

WOODS SPEAKING NOTES FOR PRESENTATION ON ZOOM
[A separate written paper will be available]

“The IEO and the New Challenges Facing the IMF”
(Speaking Notes)
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The IMF is entering a period of unprecedented challenge. In this keynote today (of which these are my speaking notes only), I will examine the IEO’s role in ensuring the IMF’s success.

First let me mention that over the past two days, we’ve heard a rich discussion about the role of the Independent Evaluation Office of the IMF. Much of the discussion has focused on three perennial questions about evaluation. Let me outline those before stepping back to consider

- (a) how the IEO can help the IMF to navigate a shift in geopolitics (the rise of the China-US strategic rivalry), and
- (b) three sharp new challenges to global macroeconomic and financial stability.

The evaluation of institutions and programs is always beset with three core questions.

The first is **what to evaluate** and **who decides**? A debate has raged since the creation of the IEO as to whether the management and staff of the IMF can constrain what the IEO evaluates. The lightning rod for this debate is whether current operations are “off limits”. Other institutions have found that it is useful to have an independent pair of eyes on your actions, particularly in fast-moving situations (see World Bank IEO). In the heat of a crisis, it is easy for even the best professionals to fall into biases and/or groupthink and to resort to pre-existing templates and patterns of behaviour. As we will see below, the major challenges the world needs the IMF to address are fast-moving and new. Rapid adaptation and on-course corrections – or an “agile IMF” – is likely to be vital to effectiveness, as will be its capacity rapidly and effectively to collaborate with other organizations. That said, the staff and management of the IMF have been fierce in asserting that the IEO should not “interfere” with operational activities.

The second issue is **who should conduct the evaluation**? Before the IEO was created, the IMF had been using ad hoc teams of independent evaluators. On the positive side, this brought new thinking to bear on problems (see, for example, the ad hoc independent evaluation of ESAF), it lessened the risk of pressure from staff within the IMF (unless, of course, an external was seeking further work from those within the IMF who did not wish robustly to be evaluated), and it seemed to lessen the risk that evaluation would become routinized, bureaucratized and marginalized. The case for the more internal “independent evaluation office” in which the Board appoints the Director and sets the budget, was that it would enable evaluators to have a better understanding of the institution, greater access to the evidence, and to build a more constructive relationship with the management and staff of the organization. Achieving independence in the latter scenario is difficult. The IEO staff are employed by the IMF and rely on rules designed to enhance their independence. The IEO has bolstered this by bringing outsiders into specific evaluations. These issues remain important, as do the questions often posed by IMF staff: who evaluates the evaluators? (in fact they have been evaluated every five years by independent panels), and are their findings based on solid evidence or anecdote, are they replicable?

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

(A) The IMF in a world of geostrategic rivalry

Let us begin by recalling what the IMF is seeking to achieve.

Three important prerequisites for effective ongoing cooperation:

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

To deliver on these three prerequisites an international institution needs to have a **governance and credibility** such that governments **willingly**

- share information with it,
- participate in its standard-setting or rule-making, and
- subject themselves to its monitoring.

The governance of the IMF was created delicately to balance the power of the US after the second world war, and its reluctance to enter into entangling relations with the rest of the world.

To this day, the US enjoys special rights which include

- hosting the organization next to its seat of government,
- a voting power which gives it a single veto of decisions of particular importance
- a powerful voice over who leads the organization – not just the typically European MD but the American FDMD).

The Cold War cemented the dominance of the USA within the IMF, overlaying the constitutional inducements to ensure US participation, with the security imperative to keep communism and the Soviet bloc at bay. This shaped to whom the IMF lent until 1990 when the Cold War came to an end.

Today, the IMF must seek to do its job within a new geostrategic rivalry. The US and China are competing for markets and resources; for dominance over technology; and for influence over the rules and institutions which govern international relations.

This risks leaving the IMF constantly torn between the great powers, or being perceived as a pawn of one or the other.

It risks leaving the rest of the world without an IMF which can facilitate cooperation to support global macroeconomic and financial stability. Like the IMF itself, many countries risk being torn between the great powers. Yet from the strategic rivals themselves to the smallest economies in the world, all share a powerful and existential need for cooperation if they are to enjoy a modicum of global macroeconomic and financial stability. And beyond this, to avert physical conflict.

In this world, the IMF's credentials as a multilateral institution, serving all countries, are crucial. There is a "thin blue line" which separates the IMF from its creator and hegemon – the United States – and from the undue influence of other countries,

That thin blue line is its governance and at the core of this sits the Executive Board to which the IEO reports. This Executive Board oversees the work of the organization. The representation is not equal. Some Directors represent an individual countries, others represent a constituency of countries. They have differing voting power, and different capacity to elicit work from the staff and management of the organization. Crucially, they have far less information, knowledge, or experience (including of the institution and its rules) than most of the staff and management of the organization.

The management and staff of the organization are enjoined to work to further the mandate of the organization itself, not for their countries of origin (as are the Executive Directors themselves). But how are member countries to trust that this in fact occurs? How are they to know that the (always European) Managing-Director is not favouring European members (as was alleged during the Eurozone crisis), or that loans are not being pushed because they reflect US security preferences.

Some influence is informal and unseen, it consists of an unspoken (perhaps even unconscious) assumption by staff as they go about their work that it will need to attract the approval of powerful members. At other times, of course, there is overt political influence, as has occasionally been pointed out (often diplomatically) by IEO reports.

The IEO's role in strengthening the governance and the oversight role of the Board, is vital and ever more important. The work of the IEO in providing independent analyses to the Board can reinforce the "thin blue line" – the multilateral character of the institution. This is a sine qua non if the institution is to be one (as above) with which governments **willingly** share information, participate in its standard-setting or rule-making, and subject themselves to its monitoring.

Acting as an instrument of **all** Board members, through its independent evaluations the IEO can monitor the governance and evenhandedness of the IMF. It can give assurance to member countries – big and small. The assurance is not that the IMF will act without flaw or fault, but that when it does, the Executive Board will be equipped to hold it to account, and to require correction.

(B) Supporting the IMF in addressing contemporary challenges to global macroeconomic and financial stability

A second powerful role for the IEO is to bolster the IMF's capacity to address three urgent contemporary challenges to global macroeconomic and financial stability.

(i) The fiscal and monetary effects of the pandemic

A first domain lies in the fiscal and monetary effects of the pandemic. The actions of any one country will affect those around them. Yet few (if any) countries have the resources, information, or incentive to examine the effects of their own policies on their neighbours, let alone to aggregate the effects of the policies of all countries in their region – or in the world.

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

There are both familiar and new issues in all of this. And on both the IEO can help.

The IEO's evaluations of Fiscal Adjustment in IMF programs, and its reports on the IMF's role in financial crises in various countries are relevant. Equally, the IEO could look at the ongoing experiences of other institutions and countries around the world, helping the IMF to look outward and to learn from other institutions. A potentially more robust role for the IEO here is one which challenges the IMF's core approach more robustly, and examines emerging programmes to help create a more agile response.

Monetary policy responses after COVID are an equally vital area for cooperation. The post-COVID challenge coincides with the challenge for major economies to wind down their unconventional monetary policies of the past decade without catalysing crises in other countries. The IEO addressed some of the relevant issues on monetary policy choices in its 2019 evaluation of IMF advice on Unconventional Monetary Policies. It highlighted risks for the IMF which included

- a lack of expertise on monetary policy issues, and
- mission teams' lack of contextual knowledge due to the rapid rotation of country teams.

There is more work to be done by the IMF on both these issues. It is also worth considering whether the IEO could/should push harder for a new approach and a more clearly elaborated strategy, not just on the policy issues, but on the management strategy for ensuring real expertise is developed and deployed in a longer term way in-country?

(ii) The effects of COVID on inequality and its spillovers

A second issue concerns the fault lines which have deepened through COVID-19 between "haves" and "have nots". Everywhere, the COVID-19 crisis has had a disproportionate impact on the young, the low-skilled, and women. It has also deepened fault lines among countries. Emerging and developing countries (excluding China) are projected to have

cumulative income per capita between 2020 and 2022 which is 22 percent lower than what it would have been without the pandemic. “That will translate into close to 90 million people falling below the extreme poverty threshold since the pandemic started.”¹ Deepening these fault lines is the fact that some countries have had vaccine access and been able to offer early policy support. While others have not and the “have nots” are likely to fall further and further behind as a result.² The contagion effects here are different to those above. There are the health policies to contain. And there is the aftermath of increased inequality. The rise of extremist politics, increases in immigration as countries fall into fragility and conflict.

Repairing the fault lines requires cooperation among countries to fight the virus, and to sustain a cooperative approach. To this end, an IMF policy proposal, jointly endorsed by the World Health Organization, the World Bank, and the World Trade Organization, calls upon governments to speed up (and deliver upon) their promises to donate vaccines and to support COVAX, to remove restrictions on exports of medical supplies, positively to diversify and increase vaccine production and distribution capabilities, and to fund the testing, tracing and therapeutics required to contain new variants.³ These are worthy goals. But to achieve them, the IMF needs to work effectively, and deeply, with other organizations. Despite many IEO reports making this point, the “self-reliant” IMF has yet to develop this capacity.

Repairing the faultlines also requires the IMF to deliver financial support and policy advice which ensures fiscal and monetary policies do not deepen inequalities within countries. A step towards a new source of financial support was made on 2 August 2021 when the Board of Governors agreed to allocate \$650 billion of Special Drawing Rights. The agreement was described by the Managing-Director as “a shot in the arm for the global economy at a time of unprecedented crisis”.⁴ That said, work is still underway to channel the allocation from rich to poor countries. Could the IEO help in this, better preparing the IMF members, management and staff to consider this ahead of time? What are the obstacles to this?

(iii) Enabling economic policies which facilitate progress towards net zero

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

CONCLUDING QUESTIONS

On each of the issues above a checklist for IEO potential impact includes:

1. Is the IEO fostering learning by staff and management from previous efforts (and failures) as well as from the breadth of the IMF’s own research which is sometimes

¹ <https://www.imf.org/en/News/Articles/2021/03/20/sp-global-economy-2021-prospects-and-challenges>

² <https://www.imf.org/en/Publications/WEO/Issues/2021/10/12/world-economic-outlook-october-2021>

³ Agarwal, Ruchir, and Gita Gopinath. 2021. “A Proposal to End the COVID-19 Pandemic.” IMF Staff Discussion Note 21/04, International Monetary Fund, Washington, DC.

⁴ <https://www.imf.org/en/News/Articles/2021/07/30/pr21235-imf-governors-approve-a-historic-us-650-billion-sdr-allocation-of-special-drawing-rights>

sidelined when it comes to operations; here it is worth considering what we know about behavioural change.

2. Is the IEO strengthening Board oversight of the adequacy of IMF risk analysis and e.g. of its (failure to develop deep) collaboration with other regional and international organizations (starting with the World Bank, see IEO 2020); here it is worth taking into account that the Board does not like confrontation either with the M-D or with members of staff. IEO evaluations need to permit “constructive tension” which should exist between Board and management of any well-functioning institution. The IEO
3. **But perhaps the most important of all is:** Is the IEO facilitating effective governance e.g. by equipping the Board to press for more management and staff attention to neglected concerns and countries; ensuring the multilateral character of the IMF, (eg as the IEO did in setting up the case for eliminating the extraordinary access exemption after the Eurozone crisis). Here the task for the IEO is to help the IMF governance to have sufficient effectiveness and credibility to ensure that governments **willingly**
 - share information with the IMF,
 - participate in its standard-setting or rule-making, and
 - subject themselves to its monitoring.
4. Is the IEO bolstering external credibility eg by informing groups outside the IMF, including civil society and private sector groups, and equally by gauging and reporting back to the Board on how these groups perceive and are affected by IMF actions. Here it is worth considering that sometimes to effect change within an organization, you need to consider more carefully how simply and clearly your messages can catalyse groups outside the organization to push it to change. Much of what the IEO finds is of little surprise to the staff of the IMF. The IEO, by publicizing and giving evidence of what is known internally to be happening, can help to catalyse change,

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

A final thought is that missing from the IEO’s toolkit on governance is assurance to members and to the public about the role of the leadership of the institution. This is important since a lesson from Cold War strategic rivalry is that international organizations can acquire a more independent role, but that central to this is the leadership of the international organization.

Powerful heads of organizations can increase the scope for multilateral action by adeptly

- forging coalitions in support of their mandate
- persuading their members adequately to finance the organization and by
- managing their organizations staff, ethos and performance effectively.⁵

This is a terrain into which independent evaluation has yet to tread.

One way the IEO could contribute to this issue is by cooperating with the IEOs of other organizations, jointly to compare frameworks and processes for evaluating the leadership performance in various international organizations – paying particular heed to how to include the whole membership.

⁵ Hall and Woods: <https://journals.sagepub.com/doi/10.1177/135406611774676>