The Path of Least Resistance: Mainstreaming “Social Issues” in the International Monetary Fund

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This article traces efforts to mainstream social issues in the institutional architecture of the IMF, attributing the lack of progress in this area mainly to the Fund’s organisational culture, which steers the IMF towards the path of least resistance when it comes to policy innovation. Whereas the IMF is frequently portrayed as a puppet of powerful member states, this article identifies the Fund’s organisational culture as the central factor explaining the slow pace of mainstreaming social issues in the Fund’s architecture. In the absence of member state leadership on this issue, and in light of committed management’s limited room for manoeuvre, IMF staff enjoyed much leeway to pursue an approach that was most suited to their skill set, ideological orientations and the Fund’s core mandate. Due to the Fund’s strictly hierarchical structure, its recruitment policies, insufficient self-evaluation and reluctance to seriously engage with reform initiatives emanating from civil society, social issues are far from being mainstreamed in the Fund’s daily operations.

Introduction

The International Monetary Fund (IMF) has long maintained that protecting fundamental subsistence rights such as the rights to food, health or shelter—“social issues”, in IMF parlance—is not part of its mandate, and that the IMF as an organisation is not bound by international human rights law, at least not by those human rights norms which are most likely to be affected by the IMF’s operations, namely those enshrined in the International Covenant on Economic, Social and Cultural Rights.1

1. On the IMF’s human rights obligations (or lack thereof), see Jean-Pierre Chauffour, “Institutional Accountability in Pro-Human Rights Policies: The IMF Perspective”, International Monetary Fund (2005), available: <http://www.ohchr.org/Documents/Issues/SForum/3sfMrChauffourIMF.pdf> (accessed 8 August 2015); Francois Gianviti, “Economic, Social and Cultural Rights and the International Monetary Fund”, International Monetary Fund (2002), available: <http://www.imf.org/external/np/leg/sem/2002/cdmfl/eng/gianv3.pdf> (accessed 9 August 2015). The author’s discussion with four staffers from the IMF’s Legal Department underlined that the Fund’s position on these issues has not changed. Interview, 15 June 2012. In contrast to the term human rights, the concept of “social issues” figures prominently in the Fund’s discourse: see, for instance, a staff paper addressing “Social Issues in IMF Supported Programs”, International Monetary Fund (2000), available: <http://www.imf.org/external/np/fad/wldsum/index.htm#SUMMARY> (accessed 9 May 2016). The authors of the paper maintain that “the IMF promotes high quality growth, which encompasses a wide range of elements, including social policy. Over the years, these efforts have been supported by declarations of the Interim
Leaving aside the question of legal obligation, Fund officials have time and again emphasised the organisation’s indirect contribution to alleviating poverty, namely by establishing the conditions for sustainable economic growth, sound social policies, good governance, and so on. Over the past decades the Fund has taken modest steps to incorporate social issues into its daily operations, even though these policies have never been framed in human rights terms; instead, the measures are usually promoted under the banner of “social safety nets”, “high-quality growth”, “inclusive growth”, “Poverty and Social Impact Analysis (PSIA)” and so on. Yet this is merely a matter of framing; clearly the IMF’s involvement in low-income countries has implications for the fulfilment of fundamental social and economic rights.

The Fund seems to be increasingly aware of these implications. Social issues have figured prominently in a number of recent reviews of IMF policies, including the 2011 Review of Conditionality, which argued that the “analysis of the social impact of policy measures in programs, while growing, needs to be strengthened”. The 2011 Triennial Surveillance Review also recommended that the Fund ensure “coverage of social issues that are important for members’ stability in Article IV consultations”. Three years later, the 2014 Triennial Surveillance Review emphasised the importance of “even-handedness”, a concept that includes a more systematic consideration of social issues. The 2007 Independent Evaluation Office (IEO) report, “The IMF and Aid to Sub-Saharan Africa”, criticised a lack of clarity regarding the “mobilization of aid, alternative scenarios, and the application of poverty and social impact analysis”, as a result of which “IMF staff tended to focus narrowly on macroeconomic stability”. The report concluded that “IMF-supported programs have done little to address poverty reduction and income distributional issues despite institutional rhetoric to the contrary”. The IEO’s report

Committee (...) of the IMF, underpinned by guidelines to staff, and also by the emphasis placed by Fund management on the need for a social pillar in the reform of the international financial architecture”. Currently, the Independent Evaluation Office is carrying out an evaluation of the role of social protection issues in IMF-supported programmes: Independent Evaluation Office, “Ongoing IEO Evaluation: The IMF and Social Protection. Draft Issues Paper for an Evaluation by the Independent Evaluation Office”, International Monetary Fund (2016), available: <http://www.ieo-imf.org/ieo/files/ongoingevaluations/The%20IMF%20and%20Social%20Protection%20-%20Draft%20Issues%20Paper.pdf> (accessed 9 May 2016).

2. Chauffour, op. cit. IMF legal staff interviewed for this case study equally stressed this point. Interview, 15 June 2012.

3. Office of the United Nations High Commissioner for Human Rights, “Draft Guidelines: A Human Rights Approach to Poverty Reduction Strategies”, United Nations (2002), available: <www.refworld.org/docid/38298544.html> (accessed 5 August 2015).

4. Strategy, Policy and Review Department, “2011 Review of Conditionality. Overview Paper”, International Monetary Fund (2011), available: <http://www.imf.org/external/np/pp/eng/2012/061912a.pdf> (accessed 9 May 2016).

5. Strategy, Policy and Review Department, “Triennial Surveillance Review. Overview Paper”, International Monetary Fund (2011), available: <http://www.imf.org/external/np/pp/eng/2011/082911.pdf> (accessed 9 May 2016).

6. International Monetary Fund, “2014 Triennial Surveillance Review—Review of IMF Surveillance Products”, available: <http://www.imf.org/external/np/pp/eng/2014/073014b.pdf> (accessed 9 May 2016).

7. Independent Evaluation Office, “The IMF and Aid to Sub-Saharan Africa”, International Monetary Fund (2007), available: <https://www.imf.org/external/np/ieo/2007/ssa/eng/pdf/report.pdf> (accessed 10 May 2016).

8. Ibid.
“Revisiting the 2004 IEO Evaluation of the IMF’s Role in PRSPs [Poverty Reduction Strategy Papers] and the PRGF [Poverty Reduction and Growth Facility] and the 2007 IEO Evaluation of the IMF and Aid to Sub-Saharan Africa” also found that despite certain efforts, overall “the IMF did not develop a systematic approach to integrating poverty and social impact analysis into PRGF program design, as it did with other issues such as setting indicative targets on social and other priority spending”. 9

This brief review clearly demonstrates that social issues are increasingly gaining prominence on the Fund’s agenda, yet despite this shift, Fund-supported policies have frequently been criticised for their negative social impact. While it would be incorrect to argue that Fund-supported programmes have consistently failed to improve the living conditions in client countries, frequently its austerity programmes have hit those hardest who were most in need of protection.10 In light of these failures, the IMF has taken a number of steps to deflect criticism about the negative implications of its policies, for instance by increasingly using Poverty and Social Impact Analysis (PSIA) in the design of its policies. PSIA has been considered a critical factor in mainstreaming social issues in the work of the

9. Independent Evaluation Office, “Revisiting the 2004 IEO Evaluation of the IMF’s Role in PRSPs and the PRGF and the 2007 IEO Evaluation of the IMF and Aid to Sub-Saharan Africa”, International Monetary Fund (2014), available: <http://www-ieo.imf.org/ieo/files/updates/2004%20PRSPs-PRGFs%20and%202007%20Aid%20to%20SSA.pdf> (accessed 11 May 2016).

10. On the effects of adjustment programmes on the most vulnerable parts of the population, see, for instance, UNICEF, “The State of the World’s Children 1989”, United Nations Children’s Fund (1987), available: <http://www.unicef.org/sovc/archive/ENGLISH/The%20State%20of%20the%20World%20Children%201989.pdf> (accessed 21 January 2016). According to UNICEF, “adjustments had important effects on child welfare. In many countries they did not reverse adverse economic developments, and the condition of children continued to deteriorate. The adjustment policies (…) often contributed to a rise in the number of people in poverty”. See UNICEF, “Annual Report 1987”, United Nations Children’s Fund (1987), available: <http://www.unicef.org/about/history/files/unicef_annual_report_1987.pdf> (accessed 5 May 2016). In addition to children, women are also often negatively affected by adjustment programmes: in a recent study on the effects of IMF-supported programmes on women’s subsistence rights for the period 1981–2004, the authors discovered that “IMF involvement is likely to deteriorate the level of respect for women’s economic rights”. See Nicole Detraz and Dursun Peksen, “The Effect of IMF Programs on Women’s Economic and Political Rights”, International Interactions: Empirical and Theoretical Research in International Relations, Vol. 42, No. 1 (2016), p. 81. Similarly, a recent quantitative study of the effects of adjustment programmes on poverty and income distribution finds that “participation in IMF programs is connected to higher poverty rates and a more unequal income distribution. These results stay robust after controlling for other economic variables”. See Doris A. Oberdabernig, “The Effects of Structural Adjustment Programs on Poverty and Income Distribution”, The Vienna Institute for International Economic Studies (2010), available: <http://wiwi.ac.at/the-effects-of-structural-adjustment-programs-on-poverty-and-income-distribution-paper-dlp-2017.pdf> (accessed 5 May 2016). In several African countries, IMF interventions have contributed to structural changes in the agrarian sector, which have in turn exacerbated starvation. In Niger, for instance, the IMF (alongside other donor institutions) was criticised for having “contributed to sharp rises in the prices of staples such as sorghum and millet”, which in turn led to mass starvation. See Alex Duval Smith, “IMF and EU Are Blamed for Starvation in Niger”, The Independent, 31 July 2005, available: <http://www.independent.co.uk/news/world/europe/imf-and-eu-are-blamed-for-starvation-in-niger-302913.html> (accessed 6 May 2016). In Malawi, the IMF and the World Bank were accused of “turning a food shortage into a famine”. See World Development Movement, “IMF Blamed for Malawi Famine”, Global Policy Forum (2002), available: <https://www.globalpolicy.org/component/content/article/211/44542.html> (accessed 15 May 2016). According to the report, “disastrous IMF enforced policies (…) have undermined Malawi’s ability to feed its people”. The report blames the “privatisation of the food production and distribution system, (…) removal of agricultural subsidies to small farmers and deregulation of price controls on staple foods such as maize” for the famine.
International Financial Institutions (IFIs).\textsuperscript{11} The IMF defines PSIA as the analysis of intended and unintended consequences of policy measures on the welfare of different population segments, in particular the poor. PSIA includes weighing different policy options before they are implemented, developing alternative measures and designing social safety nets to mitigate any adverse impact of these measures on the most vulnerable.\textsuperscript{12} While previously the costs of social safety nets to cushion the impact of IMF-prescribed Structural Adjustment Programs (SAPs) were incorporated into the programme targets, social impact analysis did not continually feed into programme design, implementation and follow-up. The Fund’s turn to PSIA reflects an emerging consensus that the IFIs are under an obligation to “to predict [...] and monitor the effects various policy options would have on the human rights situation, and search for alternative options in co-operation with the national government”.\textsuperscript{13}

This article traces efforts to mainstream social issues in the IMF’s areas of work, attributing the lack of progress in this area mainly to the Fund’s organisational culture, which steers the IMF towards the path of least resistance when adopting human rights-related reforms. While IMF management, especially Dominique Strauss-Kahn and Michel Camdessus, has at times pushed for a more systematic integration of social issues into the IMF’s daily work, these efforts were not as successful as in the case of the World Bank, where leaders such as Robert McNamara in the late 1960s and 1970s and James Wolfensohn in the 1990s achieved substantial organisational reform. In order to explain the varying degrees of success in incorporating social issues in the IFIs, one must take into account a number of critical differences between the IMF and the World Bank. Firstly, the degree of control of top management over the respective institutions’ operations varies, with the World Bank president having greater possibilities to act as a norm entrepreneur on behalf of social issues than the managing director of the IMF. Secondly, the role of the IFI’s principals varies: whereas in the case of the World Bank, management’s push for raising the profile of social issues was supported by a powerful member state, namely the US, in the case of the IMF, member states have not displayed as much interest in furthering social issues. The less proactive attitude of the Fund’s principals with regard to social impact analysis gave IMF staff much leeway to pursue an approach that was most suited to their skill set, ideological orientations and core mandate. This brings us to the third critical difference between the two institutions: whereas both IFIs have frequently been accused of being technocratic institutions strongly wedded to a particular ideology, the World Bank’s organisational culture has actually evolved over the past decades to allow for more staff diversity, thus opening up space for alternative ideas. The IMF, by contrast, remains a rather closed, highly homogeneous institution where challenges to the dominant paradigm are hardly ever voiced. As a result, measures such as social impact analysis or the institutionalisation of an external complaint mechanism such as the World Bank Inspection Panel have either not been adopted at all by the IMF,

\textsuperscript{11} Adam McBeth, International Economic Actors and Human Rights (New York: Routledge, 2010), p. 194.
\textsuperscript{12} Gabriela Inchauste, “Poverty and Social Impact Analysis in PRGF-Supported Programs”, International Monetary Fund (2002), available: \url{http://www.imf.org/external/pubs/ft/pdp/2002/pdp11.pdf} (accessed 4 August 2015).
\textsuperscript{13} Sigrun Skogly, The Human Rights Obligations of the World Bank and the International Monetary Fund (London: Cavendish Publishing, 2001), pp. 156–157.
or they have been implemented in a highly inconsistent, half-hearted fashion. This article thus proposes to view the Fund’s organisational culture as a filter mechanism through which external stimuli for the mainstreaming of social issues are processed. In the absence of determined member state leadership, these stimuli emanated mainly from the non-governmental organisation (NGO) community, sometimes backed by the managing director of the day. Civil society has long lobbied for an approach to macroeconomic adjustment that takes into account its potential social costs. However, due to the Fund’s strictly hierarchical structure, its recruitment policies, insufficient self-evaluation and reluctance to seriously engage with reform initiatives emanating from the NGO community, social issues have not been mainstreamed in the Fund’s daily operations.

In order to process-trace the interaction of these internal and external factors, interviews with 20 IMF officials were conducted, as well as with a number of former Fund officials, World Bank staff who have collaborated with the IMF on social impact analysis, as well as NGO representatives who have equally worked with the Fund.

The following section describes the IMF’s turn to social issues. Thereafter the Fund’s efforts to integrate social impact assessment into its daily work will be critically evaluated, and finally the factors that have driven and those that have stalled this process will be identified. In this context, I will frequently draw on the example of the World Bank—which can be considered a relative success case of mainstreaming social issues in its institutional architecture—in order to identify which critical “push factors” were present in the case of the Bank, but absent in the case of the Fund.

**Tracing the IMF’s Turn to Social Issues**

In order to understand the rise of PSIA within the IFIs, one has to take into account broader developments in global economic governance over a time span of roughly three decades, beginning with international protests against the social costs of IMF-supported SAPs in the 1980s, the revamping of this facility into the Enhanced Structural Adjustment Facility (ESAF), the transition from ESAF to the Poverty Reduction and Growth Facility (PRGF) in the late 1990s, and, most recently, the establishment of Poverty Reduction and Growth Trust (PRGT).

The IMF has provided financial assistance on concessional terms to low-income countries since the mid-1970s, first through the Trust Fund, then through the Structural Adjustment Facility (SAF), later renamed the Enhanced Structural Adjustment Facility (ESAF). Since 1999, the so-called Poverty Reduction Strategy Papers (PRSPs) have formed the basis for IMF concessional assistance. PRSPs are supposed to be prepared in a participatory, country-owned process which seeks to achieve a better integration between poverty reduction and macroeconomic adjustment. In 1999, the PRGF was introduced as an instrument for the Fund to support member states in implementing the PRSP approach. PRSPs provide the basis for concessional lending from the IMF and the World Bank and debt relief under the joint Heavily Indebted Poor Countries (HIPC) initiative. PSIA was intended to be an integral part of the PRSP process: “Key requirements in the design of the PRGF programs [...] are an understanding of the effect of program
measures on vulnerable groups—particularly the poor—and designing measures to mitigate any negative effects”.14

The evolution from SAPs to the PRGF and HIPC initiatives—and, as a result, the heightened prominence of social issues on the Fund’s agenda—can be attributed to a confluence of factors, including member state advocacy, NGO pressure, as well as the efforts of certain figures (both at the levels of staff and top management) within the IFIs. The conditionalities imposed by the IMF through its structural adjustment programmes have stirred massive protest from the millions of people adversely affected. Resistance against structural adjustment first manifested itself as food riots and other austerity protests in IMF client countries, whose populations had suffered extreme hardship as a result of IMF demands on their governments to cut expenditures, which frequently led to the elimination of food, fuel and other subsidies, the downsizing of public health services, lay-offs of public servants and so on.15

An external review of the Enhanced Structural Adjustment Facility in 1998 therefore admonished the IMF to pay more attention to the “social costs of adjustment”16, i.e. the impact of its policies on the most vulnerable parts of the populations of IMF client countries. PSIA was not commonly performed under ESAF because Fund staff clearly lacked the expertise for conducting such analysis, which frequently requires a combination of macro- and micro-level analysis, of quantitative and qualitative methods. Considering the IMF’s lack of expertise as well as the World Bank’s comparative advantage in this area, the ESAF reviewers therefore suggested that the Fund draw on the expertise of the World Bank to improve the design of its policies:

[I]n our view the Fund should not invest in building up expertise in poverty analysis. Rather, we recommend that at the stage of program design the Fund formally ask the World Bank to identify ex ante which groups among the poor are likely to lose from the proposed reforms. The Bank would then provide the Fund with projected time paths of the real incomes of the main groups of the poor and also with projected outputs of social services [...] Whether a program would be considered in need of revision would be decided in part on the basis of a comparison of outcomes with these projections.17

Yet even though the Fund’s and the Bank’s respective boards—in the context of developing the Poverty Reduction Strategy Papers—subsequently made a commitment to assess the impact of proposed reforms in Fund- and Bank-supported programmes, they failed to deliver on their promise. This in turn prompted Oxfam International and other NGOs to write a joint letter to then-Managing Director

14. Robert Gillingham, “Poverty and Social Impact Analysis by the IMF. Review of Methodology and Selected Evidence”, International Monetary Fund (2008), available: <http://www.imf.org/external/pubs/ft/books/2008/posocimp/posocimp.pdf> (accessed 7 August 2015).
15. Michel Chossudovsky, Globalisation of Poverty. Impacts of IMF and World Bank Reforms (London: Zed Books, 1997); UNICEF, State of the World’s Children, op. cit.
16. International Monetary Fund, “External Evaluation of the ESAF. Report by a Group of Independent Experts”, International Monetary Fund (1998), available: <http://www.imf.org/external/pubs/ft/ extev/index.HTM> (accessed 5 August 2015).
17. Ibid.
Köhler and World Bank President Wolfensohn in which they expressed regret that ex ante impact analysis still had not become sufficiently integrated into the IFIs’ operations. The Joint IMF and World Bank Implementation Committee for PRSPs conceded shortcomings in implementing PSIA and asked the Bank to take the lead in assisting borrowing countries to develop indigenous PSIA capacities. In 2002 PSIA was formally launched within the World Bank. As early as the 1970s the Bank had adopted rudimentary social and environmental standards for its lending operations, which evolved significantly over the following decades. A first landmark was the 1984 adoption of Operational Manual Statement 2.20 Project Appraisal, which obliged World Bank staff to assess ex ante the potential impact of its projects on what the Bank then called “sociological aspects” such as poverty alleviation. Another landmark was the 2004 adoption of Operational Directive 8.60, which made PSIA mandatory for World Bank staff. The directive was followed by the publication of a number of guidance documents on PSIA in order to facilitate its mainstreaming in the Bank’s operations.

In 2004 the IMF followed suit, establishing a small in-house capability on PSIA consisting of five staff within the Fiscal Affairs Department (FAD). While NGO criticism had paved the way for the establishment of this unit, it took another push from the IMF’s Independent Evaluation Office (IEO) to convince the Fund to finally institutionalise this new approach within the Fund. In its 2003 report, “Fiscal Adjustment in IMF-Supported Programs”, the IEO regretted the absence of a systematic approach to social impact analysis at the Fund. It was as a consequence of this report that the PSIA unit was created.

The unit was tasked with leveraging “expertise and available resources both inside and outside the IMF. In limited cases, the group also conducts PSIAs in areas that are central to the work of the IMF and where no other analysis is available”. In the context of the downsizing of the IMF in 2008, however, the PSIA unit was scrapped and its tasks taken over by a handful of staff in the Fund’s Expenditure Policy Division. Apart from the PSIA unit, the African Department also tried to adopt a more systematic approach to PSIA, creating two PSIA advisor posts that were supposed to assist country teams, yet these positions equally did not survive the massive bloodletting at the Fund in 2008. Apparently a number of IMF staffers within the Expenditure Policy Division continue to systematically carry out PSIA for a limited area that is considered to be within the Fund’s core

18. Oxfam International, “PRSPs and Poverty Impact Assessments: Letter to Mr. J.D. Wolfensohn and Mr. H. Köhler” (London: Overseas Development Institute, 2000), p. 1.
19. World Bank, “Analyzing the Effects of Policy Reforms on the Poor”, World Bank (2010), available: <http://siteresources.worldbank.org/INTPSIA/Resources/IEG_psia_full.pdf> (accessed 5 August 2015).
20. M. Heupel, “Human Rights Protection in World Bank Lending: Following the Lead of the US Congress”, in M. Heupel and Michael Zuern (eds.), Beyond Impunity: International Organizations and the Protection of Human Rights (Cambridge: Cambridge University Press, forthcoming), p. 3.
21. Ibid., p. 4.
22. Ibid., pp. 7–8.
23. Ibid., p. 8.
24. World Bank, op. cit.
25. Independent Evaluation Office, “Fiscal Adjustment in IMF-Supported Programs”, International Monetary Fund (2003), available: <http://www.ieo-imf.org/ieo/files/completedevaluations/09092003all.pdf> (accessed 5 August 2015).
26. Interview with IMF staff, 15 June 2012.
27. Gillingham, op. cit.
28. Interview with IMF staff, 13 June 2012.
mandate, mostly fuel subsidy reform and tax reform.\textsuperscript{29} Beyond that, however, there is no systematic approach to PSIA at the Fund.\textsuperscript{30}

What is more, the IMF has thus far resisted outside calls for establishing a body akin to the World Bank Inspection Panel, which could receive complaints from aggrieved individuals whose rights have been violated as a result of Fund-supported adjustment programmes. The High-Level Panel on IMF Board Accountability, composed of representatives of the NGO community as well as former IMF staff members, debated this issue in its 2007 report, concluding that “[t]he Panel was not of one mind regarding an External Complaint Mechanism for the Fund. Participants did agree that the Fund […] has been embroiled in a number of controversial programs”.\textsuperscript{31} The High-Level Panel suggested that the Fund hold public sessions in which the social impact of its operations could be discussed by external stakeholders. “The purpose of these public sessions should not only be to provide an independent report on the selected controversies, but also to give the IMF some experience in dealing with an external complaint mechanism.”\textsuperscript{32} Similar calls for an external complaint mechanism have also come from the academic community. The Tilburg Guiding Principles on World Bank, IMF, and Human Rights, for instance, drafted by a group of experts in 2001 and 2002, called upon the IMF to “review its accountability mechanisms, in order to provide for the settlement of complaints, brought by affected individuals and communities, challenging IMF programs and policies”.\textsuperscript{33}

Now, even in the absence of a complaint mechanism, can the IMF’s use of social impact assessments be considered a significant step towards mainstreaming social issues in all areas of work in the Fund? Ideally, social impact analysis would be systematically conducted before a proposed policy reform is implemented, with the analyst tracing

the chain of consequences from the proposed policy reform as far as possible—for example, if a particular reform is likely to lead to inflation or the devaluation of assets commonly held by vulnerable people, how will that impact on their rights to food, water and shelter, or their access to health, education and other social services?\textsuperscript{34}

If the reform measure is expected to violate fundamental subsistence rights, it should not be implemented, unless the status quo or alternative measures would produce even greater harm.\textsuperscript{35}

Despite the Fund’s heightened awareness of the social impact of its operations, PSIA is far from being fully embedded into the IMF’s work.\textsuperscript{36} The mainstreaming of PSIA is currently hampered by a number of factors, some having to do with the

\begin{itemize}
\item \textsuperscript{29} Interview with IMF staff, 15 June 2012.
\item \textsuperscript{30} Interview with IMF staff, 15 June 2012.
\item \textsuperscript{31} High-Level Panel on IMF Board Accountability, “Key Findings & Recommendations”, New Rules for Global Finance (2007), available: <http://www.new-rules.org/storage/documents/hlp_imf_reform/imf_board_accountability.pdf> (accessed 9 August 2015).
\item \textsuperscript{32} Ibid.
\item \textsuperscript{33} Willen Van Genugten, Hunt, Paul and Susan Mathews, World Bank, IMF and Human Rights (Nijmegen: Wolf Legal Publishers, 2003), p. 255.
\item \textsuperscript{34} McBeth, \textit{op cit.}, p. 194.
\item \textsuperscript{35} Ibid., p. 194.
\item \textsuperscript{36} As confirmed by IMF and World Bank staff as well as NGOs who specialise in PSIA. Interviews, 11, 15 and 19 June 2012.
\end{itemize}
Fund’s internal culture, others resulting from poor coordination with the World Bank. The Fund’s turn to social issues led to an increasing overlap of Fund and Bank mandates, and thus both organisations have been forced to collaborate ever more closely (for instance on the PRSPs). However, they have frequently failed to develop a constructive working relationship, which has in turn hindered the systematic implementation of PSIA. An NGO representative who works closely with both institutions regretted that “[t]here are no clear lines of responsibility, there have been numerous working groups, commissions, etc. but the two institutions just don’t like each other. It’s a classic tension between an institution of do-gooders run by Americans and the IMF which is a professional banking institution run by Europeans”.

Likewise, the 1998 external review of ESAF observed much frustration on both sides. Among the Fund staff, there is some impatience with what is perceived as indecision on the part of the Bank on key issues within its core competence (especially expenditure analysis) and undue tardiness in delivering inputs for joint documents and programs. On the Bank’s side, [...] there is a general feeling (and some resentment) that the Bank plays second fiddle to the Fund [...] Bank staff complain that while they share their documents readily with their counterparts in the Fund, there is too much hierarchy and rigidity in the Fund’s attitude in this regard [...] There is also a widespread feeling on the part of the Bank staff that there is continuing tension between the objectives of short-term stabilization and sustainable growth, and that the Fund “needs to rethink growth”. 38

In addition to unclear lines of responsibility, the lack of an operational policy on PSIA as well as institutional incentives that encourage staff to engage in this kind of work have prevented PSIA from becoming sufficiently embedded in the Fund’s daily routines. While the World Bank has an operational policy requiring staff to conduct an ex ante social impact analysis whenever Bank programmes are expected to have a significant negative impact on social indicators in a given country, no equivalent due diligence requirement exists for Fund-supported programmes. Neither have PSIA benchmarks been integrated into the Fund’s internal quality assurance processes. 39 While the IMF has developed considerable expertise in conducting PSIA for a limited area of economic policy—mostly tax policy and fuel subsidies reform 40—PSIA is far from being mainstreamed across departments and issue areas. Taking stock of IMF and World Bank efforts at integrating PSIA into their operations, a 2007 joint NGO report concluded that both IFIs are still “failing to consistently ensure that there is a proper assessment of the likely consequences of different policy actions on the poorest people”. 41 The report pointed out

37. Interview, 11 June 2012.
38. International Monetary Fund, “External Evaluation”, op. cit.
39. Interview with IMF staff, 15 June 2012.
40. See, for example, David Coady and David Newhouse, “Ghana. Evaluating the Fiscal and Social Costs of Increases in Domestic Fuel Prices”, World Bank (2006), available: <http://siteresources.worldbank.org/INTPSIA/Resources/490023-1120845825946/PSIACASESTUDIES_BOOK.pdf> (accessed 9 August 2015).
41. Oxfam et al., “Blind Spot. The Continued Failure of the World Bank and the IMF to Fully Assess the Impact of Their Advice on Poor People”, Oxfam International (2007), available: <https://www.oxfam.org/sites/www.oxfam.org/files/blind%20spot.pdf> (accessed 5 August 2015).
that the IMF’s board has repeatedly paid lip service to a more systematic approach to PSIA, yet had failed to follow through with it, pointing to its limited mandate and resource constraints.\(^{42}\) And even in instances where PSIA was carried out, it was sometimes ignored by staff in the design of their programmes. Frequently, IMF staff sought to evade responsibility for PSIA by delegating it to the World Bank or third parties, yet this sometimes resulted in PSIA not being performed at all, because other actors would not have sufficient incentives to carry out PSIA on behalf of the Fund: “If the Bank is not actively engaged in lending associated with a particular area, it has little incentive to devote its own scarce resources to analyzing the issue”.\(^{43}\) While it is understandable that the Fund does not have the resources to carry out PSIAs for each and every economic reform it supports, it does have an obligation to ensure that \textit{ex ante} PSIA has been carried out when a negative social impact is to be expected before approving a programme.\(^{44}\) Currently, PSIA is only carried out in a very limited number of cases (the report cites 29 PSIA studies undertaken by the Fund between 2004 and 2007, as opposed to 150 PSIAs undertaken by the Bank in roughly the same period).\(^{45}\)

Sometimes resource constraints are mentioned as an obstacle to mainstreaming PSIA in the Fund’s work. “That’s bullshit,” an NGO official who has worked with the IMF for many years put it bluntly. “They even have their own Sushi chef! And free tampons in the ladies’ room!”\(^{46}\) Rather, not devoting sufficient resources to social impact analysis and scrapping the PSIA unit during the downsizing of the Fund seems like a deliberate decision not to prioritise this underdeveloped area of work within the IMF. One of the few “dissident” IMF staffers interviewed for this article regretted this decision: “They established the unit with excellent professionals that had a range of skills that the IMF no longer has. That unit had the capacity to look at these things independently of the World Bank, its work was much appreciated by the authorities in borrowing countries”.\(^{47}\) Jettisoning the PSIA unit during the downsizing of the IMF, the source said, “speaks volumes about the Fund’s commitment to social issues”\(^{48}\).

Interviews with IMF staff and external stakeholders suggest that the uptake of PSIAs depends very much on the individual preferences, motivations and skill sets of mission chiefs and resident representatives more than it reflects established practice.\(^{49}\) Another weakness of the IMF’s PSIA approach is that it is not informed by internationally recognised human rights standards. The IMF in general is highly wary to even use human rights language, preferring more opaque parlance such as “social issues”. Indeed, as one of Christine Lagarde’s speechwriters told the author: “You cannot put human rights in a speech, it’ll be taken out”.\(^{50}\) A final factor
inhibiting the mainstreaming of PSIA is the lack of systematic training of Fund staff in PSIA methods and the failure to systematically include PSIA in internal quality assurance mechanisms.51

With regard to the possibility of establishing an external complaint mechanism, interviews with current and former IMF staff suggest that the issue of an external complaint mechanism has actually never been seriously debated within the organisation.52 When the author asked staff whether setting up an IMF Inspection Panel akin to its World Bank counterpart had ever been an issue internally, almost all of them seemed perplexed. A recurring answer to this question was that the IMF deals with “macro-issues”, whereas the World Bank, which is involved in project lending, has a much more direct impact on the micro-level. Hence, a complaint mechanism accessible to affected individuals or communities was considered appropriate for the Bank, but not the Fund.53 This argument is obviously flawed, however, as Fund-supported programmes do have a direct impact on the living conditions of individuals, for instance when food subsidies are cut, tax systems are reformed (and VAT is raised, for example), public health services are downsized and so on.

Explaining the IMF’s Reluctant Turn to Social Issues

The IMF’s stance on social issues can be attributed to a host of variables—push factors such as NGO advocacy, norm entrepreneurs within the Fund and the Bank, and member state influence; but also inhibiting factors, which include the Fund’s organisational culture and coordination problems with the World Bank.

Drivers of Organisational Change

Civil society advocacy was certainly instrumental in setting the stage for the Fund’s turn to social issues in the 1990s. Their norm entrepreneurship contributed to the emergence of a global discourse about international organisation’s (IO) accountability, transparency and stakeholder consultation, to which not even the IMF was impervious. One IMF official explained that before the rise of the global civil society movement, the IMF was run like a central bank, with secrecy being considered a prime virtue within the organisation. With increased civil society organisation’s (CSO) activism and massive protests against the IFIs in the 1990s, however, “the public conversation was transformed. There was a greater recognition that we needed to listen to outside voices more systematically”.54 Adds another IMF official: “Becoming more accountable was simply part of the international culture at that time”.55 Subsequently, the IMF made great strides in making its policies more transparent to the public. Secrecy was no longer considered a virtue. Hence, in this regard, the IMF’s way of doing business has undergone a remarkable

51. Interview with NGO representative, 11 June 2012. Fund officials also admit that staff lack training in microeconomic/qualitative methods but do not see this as a problem, pointing instead to the division of labour with the World Bank. Interview, 12 June 2012.
52. The author asked all current and former IMF staff about an external complaint mechanism, and even those who had been with the Fund for almost three decades could not remember that it had ever been an issue. Interviews, 12 June 2012.
53. Interviews with current and former IMF officials, 12 June 2012, 13 June 2012, 18 June 2012.
54. Interview, 13 June 2012.
55. Interview, 13 June 2012.
transformation. The influence of civil society on the Fund can be seen in the IMF’s information disclosure policy, for instance, but also in the requirements for CSO consultation as part of the PRSP process, and finally, albeit to a more limited extent, in the Fund’s approach to PSIA. The initial impetus for ex ante social impact analysis came from CSOs, who, since the mid-1990s, had urged the IFIs to take into account the impacts of their policies on the most vulnerable populations.\footnote{World Bank, \textit{op. cit.}} Civil society calls for social impact analysis were bolstered when in 1998 the external ESAF evaluation equally urged the Fund to pay more attention to the human costs of structural adjustment.\footnote{International Monetary Fund, “External Evaluation”, \textit{op. cit.}} When NGOs perceived that the Fund and the Bank were too slow in following through, they sent a letter to both institutions, reminding the IFIs of their responsibility to conduct PSIA.\footnote{Oxfam International, \textit{op. cit.}} The World Bank responded by officially introducing PSIA in 2002, with the Fund following suit in 2004, when its PSIA unit was established.\footnote{World Bank, \textit{op. cit.}} Furthermore, NGOs also provide expertise in order to enable the IFIs to develop more sophisticated PSIA methodologies.\footnote{Interview with Jo Marie Griesgraber, New Rules for Global Finance, 11 June 2012.}

However, whereas NGOs played an important role as agenda setters and knowledge providers, their advocacy was much less successful when it came to convincing the IMF to consider establishing an external complaint mechanism. This, however, might change in the future, according to one well-informed IMF staff member. According to her, the Fund receives a lot of complaint letters from NGOs, and having a complaint mechanism “is a question of good governance and accountability”.\footnote{Interview, 13 June 2012.} However, the IMF, she conceded, moves slowly: “You have to take baby steps. But I have been talking with a number of NGOs about this and I’m confident they will take up the issue, that’s all I can say”.\footnote{Interview, 13 June 2012.} It seems that some of the few dissident voices within the IMF have decided not to promote the issue themselves internally, but rather to ally with NGOs, which will then put pressure on the Fund from the outside.\footnote{Interview, 13 June 2012.}

The uptake of CSO initiatives by the Fund had always been contingent, to a certain degree, on the managing director (MD) of the day and his or her personal interest in social issues. In the Fund’s long history, two MDs have proven particularly instrumental in raising awareness of the distributional impacts of the Fund’s policies, namely Michel Camdessus and Dominique Strauss-Kahn.\footnote{Various Fund and NGO staff pointed out that Camdessus in particular was motivated by his Christian faith and took the Millennium Development Goals “very seriously”. Interview with two former senior IMF officials who served under Camdessus (and Dominique Strauss-Kahn), 12 June and 15 June 2012.} The human costs of structural adjustment were largely absent from the IMF’s radar during the 1970s and 1980s. Only in the late 1980s did the FAD begin to develop an interest in analysing the distributional impacts of the IMF’s lending policies.\footnote{J.A. Scholte, “Civil Society and IMF Accountability”, in J.A. Scholte (ed.), \textit{Building Global Democracy? Civil Society and Accountable Global Governance} (Cambridge: Cambridge University Press, 2011), p. 99.} It was Michel
Camdessus, MD from 1987 to 2000, who promoted the notion of “high-quality growth”, i.e. economic growth that is “sustainable, that reduces poverty and distributional inequalities, that respects human freedom and national cultures, and protects the environment”. Camdessus thus became a norm champion within the IMF “who wanted to seriously think about the ways in which the IMF needed to take responsibility for its role in developing countries’ social and economic development”. Camdessus requested all departments to consider the distributional impact of IMF policies in the Fund’s lending programmes. Fund staff thus began to devote more time, energy and resources to exploring the social impacts of its lending policies.

While Camdessus’ successors Horst Koehler and Rodrigo de Rato are not especially known for promoting social issues at the Fund, Dominique Strauss-Kahn, who took the helm in 2007, frequently stressed the need to consider the distributional impacts of Fund-supported policies. Throughout his tenure Strauss-Kahn publicly called attention to the potentially harmful social consequences of globalisation in general, and IMF policies more specifically. In 2011 the IMF MD argued that the neoliberal theories that had informed the work of the IFIs in the last decades needed to be overhauled. In a speech entitled “Human Development and Wealth Distribution” Strauss-Kahn emphasised that the market does not always “get it right” automatically, and that globalisation has a dark side, namely growing inequalities which “can wear down the social fabric. More unequal countries have worse social indicators, a poorer human development record, and higher degrees of economic insecurity and anxiety”. In order to mitigate the negative impacts of globalisation, Strauss-Kahn called for ending “the scourge of unemployment” as well as establishing adequate social safety nets including “decent unemployment benefits”. The destabilising effects of unemployment and social inequalities were thrown into sharp relief by the onset of the Arab Spring, to which Strauss-Kahn responded with a speech that called for “inclusive growth”, i.e. growth that all segments of society would benefit from:

66. Michel Camdessus, “International Cooperation for High-Quality Growth: The Role of the IMF at 50”, International Monetary Fund (1994), available: <http://www.imf.org/external/np/sec/mds/1995/mds9501.htm> (accessed 6 August 2015).
67. Bessma Momani, “IMF Rhetoric on Reducing Poverty and Inequality”, University of Waterloo (2008), available: <http://www.arts.uwaterloo.ca/~bmomani/Documents/BWPI-CIGI_IMF_Poverty_and_Inequality.pdf> (accessed 6 August 2015).
68. Interviews, 12 June and 15 June 2012.
69. “Washington Consensus Is Over, Says IMF Chief”, Sydney Morning Herald, 6 April 2011, available: <http://www.smh.com.au/business/washington-consensus-is-over-says-imf-chief-20110405-1d2vg.html> (accessed 30 January 2016).
70. Dominique Strauss-Kahn, “Human Development and Wealth Distribution”, International Monetary Fund (2010), available: <https://www.imf.org/external/np/speeches/2010/110110.htm> (accessed 30 January 2016).
71. Ibid.
72. Chie Aoyagi and Giovanni Ganelli, “Asia’s Quest for Inclusive Growth Revisited”, International Monetary Fund (2015), available: <http://www.imf.org/external/pubs/ft/wp/2015/wp1542.pdf> (accessed 16 May 2016); Dalia Hakura et al., “Sustaining More Inclusive Growth in the Republic of Congo”, International Monetary Fund (2015), available: <http://www.imf.org/external/pubs/ft/dp/2015/afr1502.pdf> (accessed 16 May 2016); Corinne Delechat et al., “Harnessing Resource Wealth for Inclusive Growth in Fragile States”, available: <http://www.imf.org/external/pubs/ft/wp/2015/wp1525.pdf> (accessed 16 May 2016); “Regional Economic Outlook Sub-Saharan Africa. Fostering Durable and Inclusive Growth”, International Monetary Fund (2014), available: <http://www.imf.org/external/pubs/ft/reo/2014/afr/eng/sreo0414.pdf> (accessed 16 May 2016); Rahul Anand et al., “India: Defining and Explaining
We don’t need to extend our mandate. But within our mandate, [...] we have to take into account the fact that what could be destabilizing for growth is not only the situation of the banks, the inflation, the asset bubble, the fiscal deficit, the current account deficit, but also things that have to do with the distributional effect. And that’s clearly seen these days in Tunisia and Egypt and in other countries where the situation is not as difficult, but looks a bit alike [...] there’s a lot of fields, domains in which we need to rethink the traditional view we have of macroeconomy [...] not only do we need to rethink the traditional macroeconomy in terms of interest rate and financial sector and all this kind of thing, but also we have to rethink in a way that non-inclusive growth is certainly not a guarantee for stability.73

While Joseph Stieglitz took these statements to mean that “a new IMF has gradually, and cautiously, emerged under the leadership of Dominique Strauss-Kahn”,74 others have stressed that the change has been rhetorical rather than substantial, arguing that despite the managing director’s personal commitment to inclusive growth, there were “few signs” that the Fund “was really working in favor of policies that would help ordinary people to overcome the crisis [...] one can conclude that the Strauss-Kahn presidency at the head of the IMF did not represent a clear departure from the IMF traditional line in favor of capitalism and neoliberal policies”.75

Christine Lagarde, who succeeded Strauss-Kahn in 2011, has frequently spoken out in favour of reducing income inequality and increasing gender equality. In a 2015 speech in Brussels she emphasised that “reducing excessive inequality […] is not just morally and politically correct, but it is good economics” (emphasis in the original).76 Lagarde claimed that “if you want to see more durable growth,
you need to generate more *equitable* growth” (emphasis in the original). During her tenure, a number of studies have been carried out by staff investigating the relationship between (gender) inequality and growth—studies which have found that “excessive income inequality actually *drags down* the economic growth rate and makes growth less sustainable over time” (emphasis in the original). Lagarde concluded that “if you care about greater shared prosperity, you need to unleash the economic power of women” and that in light of the close connection between growth and (gender) inequality, the IMF was intensifying its research on inequality, gender, as well as climate-related issues, “because they are—as we say—macro-critical”. She reiterated this claim later that year when speaking at Oxfam America, where she stressed that “inclusion is good for the economy. Not only is this true of income, it is also true of gender [...] gender inclusion not only supports growth; it also reduces income inequality”. Lagarde therefore called for “improving girls’ education and removing barriers to women’s employment and access to finance”. Thus, at least rhetorically, the Fund’s top leadership have elevated the profile of social issues, yet as will be argued in this article, implementation lags behind.

What explains this absence of substantial reform at the Fund? Again, the comparison with the World Bank is instructive. At the Bank, social issues were rather successfully mainstreamed into the institutional architecture by making social impact analysis part of the operational policy covering Development Policy Operations. Top management had a considerable share in this. Robert McNamara, president from 1968 until 1981, is widely considered to have left a “distinct mark on the institution; none has had a greater impact on both the substance and the style of its operations”. He is known for moving poverty alleviation centre stage at a time when social issues were largely absent from the Bank’s radar. In a pioneering speech in 1972 he called upon nations “to give greater priority to establishing growth targets in terms of essential human needs […] even if it be at the cost of some reduction in the pace of advance in certain narrow, and highly privileged sectors whose benefits accrue to the few”. This would become known as the “basic human needs” approach to development. McNamara’s frequent visits to

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77. Ibid.

78. See, for instance, Era Dabla-Norris *et al*., “Causes and Consequences of Income Inequality: A Global Perspective”, International Monetary Fund (2015), available: <https://www.imf.org/external/pubs/ft/sdn/2015/sdn1513.pdf> (accessed 9 May 2016); Christian Gonzales *et al*., “Catalyst for Change: Empowering Women and Tackling Income Inequality”, International Monetary Fund (2015), available: <https://www.imf.org/external/pubs/ft/sdn/2015/sdn1520.pdf> (accessed 9 May 2016).

79. Lagarde, “Lifting the Small Boats”, op. cit.

80. Ibid.

81. Ibid.

82. Christine Lagarde, “Catalyst for Change: Empowering Women and Tackling Income Inequality”, International Monetary Fund (2015), available: <https://www.imf.org/external/np/speeches/2015/102215.htm> (accessed 9 May 2016).

83. Christine Lagarde, “The Post-2015 Development Agenda: Unity in Ambition, Unity in Action”, International Monetary Fund (2015), available: <https://www.imf.org/external/np/speeches/2015/092515.htm> (accessed 10 May 2016).

84. Heupel, *op. cit.*, pp. 7–8.

85. William Clark, “Robert McNamara at the World Bank”, *Foreign Affairs*, Vol. 60, No. 1 (1981), p. 167.

86. Ibid., p. 173.

87. Ibid.
developing countries in Africa, Latin America and Asia had left a deep impression on him. Another influential factor was his chief economist Hollis Chenery, who is said to have “nudged” McNamara towards the goal of poverty reduction.\textsuperscript{88} The distributional impact of World Bank projects was one source of concern to McNamara; another was the environmental damage caused by certain Bank-funded projects. The president thus initiated “systematic reviews of projects where ecological problems were likely to arise”.\textsuperscript{89} Yet McNamara not only actively reshaped the Bank’s core mission, he also set out to change its organisational culture, hiring new staff in order to make the Bank less technocratic and more diverse.\textsuperscript{90} World Bank staff grew by 75\% and unsurprisingly “the ‘new boys’ ruffled the feathers of some of the ‘old boys’ […] The new culture of The Bank—like the personality of its powerful president—overrode important elements of the organization’s older cultures”.\textsuperscript{91} The first non-economist social scientists at the Bank were quite a small group but they were rather active as norm entrepreneurs within the Bank. They convened an informal group, called the “Sociology Group”, which was open to all staff (and sometimes also institutional outsiders such as civil society actors) and in which the discussion about social and environmental impact analysis was carried forward.\textsuperscript{92}

Another Bank president who contributed to mainstreaming social issues in the organisation is James Wolfensohn. Wolfensohn sought to redefine the Bank’s "basic mission […] by reframing its traditional approach to development".\textsuperscript{93} At his insistence, “previously neglected issues such as social, environmental, and ‘governance’” issues received greater attention.\textsuperscript{94} Just like McNamara, Wolfensohn also sought to achieve this goal by expanding and diversifying Bank staff. Eighty-six new staff members were hired for social development at the headquarters, 45 senior staff were hired by the Environmentally/Socially Sustainable Development (ESSD) network, as well as 50 staff in the Human Development (HD) network.\textsuperscript{95} Even though certain obstacles remain, observers have called the shift initiated by Wolfensohn “a positive sign of change in the direction of social and environmental mainstreaming”.\textsuperscript{96}

Why was top management at the Bank more effective in promoting the social agenda in their institution than the Fund’s MDs? One factor is certainly the two organisations’ different mandates and identities. While the Fund was for a long time considered to be exclusively a monetary institution, the Bank had a mandate to consider social issues from the very beginning. Its mission statement begins: “Our dream is a world free of poverty”.\textsuperscript{97} Secondly, the positions of the

\textsuperscript{88.} David Milobsky and Louis Galambos, “The McNamara Bank and Its Legacy 1968–1987”, \textit{Business and Economic History}, Vol. 24, No. 2 (1995), p. 180.
\textsuperscript{89.} Ibid., p. 182.
\textsuperscript{90.} Ibid., pp. 174–177.
\textsuperscript{91.} Ibid., pp. 177, 191.
\textsuperscript{92.} Heupel, \textit{op. cit.}, p. 10.
\textsuperscript{93.} Daniel L. Nielsen, Michael J. Tierney and Catherine E. Weaver, “Bridging the Rationalist-Constructivist Divide: Reengineering the Culture of the World Bank”, \textit{Journal of International Relations and Development}, Vol. 9, No. 2 (2006), p. 116.
\textsuperscript{94.} Ibid., p. 117.
\textsuperscript{95.} Ibid., pp. 119–120.
\textsuperscript{96.} Ibid., p. 120.
\textsuperscript{97.} Paula Blackmon, “Rethinking Poverty through the Eyes of the International Monetary Fund and the World Bank”, \textit{International Studies Review}, Vol. 10, No. 2 (2008), p. 184.
IMF managing director and the Bank president differ in terms of their control over the daily activities of their institutions, providing the Bank president with more power to promote social issues than the Fund’s MD. The former is not as beholden to the Executive Board (and by extension to the larger shareholding states) as is the Managing Director of the IMF. Therefore the President of the Bank may have a larger and more independent role in defining the agenda for the Bank than does the Managing Director of the IMF. This difference in agenda setting explains why it was Bank presidents instead of IMF managing directors that were so instrumental in facilitating changes in the definition of economic development and poverty. The organizational structure of the Bank additionally appears to allow for greater decision making on the part of the President of the Bank, and a more important role for senior staff at the Bank as compared to the IMF.

Variation in the mainstreaming of social issues can thus be attributed inter alia to the differing roles of top leadership at the Bank and the Fund. Additional scope conditions are the respective institutions’ identity, mandate and staff culture. Because of the Bank’s broader mission and self-image as a development agency, and because of its more diverse staff, top leadership’s norm entrepreneurship efforts on behalf of social impact analysis fell on fertile ground, whereas the Fund’s rigid and ideologically homogeneous organisational culture impeded the mainstreaming of social issues. I will elaborate on this factor below.

The role of IMF member countries must also be taken into account. While it is true that the political preferences of the Fund’s most powerful shareholders shape the organisation’s overall agenda, their influence is most critical in high-profile cases, and social issues clearly do not fall into this category. In areas where none of the major shareholders have vested interests and thus fail to exercise leverage, much depends on the norm entrepreneurship of the MD and staff’s reaction to it. Ngaire Woods has described the political preferences of powerful Fund member states as the “outer structural constraint” within which the IMF operates:

In high-profile cases where major geostrategic interests are at stake, such as in Argentina, Korea, or Russia, the US Treasury leaves a clear trail. But this leaves a lot unexplained [...] the United States does not always take a strong interest in the activities of the IMF and World Bank, such as in parts of sub-Saharan Africa [...] Overall, powerful states set the boundaries within which the IMF and World Bank work. Within those parameters, professional economists and staff draw up the details.

In sum then, the “outer structural constraint” defined by IMF member states “tells us more about what the staff cannot do than what they actually can and will do”. In the case of PSIA, only a handful of member countries played a significant

98. Ibid., p. 188.
99. Ngaire Woods, The Globalizers. The IMF, the World Bank, and Their Borrowers (Ithaca, NY: Cornell University Press, 2006), pp. 4, 6.
100. Jeffrey Chwieroth, Capital Ideas: The IMF and the Rise of Financial Liberalization (Princeton, NJ: Princeton University Press, 2009), p. 28.
agenda-setting role, most prominently the UK and Germany. These countries provided money for the newly established PSIA Trust Fund, which, *inter alia*, enabled the IMF Research Department to start a two-year research project on PSIA.\textsuperscript{101} Moreover, Germany seconded a handful of staff to the World Bank to further develop IFI expertise on PSIA.\textsuperscript{102} As management and staff received no clear directives from member states on PSIA, they used the leeway given to them and adopted a PSIA approach most suited to their organisational culture.

At the World Bank, by contrast, the most powerful member state, prodded by NGOs, played a critical role in promoting social issues. According to Monika Heupel, most major institutional innovations in the past decades can be traced back to the United States Congress, which used its “power of the purse” to enforce Bank reform.\textsuperscript{103} The first generation of safeguard policies, however, was not enacted at the insistence of the US, but was achieved by a coalition of committed World Bank staff and NGOs.\textsuperscript{104} Subsequent reforms in the area of poverty alleviation and social and environmental issues more generally, however, can all be traced back to the initiative of the US Congress, which, prodded by civil society actors, exerted pressure on the US executive to push for reform at the Bank:\textsuperscript{105}

By intensively lobbying national parliaments (especially the US Congress) during IDA replenishment negotiations, NGO coalitions enact member states’ power of the purse to compel the Bank to adopt […] environmental and social assessments during project appraisal as well as the creation of an Independent Inspections Panel.\textsuperscript{106}

**Obstacles to Organisational Change**

The final piece of the puzzle of the IMF’s approach to mainstreaming social issues is its organisational culture, which has frequently frustrated external (and internal) reform initiatives. Organisational culture can be described as “the deeply embedded ideologies, norms, and routines that govern the expectations and behavior of bureaucratic staff”.\textsuperscript{107} International organisations do not respond to external stimuli “in an obvious or unproblematic way. Over time these organisations develop strong bureaucratic cultures that profoundly shape the way external demands or shocks are interpreted and the kinds of responses the organization will entertain and, eventually, implement”.\textsuperscript{108} Organisations, like human beings in general, are prone to taking the path of least resistance and, as a result, tend to respond to reform initiatives with tactical adaptation rather than complex learning. The latter would require a fundamental shift in organisational norms, practices

\textsuperscript{101}. Interview with two staff from the IMF Research Department, 13 June 2012.
\textsuperscript{102}. Interview with World Bank staff, 19 June 2012.
\textsuperscript{103}. Heupel, *op. cit.*, p. 2.
\textsuperscript{104}. *Ibid.*, p. 10.
\textsuperscript{105}. *Ibid.*, p. 11.
\textsuperscript{106}. Catherine Weaver and Ralf Leiteritz, “Our Poverty Is a World Full of Dreams”: Reforming the World Bank”, *Global Governance*, Vol. 11, No. 3 (2005), p. 373.
\textsuperscript{107}. *Ibid.*, p. 369.
\textsuperscript{108}. Michael Barnett and Martha Finnemore, *Rules for the World. International Organizations in Global Politics* (Ithaca, NY: Cornell University Press, 2004), p. 9.
and basic assumptions, which goes against the human desire for cognitive stability. Organisational theorists thus tend to agree that “IOs with a deeply rooted bureaucratic culture are difficult to change and that such change will be incremental and path-dependent when it comes.”

In this article, four indicators are used to operationalise the concept of organisational culture:

- organisational structure, that is, degree of hierarchisation: is decision-making authority centralised or spread across the organisation?
- recruitment policies: what disciplines/universities/countries does the organisation primarily hire from?
- mechanisms for self-reflection: do these mechanisms produce unbiased results? Are their recommendations systematically taken into account?
- degree of openness to non-state actors: what channels are available for CSO participation? Can the latter actually influence policy making within the organisation? Or is CSO outreach merely an exercise in co-opting potential challengers?

First, organisational structure matters because flat hierarchies tend to foster a culture of innovation and out-of-the-box thinking, whereas rigid hierarchies tend to promote group-think and make it rather unlikely that staff from lower layers of authority will take the risk to feed novel and unorthodox ideas into the decision-making process. The IMF is an “obsessively hierarchical” institution “where lower levels of the hierarchy tend quite strictly to follow orders from higher ranks.” The powerful Policy Development and Review Department (PDR), now the Strategy, Policy and Review Department—sometimes called the IMF’s “thought police”—exercises a quality assurance function within the organisation and is supposed to ensure uniformity of treatment of member countries. Yet the desire to ensure uniformity of treatment has frequently stifled internal debate: “While PDR’s role helps to ensure coherence and uniformity of treatment among members, it also leads the staff often to self-censor references to particular country problems or alternative ideas, as they recognize that PDR will remove such statements from reports before they reach the board or the public”. This has impaired the IMF’s capacity to learn from past mistakes, as the Independent Evaluation Office pointed out in its analysis of the Fund’s response to the global financial crisis:

109. Ernst Haas, When Knowledge Is Power. Three Models of Change in International Organizations (Berkeley: University of California Press, 1990), pp. 23–28.
110. Nielson, Tierney and Weaver, op. cit., pp. 107–108.
111. Interview with IMF staff, 15 June 2012.
112. Independent Evaluation Office, “IMF Interactions with Member Countries: The Civil Society Dimension”, International Monetary Fund (2009), available: <http://www.ieo-imf.org/ieo/files/completedevaluations/01202010Background_Paper_III_IMF_Interactions_with_Member_Countries_The_Civil_Society.pdf> (accessed 9 August 2015). One hundred per cent of the staff interviewed for this article mentioned the adjective “hierarchical” or “centralised” when asked to come up with attributes that in their view most appropriately described the IMF’s organisational culture.
113. Bessma Momani, “Recruiting and Diversifying IMF Technocrats”, Global Society, Vol. 19, No. 2 (2005), p. 182.
114. Chwieroth, op. cit., p. 251. Current and former Fund officials interviewed for this article confirmed this perception of the PDR’s grip on intra-organisational processes. Interviews, 12 June 2012.
The IMF's ability to correctly identify the mounting risks was hindered by a high degree of group-think, intellectual capture, a general mindset that a major financial crisis in large advanced economies was unlikely, and inadequate analytical approaches. Weak internal governance, lack of incentives to work across units and raise contrarian views, and a review process that did not “connect the dots” or ensure follow-up also played an important role, while political constraints may have also had some impact.115

"It is very difficult to speak out," adds an IMF official116 and another one clearly identified the Fund’s organisational culture as the problem:

> There is no incentive to take risks, there is no incentive to think outside the box, these issues always come up in the staff surveys. During the financial crisis, the people who mostly got it wrong, the senior people were promoted into positions of greater authority, whereas the people who raised the issues and sounded the alarm early on were not rewarded. If you look at the profile of people who rise very high in the Fund, it’s the people who never rock the boat.117

Promoting the notion of IMF responsibility for harmful social consequences would clearly go against the ideological mainstream at the Fund and is thus not something that the typically risk-averse IMF staffer would take on. While one IMF official suggested that “internally it [the IMF] is very much a debating club; economists can talk for hours, to get to a single view you have to have a lot of internal debate”,118 one of the “dissident” staff members challenged this portrayal of the Fund’s debating culture: “Oh yes, they talk forever about numbers, derivatives, etc. But they do not challenge the fundamentals, because it will hurt their career”.119 If one wants to succeed at the Fund, focusing on social issues in low-income countries is certainly not the way to go, as one NGO representative who has interacted with the Fund for many years confirmed: “The core of the Fund—the IMF staff who are doing the sexy countries (Europe, Japan, etc.)—don’t care about it”.120 Another IMF staffer confirmed this: “The truth is that there are no incentives for IMF staff to look into these issues”.121

Second, an organisation’s recruitment policies can either reproduce an existing culture or trigger organisational reform, for instance through staff diversification. Typically, however, staff recruitment serves to reinforce existing organisational beliefs, norms and routines: “Many professional career tracks are so closely

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115. Independent Evaluation Office, “IMF Performance in the Run-Up to the Financial and Economic Crisis. IMF Surveillance in 2004–07”, International Monetary Fund (2011), available: <http://www.ieo-imf.org/ieo/files/completedevaluations/Crisis-%20Main%20Report%20%28without%20Moises%20Signature%29.pdf> (accessed 9 August 2015).
116. Interview, 13 June 2012.
117. Interview, 15 June 2012.
118. Interview, 13 June 2012.
119. Interview, 13 June 2012. Of the 20 IMF staff interviewed for this article, only a handful dared to speak openly; the rest consistently adhered to the official Fund script, despite the off-the-record character of the interviews.
120. Interview, 14 June 2012.
121. Interview, 15 June 2012.
guarded, both at the entry level and throughout the career progression, that individuals who make it to the top are virtually indistinguishable”.122 The IMF is a highly homogeneous organisation—“One hundred percent of the professional and managerial staff at the IMF are economists”.123 The Fund’s intellectual homogeneity as well as its rigid hierarchical structure thus make the organisation largely impervious to external criticism.124 While outside criticism—especially if accompanied by an external shock of sufficient magnitude—has sometimes triggered moments of self-reflection at the Fund, the organisation tends to quickly gravitate back to business as usual. In the field of PSIA, the Fund, rather than adopting a systematic approach to social impact analysis, reacted with tactical adaptation, because it lacked expertise in this area and did not want to devote substantial resources to training its macroeconomists in microeconomic methods. Fund staff thus lack ownership of PSIA because their skill set is simply not tailored to these issues. This led the IMF to largely outsource PSIA to others, instead of diversifying its own staff. Even though the IMF’s Research Department has carried out its own research project on PSIA methods, even those staff members involved in this project openly acknowledged that PSIA-related research does not rank high on the agenda of the Department:

On a scale of 0 to 100 it would probably be a 4 […] PSIA is not woven into the fabric of the Fund. People here at the Fund are interested in Europe and middle-income countries, but not in low-income countries […] The truth is that no one cares about low-income countries. It is inevitably a sideshow because we have to worry about the Euro and China, etc.125

While the Fund has taken modest steps to diversify its staff,126 this has thus far been insufficient to make the Fund “own” PSIA, or social issues more generally. This lack of diversity has often prevented IMF technocrats from grasping the complexity of questions of political economy, as one IMF staff member (who holds a double degree in economics and political science, a rare skill set at the Fund) explained: “A lot of people here don’t get that complexity because they are narrow-minded economists […] The IMF needs more diversity in terms of

122. Paul DiMaggio and Walter Powell, “The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields”, American Sociological Review, Vol. 48, No. 2 (1983), pp. 152–153.
123. Blackmon, op. cit., p. 193.
124. Momani, “Recruiting and Diversifying IMF Technocrats”, op. cit., pp. 167–168.
125. Interview, 13 June 2012.
126. One Fund official told the author that the IMF “is very aware that recruiting diverse staff is critical in changing a little bit the behaviour of the Fund. What they want to achieve is diversity of nationality, gender, etc. but also diversity of thought, and so there is a huge role for recruitment in that regard […] What that means is that we are broadening our outreach efforts. We are going to different parts of the world […] to recruit from non-Anglo-Saxon universities. Our entry programme shows this diversity. We also have a mobility programme, which means that we have people from other organisations coming in to work with us on a temporary basis. We are trying to move away from group-think”. At the same time, however, the official also admitted that these diversification efforts do not involve hiring staff from other disciplines: “The World Bank, where I also worked, has a diverse skill set, it harbours a lot of different disciplines. The Fund is more limited in this regard. In our entry-level programme we target macroeconomists. In support functions, we have lawyers, HR people, etc. But the core mandate of the Fund is still carried out by macroeconomists […] The Fund has a certain mandate and it should not try to be what it is not”. Interview, 15 June 2012.
staff recruitment”. Again, the comparison with the World Bank is instructive. As explained above, top management successfully diversified the World Bank’s staff, which led to the creation of the “Sociology Group”, for instance. The Sociology Group acted as a norm entrepreneur on behalf of social issues, thus shaking up deeply rooted traditions, convictions and routines at the Bank. At the Fund, by contrast, no comparable “subversive” force has emerged among staff. Fund staff’s intellectual homogeneity has also prevented them from challenging the basic assumptions underlying their macroeconomic policy advice. Basic assumptions tend to be those we neither confront nor debate and hence are extremely difficult to change. To learn something new in this realm requires us to resurrect, reexamine, and possibly change some of the more stable portions of our cognitive structure, a process that Argyris and others have called double-loop learning or frame breaking. Such learning is intrinsically difficult because the reexamination of basic assumptions temporarily destabilizes our cognitive and interpersonal world, releasing large quantities of basic anxieties [...] Rather than tolerating such anxiety levels we tend to want to perceive the events around us congruent with our assumptions, even if that means distorting, denying, projecting, or in other ways falsifying to ourselves what might be going on around us. It is in this psychological process that culture has ultimate power.

Basic assumptions are “defense mechanisms” that hinder organisational learning. Again, the experience from the PRSP process shows that the Fund’s basic assumptions about the validity of its macroeconomic policy advice have not changed at all. One former IMF staff member put it this way: “The IMF hasn’t changed its basic assumption that the markets always get it right, and that’s why the IMF hasn’t changed significantly. This also echoes the basic criticism of the NGOs, that the core of the IMF’s macroeconomic policy advice hasn’t changed. You know with mature organisations, changing the organisational culture is about changing incentives, but in a big way, but not in a small way, and this is not happening at the IMF”.

The Fund’s defensive mechanisms have time and again prevented the IMF from assuming responsibility for policy failures and explain the Fund’s recurrent pattern of blaming its client countries when things go wrong. The author herself frequently encountered this defensive mechanism in interviews with Fund staff when asking them about an external complaint mechanism akin to the World Bank Inspection Panel:

The IMF doesn’t have one because they assert that you cannot prove causality between what the IMF does and the impact of this work on human beings. They basically argue that the problem is not IMF policies per se but the way these are implemented by borrowing countries. If you don’t

127. Interviews, 13 and 15 June 2012.
128. Edgar Schein, Organizational Culture and Leadership (San Francisco, CA: Jossey-Bass, 1992), p. 22.
129. Ibid., p. 23.
130. Interview, 18 June 2012.
follow the prescriptions of the doctor then it’s not the doctor’s fault if things go wrong, they say.\textsuperscript{131}

Third, organisational learning depends on the existence of mechanisms that enable an organisation to critically reflect upon its own practices, draw lessons from past failures and transfer knowledge within the organisation.\textsuperscript{132} What is important to keep in mind, however, is that the mere existence of such mechanisms does not tell us very much about whether they are actually used, i.e. whether the recommendations they produce are implemented. Put differently, evaluation mechanisms might be a necessary, but not a sufficient condition for organisational learning.

The IMF was long chastised by NGOs for its failure to evaluate its operations in a systematic fashion,\textsuperscript{133} but has since taken significant steps towards an improved evaluation of its policies, for instance by setting up the Independent Evaluation Office, which has proven over the past decade that it will not shy away from tackling sensitive issues, such as the Fund’s failure to adopt a systematic approach to PSIA.\textsuperscript{134}

Before the IEO was established, the IMF did not have an external evaluation department, nor were the social impacts of its operations reviewed systematically internally. While the PDR reviews Fund programmes, its reviews are not sufficiently independent.\textsuperscript{135} The establishment of the IEO was supposed to remedy this situation. Yet even though the IEO is widely regarded as being sufficiently independent from staff,\textsuperscript{136} the flipside is that its recommendations are frequently not implemented. An evaluation of the IEO found “little evidence that findings and recommendations of specific IEO reports are being systematically taken up and followed up by senior management and the Board”.\textsuperscript{137}

Finally, an organisation’s openness to non-state actors equally influences the likelihood of organisational learning, as relatively closed organisations make it obviously difficult for outsiders to trigger intra-organisational reform processes. Jan Art Scholte, who has long studied the IMF’s relationships with civil society, arrives at a rather pessimistic conclusion: “[I]t cannot be said that IMF relations with CSOs […] have on the whole made significant advances in quantity or quality since the turn of the millennium […] [D]eeper and lasting advances […] will require a stronger steer from senior management and a more serious

\textsuperscript{131} Interview with NGO official, 12 June 2012.

\textsuperscript{132} K. Roscher, “Nichts Gelernt? Die Verwaltungsreform der Vereinten Nationen aus der Perspektive Organisationale Lernens”, in K. Dingwerth, D. Kerwer and A. Nölke (eds.), Die Organisierte Welt: Internationale Beziehungen und Organisationsforschung (Baden-Baden: Nomos, 2009), p. 147.

\textsuperscript{133} Bretton Woods Project, “Policing the Policemen—The Case for an Independent Evaluation Mechanism for the IMF”, Bretton Woods Project (2000), available: <http://www.brettonwoodsproject.org/art-16312> (accessed 6 August 2015).

\textsuperscript{134} Independent Evaluation Office, “Evaluation of the IMF’s Role”, op. cit.

\textsuperscript{135} Bretton Woods Project, “Proposal for a Transparent and Independent Evaluation Office”, Bretton Woods Project (2000), available: <http://www.brettonwoodsproject.org/2000/09/art-15928/> (accessed 2 June 2015).

\textsuperscript{136} One senior IMF official put it this way: “The IEO is very independent, much to the frustration of the staff. Nobody would question that their criticism has been hard-hitting”. Another staffer agreed: “They [the IEO] have a big impact on what we do, some might say too much impact”. Interviews, 13 June 2012.

\textsuperscript{137} Karin Lissakers, Ishrat Husain and Ngaire Woods, “Report of the External Evaluation of the Independent Evaluation Office”, International Monetary Fund (2006), available: <http://www.ieo-imf.org/ieo/files/evaluationofieo/032906.pdf> (accessed 4 August 2015).
This sobering assessment stands in stark contrast to the Fund’s rhetoric of outreach, which includes regular exchanges with certain (mostly Northern) CSO representatives in and around headquarters in Washington, DC. However, while IMF–CSO interaction has intensified on the headquarter level, CSO outreach remains unsatisfactory in the field. While stakeholder consultation was supposed to be a core component of the PRSP process, CSOs in IMF client countries have complained that the Fund’s motive for engaging with civil society was not a genuine willingness to listen and learn, but rather to co-opt its critics: “[T]he IMF wants to control agitation without however addressing the real issues”, i.e. the basic paradigms underlying the IMF’s policy advice. Even IMF staff themselves concede that the “rhetoric of outreach does not match what happens on the ground”. Despite this somewhat sobering conclusion, if one adopts a long-term perspective one must acknowledge that the Fund has come a long way in opening itself to civil society organisations. Yet, as even Fund officials themselves concede, “we still have a long way to go”.

**Conclusion**

The IMF moves slowly, tending to take the path of least resistance in order to deflect criticism, but rarely showing a genuine willingness to challenge the fundamental assumptions and ideologies underlying its policies. Hence, the integration of social issues into its work has proven cumbersome, as the Fund has neither the mandate, nor the skill set, nor the institutional incentives that would promote IMF ownership of social issues. While from the Fund’s perspective the organisation has undergone an extraordinary metamorphosis, seen from the outside the pace of reform is still very slow. The Fund’s opening up to outside voices, its increasing involvement in politics of poverty alleviation as well as the establishment of the IEO are all indicators that the Fund is changing, and that its high walls are not as impenetrable as they used to be. As one NGO official explained, “Rodrigo de Rato [the former MD] would just say to us ‘I don’t understand what you’re talking about’ when we talked to him about social issues. So even though now the social dimension is not completely embedded in the Fund, there is a consensus that this stuff matters”. At the same time, obstacles arising above all from the Fund’s organisational culture persist and have prevented social issues from being mainstreamed into the institutional architecture and daily routines of the IMF. In order for staff to take these matters seriously, the Fund’s incentive structure would have to be altered—currently “no one at the Fund is getting promoted for successful poverty alleviation or for doing PSIA”. This makes it highly unlikely that the push for mainstreaming social issues into the IMF’s work would come from staff. If the IMF were to take social issues seriously, this would probably have to happen through an amendment of its Articles of Agreement. Yet the odds of this happening in the near future are rather slim, as a formal broadening of the

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138. Independent Evaluation Office, “IMF Interactions”, op. cit.
139. Ibid.
140. Ibid.
141. Interview with Fund staff, 13 June 2012.
142. Interview, 14 June 2012.
143. Interview, 14 June 2012.
Fund’s mandate would require determined norm entrepreneurship from IMF member states. The latter, however, clearly lack the political will—social issues are simply “not a burning issue at the Fund”.144

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144. Interview with IMF staff, 15 June 2012.