

# CHAPTER 8

## REFLECTIONS ON THE IEO'S PAST AND ITS FUTURE

### REMARKS BY:

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#### **Masood Ahmed**

##### **Two Challenges Facing the Fund**

The two big challenges for the Fund are going to be different from what it has faced in the last decade. The first is the big push to get the Fund involved in providing global public goods—through greater involvement in areas like climate change and fighting pandemics—because that is where the agenda is shifting. The Fund is seen by many on the outside, and some on the IMF's Executive Board and in staff, as having a bigger role to play in this effort, while others are a little more concerned about it. So, striking a balance for the institution will be critical.

The second big challenge for the Fund is going to be the much more fraught nature of geopolitical relations, particularly between and among the major shareholders in the Fund, and how that will play through in the work of the Fund. How will that affect the Fund's ability to maintain multilateralism? Will the Fund become the safe space, for countries that are otherwise at arms on many issues, to deal with common areas of concern? Or will the Fund itself become one of the tools for the kind of geopolitical sparring that is likely to intensify over the next decade? The answer is not that clear to me.

The two challenges I've mentioned are linked, because in a way the safe space is increasingly going to be in the provision of global public goods area where there are common interests. And so, if you want to keep the Fund a safe space for multilateralism, you may be forced in terms of substance to focus more on the areas where the Fund is a little less comfortable going in, which is in these global public goods areas.

## Confronting the Challenges: Advice for the Fund and the IEO

The big mistake would be for the Fund to let people think that it was going to be an expert on climate, or on pandemics. The Fund has a very specific and limited role in which it not only can contribute but is the only institution that can actually contribute. And that role is to look at those questions in climate, or in pandemics, that have a macroeconomic or financial impact and particularly on the spillovers they generate. If the Fund is not looking at what's going to happen to stranded assets because of climate change, and what the consequences of stranded assets will be on the stability of the financial system, it is not doing its job. But to think that the Fund should start offering advice on different technologies to reduce carbon emissions in the power sector is a completely misguided notion.

This is not the IEO's role either. The IEO should not be doing reviews of how far the Fund should go in these areas, but for management, Board, and staff to be very clear about what the boundaries are. If you look to the IEO's evaluation of Bank-Fund collaboration, the most successful among the pilot programs—on inequality, climate, and so on—were those where the staff were given clear guidelines on what was expected of the Fund and of them in those areas. The pilots that were the least successful were the ones where the staff were told to go off and figure out for themselves how do something useful in the area; then it turns out that you end up with a mishmash of outcomes. So, the sooner you can clearly define the area of focus and boundaries for the Fund's involvement, the easier it will make for both a good outcome and clarity on the outside about it.

## Early Evaluations vs. Window on the World

As the Fund marches off into new and unfamiliar territory, there is a sense that someone should be assessing early how well it is doing so that mid-course corrections can be made before it goes too far astray. Should this be part of the IEO's role? The IEO has always faced a question of balance between how early it comes in to evaluate Fund activities and how relevant it is in that way, versus waiting so it doesn't trip over the work of the staff. I'm personally not a great fan of creating an alternative review department—an alternate SPR—in the IEO. So, I would maintain a bit of that distance by coming in later.

That said, the IEO can be a very important window on bringing in outside views at a time when the Fund is considering alternative directions. So, rather than being an alternative policy shop, which is the danger that I see of the IEO getting too early into evaluations, being a window to what others outside are thinking may be better. In 2020 the IEO started a seminar series, which is a terrific idea, in part

because bringing in outside views has been something that has always been hard for the Fund to do. This could be a very useful role for the IEO to play. It would help in making the IEO more relevant, but without turning it into being too close to the operational work.

Linked to that is the balance between insiders and outsiders in carrying out IEO evaluations. My feeling is that the IEO has increased its reliance on what I call quasi-insiders, people like me who have spent a long time inside the institution but are outside now or have retired. I think it would be better to have a little less of people like us on the evaluations and a little more use of people with other backgrounds. Relying more on the quasi-insiders to be a proxy for the staff and management, for instance, to test how effective and relevant the evaluation drafts are, may be better than using them as consultants to produce the evaluations in the first place.

Of course, there is a danger that pushing IEO evaluations to a later point curtails mid-course review and course-correction capability at the Fund, in part by not bringing in outside perspectives. This is something that the Fund ought to think about. When you look at learning at the Bank and the Fund, the borders of the Bank are more porous and there's a lot of activity going on which gets insiders and outsiders working together and doing things. I think the Fund is actually quite strong as a learning organization, but it does this learning behind boundary walls that are not so transparent. So, in the Fund, once you get inside the boundary, you see a lot of learning, a lot of debate, a lot of discussion going on. And then you arrive at views at the Fund, which have come from that process of discussion and learning. But it's not so visible from the outside and that hurts both the external perceptions of the Fund and, more importantly, the substance, because the reliance on learning tends to be more confined to within and to some trusted external partners.

Why aren't external views taken on board more while policies and programs are being formulated or when mid-term assessments are being undertaken? Thinking about programs, having been on the other side of this as well working on Fund programs, I have no doubt that mission chiefs try to reach out to external stakeholders. But I think that we can get only so far through this current approach, because often in the policy discussions, the Fund's counterparts within government are not enthusiastic about having a broad discussion and reassessment of policies either. It would be helpful if the Fund had something stronger than good practice to overcome that reluctance that exists sometimes in countries to say: "Let's just agree on everything and then we'll communicate." I think that's the wrong sequencing.

So, something to think through is whether the Fund is reaching limits of how far one can get with just good practice.

The IEO sort of sits on the boundary of the Fund. So, the IEO can be a place where you encourage more of the diversity of views coming to provide outside perspectives on Fund activities. I referred earlier to the seminar series you started—some format of doing that could be helpful to the learning process. I think the Fund is pretty good in terms of taking on board the lessons drawn. For me, learning really has two parts: you draw lessons, but then you internalize those lessons and change practice. Until you change your practice, you really haven't learned anything, you've just basically drawn on various interesting insights, but the learning only comes when it's reflected in your changes. I do see that as being a strong point on the Fund side as well.

### **Advice to the New IEO Director**

In conclusion, I would say two things to the new Director. One is to recognize that your term is going to coincide with a period of quite a lot of change in the nature of the Fund's work and a lot of contention about what should change. And it's important also to be alert to geopolitical context within which the Fund will work. The IEO will have to carve out what the consequences of these two challenges will be for its work, but without becoming too drawn into things and being careful not to get into mission creep because you're rushing off to be part of what you think is an interesting discussion. Be careful about what your own role is.

And the second thing I would say is that maybe this is a period when the IEO can play this role of being a window to the world, and a connector. The IEO can be a place where you can bring on board and convene and benefit from the diversity of perspectives and views on some of these issues, which would be helpful as part of the learning process.

### **Thomas Bernes**

My personal history with the IEO goes back to its very creation. I chaired the evaluation committee of the Executive Board in the late 1990s that developed the model of the IEO and negotiated the approval for its creation with the Managing Director at the time. I also had the honor to serve as its second Director from 2005 to 2009. Attending a conference like this is a little like watching your 20-year-old child doing many things you hoped for and are proud of, other things you're not quite sure about, and finally, wondering where the future will take it.

## IEO Role: Oversight vs. Learning

When we created IEO 20 years ago, it was a different time. The IMF was widely seen as secretive and lacking in transparency, not just by the outside world but by many Board members at the time. Therefore, the emphasis by the Board back then was on transparency and oversight. Those were the two functions the Board thought were most important. Of course, times have changed. The Fund has made monumental progress in opening itself up. And the IEO has, I believe, played a major role in that progress. Achieving greater transparency for external partners has probably been the original objective most fulfilled by IEO.

Assisting the Board in its oversight function has also seen progress, but the IEO is not and cannot replace the Board. Management Implementation Plans and follow-up reports do help, but successful oversight by the Board will only happen with a strong and qualified Board, as the evaluation IEO did on governance showed. Challenges remain with respect to Board governance. Perhaps there's also a role for IEO to play here, not only in finding ways to help the assessment of management's leadership, but also assessment of the leadership role of the Board.

There is a tension between the oversight function and the learning function. Twenty years ago, there was no question in our minds that oversight and transparency were more important objectives than learning, even though in the mandate we placed learning first to try and comfort staff and management who were resisting this initiative. Management and staff forcefully, and correctly, reminded us at the time that there is a history of a very strong review function in the Fund. Since then, staff have come to appreciate, if not love, the IEO, but it has been a struggle and resistance still exists. As Hector Torres has commented: "Unsolicited advice is never welcomed."

## The IEO: Different from its Peers

In setting up the IEO we looked at other evaluation offices. That was 20 years ago and no doubt things have changed, but there were two critical factors that drove our decision-making at that time. First, we concluded that the mistake of many evaluation offices was to be too involved with management. They were performing more a review function, such as that which the Strategy, Policy, and Review (SPR) Department was performing at the Fund, rather than a truly independent evaluation function. Hence, we made IEO truly independent. The Director was accountable for making decisions but had to be very transparent about it. And it was clear that follow-up was the Board and management's function.

Secondly, in looking at the other evaluation offices, we saw that they were largely staffed by insiders and, unfortunately, sometimes this was a way to shift non-performers out of a line function. Sometimes it was a way for insiders to sort of “get back” at the institution because they disagreed with the way certain policies were being conducted. Hence, we required the majority of our staff to come from outside of the IMF to maintain a balance and to ensure that the office wasn’t being driven by future career prospects or by fixed views. One can debate to what extent that’s been successful, but it was an important consideration. There was also in these other organizations too much of an emphasis on evaluative checklists and frameworks, rather than on assessing effectiveness.

So, the experience in other offices shaped IEO’s design. And when we tried during my time to conduct cooperative evaluations, frankly we found other organizations were pulling their punches: “Well, we can’t say this, we can’t criticize our organization like this.” Obviously, one has to be careful with one’s choice of words when being critical. I think IEO has been very successful in doing that, but that was a real problem in working with other organizations. And so, we concluded at that time that collaborative evaluations were unlikely to be a fruitful area for activity.

The world is growing complex and solutions to global problems are going to require institutions—and private sector organizations—to increasingly work together. Evaluating an institution is now more integrally tied to the effectiveness of its collaboration with other institutions. The question in my mind is whether times have changed sufficiently to permit more collaborative evaluations or whether the IEO will have to find other ways to go about trying to assess the Fund’s collaboration with partners.

### **Nadia Daar**

Happy 20th birthday to the IEO! In preparing for the talk, I took a trip through memory lane and looked at IEO evaluations over the past two decades. Right now, the IEO is looking at the IMF’s response to the COVID-19 pandemic; in the past it evaluated the infamous IMF program with Greece; before that, the IMF’s response to the 2008–09 global financial crisis, and even before that, the Fund’s poverty reduction strategies. When you look at the IEO’s evaluations and its choice of evaluations, it has always tackled remarkably relevant issues, albeit a few years after the events by necessity. One of the challenges for the IEO in the decade ahead is figuring out how to prioritize, given the broad range of issues that the IMF is getting involved in and the number of crises and the multifaceted crises that we’re facing.

## IEO as “Ruthless Truthteller”

Let me begin by talking about the key role of the IEO as a ruthless truthteller. Through this role, the IEO can help external stakeholders and shareholders keep the institution honest and accountable and help them carry out their oversight of IMF activities. There is a concrete example of where we in civil society would love to see the IEO be an even more ruthless truthteller right now, and that’s as we seek to learn the lessons from the COVID-19 pandemic. As we know, many countries were ill-prepared to face this health crisis. They hadn’t made the needed social protection and health investments. They had undergone prolonged austerity, often at the advice of the IMF. So, the IEO needs to help the IMF step back and say: we need to review the role of the IMF itself in getting us to where we are today. In the first year of the pandemic, we were hearing a lot about the opportunity that this crisis gave us to reset, to ensure we don’t go back to business as usual, and of the need to rethink economic policies for the longer term. But I’m not sure we’re seeing that in practice, and the IEO can play a critical role by being a ruthless truthteller on this issue. As the IMF doubles down on its lending to low-income countries, and there are several loan programs coming through, it’s crucial that the IEO scrutinizes these programs and their impact on a fair and just recovery. The IEO should be looking at the core bread-and-butter policy prescriptions of the IMF and how those are impacting today’s fundamental challenges, be they inequality or climate.

Let me take the issue of inequality specifically. The IMF has come a really long way in recognizing the potential macro-critical impacts of extreme inequality on growth and stability. We’ve seen it in speeches and in great research coming out of the IMF’s Research Department. But unless the IMF is able to step back and look at the impact of its own past policy prescriptions on inequality in countries, it risks repeating its mistakes. And I think the IEO has a really key role in getting the Fund to acknowledge and address this issue.

## Governance, Transparency, Accountability

The IEO can also help the institution step back and consider if it has modernized to the current standards of fair governance, transparency, and accountability. Does the current structure of the IMF and its institutional setting (for example, the quota system)—or its formal and informal power relations—enable fair, efficient, and impactful decision making? Does its governance system allow it to be objective and credible in its operations? Is the IMF on par with other multilateral institutions when it comes to transparency and accountability? I would say not, comparing with the World Bank, which is another institution that I pay close attention to.

On transparency, the IMF has done a great job through the COVID crisis of really having as much information as it possibly can have accessible on its website. But a couple of areas are still lagging. One is technical assistance. There's no transparency in the technical assistance work that the IMF is doing. You get the broad program but there isn't really a lot of disclosure of information—and this is one of the three core areas of Fund activities in countries.

On accountability, the IEO's mandate is to be backward-looking and not really interfere with operational activities as they're happening. But this has resulted in my view in an accountability gap at the IMF. As things stand, there is no mechanism to trigger an assessment of ongoing activities to support course correction. So, you have periodic reviews of a Fund loan program, but they are reviews of implementation of an agreed set of reforms, rather than a review of, say, the negative impacts of programs.

There are no current mechanisms for external stakeholders to officially raise a red flag with programs or policies and say: "There's a major problem here." There is no formal policy currently that requires the IMF to engage with external stakeholders. There is guidance, there are discussion notes, and there is a great civil society team. But there is no policy to hold the IMF accountable to do its due diligence before and during programs, or in ex-post assessments, in consultation with communities and civil society stakeholders to help program design or needed course corrections. We need a formal mechanism where these flags can be raised—it's a gap that needs thinking through further. It may not be the IEO's role to fill this gap, and it is possible that the IEO is simply not enough. The whole framework of accountability needs to be revisited to provide opportunities for external stakeholders to raise their concerns, for example, with assessing distributional impacts that can be expected at the country level before and after programs.

### **Advice to the New IEO Director**

My first advice to the next Director would be to take the IEO's role extremely seriously: while the IMF is in the business of dealing with technical issues of macroeconomic policies, behind the curtains of these decisions are billions of people whose real lives are impacted by the Fund and by its decisions. So, it's a heavy responsibility to ensure that there is an independent and rigorous IEO in helping the IMF evaluate its efforts. Maintaining really good relationships with management as well as with Board members is important for ensuring that follow-up and action plans are serious, and that there's no cherry-picking of recommendations. By way of example, in the IEO's evaluation on growth and adjustment in IMF-supported programs, the recommendation that the IMF pay more attention to social and



distributional consequences was not taken forward seriously, for lack of resources, it was stated. If there is a genuine resource issue there, having those relationships with the Board to ensure resources for these recommendations is really important.

Second, while I've been very impressed with how the IEO engages with external stakeholders in the course of its evaluations, and has done so increasingly over the years, it could ramp up that further by engaging with a more diverse group of actors, especially from the global south. That can also be helpful in assessing implementation, by providing verification from external stakeholders on how well management is following through on recommendations.

And my final piece of advice to the next Director is to keep IEO on the path of being a ruthless truth teller.

### **Alison Evans**

It is in many ways a gift in these intensely challenging times to have the opportunity to pause and reflect on where the IEO has come from and how it plans to face up to the future.

### **Super-crises and the Challenges for Evaluation**

A lot has evolved over the last 20 years and perhaps no more so than in the last couple of years. The organizations that we between us are evaluating—the Bank and the Fund—are under intense pressure to respond to multiple interlocking crises, from climate to COVID, to surging debt distress, to migration and resurgent conflicts. The magnitude and systemic nature of many of these crises has overturned much of the stability of the early part of this century. There's a collective soul-searching about some of the assumptions driving our policy and development paradigms and asking whether these are indeed sufficient for what lies ahead.

How does this affect evaluation? The history of evaluation, certainly of institutionally embedded evaluation, is rooted in the world of new public management and evidence-based policy making. Many of the tools and techniques that underpin it, and the questions that drive it, were forged during periods of relative societal stability, with notions of improvement and of doing things better, and making incremental changes to policies and programs for societal gain.<sup>1</sup>

But we're seeing shifts around us that may force us to question whether this incrementalism is sufficient. Crises impact the craft of policy making. Assumptions about

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<sup>1</sup> Rist, R.C. Boily, M-H, Martin, F.R. (Eds) (2013) *Development Evaluation in Times of Turbulence, Dealing with Crises that Endanger Our Future*. World Bank, Washington DC.

the status quo and the “old normal” need upgrading, and we should be thinking the same for evaluation. Uncertainties are greater. There are new gaps in our understanding, new types of problems on the horizon, new players, new stakeholders and interests. Evaluation is not and cannot be immune from the world around it. However much we protect our craft from interference, it is not something we can usefully or meaningfully abstract from context.

Now, I want to be really clear that there exists a strong and enduring institutional case for the agenda of, if you like, incremental improvement. IFIs need objective evidence regarding their effectiveness. They also need public trust in the quality and integrity of their decision-making and independent evaluation can contribute to both.

That said, we also need to ask ourselves whether it is enough. It’s important that we don’t get so comfortable or defensive about our craft that we persist in hitting the target number of evaluations, raising the number of recommendations actioned and followed up, but end up missing the broader goal. What we need is to complement our stock questions and methods—that focus on what is working and what can be done incrementally better—to tackle some of the bigger questions of what past efforts can tell us about the readiness of our organizations for tackling systemic crises and change. How do our institutions size up alternatives, how do they tackle trade-offs and choices, how are they experimenting, adapting, and collaborating differently? Are they using evidence and knowledge to meet these super-crisis of today and what lessons can we feed in and how quickly?

### Implications for the IEO

What does this imply for the IEO? I certainly don’t want to give the impression that the IEO is stuck on incrementalism. But I do wonder whether there may be more ambition to be found. It will be important for the IEO not to get overly locked into focusing on the smaller changes and adjustments that the Fund is making, but also move up to a higher plane and assess the Fund’s strategic positioning, particularly as the IMF ventures into “non-core” areas like climate and inclusive growth. The IEO will need to focus not just on the merit and worth of the Fund’s work, but on its broader significance and transformative impact in these non-core areas. How does the unique mandate of the Fund fit together with that of other actors to shift the big outcomes that we’re looking for in these areas?

These are challenging questions and definitely challenging evaluations to undertake. I’ll be the first to admit that at times I am very uncomfortable with evaluations at 30,000 feet. They require resources, methods, and innovative approaches, and they can be a challenge to take forward with management. But their value comes from

shifting the focus of the conversation from marginal nudges and improvements to the consideration of alternative paths and new directions.

The pace of change also leads me to the view that shorter, sharper, swifter evaluations are needed in larger numbers. We have to accept that the accountability that we strive to contribute to is not only built on a scorecard of past efforts, but on the ability of institutions to demonstrate learning and adaptation to new and changing conditions. Shorter and sharper assessments are therefore not just about accessibility and digestibility, but a way of supporting this larger learning culture. They are also a way of addressing the increasingly time-critical questions that our internal and external stakeholders have about our institutions and the quality of the response from our institutions. Using shorter evaluations more intentionally to drive a focus on how the Fund is learning, adjusting, and adapting to these super-crises conditions might be a particularly fruitful avenue for the IEO.

There is also a need to systematically assess collaborative behavior as an essential capability of IFIs in navigating these turbulent times. Testing the alignment between the rhetoric of coordination and collaboration and the reality is an absolutely critical evaluation topic. I also believe that we need to upgrade our approach to collaboration in evaluation. I don't think it's possible in the very short term to expect our offices to find new entirely new ways of working jointly. However, the more we can align, as evaluation functions, with some of the big questions the IFI system is facing and coalesce around shared topics, the more we can start to build a picture of how our organizations are committed to collaborative working (or not) and where the risks and the gaps might lie. I suspect we may need to be thinking about this more ambitiously in the years to come.

### **Evaluation: Getting into the Weeds**

I appreciate the IEO's "small is beautiful" argument, and I agree there are risks and downsides to scale in independent evaluation functions. Some obvious ones are evaluation fatigue and an institution that becomes, if you like, wired for scrutiny rather than wired for results. I wonder, however, whether the virtues of small size can be slightly overstated: there may also be some downsides to "less is more." Small size can constrain the development of a broader evaluation and learning culture and also limit attention to some of the high-level questions that are not otherwise asked by the institution itself—questions not yet formulated in the minds of Board members, issues not yet on the radar of management, stones not overturned on a regular basis. And I do think that sometimes the cry from management of "limited absorptive capacity" is a wonderful way of keeping evaluation out of their hair.

On early-stage evaluations, I think we are going to have to dip our toes even further into this pond. Early-stage evaluations can robustly test questions about relevance and quality of evidence being used to design and try to drive early implementation of programs. But it's essential that we commit to following up these early-stage evaluations with full-blown ex-post evaluations down the line to close and complete the evaluation cycle. Real-time evaluations are not something I think we're well suited for carrying out in our institutional settings.

On methods: “bread-and-butter tools” are critical, but the investment in methodologies is important as the world around us evolves. It's not a question of letting the methods lead. It's recognizing that as the problems get more complex and more systemic, we need a range of upgraded methods to tackle those in a systematic and robust way. There is a much larger data landscape out there now. There are many techniques for how we can engage with that, from qualitative data analysis through a whole range of AI techniques. And it's really important that we continue to upgrade ourselves methodologically without risking overdetermining the approach by new methods.

Finally, on the theory of change: this can be done well, or not. We certainly use theory of change a lot in IEG, but we use it differently in different evaluations, sometimes to scope, sometimes to test program logic, sometimes to point out how interventions and system issues connect and assumptions that are made about those connections. Well-used theory of change can help us identify not only where the project or program logic is, but also what's missing—assumptions undeclared, dependencies not noticed and, above all, implicit or explicit mechanisms that are essential to drive change. So, I would indeed encourage the IEO to move in that direction. But I would also apply the caution: theory of change can be difficult to explain unless there are counterparts on the other side who understand the concept and are committed to its use. It can be very challenging in institutional contexts where there is not the commensurate commitment to thinking along the lines of theory of change on the side of operational staff or management.

I want to be clear that IEG is by no means practicing all that I have preached here—we are also on a journey to do better.

## Conclusion

The bottom line is that we cannot insulate ourselves from the world around us or the need to look ahead. As the historian Eric Hobsbawm famously said: “History cannot get away from the future.” Evaluation is the same. Despite our obligation to comb the past, we should always be very concerned about the

future. And I think this IEO@20 conference is a great example of reviewing the past in order to frame the future.

**Sean Hagan**

### **The Value of IEO Evaluations**

My understanding of the IEO was formed, naturally, while I was on staff, but it is as a teacher that I have really grown to appreciate the value that IEO evaluations provide. I use them in all my courses. It's not surprising that the IMF, given its importance, has many critics and commentators, but the IEO enjoys two advantages that make its analysis particularly valuable.

First, because the IEO has an in-depth understanding of the IMF mandate, it is really in an excellent position to identify where the Fund's activities fall short of their objectives. Too often outsiders criticize the IMF for not doing something that it was never set out to do. Second, the IEO has complete access to information—including confidential communications among staff and between management and staff—and access to Executive Directors. As a result, it is not only able to identify vulnerabilities, but also make very concrete and granular suggestions about how to meet the objectives and also improve the decision-making process. And I think that's very valuable.

Now, it did take a while for the staff to become fully comfortable with the level of access to information that the IEO has, but I think that the staff has now internalized that access. Yes, there is some defensiveness of staff in IEO evaluations, but I think that being evaluated is a difficult process and, in some respects, the learning process is also about learning how to be evaluated. But I believe staff does differentiate its reactions to IEO evaluations, depending on the evaluation report in question. Some are considered to be more fair and more balanced than others. So, it's not a generalized defensiveness and staff has gotten better at accepting the process.

### **"Technical Analysis" and the Role of the Board**

I wanted to focus primarily on one issue, which relates to the integrity and legitimacy of the IMF's technical analysis and the concern identified in some IEO evaluations regarding "undue political interference." It's a really important concern and I would like to drill down on it a little bit by talking about the evaluations of Argentina in 2004 and the Greek program in 2016. In both cases, the staff's judgment was that the debt of these countries was unsustainable and therefore needed to be restructured, but as a result of considerable political pressure, the restructuring was delayed. The origin of the pressure was capitals—and I would note

that in the case of Greece it was not just European capitals, but clearly it was transmitted through the IMF's Executive Board.

A key question for me is the extent to which the Board strikes an appropriate balance between its institutional responsibilities and its political responsibilities. The IEO has a mandate to address this question. That's why the terms of its reference provide that it should have an arm's length relationship with the Board. And in the past, the IEO has made valuable recommendations on Board issues ranging from the composition of Executive Directors to the Board's work processes.

I know this is a very nuanced and difficult issue. Executive Directors express the views and cast the votes of the members that elect them. But they are also officials of the IMF, who have a responsibility to ensure that the institution acts consistently with its objectives. So, in the case of Greece, for example, the delay in the restructuring of Greece's debt was due to concerns about the fallout in the eurozone. Clearly, Executive Directors have legitimate reasons to be concerned about this. But really, if you look at the IMF's mandate, the number-one priority for the institution was to address Greece's balance of payments problems. And the delay in restructuring exacerbated those problems. I don't want to overstate the problem. I'm not suggesting that there should be a stand-alone evaluation of the balancing of the Board's institutional and political objectives, but I do believe that the IEO's ex post analysis of difficult programs ought to focus on whether or not the Board is achieving that balance correctly.

### **"Non-interference" Clause**

One word finally on the non-interference clause in the IEO's Terms of Reference: this has been the subject of considerable discussion, including in previous reviews of the IEO. I think that there has been a general recognition, even amongst those who support a robust IEO function, that there is an underlying logic to this provision and that it should be kept. I recognize that the language is general and potentially ambiguous, but my advice would be that it would not be fruitful to expend too much time or energy on textual modifications. While there might be differences in the application of the clause between management and the IEO, ultimately the application of this clause in specific cases is going to be resolved by the Board. My sense is that generally the Board has been supportive of the IEO's efforts, for example, in supporting the IEO evaluation of the eurozone crisis.

## John Hicklin

The papers presented at the conference and the discussions bring out several tensions, which the IEO has struggled with since its inception, and they certainly need to be reexamined as the IEO looks forward. There is a tension between the ex post nature of the model of evaluation and the desire, despite that, to be relevant to urgent policy discussions. There is a tension in avoiding being too mechanical in pursuing evaluation techniques, while also avoiding the temptation to act more as an alternative research or policy department. And there is a tension between the need to understand the IMF by being close to it and all its idiosyncrasies, and on the other, to be sufficiently distant and independent in order to be effective and credible. It's not surprising that the IEO model differs from its comparators because they work in the contexts of different histories and face different challenges. It's very helpful to be aware of the comparisons in order to make judgments on any desirable recalibrations for the IEO.

My remarks touch mainly on the need for an urgent evaluation of the IMF's role in helping countries face the effects of climate change and reduced biodiversity. But I'll also talk briefly about the need for the IEO not to forget the basics and then suggest some ways to strengthen the IEO's independence and lines of accountability to help both evaluation work and follow-up monitoring and implementation.

### Evaluating the IMF's Role in Climate Change

The IMF and its members face enormous challenges in the decades ahead, but few more important than dealing with the impacts of climate change and associated reduced biodiversity. The IMF itself must change quite dramatically to think what it can do within its existing mandate, and the very different nature of the challenge the IMF faces requires that the IEO also change its approach. Why? Because in this case the ex post model of evaluation is inadequate to meet the challenge. That long-standing approach is fine when the learning function—and the IEO's role in helping the Board's oversight of staff and management—can be handled in the context of essentially repeated games. Lessons learned ex post from one set of programs or from particular periods of surveillance can be applied in future and the IMF's performance over time can, one hopes, be improved. This model manifestly doesn't work in the context of a massive shock that is both prospective and unique in the sense that failure to avert it will be irreversible and extremely costly. An ex post evaluation ten years from now on whether the IMF did what it already should have done to meet its obligations over this critical decade will have limited use. The chance will have gone.

So, how can the IEO better help the IMF on this issue? Not in my view by real-time evaluations or audit work in real time. One can understand why these techniques are used in other institutions in the context of big capital projects, or when there is no internal review and self-evaluation as exists within the IMF. Rather, I would suggest the IEO think innovatively about the topics for evaluation as well as their timeliness and methodology. The IEO Director's informed but unimpeded choice of topics and methods is a great strength and distinguishes it from other evaluation offices. The IEO should evaluate the IMF's assessment of the risks that climate change poses for the IMF's ability to fulfill its purpose. Such an exercise would not only look at the existing risk assessment model but use other metrics and institutional experiences. What would best practice suggest? How would this fit within the Fund's existing mandate? And how would it need to change if at all? What are the risks to the IMF's effectiveness of not adapting its policies, and by implication, not increasing the resources or changing the skill mix it devotes to this work? In the past, the IMF has made major adjustments, and implicit in that was a risk assessment that some big changes were needed to avoid worse outcomes.

Another innovative and urgent topic would be an evaluation of the IMF's relations with UN agencies dealing with climate change and reduced biodiversity to identify gaps in the system of responsibilities of international cooperation required to deal with such global threats. I'm not sure about joint evaluations with other agencies—they tend to be very cumbersome—but certainly much closer contacts are warranted.

### **“Bread-and-Butter” Issues**

My second point is: don't forget the basics. Do dig deeper on the vital issue of the IMF's effectiveness in its program, surveillance, and capacity development work. I can confidently predict over the next decade that the IMF will once again face crises, not just about policy stances and external shocks, but underreporting of the levels and complexities of debt, and questions will be raised then about what more could the IMF have done.

More generally, there are long-standing issues, such as those of limited traction with advanced and large emerging economies, and a stigma of coming to the IMF when needed—the IEO needs to look into what is behind the significant failures on such fronts time after time. For instance, is there sufficient acknowledgement that the authorities themselves have not carried out agreed policies, why this has been the case, and what are the implications of that for the IMF moving forward?



## Strengthening Independence and Accountability

My third point is to look back at the ways in which the IEO's independence and lines of accountability could be strengthened. And I would urge here a message, with which many other panelists at this conference agree, that the IEO has an evaluation and not an advisory role. The IEO should not fall into the trap of being seen as being an alternative policy or research department. It should argue the case for revised policies and procedures only when those are based on evaluation evidence. On the non-interference clause: the main determinant of whether the IEO can push back on attempts to delay legitimate examination of recent programs lies not in having a clear-cut definition of non-interference but in gaining credibility and support for sound judgments. So, as with many other issues, this requires building and nurturing broad support from the membership for a sensible interpretation of the clause in particular cases. This, in turn, requires not being too close to staff (or ex-staff) and management, and seeking and incorporating the views of authorities and civil society in all evaluations, including the recent "shorter" formats.

Finally, on monitoring and implementation: the Office of Internal Audit (OIA) has a role which it didn't previously have. I suggest the route is not to go with the IEO also having more of a role in this respect, but in giving more specific line responsibility to the OIA to go to the Board rather than to management. That would free up the IEO to concentrate its focus on subsequent evaluations. In all its commentary, the IEO should be very cautious and noncommittal in saying whether or not new policies are consistent with evaluations that have come out. From my previous experience in IEO, I'm very glad that in the 2007–08 episode, when we were under enormous pressure from Executive Directors and staff to give our view on the contentious surveillance policy debate of the time, we abstained from doing so. I think that it was a very wise decision to stay out of evaluative judgments without proper distance.

### Harold James

It's a great pleasure to participate in this conference. The IEO is doing something here which is very different from its usual ex post assessment of IMF activities; it is carrying out an ex ante assessment of the next 20 years of the IMF and the IEO, and that's a really fascinating and valuable exercise. I'll offer some thoughts that are based on thinking about the very long-term history of the IMF—how it came about in the 1940s and the problems that it was supposed to solve then—and how they relate to the problems of this world of multiple crises or "poly-crises." I'll make four points.

## Debt Sustainability

First, some of the challenges ahead are actually going to be very much in line with the traditional mandate of the Fund. The core expertise (as well as some unhappy and unpleasant experience) of the Fund has been in the management of financial crises and, in particular, assessments of debt sustainability and what governments and lenders need to do to ensure a return to sustainable debt. It was a debt crisis in East Asia that originally produced the need to establish an IEO, and many of the IEO's most incisive reports have dealt with the IMF's approach to debt crises.

There is no reason to think that the IMF's expertise on debt and debt sustainability, and the learning from past errors, will be less relevant in the immediate future. On the contrary, COVID has pushed much of the world—outside of some big and rich industrial countries—into heightened vulnerability. Interest rates have soared, but the difficulties had started even before the Fed's interest rate policies pivoted. The October 2021 *Fiscal Monitor* sketches out the problems and challenges of the deterioration of fiscal space quite accurately. The difficulties are heightened by the exposure of many poor countries to China as a creditor; and that brings new risks also for Chinese management. The euro debt crisis was in part also a problem of the European creditor countries; addressing China as a creditor brings some of the European challenge of the 2010s to a global scale.

## Climate Change

Second, it is correct to identify climate change—or more generally perhaps the damage done by the Anthropocene—as a major and increasingly difficult challenge, requiring prompt action. It would also be reasonable to be disappointed by efforts so far. Multilateralism can very easily slide into what Greta Thunberg memorably characterized at the Glasgow COP26 as “blah blah blah.” In making multilateralism effective, an obvious but not sufficiently noted lesson of history may be helpful. Phenomena will remain in the sphere of abstract discussion, nervousness, and concern, unless they can be accurately measured. Providing data about costs is essential to building a consensus about finding solutions.

That was actually key for the Bretton Woods story because at the time you couldn't have got the agreement that you had, and you couldn't have created these institutions without the development of national income accounting. At the time of Bretton Woods, the World Bank and the IMF could think differently about development because of a framework of national income accounting that had originated largely in the industrial countries to meet the challenge of mobilizing resources for war. National income accounting was then used to build peace through development

and a realization of the productive capacity of member countries. Providing GDP data to the IMF was a core obligation set out in Article VIII, Section 5, of the Articles of Agreement (“Obligations of Members”). Today, when newspapers report on the twice-yearly Fund meetings, they focus on the Fund’s assessments of GDP. They think that GDP matters because the IMF puts that at the center.

But when it comes to biosphere, GDP is a cost or a drain rather than an asset: an erosion rather than an enhancement of the wealth of nations. There is thus a need to reconsider what information and data should be at the core of the IMF’s climate work: perhaps not GDP? Partha Dasgupta’s 2021 review of biodiversity for the UK government has highlighted the need to think differently about growth, and include a measure for the depletion of natural resources in the biosphere, for living off capital. There is, Dasgupta argues, a need to identify the wedge between “the prices we pay for nature’s goods and services and their social worth in terms of what economists call ‘externalities.’” If such accounting is treated as a simply rhetorical exercise in persuasion, the result will be no action. Prices drive behavior: only when we see the prices can we effectively ensure that the externalities are returned to the inside of the economic system.

So, that data focus is a crucial one and it is historically interesting to think of the evolution of the Fund as built on national income accounting. And if the Fund is going to step up to help with the new challenge of confronting climate change, it needs to think of a different kind of accounting.

### Data Revolution

Third, the threat of degradation of the biosphere is not the only development that provokes or should provoke concern. A megatrend that will increasingly influence the IMF’s work is the data revolution, and also the application of new techniques to manage it, including AI. To confront “poly-crises,” the data provided needs to be much more detailed, and more frequently updated: the ideal is real-time data provision, not big jumps every six months with the release of a new *World Economic Outlook* (WEO) and its forecasts. The correct and timely provision of data by member countries has from the beginning been a contentious issue in the Fund. The requirement in the Articles of Agreement to communicate information on foreign exchange reserves, including on gold supplies, was probably responsible for one of the fateful early decisions that profoundly affected the role of the IMF in the postwar architecture: the Soviet refusal to participate in December 1945 in the ratification of the Bretton Woods agreements.

## Changing Geopolitics

Fourth, the anxieties of the mid-20th century are still with us. We are living in a world where security concerns—often loosely described as changing geopolitics—are dominating economic news, whether it's the debate at the western end of the Eurasian landmass about Russia's gas provision and gas pricing, or the escalation of tensions around the South China Sea at the eastern side. One of the under-recognized features of the Bretton Woods settlement was the way in which there was a parallelism between Fund and Bank on the one side and the wider United Nations organization on the other. The largest five members by quota of the Bretton Woods institutions were identical with the five permanent members of the Security Council: the United States, the Soviet Union, China, the United Kingdom, and France. Stalin's non-ratification of the Bretton Woods agreement meant no Soviet membership, while China's representation by the People's Republic of China only came about in 1980. Today, the issues of thinking about security and economics, and the relation between the two, is urgent and close to the urgency that it had in 1944–45.

The IMF, then, should be concerned with properly accounting for the wealth of nations—that is a task for which it needs to be guided by the IEO and others to equip itself with the latest tools and analysis. But it will also have to negotiate between powerful and not necessarily aligned interests of increasingly assertive and even angry states. And information—reliable, voluminous, detailed, and frequent data—will be its critical instrument in defusing anger and promoting constructive engagement.

### Bessma Momani

In my view, the IEO has always played an important role to ensure that the IMF staff are adopting a learning culture and that there is room for cultural change within the organization. In trying to explain Fund outcomes, we often examine how the IMF is governed by the Executive Board and is shaped or influenced by individuals in management, but we often forget the important role of the staff who do the bulk of the programmatic work at the Fund. A lot of my own research has focused on the staff and how important they are to the essence of economic policy thinking at the IMF, and invariably their policy recommendations in terms of programmatic outcomes. The IMF has always been a bureaucratic and technocratic organization. In fact, there's a great book by an ethnographer that looked at the immense paper trail within the IMF—and anybody who's worked within the IMF knows that this process of documentation and clear technocratic approach to devising policies can shape the institution's way of doing things. I'm old enough to remember when the

Strategy, Policy and Review (SPR) Department was previously named the Policy, Development, and Review Department (PDR), but was disparagingly called by some IMF staff as the “Propaganda, Dogma, and Review” Department. It was a staff reflection of how the Fund constantly checked and verified that policy recommendations were devised by following clear internal steps and procedures. For some Fund staff, they found this stifling and detrimental to their attempts at policy ingenuity or customization of IMF country programs to particular country conditions. The name of the department changed, but this technocratic aspect of IMF decision-making did not go away; some of it is embedded in the way the Fund’s macroeconomists are first recruited and then trained to think about the challenges countries face and how to achieve effective outcomes for the IMF.

But like all organizations and their staff, the IMF staff also need to evolve to respond to global normative shifts. Fund staff and any healthy organization need to be constantly challenged. After all, norms are changing every day. The fact that the world is focused on climate change and environmental issues in such a fundamental and urgent way, though certainly not enough, needed to be incorporated into IMF staff’s thinking about the macroeconomic health of an economy. It is the same with gender-related issues and I’m happy to see strong policy commitments and workplans within the Fund to now consider, understand, and shape the impact of macroeconomic policies on gender inclusivity outcomes. That’s where the IEO does so remarkably well: in challenging the staff to constantly do better and think more critically about evolving normative issues that are before us as a society. Through its evaluations, the IEO serves an important “checks and balances” role on the thinking of the IMF, trying to move the institution away from “propaganda and dogma” toward how best to get macroeconomic growth and stability in a constantly evolving notion of what makes a healthy society.

We also need to invest in the IEO and its independence, because it helps ensure that the IMF is adhering to the best practices of transparency and accountability. Comparing the IMF to where it once was on transparency is like night and day. I first encountered this as a PhD student in 1998, researching IMF documents in the Fund basement at the archives and in the Fund library. Speaking to IMF staff was forbidden back then. In asking questions about policy recommendations, I remember staff telling me, “We’re not allowed to talk to you.” Things have very much improved since then and the IMF is much more open to inquiries by academics, civil society, and external stakeholders. But this did not come without normative changes happening throughout the world. After all, in liberal democracies we are constantly asking: how can we make government more accountable

and democratic, and how can we make citizens better able to engage in policy formulation to ensure they are included. This “good governance” sentiment is a global norm that the IMF was forced to consider in its own organizational behavior. The IEO has been and needs to continue to push the IMF to advance transparency and accountability in keeping with the evolving norm of what makes “good governance.”

Sadly, while the IMF is becoming more open, transparent, and cooperative, the challenge we have is that the world is going the other way. Globally, we have a lack of—or at least a diminishing level of—trust in leaders, institutions, and government. The rise of nationalist populists and autocracies stands out, and protectionism, decoupling, and reshoring are all pushing countries to become more isolationist and closed to the outside world. Take a look at our supply chains, and the trend of where this is going is not good for the international liberal trading order. In Canada, we look at what’s happening in the United States as a form of “protectionism lite” and it is challenging our once strong bilateral relationship in favor of free trade. Of course, the rise of great power rivalry is a big part of this. The deteriorating China-America trade relationship and their fierce economic competition cannot be ignored, nor can we ignore the rise of populist nationalists throughout the world in once thriving democracies like India, Hungary, Poland, and Turkey.

This fraught global political and economic environment necessitates a healthy conversation on how to push toward shared prosperity and help ensure people have an adequate standard of living. But this will be increasingly difficult to do in multilateral forums like the IMF when we live in a more introverted, inward-looking world. In practical terms this means that the IEO needs to prepare itself for a more conflictual Executive Board, and that means there’s going to be more political pressure on management and staff to find difficult consensus in light of great powers’ own geopolitical rivalries. This is where I believe the IEO is going to face significant internal challenges and must double down in favor of transparency. The IEO will face a lot of hard choices when geopolitical rivalries exhibit themselves in the Executive Board and spill over to how they view or support the IEO, if they haven’t already.

### **Pablo Moreno**

Let me begin by stating my views on what I consider to be two challenges for the IMF, and hence for the IEO, over the next decade, and also offer my views on some of the issues that have come up during this conference on the role of the IEO.

## Twin Challenges

The first big challenge is the increased emphasis at the IMF on the importance of ensuring sustainability, environmental and social. In May 2021 the Executive Board completed the Comprehensive Surveillance Review (CSR), through which we basically said that the issues of climate, inequality, demographics, and quality of institutions are macro-critical. The work on these issues has been ongoing for a number of years now, but we have formalized it in the CSR. Of course, we have to keep in mind the core objectives of the Fund—fiscal, monetary, and financial stability—but we are saying that environmental and social sustainability are important from a macroeconomic perspective to attain these core objectives. This is not mission creep: we're not going to be, for instance, assessing the technological aspects of climate change, but rather recognizing that dealing with climate change is an existential problem for all and it's really macro relevant. So, this is a new reality, and we are working on the allocation of the Fund's budget to these topics and thinking about how to increase our own resources to build our expertise on these issues, for example, by increased mid-career hires of climate-change experts.

The second challenge is that the Fund will continue to have to operate in an environment where decisions—and often quick decisions—are needed in the face of immense uncertainty. The global financial crisis (GFC) introduced a shift in the IMF: we have had to move from overconfidence in markets into a stance of continuous risk assessment, and an increased emphasis on market regulation and macroprudential policies. Now, the pandemic is different from the GFC, as will be the next crises—climate or cyber. But it's likely that the Fund will have to react quickly and in an environment of great uncertainty about the scale and duration of the impacts of shocks. As an example, it took us six months to design the main policies of the Fund's response to the GFC; in the case of the pandemic, we had one month to design the main policy changes.

Many participants at this conference have highlighted geopolitical changes as another major challenge. Indeed, the IMF has always had to adapt to the changing realities of the world. There was a major reform of quotas in 2008 to better reflect geopolitical changes, though there's no doubt that more needs to be done, and there is an ongoing review at the Board that should reach an agreement by end-2023. The Fund is a combination of a technocratic and political institution governed by its membership based on the existing allocation of quotas. It is not a central bank and it is not in academia; it makes judgment calls, sometimes striking a balance between technical and political imperatives. There should be more confidence in Executive Board processes to strike this balance and greater appreciation for the

expertise back in the capitals. At the Board, I represented a constituency that is cross-continental (European and Latin American countries) and has advanced, emerging, and low-income countries—I have to say that I receive very good feedback from all my authorities to guide me in the positions taken.

### Implications for the IEO

Is the IEO set up to help the IMF deal with the twin challenges? The way the rules are framed right now, the IEO should avoid possible interference through assessments of ongoing operational activities. I think that this framework has built in enough constructive ambiguity for the IEO to conduct timely and regular relevant evaluations of the newer policy initiatives and recent developments. And the IEO has already been quite innovative in this respect. Some examples:

- ▶ The first evaluation under Charles Collyns on social protection was a forerunner on assessing the Fund’s work on social sustainability.
- ▶ The evaluation on Bank-Fund collaboration was the first to have a new shorter format, which allows quicker assessments of topics staff and the Board consider timely. The evaluation was particularly useful in telling us how the Fund was collaborating on climate issues with the Bank—which is where a lot of expertise resides—and how this collaboration can be improved as the Fund scales up its own work. I should note that good Bank-Fund collaboration is needed not just for surveillance activities but for lending activities as the Fund’s support through the Resilience and Sustainability Trust picks up.
- ▶ The evaluation of the emergency response to COVID-19 was the first one with a mid-term presentation to the Board in March 2022. Thus, this evaluation is allowing the IEO to provide feedback on the IMF’s crisis response in a very short time period after the events took place.

In general, the IEO will have to adapt to the twin challenges by providing timely advice, in a learning-by-doing process, as the Fund deals with new crises, notably by extracting lessons from the response to previous crises to build a more flexible IMF. And the IMF itself has to foster economic policies that make countries resilient, namely, helping them bounce back quickly from crises.

### Continuity and Change

Let me turn to a couple of the issues that have come up during the conference on the appropriate role of the IEO. Should the IEO be a trusted advisor or a ruthless truth-teller? I think that the balance should continue to be on the learning side, but



there are some times when the IEO needs to be a ruthless truth-teller. You can do that with the Board as well—I have no problem with that; there was some ten years back an IEO evaluation on IMF governance, including the role of the Board. But the example I have in mind is the evaluation of the IMF's performance in the run-up to the global financial crisis. I think it was instrumental in highlighting the silo mentality, the prevailing group thinking that financial markets will self-correct. The IEO report was instrumental in moving the IMF into a more proactive culture of crisis prevention and risk assessment and shaking up a culture of too much self-confidence inside the IMF. So, these type of hard-hitting evaluations are needed sometimes when the institutional culture is showing unhelpful inertia or resistance to change, though the weight of the balance should be on the learning side.

Many have cautioned that the IEO should remain an evaluator and not try to become a consultant—I agree that is an important distinction to maintain in the core work of the IEO, which is evaluations. That said, there are ways other than evaluations through which the IEO can provide feedback and inputs on Fund activities. The Managing Director in her remarks at this conference mentioned that at the onset of the pandemic, the IEO provided inputs drawing on lessons from previous crises, and the IEO also provided inputs on the review of the Fund's budget. Such activities are aligned with the IEO's mandate of supporting the Board's oversight role.

The IEO can also play a role in providing inputs into the Fund's periodic reviews of its activities and policies. The staff engages in continuous self-evaluation internally as well as through periodic policy reviews, such as the review of surveillance (which used to be triennial but is now less frequent). The IEO's input could be at the stage of the concept note for the review: what is the scope of the review? what should be the course? The IEO can provide input in terms of notes feeding from past evaluations. And there could also be a role for the IEO to give their reactions on the formal and informal reviews by the Board of the Fund's policies, which again is in keeping with the mandate of the IEO to support the Board.

## Conclusion

This conference has been designed not just as a look back at the IEO's past decade but with a forward-looking approach to the challenges for evaluation. It will be useful for the deliberations of this conference to feed into the next external evaluation of the IEO. External evaluations of the IEO, including the most recent (the Kaberuka report), have been very useful not just in improving the functioning of the IEO but in strengthening the overall culture of evaluation at the Fund. We are an institution that looks at itself and learns from past mistakes; it increases our

accountability and our credibility. I think there is room to improve further the internal culture at the Fund for evaluation. This is something to celebrate that should be continuously nurtured.

## **Ceyla Pazarbasioglu**

### **The Influence of the IEO**

Since the inception of the Independent Evaluation office more than 20 years ago—and dozens of evaluations with several hundreds of recommendations later—the IEO has solidified itself as an important pillar of IMF governance. Key takeaways from IEO evaluations are the need to continuously improve policy frameworks and analytical tools, deepen expertise, and strengthen collaboration with other institutions. Lessons from IEO recommendations are particularly relevant now as the Fund strives to appropriately calibrate policies amid multiple crises and seeks to encourage reforms to make the member countries' economies greener, more digital, and inclusive, and prepare for future crises.

The Fund addresses IEO recommendations through Management Implementation Plans, the progress of which is updated via Periodic Monitoring Reports produced by the Office of Internal Audit. These recommendations help to hone the Fund's view on core issues, ranging from program design to strengthening surveillance and integrating capacity development, among others. Examples include:

- ▶ Work on strengthening the analysis of risks, reserve adequacy, and debt sustainability benefited from IEO evaluations of past crises;
- ▶ The evaluation on fragile states informed the Fund's new comprehensive strategy for this group of countries;
- ▶ The IMF's Institutional View on capital flows and the Integrated Policy Framework also benefited from the IEO's insights on capital account issues.

The IEO's role is more important and more challenging than ever. To ensure continued traction, IEO analysis and recommendations will need to continue to be carefully calibrated, focused, and targeted.

### **Enhancing the IEO's Role**

Capitalizing on the IEO's analysis and recommendations “takes a village.” It requires continuous efforts by all key stakeholders—the Board, management, staff, and the IEO itself. Management and staff need to focus on implementation. The IEO needs to ensure that the number and length of its evaluation reports remain manageable, the analysis is well substantiated and written clearly, and that recommendations set

objectives for improvement that are as specific and realistic as possible. The selection of timing, topics, and format of evaluations remains a tough balancing act.

Notwithstanding, the IEO has managed to identify timely topical issues—relevant for the membership and the Fund—that also are aligned with current priorities. IEO reports provide a fresh and unbiased perspective to Fund work. To further increase the impact and efficiency of the IEO’s contribution, the IEO would benefit from closer and well-balanced consultation with stakeholders as well as from more targeted, focused, and shorter evaluations on pressing topics.

As the IEO continues to conduct thorough analysis, it is important to delve into what causes shortcomings such as the deficiencies in technical frameworks, group-think, etc. Drawing on systematic evidence—rather than isolated evidence—is also critical to help identify patterns in practices and experiences. Doing so would help to ensure that IEO lessons remain valid and meaningful. And, of course, communicating the IEO’s advice clearly and concisely would help further strengthen its traction.

### The IEO and Self-Evaluations

Both IMF self-evaluations and IEO evaluations play important roles in fostering institutional learning, providing a framework for accountability and enhancing transparency. By their nature, the IMF’s self-evaluations entail greater institutional ownership of conclusions, which may facilitate traction. Unlike IEO evaluations, Fund self-evaluations cover both completed and ongoing operations and programs.

Many synergies exist between the two types of evaluations. These synergies can complement each other if their respective roles are well understood and incentives are structured appropriately. IMF self-evaluations are inspired by and benefit significantly from the IEO’s evaluations. For example, priorities outlined in the Comprehensive Surveillance Review include confronting risks and uncertainties, preempting and mitigating spillovers, fostering economic sustainability and a unified approach to policy. These themes featured prominently in IEO evaluations. Self-evaluations can also provide useful building blocks for external evaluations.

Independent evaluation by the IEO is intended to provide an objective perspective and frank assessment with the benefits of first-hand information. Continuous cooperation and information sharing by management and staff—within the internal framework that gives the IEO access to information normally unavailable to outsiders—enables the IEO to perform deep-dive evaluations. Within its Terms of Reference and budget—and empowered by its good understanding of the IMF

mandate and operations—the IEO can challenge preconceptions and potential interests embedded in self-evaluations. It can also help validate or provide counterweights to conclusions reached through self-evaluations.

Increasing synergies between the two types of evaluations remains a priority. This can be achieved by consulting on topic selection and timeframes, designing coordinated implementation plans from both IEO and self-evaluations, and diligently following up on these plans. These actions should increase overall traction and foster change, which, in turn, helps the Fund and ultimately its membership adapt to the new global realities.

### **The IEO's Focused Mandate**

The IEO's Terms of Reference (available on its web page) set out parameters to ensure adherence to the IEO's focused mandate on improving “the institution's ability to draw lessons from its experience” and safeguard its independence. The so-called “non-interference with ongoing operations clause” in the IEO's Terms of Reference precludes the IEO from evaluating “ongoing activities, including current programs” or being involved in the high-frequency work of the Executive Board. The purpose of this clause is to ensure that the IEO's role as an “independent” evaluator remains uncompromised and its evaluations stay focused and well-grounded. Additionally, evaluations are designed to be backward-looking and “timeframe” specific to ensure that external evaluations do not interfere with ongoing operations. Staff self-assessments are considered the primary means for evaluating ongoing programs and policies

In the past, three IEO external evaluations examined the “non-interference with ongoing operations” clause and made recommendations on potential modifications, which, if adopted, would have expanded the scope of the IEO evaluations to current activities. Each time (most recently in 2018), there was broad agreement at the Executive Board that the existing limitation remained appropriate and consistent with the IEO's mandate and role as an independent evaluator. The Board consistently reaffirmed that policies and procedures under active discussion at the Fund and current Fund programs would not be appropriate areas for IEO evaluation. Further clarification from the Executive Board on the scope of the “non-interference” clause might be useful to foster common understanding of what this clause means in practice.

Within its established Terms of Reference, the IEO has been able to successfully fulfill its mandate. Although IEO evaluations are backward looking, lessons drawn from the IEO work on core and pressing institutional issues provide valuable

contributions to ongoing discussions on current issues. A good example is the recent evaluation of the Bank-Fund collaboration on macro-structural issues. Though the evaluation was retrospective, its recommendations proved very useful to the work on the Resilience and Sustainability Trust (RST). This included discussing the RST's role in supporting low- and middle-income countries vulnerable to transformation challenges in multiple areas (pandemic prevention and preparedness, achieving sustainable development, fostering recovery, improving financial resilience, and promoting balance-of-payments viability).

Much progress has been achieved at the Fund since the IEO's inception. We look forward to continuing our journey of learning and improvement. And we count on the IEO's wisdom and advice to help guide us. As Seneca the Younger said, "The greater part of progress is the desire to progress."

### **Moisés Schwartz**

It is really a pleasure to take part in the IEO's 20th anniversary conference. There is no doubt the IEO has established itself as a body that supports the Executive Board oversight of IMF performance, helps the IMF to learn from experience, and supports the Fund's external credibility by increasing transparency about what the IMF does.

Let me move on to the overarching question: how can the IEO increase its overall impact on the institution? There are several possibilities: the IEO could be more involved in the follow-up process to its evaluations, shift the product mix towards more timely issues of current concern, pay more attention to integrity issues, and perhaps collaborate more closely with other evaluation offices on issues where the IMF is working closely with partner institutions. All of these are relevant possibilities that need to be carefully considered.

### **Learning vs. Accountability**

In my remarks, however, I want to bring the attention to another element which to me, having spent seven full years as the Director of the IEO, is the most fundamental element for the IEO's success. Some of my thoughts appear in a book I produced during my time at the IEO.

My message is the following: the IEO has basically two different audiences. There is an external audience that includes authorities in member countries, other international organizations, academia, and the public at large. And there is an internal IMF audience, mainly IMF management and staff. On the external front, results

are encouraging. While more can still be done, including more outreach, externally the IEO is credible and respected. I clearly remember the anticipation and expectation from external stakeholders on some of the most critical evaluations the IEO has produced.

However, on the internal front, for the IMF to truly benefit from the IEO's work, the learning process derived from IEO's reports needs to grow more naturally and organically within the Fund. That is, the IMF as an organization needs to see the IEO as more of a useful learning device and less as simply an accountability mechanism. Staff and IMF management have met many of the IEO reports with concern, anxiety, and defensiveness. Shifting the IEO's emphasis more towards a learning device for the organization would go a long way in developing a culture that truly learns and benefits from independent evaluation.

### Fostering Learning

The strategy I recommend to foster this has basically two elements. One is solely the IEO's responsibility, and the other rests on the IMF's attitude towards independent evaluation. On the IEO's side of the equation, while the two pivots of accountability and learning need to be present in IEO reports, the learning component in IEO reports needs to be emphasized. This would reinforce the learning objective of independent evaluation and ease the defensiveness from staff arising from the accountability pivot. That is, while the proper balance between learning and accountability would still need to be struck, the learning component should prevail.

On the Fund's part, the IMF still needs to genuinely embrace independent evaluation by creating a more open culture to learn from IEO's reports. And this needs to come from the top. That is, management needs to fully embrace the benefits of independent evaluation by creating an atmosphere and culture within the organization that is more welcoming to independent evaluation. I understand the staff's attitude towards the IEO. While some staff are supportive, the staff at large tends to be defensive. Staff tends to be dismissive of what it perceives to be an outsider's suggestion on how it should do its work. While Director of the IEO, we held a seminar with some guests to discuss this issue. During the seminar, Hector Torres, a former Executive Director and friend of the IEO, said a phrase that stuck in my mind during my tenure as IEO Director: "Unsolicited advice is never welcomed." To me, this is precisely the point here. Through its reports, and for 20 years now, the IEO has been providing unsolicited advice to the IMF. Each one of us would respond in exactly the same way, both in a professional or personal context. For instance, if an acquaintance tells me I should lose some weight, my immediate reaction would be to ask him to mind his business, even though his advice may be

the most appropriate one. Our own reaction in this case would simply result from the fact that we would see this as intrusive and as unsolicited advice. Hence, staff's defensiveness towards IEO reports is totally understandable and expected.

However, contrary to staff's response, defensiveness should not be IMF management's attitude. Management must assume the role of promoting the IEO within the Fund, transmitting its usefulness and value to the organization, encouraging staff to apply for IEO jobs, and continuously being open to the suggestions and recommendations that the IEO provides to the organization. Management should adopt a positive attitude towards IEO reports, even if it does not agree with some of their findings and recommendations; make use of these reports to promote change within the Fund; instill positive receptiveness in staff's attitudes towards the IEO; and ultimately make the IEO's mission its own. Management's involvement is crucial, so that a culture of learning from independent evaluation within the Fund is developed. Only then will the IMF fully benefit from independent evaluation.

## Conclusion

The IEO and the Fund are bound together, and they need each other for the successful implementation of their respective work. But this partnership still needs to be strengthened. The IEO has grown in stature and lent credibility to the work of the Fund. Its presence has enabled those outside the organization to see the Fund as becoming a more accountable institution, learning from the past, and adapting to new challenges. I have no doubt that independent evaluation has played a significant role in contributing to the improvement of the IMF. A strong IMF requires a strong IEO.

Let us then make sure that the IEO keeps being strong and relevant in the years to come. For both the IMF and the IEO to excel, there is still some work to be done in reaping the benefits from independent evaluation.

## Siddharth Tiwari

Does evaluation strengthen institutions? My answer is a resounding yes, both from my time in the IMF and later on. The work of the IEO is a key anchor for the work of the Fund by helping overcome institutional biases and by being part of the line of defense for controlling risk. Let me expand on each of these critical roles.

## Overcoming Biases

The path-breaking work by Nobel Laureate Daniel Kahneman focused on deriving insights into human judgment and decision making under uncertainty. It pointed to three kinds of bias:

- (1) *confirmation bias*, the tendency to prioritize evidence confirming what we already think or suspect, to review facts and ideas we encounter as further confirmation, and to discount and to ignore any piece of evidence that supports an alternative view;
- (2) *narrative bias*, the tendency to explain unpredicted events with stories that are simple and coherent;
- (3) *loss-aversion bias*, the tendency to prefer avoiding losses to acquire equivalent gains.

It's clear from this work that knowledge management and the use of accumulated knowledge—which is the instrumental tool for realizing the mandate of the IMF and part of the DNA of the IMF—is prone to these biases.

So, the 'why' of the IEO is very clear. From decades of work that has gone into empirical work on decision making under uncertainty. A lesson that emerges right away is that IEO's evaluations enhance credibility when they are evidence-based, rather than the reporting of anecdotes. For example, just to push it a little bit further, when the IEO identifies 'groupthink' as a concern it needs to be explained further in terms of confirmation bias, narrative bias, or loss aversion bias.

### Lines of Defense

On the 'how' of the IEO, I will move to another line of thought—which goes under the heading of 'three lines of defense'—that offers some insight into how this work should be undertaken. For those not familiar with it, the three lines of defense is a governance framework developed in the financial industry and widely adopted after the global financial crisis, and is one of the principles of the Basel Committee. Its features are:

- (1) Those who create, encounter, and benefit from taking risks have the primary responsibility to manage those risks. This is the so-called first line of defense. In the IMF, this would be country teams engaged in surveillance or program discussions.
- (2) The second line of defense is the controller function—that's required to ensure that the risks being taken are identified, controlled, and managed within the appropriate boundaries. In the IMF, this second line of defense is the review function within the institution.



- (3) There's a third line of defense to ensure that there is an independent assurance that the risk taker and the risk controller are acting and interacting in the appropriate manner. This is the internal or external audit functions, and independent evaluations.

In my view, there is a fourth line of defense that's needed in international organizations, namely, ensuring that the system—not one particular institution within the system, but the entire system—is functioning adequately.

The IEO's role, as it's defined, is to operate somewhere between the third and the fourth line of defense in the IMF. As to what to evaluate and who makes this decision, it's very clear from this framework that the IEO should have operational independence within established guardrails, and be free to choose what topic it wants to look at. There was a long debate at the inception of the IEO on whether current programs should be within the boundary of evaluations or not. The lines of defense framework would say current programs are first line of defense; they are not between the third or the fourth line of defense. In the same way, the design phase of institutional involvement belongs to the first or the second line of defense. In contrast, evaluations of the governance of the Fund, such as thematic issues concerning quota and voice, rest squarely within the remit of the IEO. The quality of discussions at the Board is another intrinsic part of the governance of the institution and that too is squarely within the remit of the IEO.

Collaboration among institutions is a key part of the fourth line of defense, and it is here where I think the IEO's evaluations need to stretch more. We're in an era where every future crisis will emerge because the international community has paid inadequate attention to global public goods, whether it is cybersecurity, pandemics, climate, data issues or financial flows. And when this happens, the first and the second lines of defense collapse. A country goes in crisis, the region goes into crisis, and several decades of work is lost. And here, frankly, I think every three to five years the IEO needs to collaborate with other evaluation offices to see whether the system as a whole is functioning well—not one institution, not one team, but whether there is a gap in the system.

### **Alexandre Tombini**

I had the privilege of working closely with the Independent Evaluation Office (IEO) during my tenure on the Executive Board of the IMF from mid-2016 to mid-2019. My relationship with the IEO was particularly close during my period as chair of the Evaluation Committee (EVC).

After spending the first 15 years of its existence building its credibility and reputation, the IEO faced the challenge that its work still had relatively limited traction. This means that the IEO did not effectively influence the work, policies, and culture of the IMF. There were also important shortfalls in the follow-up process of the IEO recommendations.

One of the important tasks during my tenure as chair of the EVC was to coordinate the third external evaluation of the IEO. The resulting Kaberuka Report identified many concrete steps to strengthen the IMF's internal evaluation procedures. Putting the issue of traction at the center of the debate, the report confirmed that the IEO had not been as successful as expected in promoting a learning and adaptive culture within the Fund. Large organizations tend to be resistant to changes, and the IMF is no exception. Although we all probably agree that the IMF is an extremely well-organized and effective institution, it nonetheless tends to operate under "silo mentality and insular culture," as the IEO framed it in a 2011 evaluation.

Since the Kaberuka Report, a lot has been achieved to strengthen the evaluation process. A lot of the credit goes to Charles Collyns and his team, but we also need to acknowledge the positive contributions of the IMF management and Executive Board.

In recent years, the IEO has made a great effort to reach out to different stakeholders, including and especially IMF staff. It was important to make it clear to staff that the role of the IEO is not to investigate but to evaluate. Or, to say it differently, the IEO is not a cop, it's a partner. I'm confident that the IEO in-reach and outreach effort is paying off to change the old perception.

The IEO has also expanded its range of products. In addition to fully-fledged evaluations, the current menu of IEO products includes short evaluations and periodic updates. This allows the IEO to respond swiftly to changing challenges and priorities, and to convey a stronger and more coherent message. The IMF has also made a lot of progress on making the recommendations coming out of the valuations clear, measurable, and attainable.

As already mentioned, another area in need of improvement was the follow up on the IEO recommendations. In this regard, strictly adhering to the agreed implementation timelines is key. During my period as chair of the EVC, and with the support of the Board's Secretary, I sought to follow the timelines, with no exception. The Management Implementation Plan (MIP) needs to be discussed at the EVC no later than six months after the Board meeting of each IEO evaluation, and the Periodic Monitoring Report (PMR) meetings should be held regularly every year.

Ownership and accountability of management and board members regarding the follow-up process is also essential. And I believe that the “Kaberuka Report” recommendation to have a Board meeting to discuss the PMR was very useful to enhance both ownership and accountability.

Let me highlight one specific evaluation during my tenure at the EVC that I believe is a good example of what works well and shows the importance of consensus building in the evaluation process. I refer to the January 2019 evaluation on *IMF Financial Surveillance*. This evaluation highlighted the importance of strengthening financial surveillance at the Fund, including through:

- ▶ Expanding financial surveillance coverage in Article IV consultations;
- ▶ Strengthening the FSAP processes; and
- ▶ Hiring and retaining financial sector specialists at the Fund, among other recommendations.

The facts and reasoning behind these suggestions were very well documented in the report and background papers. During the evaluation, there was a lot of collaboration between the IEO and relevant departments, and between the IEO and the Board. And during discussions in the EVC, there was a strong consensus regarding the recommendations and the way forward. These elements—clear and useful recommendations, cooperation between all parties, and consensus—are precisely the elements that help make the work of the IEO relevant for the institution.

Let me reflect on some of the challenges facing the IEO in the coming years. First, should the IEO be more involved in the follow up to its reports? I think more IEO involvement would be welcome, as it could help avoiding the IEO’s recommendations from falling into oblivion. This is an issue because the Board has a very full agenda, with a large number of complex and pressing issues on it. Turnover of Board members is also high. Without a strong and rigorous follow-up process, the IEO’s recommendations can easily get lost. This risk could be reduced if the IEO, in addition to the EVC and the Board’s Secretary, get involved in the follow up of the recommendations.

The second question is whether the IEO’s product mix should be shifted towards more focused and more timely evaluations on issues of current concern. Of course, this could run the risk of being seen as interfering with current work. But I believe that the advantages outweigh this risk. Not only would a shift towards more timely issues give the evaluations more traction and visibility but would also improve the design

and implementation of IMF policies. A good test case is the ongoing evaluation on the IMF's emergency response to the COVID-19 pandemic, which was launched a year after the onset of the pandemic and is expected to be completed by March 2023.

The third question is whether the IEO should pay more attention to integrity issues. While integrity is clearly important, especially at a powerful public institution, it is not clear that the IEO is the right place for dealing with such issues. It is clearly the wrong place to deal with individual misconduct, for example. Whether people behave and stick to the rules should be left to the ethics office, internal audit, and risk functions at the Fund. The IEO has neither the staff nor the expertise nor the mandate to go into this territory.

But there is also the question of institutional integrity, where the answer is quite different. Many IMF policies and processes will inevitably have an institutional integrity component. For example, lack of evenhandedness—a recurring issue in past evaluations—can be an integrity issue, although there could be other reasons as well. So, my advice would be not to shy away from integrity issues, but not diversify into this field either, particularly regarding individual behavior or misconduct.

Finally, should IEO work more intensively with counterparts in partner institutions? Such cooperation could help identify issues that cut across organizations and, in some cases, increase the external visibility of the evaluations. But there are also several disadvantages. First, recommendations would need to be institution-specific to be actionable. Generic recommendations to several institutions are bound to be less specific and actionable. Working with counterparts will also increase the coordination burden. Potential joint evaluations may become longer and recommendations blander, representing the smallest common denominator. One of the strengths of the IEO is its nimbleness, which may be lost in such cases. Given these disadvantages, joint evaluations should probably be a rare exception. This does not mean that one should discard them completely. But they would need to cover areas in which several institutions have joint responsibilities and accountabilities.

There are many forms of cooperation below this threshold that can bring value. I trust that Charles and his colleagues are already exchanging views on a variety of issues with their peers at other institutions. As somebody working for an institution whose main task is to facilitate central bank cooperation, I cannot stress enough the importance of such exchanges of views. While this type of cooperation may fall short of coordinated or even joint reports, it helps to put our ideas to test and learn from each other.