CHAPTER 7

THE IEO AND THE NEW CHALLENGES FACING THE IMF

NGAIRE WOODS

The IMF is entering a period of unprecedented challenge. Created to facilitate monetary cooperation among countries in support of global macroeconomic and financial stability, the new challenges require new ways of thinking and working, as well as a reinforcement of the IMF's core raison d'etre and traditional approaches. In this keynote today, I will examine the IEO's role in ensuring the IMF's success.

Let us begin by recalling what the IMF is seeking to achieve. History provides many examples of why an institution like the IMF is needed to facilitate cooperation. Informal processes, such as the operation of the G7 in the 1970s, or the interwar arrangements of the 1920s, lacked three important prerequisites for effective ongoing cooperation:

- A set of commonly agreed rules and principles;
- A monitoring of compliance with those rules, and;
- The collection and sharing of information and knowledge which points to where cooperation would make a positive difference.

To deliver on these three prerequisites an international institution needs to have a governance and credibility such that governments willingly share information with it, participate in its standard-setting or rulemaking, and subject themselves to its monitoring.

The IMF has enjoyed periods of greater (and, at times, lesser) credibility with its members. In the aftermath of the East Asian crisis, the institution suffered a particularly public "chastening," with scholars, economists, and government leaders castigating its interventions as beyond its legitimate mandate.[1] Japan's proposal to create an alternative Asian Monetary Fund amplified the IMF's

[1] Feldstein, Martin, "Refocusing the IMF," *Foreign Affairs* (March/April 1998), Blustein, Paul. *The Chastening*.

need to take action. It was against this backdrop that the idea of an Independent Evaluation Office gained traction.

When the IMF created the Independent Evaluation Office in 2001 it was building on the experience of other development institutions, such as the World Bank, which had created an independent evaluation department in 1967. Soon after the IMF's decision to create its IEO, similarly named evaluation offices popped up in organizations ranging from the Global Environment Facility to the UNDP, UN Women, and the Bank of England.

In each of these organizations, the creation of an independent evaluation unit has led to a grappling with three core challenges and conflicts which surround evaluation.

The first issue is **what to evaluate** and **who decides**? A debate has raged since the creation of the IEO as to whether ongoing programs can be evaluated. The staff and management of the IMF have been fierce in asserting that the IEO should not "interfere" with operational activities. This is always a tension within organizations. Yet other institutions have found that it is useful to have an independent pair of eyes on your actions, particularly in fast-moving situations. In the heat of a crisis, it is easy for even the best professionals to fall into groupthink and to resort to preexisting templates and patterns of behavior. For example, it is easy to fall back on self-reliance within the IMF, and to continue to put off to another date the deepening of work with other international organizations. As we will see below, the major challenges the world needs the IMF to address are fast-moving and new. Rapid adaptation and on-course correction—or an "agile IMF"—is likely to be vital to effectiveness, as will be its capacity rapidly and effectively to collaborate with other organizations. Early and mid-course evaluations could assist in this.

The second issue is **who should conduct the evaluation**? Before the IEO was created, the IMF had been using ad hoc teams of independent evaluators. On the positive side, this brought new thinking to bear on problems (see, for example, the ad hoc independent evaluation of ESAF), it lessened the risk of pressure from staff within the IMF (unless, of course, an external was seeking further work from those within the IMF who did not wish robustly to be evaluated), and it seemed to lessen the risk that evaluation would become routinized, bureaucratized, and marginalized. The case for the more internal "independent evaluation office," in which the Board appoints the Director and sets the budget, was that it would enable evaluators to have a better understanding of the institution, greater access to the evidence, and to build a more constructive relationship with the management and staff of the organization. Achieving independence in the latter scenario is difficult. The IEO staff are employed by the IMF and rely on rules designed to enhance their independence. The IEO has also brought in externals to assist with evaluations. That said, the IEO has not enjoyed a seamless constructive relationship with IMF staff. In the words of a former senior IMF official: "Gradually, the IMF staff have begun to understand that knee-jerk defensiveness and pushing back on the IEO at every turn is counter-productive." These issues remain important. On the other side of the coin is the question of who evaluates the evaluators? Are their findings replicable?

The final perennial evaluation issue is **how will it be used and what impact will it have**? Successive evaluations of the IEO have led to a tightening up of the reporting process, and the Board's responses to each report, and the monitoring of subsequent actions in the organization. In terms of the culture of the IMF as a whole, it is important (including for the efficient use of the IMF's resources) that the work of the IEO be considered as a vital line of defense, not to be front-run or neutered by other parts of the organization. When the IEO was established, various voices within the IMF argued that it would waste valuable resources, including the time of staff having to respond to requests from the IEO office. These points clarify that it is for both the IMF and the IEO to respect how best to use the resources of the IEO. Beyond these points, it is worth considering more deeply how behavioral and cognitive science could inform the way the IMF and IEO work to deepen the learning culture and improvement mindset. Countering "negativity bias" is a key part of this. And, so too are insights about behavioral change which could enlighten how best to elicit responses among the IMF staff.

HOW THE IEO SEEKS TO STRENGTHEN THE IMF

The Independent Evaluation Office is designed to strengthen the IMF in several ways. The Terms of Reference describe these as to "enhance the **learning** culture within the Fund, strengthen the Fund's **external credibility**, and support the Executive Board's **institutional governance** and **oversight** responsibilities." The work program of the IEO is described as focussing on "issues of importance to the Fund's membership and of relevance to the mandate of the Fund" and taking into account "current institutional priorities."

This suggests four ways in which the IEO might increase its effectiveness in facilitating monetary cooperation in support of global macroeconomic and financial stability. The reports of the IEO have noted the need for strengthening in each area.

TABLE 7.1. HOW THE IEO SEEKS TO STRENGTHEN THE IMF

	HOW THE IEO ACHIEVES THIS?	THE QUALITY OF THE EVALUATION	METRIC OF SUCCESS	EXAMPLES
Learning	By evaluating programs and policies and sharing findings with **staff and management.**	Depth of evidence, rigor of analysis, and credibility of lessons learned.	Policy change and behavioral change.	Expansion of financial sector surveillance (IEO 2006).
Oversight	By highlighting risks (or patterns of failure), including failures to collaborate with other organizations, to the **Executive Board,** which may have been overlooked by the management.	It brings additional analysis and information (sometimes channelling outside views) to the Board, which permits the EDs (as officials of the organization) more effectively to oversee the work of the IMF.	Risks are picked up by Board. Groupthink is avoided. Preparation is undertaken. Better collaboration with other organizations is sought.	IEO has highlighted risk of shifting staff too often so that they are not expert. But no action taken. (outside view see SIDA). IEO failed or (*IMF Advice on Capital Flows*) shied away from considering whether the institution's basic faith in the benefits of financial globalization ought to be questioned.
Governance	Evaluating and reporting to the **Executive Board** on whether the IMF is treating (and perceived to be treating) its members fairly; ensuring transparency and accountability back to governments.	Rigorous comparisons, unearthing evidence, "speaking truth to power," so that it is trusted by governments.	Board members more effectively exercise a multilateral control of the IMF.	Helping to eliminate the extraordinary access exemption after the eurozone crisis.
External credibility	By providing **the public** with an independent view and full transparency.	Clarity and credibility of response on issues of public concern.	Greater public trust and support; channelling of complaints.	

On learning, IEO reports find, for example, insufficient "updating" of approaches in light of new challenges and information, organizational silos within the IMF, gaps in expertise, and uneven and shallow collaboration with other institutions (e.g., on climate and on inequality with the World Bank), when a much deeper cooperative approach is required.

On oversight, the IEO has highlighted a lack of Board oversight on issues and insufficient attention to risks and uncertainties.

On governance, the IEO has signaled a lack of clear direction from the Board on some issues, and a lack of evenhandedness, reflecting differences in analysis, political influence, and willingness to be frank.

But what do these warnings mean for the IMF's role amidst contemporary challenges?

SUPPORTING THE IMF AT A CRITICAL JUNCTURE

In late 2021 global macroeconomic and financial stability requires cooperation in a number of domains. A first domain lies in the fiscal and monetary effects of the pandemic. COVID-19 has led governments to spend massively in supporting households, businesses, and health systems, and the trajectory of the virus is still uncertain. By November 2020 some \$11.7 trillion had been spent in total global fiscal support, and \$7.5 trillion in liquidity support by the monetary authorities of major advanced economies.[2] Cooperation among states is now required to ensure fiscal pathways which permit individual countries to recover without jeopardizing financial stability. The IMF has already warned of the dangers of a premature withdrawal of fiscal support by those who can afford not to.

On this issue, the IEO has much to share, not just from its evaluations of fiscal adjustment in IMF programs, but also in its reports on the IMF's role in financial crises in various countries, and potentially by looking at ongoing experiences of other institutions and countries around the world. A potential role here is one which challenges the IMF's core approach more robustly and examines emerging programs to help create a more agile response.

Monetary policy is an equally vital area for cooperation. The challenge is for major economies to wind down their unconventional monetary policies of the past decade without catalysing crises in other countries.

---

[2] https://IMF.org/en/News/Articles/2020/12/02/wsp120220-new-challenges-and-opportunities-in-a-new-era.

The IEO addressed this issue in its 2019 evaluation of IMF advice on unconventional monetary policies. It highlighted risks for the IMF, which included a lack of expertise on monetary policy issues, and mission teams' lack of contextual knowledge due to the rapid rotation of country teams. Could it push harder for a new approach, and a more clearly elaborated strategy, not just on the policy issues, but on the management strategy for ensuring real expertise is developed and deployed in a longer-term way in-country?

A second issue concerns the fault lines which have deepened through COVID-19 between "haves" and "have nots." Everywhere, the COVID-19 crisis has had a disproportionate impact on the young, the low-skilled, and women. It has also deepened fault lines among countries. Emerging and developing countries (excluding China) are projected to have cumulative income per capita between 2020 and 2022 which is 22 percent lower than what it would have been without the pandemic. "That will translate into close to 90 million people falling below the extreme poverty threshold since the pandemic started."[3] Deepening these fault lines is the fact that some countries have had vaccine access and been able to offer early policy support, while others have not, and the "have nots" are likely to fall further and further behind as a result.[4]

Repairing the fault lines requires cooperation among countries to fight the virus, and to sustain a cooperative approach. To this end, an IMF policy proposal, jointly endorsed by the World Health Organization, the World Bank, and the World Trade Organization, calls upon governments to speed up (and deliver upon) their promises to donate vaccines and to support COVAX, to remove restrictions on exports of medical supplies, to diversify and increase vaccine production and distribution capabilities, and to fund the testing, tracing, and therapeutics required to contain new variants.[5] These are worthy goals. But to achieve them, the IMF needs to work effectively, and deeply, with other organizations. Despite many IEO reports making this point, the "self-reliant" IMF has yet to develop this capacity.

Repairing the fault lines also requires the IMF to deliver financial support and policy advice which ensures fiscal and monetary policies do not deepen inequalities within countries. A step towards a new source of financial support was made

[3] https://IMF.org/en/News/Articles/2021/03/20/sp-global-economy-2021-prospects-and-challenges.

[4] https://IMF.org/en/Publications/WEO/Issues/2021/10/12/world-economic-outlook-october-2021.

[5] Agarwal, Ruchir, and Gita Gopinath. 2021. "A Proposal to End the COVID-19 Pandemic," IMF Staff Discussion Note 21/04, International Monetary Fund, Washington, DC.

on August 2, 2021 when the Board of Governors agreed to allocate $650 billion of Special Drawing Rights. The agreement was described by the Managing Director as "a shot in the arm for the global economy at a time of unprecedented crisis."[6] That said, work is still underway to channel the allocation from rich to poor countries. Could the IEO help in this, better preparing the IMF members, management, and staff to consider this ahead of time? What are the obstacles to this?

Finally, beyond COVID-19 and the reversal of a decade of unconventional monetary policies, climate change poses a real threat to global stability, including monetary and financial. IMF research suggests that the loss of global economic output will exceed 20 percent by 2100 if no further action is taken. To this end, cooperative measures which might abate climate change are essential, and warrant the IMF's attention to measures, including raising carbon taxes, or implementing carbon emissions trading, as well as subsidies, guarantees, and investment to increase the supply of low-carbon energy, carbon capture, and carbon storage.

On each of these issues, following the tabulated framework in the section above, a checklist for IEO potential impact includes:

(1) Is the IEO fostering learning by staff and management from previous efforts (and failures) as well as from the breadth of the IMF's own research which is sometimes sidelined when it comes to operations? Here it is worth considering what we know about behavioral change.

(2) Is the IEO strengthening Board oversight of the adequacy of IMF risk analysis, e.g., of its failure to develop deep collaboration with other regional international organizations starting with the World Bank? (see IEO 2020) Here it is worth taking into account that the Board does not like confrontation either with the MD or with members of staff. IEO evaluations need to permit constructive tension which should exist between Board and management of any well-functioning institution.

(3) Is the IEO facilitating effective governance, e.g., by equipping the Board to press for more management and staff attention to neglected concerns and countries; ensuring the multilateral character of the IMF, e.g. setting up the case for eliminating the extraordinary access exemption after the eurozone crisis?

[6] https://IMF.org/en/News/Articles/2021/07/30/pr21235-IMF-governors-approve-a-historic-us-650-billion-sdr-allocation-of-special-drawing-rights.

(4) Is the IEO bolstering external credibility, e.g., by informing groups outside the IMF, including civil society and private sector groups, and equally by gauging and reporting back to the Board on how these groups perceive and are affected by IMF actions? Sometimes, to effect change within an organization, you need to consider more carefully how simply and clearly your messages can catalyse groups outside the organization to push it to change. Much of what the IEO finds is of little surprise to the staff of the IMF. The IEO, by publicizing and giving evidence of what is known internally to be happening, can help to catalyse change,

In short, the IMF is being called upon rapidly to adapt its thinking and research to address new challenges, both immediate and longer term. Evaluation can and should help it to do this.

GOVERNANCE AND CREDIBILITY IN A WORLD OF SHIFTING GEOPOLITICS

Underpinning the IMF's capacity to respond to these challenges is the relationships the organization has with its various members and their willingness to work closely with the institution. In formal terms, these relationships are prescribed by the governance of the IMF. Member countries are represented in the Governing Board and on the Executive Board (albeit some in large groups). The Board approves the policies and actions of the organization. Efforts are made to ensure there is consistency with policies and across countries. The management and staff are required to serve the organization and not the interests of their own home countries. That said, in practice, geopolitical power plays a vital role in the IMF.

Not all IMF member countries are treated equally by the institution (and nor, perhaps, can they be, more on this below). After the East Asian crisis, from 1999 onwards the IMF began conducting Financial Services Assessment Programs in countries, yet the (soon to crash) USA refused to be subjected to one.[7] After the global financial crisis of 2008, the IMF was criticized by its emerging and developing country members for giving special treatment to European debtor countries. In respect of China, the US has regularly urged the organization to be "tougher" on China over its exchange rate regime (accusing China of currency manipulation[8] even

[7] https://www.reuters.com/article/us-IMF-usa-idUSN1019856020080410.

[8] https://www.cnbc.com/2019/08/05/trump-accuses-china-of-currency-manipulation-as-yuan-drops-to-new-low.html.

as the institution reports that China's external positions are balanced[9]). The role of the IEO is important here.

Effective international institutions rely on the "buy-in" of powerful members. They can refuse to participate, as the US and USSR did in the 1920s with the League of Nations. They can participate nominally, but mostly circumvent the multilateral process or institution, as the US and USSR did in respect of the UN Security Council during much of the Cold War. Or powerful states can make their participation conditional on a high degree of control, which creates ongoing tension between what the majority of member states in an institution wish it to do and what its most powerful members will agree to it doing. After the creation of the IMF, the US sought for decades, through informal means, to expand its influence and control over the organization.[10] However, China is now seeking more voice in this and in other international institutions.

The strategic rivalry between the US and China, which includes a competition for influence over the rules and institutions which govern international relations, risks leaving the IMF constantly torn between the two, or being perceived as a pawn of one or the other. The IEO has a vital role to play in this. Through its independent evaluations it can monitor the governance and evenhandedness of the IMF. It can give assurance to member countries—big and small—not that the IMF will act without flaw or fault, but that when it does, that the Executive Board will be equipped to hold it to account, and to require correction.

Missing from the IEO's toolkit on governance is assurance to members and to the public about the role of the leadership of the institution. This is important, since a lesson from Cold War strategic rivalry is that international organizations can acquire a more independent role, but that central to this is the leadership of the international organization. Powerful heads of organizations can increase the scope for multilateral action by adeptly forging coalitions in support of their mandate and finances, and by managing their organization's staff, ethos, and performance effectively.[11] This is a terrain into which independent evaluation has yet to tread. The IMF has itself created a process for internal evaluation of the leadership. But given the increasing challenges to the legitimacy of international organizations, this could be a new avenue to open up.

---

9 https://IMF.org/en/Publications/ESR/Issues/2019/07/03/2019-external-sector-report.

10 Woods, *The Globalizers: The IMF, the World Bank, and Their Borrowers* (Cornell Studies in Money), 2007.

11 Hall and Woods: https://journals.sagepub.com/doi/10.1177/135406611774676.

CONCLUSIONS

The IEO exists to help the IMF to do the right things, and to do those things in the right way.

Doing the right things for the IMF means doing what is necessary to promote monetary cooperation and provide policy advice and capacity development support to preserve global macroeconomic and financial stability and help countries build and maintain strong economies. It needs its critical friend to be checking whether it is:

- Facilitating consultation and negotiation among states in the right areas;
- Setting the right rules to play its part in this;
- Gathering information which individually countries have inadequate incentive to collect and collate;
- Collaborating with other international organizations to leverage its own effectiveness and theirs.

Doing things right has the IEO evaluating whether the IMF is:

- Attracting the right staff and promoting and deploying them appropriately;
- Using its own financial resources appropriately;
- Applying its own policies effectively and with an eye on evidence and up-to-date research;
- Acting impartially and in keeping with its multilateral character (do its member states trust it?);
- Accounting to its members in a full and honest way.