF's mandate, but are not always satisfied with its implementation. There is often a wedge between civil society's concerns about inclusive growth and climate change and the IMF's perception of its role and its success in addressing such concerns, which could lead to growing challenges to the IMF's legitimacy. The IEO can help reduce this wedge through a closer collaboration with civil society organizations, and by listening to concerns and assessing how the IMF responds to them.

Beyond having evaluations venture more into non-core topics and, relatedly, the IMF's mandate, the IEO can assess whether and how the IMF tackles taboo topics. IEO evaluations have highlighted issues of groupthink and intellectual capture at the IMF, both of which are common in large institutions. Due to these behavioral biases, IMF staff is unlikely to challenge what it perceives as the received wisdom at the Fund; as the "Lissakers report" noted, staff who do so will most likely move on from the organization (IMF 2006). The IEO can play a role through short think pieces that consider the evidence against received wisdom or the Eleven Commandments—perhaps drawing attention to relevant work from IMF staff—which is tolerated as interesting academic research rather than an opportunity to revisit the IMF's beliefs and policy advice. Some examples:

- *Benefits of financialization and financial globalization:* The IMF still takes a fairly rosy view of financial markets and the benefits of free capital mobility. So strong is this faith that the institution ignored the prescient warnings of its own chief economist that many of the financial innovations prior to the global financial crisis "may have made the world risker" (Rajan 2006). Similarly, research by IMF staff on excessive financialization of economies or on the "dark corners" of foreign direct investment has had little impact on the institution's corporate view. Likewise, the IEO evaluation on *IMF Advice on Capital Flows* (IEO 2020a) did not fundamentally question the institution's basic faith in the benefits of financial globalization.

- *Benefits of industrial policies:* The IMF's fundamental view is that growth follows from creating a level playing field for all sectors by improving the business environment (horizontal policies) rather than through governments trying to pick winners (industrial policies—sometimes also called vertical or sectoral policies). Touting the merits of industrial policies appears to be taboo at the IMF—staff who favor an active discussion of the pros and cons of industrial policy have called it "the policy that shall not be named" at the IMF (Cherif and Hasanov 2019).[8]

The IEO could also go further in how it evaluates the IMF's collaboration with other international partners. One consideration will be how the IEO itself can best work with evaluation counterparts. Having stressed the importance of the IMF staff working well with other agencies, the IEO should set a good example itself through stronger collaboration with evaluation offices at other agencies. Hence, it would be useful for the IEO to undertake joint or closely coordinated evaluations so that recommendations are more symmetric and encourage complementary changes at the IMF and the partner institution. Recent efforts to interact more closely on the evaluations of the response of the various multilateral institutions to the pandemic are steps in this direction.

Finally, the IEO could deepen its assessments of the IMF's human resource and budgetary strategy. In recent years, the IEO has paid increasing attention to how HR policies can discourage excessive staff turnover and encourage development of in-depth expertise. However, the IEO has not evaluated or commented on the allocation of resources across various IMF activities on the grounds that this would amount to micromanaging the institution. A common complaint from IMF staff is that the IEO's evaluations typically call for devoting more work and additional resources to the areas that are evaluated without any guidance on where, in a flat budget environment, resources could be cut back. For example, the IEO has

[8] The taboo affects the quality of the IMF's engagement with countries. In an informal Board 2021 seminar, a staff working group reported that the IMF's bilateral policy advice to low-income countries "had focused on horizontal policies … staff had occasionally advised on sector-specific policies in an ad hoc fashion." But because many countries were moving ahead with vertical, or sector-specific policies, "the absence of structured guidance for country teams limited their ability to engage meaningfully with country authorities on these issues" (Rustomjee, Balasubramanian, and Li 2022).

evaluated surveillance activities from various angles but never come to a judgment on whether, for example, the increased resources for financial sector work that it has recommended could come from scaling back Article IV activities, or multilateral surveillance, or capacity development, which takes up a third of the IMF's budget. By viewing evaluations discretely without connecting their implications, the IEO is like a nutrition expert who provides advice on the quality of each meal without looking at the person's overall diet.

Greater Adaptation in Instruments and Resources

One of the implications of a call for greater attention to new issues is the need for greater use of shorter, more formative evaluations to better align the timing of recommendations with fast-paced changes in IMF work. One advantage of this approach would be to allow timely learning in evolving areas like climate change, rather than waiting for years after new approaches are introduced. It may be necessary for the IMF to invest more in the evaluation function itself—both internal self-evaluation and independent evaluation. Chapter 5 examines this issue in detail and suggests the IEO can better equip itself to carry out formative evaluations by adopting techniques used by evaluation offices in the World Bank and other institutions.

The IEO could also draw greater attention to the lessons of past evaluations of IMF strategy and operations. A welcome development in the last two years was the interaction between the IEO and IMF management on how the lessons of IEO evaluations could help inform the IMF's strategy on its emergency response to the pandemic. Likewise, the IEO contributed an extensive document detailing the relevance of its past findings for the IMF's ongoing data-integrity initiative.

We also see the opportunity to build on the experience from "working at home" during the pandemic; in particular, greater use of virtual outreach and social media would help IEO to leverage its limited resources and increase awareness of its work.

Importantly, the IEO itself may have to gear up its own resources. One task is to ensure that in-house staff have the background and experience to assess the quality of IMF advice on non-core issues. While specialist consultants can be helpful to fill specific gaps, it is still important that evaluation staff are able to appreciate the issues involved.

CONCLUSIONS

The IMF is widely, though not universally, perceived as an effective institution that has promoted policies that foster economic stability and globalization while seeking to remedy its deficiencies, learning from experience to manage financial crises better and make its policy advice and programs more conducive to delivering inclusive growth. Consideration of the welfare of future generations is a key aspect of inclusive growth, and from this perspective, the IMF's plans to considerably expand its work on climate change is a further step in this direction. The evolving role of the IMF has led, however, to questions and tensions, which are likely to continue, about its mandate and the allocation of resources between its "core" activities and activities that some consider to be outside its core mandate, such as work on inclusion, inequality, and climate change.

The IEO has played a useful role in helping the IMF learn from experience through the findings and recommendations of its in-depth evaluations. In its first decade, the IEO established its credibility for independence and its reputation for producing high-quality reports. These features have continued to mark the IEO's second decade; the authors of this chapter are relative newcomers to the IEO, so this is intended as praise for our predecessors, not for ourselves. At the same time, the IEO has innovated by launching valuable short updates of previous evaluations, introducing a shorter format for evaluations, and providing analysis of the lessons that its past evaluations hold for IMF strategy and operations. In our view, while in-depth evaluations should remain the bread-and-butter work of the IEO in its third decade, some further evolution toward a strategic and advisory role would help the IEO to better serve the IMF. We also suggest that the IEO consider taking on bolder and broader evaluations—albeit in formats different from its standard full-length evaluations—on the IMF's mandate, its size, and the allocation of resources across broad activities. The IEO should not seek to micromanage the IMF, but as a credible, independent voice with two decades of experience assessing IMF operations, it should have a seat at the table in "macromanaging" the institution.

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