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Independent Evaluation Office
of the International Monetary Fund

THE EVOLVING APPLICATION OF THE IMF'S MANDATE

EVALUATION REPORT **2024**

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BP/24-01/07. The IMF and Its Mandate—Financial Sector Surveillance
BP/24-01/08. Applying the IMF's Mandate—Governance and Corruption

The following conventions are used in this publication:

- An en-dash (–) between years or months (e.g., 2023–24 or January–June) indicates the years or months covered, including the beginning or ending years or months.
- The abbreviation FY (e.g., FY2023 or FY23) indicates a fiscal or financial year.

FOREWORD

The IMF has demonstrated a strong capacity for adapting to the changing international economic landscape and emerging needs of its members throughout its history. In 2012, the approval of the Integrated Surveillance Decision (ISD) reaffirmed the built-in flexibility of the IMF's mandate, and the anchoring of Fund surveillance on the principle of macrocriticality, that is, tasking the Fund to focus on policies that can affect current or prospective balance of payments or domestic stability. The ISD has allowed the IMF to engage in a wide range of newer policy areas beyond the traditional core of exchange rate, monetary, fiscal, and financial sector policies.

Reflecting its members' priorities, over the last decade, the IMF has developed specific strategies related to climate change, social spending, governance and corruption, gender, and digital money. It has also widened its list of macrocritical policy areas, which include macrofinancial policies, social safety nets, inequality, demographics, public enterprises, technological change, and sociopolitical and geopolitical developments. This evaluation assesses the decision-making processes that guided the evolution of the application of the Fund´s mandate, the criteria and principles used to operationalize engagement in newer policy areas, and the coherence of the Fund's framework for engaging with partners.

This evaluation finds that the systematic widening of the Fund's areas of work is posing adaptation challenges, necessitating trade-offs, and overburdening staff within a context of budgetary and expertise constraints. It offers a framework for approaching these challenges that is centered on a trilemma that exposes the tension between the steady expansion of the Fund's scope of work, its limited resources, and the need to maintain the high quality and value-added of its policy advice. The evaluation identifies a number of problems within this framework, including the ad hoc decision-making process for engaging in newer policy areas, which lacks a longer-term strategic anchor. Furthermore, decisions on policies, resources, and risks were taken in a piecemeal manner, without due consideration for crossed effects. It also identifies several open questions regarding the depth and frequency of the Fund's engagement in newer policy areas and the lack of an institutional approach to Fund partnerships.

The evaluation proposes classifying newer policy areas across a spectrum of recommended engagement, ranging from signaling their macrocriticality while leaving deeper assessments to other institutions, to in-depth high-frequency engagement. It proposes four main recommendations: (i) developing an inclusive Fund-wide institutional strategy for engagement in newer policy areas that better links decisions related to scope, resources, and risks; (ii) producing budget data that enables the tracking of Fund activities and operations by policy area; (iii) updating the 2022 Guidance Note for Surveillance to enhance the clarity of principles for engagement; and (iv) adopting a Board-approved high-level Statement of Principles for engagement with partners.

I am encouraged by the positive response of the Managing Director and the Executive Directors to this evaluation. The recommendations received full or qualified support from the Executive Board when it met to discuss the evaluation in June 2024. I look forward to the formulation of an implementation plan to address those recommendations.

Pablo Moreno
Director, Independent Evaluation Office

CONTRIBUTORS

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The report was approved by Pablo Moreno.

ABBREVIATIONS

APC	Agenda and Procedures Committee (IMF)
BIS	Bank for International Settlements
BOP	Balance of Payments
CD	Capacity Development
CSO	Civil Society Organization
CSR	Comprehensive Surveillance Review
EME	Emerging Market Economy
ERM	Enterprise Risk Management
FAD	Fiscal Affairs Department (IMF)
FAO	Food and Agriculture Organization
FDET	Fund Document Extraction Tool
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
FTE	Full-Time Equivalent
GFC	Global Financial Crisis
GPA	Global Policy Agenda
GRA	General Resources Account
IMFC	International Monetary and Financial Committee
IMS	International Monetary System
ISD	Integrated Surveillance Decision
ISR	Interim Surveillance Review
MCM	Monetary and Capital Markets Department (IMF)
MONA	Monitoring of Fund Arrangements
MTB	Medium-Term Budget
MTS	Medium-Term Strategy
OBP	Office of Budget and Planning (IMF)
ORM	Office of Risk Management (IMF)
PRGT	Poverty Reduction and Growth Trust
RCF	Rapid Credit Facility
REO	Regional Economic Outlook
RFI	Rapid Financing Instrument
RSF	Resilience and Sustainability Facility
SDN	Staff Discussion Notes
SPR	Strategy, Policy and Review Department (IMF)
TA	Technical Assistance
TSR	Triennial Surveillance Review
WEO	World Economic Outlook
WTO	World Trade Organization

EXECUTIVE SUMMARY

This evaluation assesses, for the period 2012–23, the evolving application of the International Monetary Fund's mandate that resulted in the extension of Fund activities into newer policy areas beyond its four traditional core policies (exchange rate monetary, fiscal, and financial sector) explicitly mentioned in the 2012 Integrated Surveillance Decision.

The application and the scope of the Fund's mandate were consistent with its legal framework and there was a consensus across the membership that both the traditional core policies, as well as the newer policy areas were relevant and reflected important needs and priorities for the Fund's membership in the context of a rapidly changing world economic order, characterized by increased multipolarity and shocks. However, views differed on the degree of preference among the newer policy areas and on the role of the Fund in five specific policy areas that resulted in Fund strategies, i.e., governance, social spending, digital money, climate, and gender. Further, these strategies were established through relatively condensed and ad hoc processes, which have created a number of operational challenges.

This report assesses the Fund's decision-making process, its principles for engagement, and its engagement with partners related to newer policy areas using seven evaluation criteria: inclusiveness, transparency, comprehensiveness, coherence, clarity, flexibility, and consistency.

Comprehensiveness and Coherence. To be comprehensive and coherent, the decision-making process should have considered all relevant information and possible alternatives, as well as their budgetary and risk management implications. Here, the evaluation finds that the absence of a strategic longer-term anchor to guide engagement in newer policy areas resulted in decisions being taken in an ad hoc manner and not as part of a larger discussion of the longer-term role of the Fund. The decisions related to Fund engagement in newer policy areas and their resource and risk implications were taken in a piecemeal way, creating misalignments between the ambition expressed in the policy decisions and the resources committed to implementing them. In addition, the Fund engaged with numerous external organizations, seeking their expertise in newer policy areas. This engagement took on various forms, and there was no overarching institutional framework nor an adequate monitoring and self-evaluation system, which prevented profiting from best practices and a more efficient engagement across partners.

Inclusiveness. To be inclusive, the decision-making process should have involved all relevant stakeholders in an evenhanded way and considered their perspectives and interests. This evaluation, however, finds that inclusiveness among Executive Board constituencies was mixed in relation to the decisions on how to engage in newer policy areas and to what extent, with the process largely driven by management and the preferences of some key members.

Transparency. Transparency refers to adequate information being available to all and open to scrutiny. The decision-making process was not sufficiently transparent in relation to resource allocations, as the lack of granular data did not allow the Executive Board to take decisions informed by more precise data on how resources were allocated by policy area across all Fund activities. In addition, the discussion of risks related to Fund engagement was limited, and the Executive Board did not have access to a comprehensive risk assessment when taking strategic decisions on the application of the Fund's mandate.

Clarity. Clarity refers to whether key criteria, priorities, and other concepts related to Fund engagement in newer policy areas were clearly defined and understood. To determine when and how to engage in a newer policy area, the Fund established four principles or filters: (i) "macrocriticality," to determine when to engage; (ii) "IMF expertise," to determine whether to provide policy advice; (iii) "relevance, severity, and urgency," to determine depth of engagement; and (iv) an undefined filter used to determine frequency of engagement. However, this evaluation finds that the process of applying these filters in bilateral surveillance lacked clarity. This evaluation also found a lack of clarity in assessing evenhandedness when engaging in newer policy areas.

Flexibility and Consistency. Flexibility refers to whether key criteria, priorities, and other concepts enabled the Fund to adapt its engagement within newer policy areas in response to evolving resources, risks, and country circumstances. Consistency refers to whether key criteria, priorities, and other concepts enabled the Fund to limit its engagement within newer policy areas to issues where it can provide consistent high-quality policy advice, thereby ensuring greater traction and uniformity of treatment. This evaluation finds that the aforementioned filters are better suited for enabling flexibility than enhancing consistency, as they constitute a relatively low hurdle for the Fund to engage in newer policy areas, and to adapt the provision of policy advice, as well as the depth and frequency of engagement, to country-specific circumstances within a context of limited resources. The Fund also has adapted the concept of evenhandedness, resulting in greater flexibility in conformance with the objective of uniformity of treatment.

Overall, the paper concludes that the aforementioned challenges related to the seven evaluation criteria can be addressed by the following recommendations:

Recommendation 1: The Executive Board and management should enhance the decision-making process by (i) developing an inclusive Fund-wide institutional strategy for Fund engagement in newer policy areas; and (ii) taking a more holistic approach when endorsing individual strategies for newer policy areas by better linking the decisions related to their scope, required resources, and risk management implications.

Recommendation 2: Management and staff should address operational challenges by producing budget data in a manner that allows tracking by policy area across all Fund activities and operations. The Board should consider what policy areas need to be tracked and the level of granularity required, balancing the need for more detailed data with the costs and complexity involved in providing such data.

Recommendation 3: Management and staff should update the 2022 Guidance Note for Surveillance Under Article IV Consultations in order to enhance the clarity of key elements regarding Fund surveillance in newer policy areas.

Recommendation 4: The IMF should adopt an Executive Board-approved high-level Statement of Principles for Engagement with Partners to establish a coherent best practice framework.

INTRODUCTION

This evaluation assesses how the application of the IMF's mandate has evolved since 2012 to cover a steadily expanding range of topics and policies beyond the Fund's traditional focus on exchange rate, monetary, fiscal, and financial sector policies. While historically, the IMF has covered other structural policies with a direct impact on growth and development, Fund engagement in a host of policy areas has increased considerably in the last decade, since the approval of the 2012 Decision on Bilateral and Multilateral Surveillance, also known as the Integrated Surveillance Decision (ISD) (IMF, 2012). The Fund has incrementally expanded its coverage to include, for example, labor markets, inequality and inclusion, social protection, gender, energy and climate change, governance and corruption, demographic change, digitalization, and sociopolitical and geopolitical developments. Notably, from 2018, the Executive Board[1] has approved five specific strategies for the IMF's work in five topical areas: governance, social spending, digital money, climate change, and gender, which constitute a central focus of this evaluation.

The evaluation distinguishes between the "traditional core" and "newer" policy areas and describes the IMF's "mandate" as including key decisions and associated reviews that enabled it to evolve. The ISD established that the focus of bilateral surveillance should be those policies that can "significantly influence present or prospective balance of payments or domestic stability," i.e., what is known as the macrocriticality principle.[2] The ISD also explicitly identified four policies—exchange rate, monetary, fiscal, and financial sector—that will "always" be the subject of the Fund's bilateral surveillance and that the coverage of other policies is to be assessed against whether they meet the macrocriticality criterion. These four policies were often internally referred to as the Fund's traditional "core" policies. For clarity purposes, and to distinguish additional macrocritical policies from the four traditional core policies, this paper refers to them in a generic way as "newer" policies—the use of "core" and "newer" does not imply any judgement about whether different topics or policies are more or less important than others. On the concept of "mandate," it has been interpreted as the Fund's purposes and powers as set forth in the Articles of Agreement and subsequently operationalized by successive Board decisions (IMF, 2010a).

The incremental process of engagement in newer policy areas has presented serious adaptation challenges and trade-offs for the Board, management, and staff, which can be characterized by a trilemma between scope, traction, and resources (Figure 1). Broadening the scope of surveillance into newer policy areas that can impact Balance of Payments (BOP) and domestic stability serves the Fund's mandate, its relevance, and its flexibility to attend to

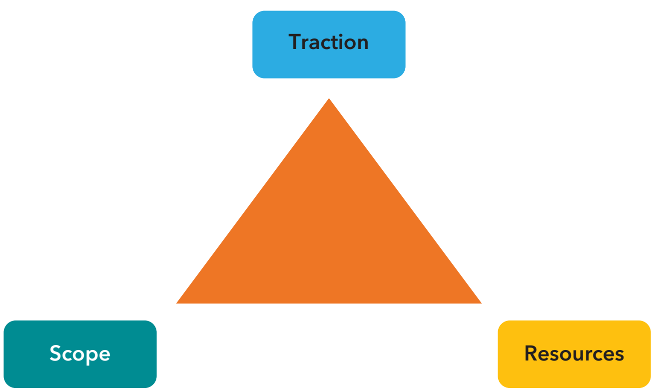
[1] The Board of Governors is the highest decision-making body of the Fund and delegates most powers to conduct the business of the Fund to the Executive Board. In this paper, "the Board" refers to the Executive Board.

[2] The 2015 Guidance Note for Surveillance under Article IV Consultations (hereafter the 2015 Guidance Note) mentions the terms "macro-critical" and "macro-criticality" with a hyphen, however other Fund documents subsequently referred to the terms without a hyphen (IMF, 2015b). In this report, we adopt the terms "macrocritical" and "macrocriticality" throughout.

its member's needs. The Fund's traction rests on its ability to deliver high-quality and value-added analysis and policy advice, and the perception that the Fund is treating its members uniformly, which requires adequate expertise and enough resources dedicated to both traditional core and newer policy areas. At the same time, the Fund has limited resources and has traditionally maintained a flat real budget, which limits the possibility of expanding the scope and maintaining the traction of policy advice.

In principle, this Scope-Traction-Resources trilemma can be managed in different ways: prioritizing or reducing topics within the scope; adjusting the traction, i.e., the quality and value-added of the analysis and advice (of one or more topics); relying on the expertise of other institutions rather than building Fund expertise; increasing or overstretching resources; or a combination of them. These are the main tensions that have characterized the process of engagement in newer policy areas that are further analyzed in the evaluation.

FIGURE 1. TRILEMMA OF IMF ENGAGEMENT IN NEWER POLICY AREAS



Source: IEO staff.

The evaluation covers the period 2012–23 and focuses on three overarching themes within this trilemma: the decision-making process, the operationalization of decisions, and engagement with partners. The evaluation takes an overarching approach to the key elements that have driven the overall evolution of the application of the Fund's surveillance mandate into newer policy areas, but does not evaluate the underlying policy areas themselves, which would typically be the subject of individual IEO evaluations.[3] It has been conducted using a short evaluation format, which required limiting its scope in three main ways:

- *Fund policies: surveillance policy.* The surveillance mandate encompasses a particularly wide set of policy topics, while the issues included in lending policy are more narrowly focused, as it is anchored on attaining macroeconomic stability within a short time frame and focuses on the policies that are critical to achieving program objectives. Likewise, capacity development (CD) activities are anchored on areas where the Fund has well-established expertise within a subset of the policies covered in surveillance.
- *Time period: 2012–23.* As illustrated in the report, the ISD marks an inflection point in the surveillance mandate, establishing a framework that enables the Fund to engage in a broad set of newer policy areas. However, Section 2. A provides a historical context for the evolution of the Fund's policies.
- *Focus: the decision-making process, operationalization, and engagement with partners.* The evaluation focuses on extracting lessons from three main themes that affect each component of the trilemma: (i) the decision-making process that has led to the selection of newer policy areas, including the institutional processes and main actors involved, as well as resourcing and risk considerations, guided by how well these processes meet key principles of inclusiveness, transparency, comprehensiveness, and coherence; (ii) the operationalization of the surveillance mandate through different surveillance decisions, looking at the framework and clarity of different principles of engagement related to newer policy areas, including macrocriticality, expertise, depth, frequency, and uniformity of treatment; and (iii) the forms of engagement with partners that have an established expertise in the newer policy areas.

[3] In the past decade, for example, multiple IEO evaluations have covered the IMF's evolving work in surveillance and policy advice (IEO, 2017; 2019a; 2019b); the Fund's evolving role in engaging with groups of members (IEO, 2018a; 2022a); and in engaging with the World Bank (IEO, 2020b).

Sources of evidence and background papers. The main sources of evidence for this evaluation are (i) desk reviews of external and internal Fund documents, including those related to Board-approved surveillance policies, staff guidance notes, surveillance reports (Article IVs, flagship multilateral reports, selected issues, and working papers, Board presentations, staff briefings to management and budget and human resource documents; and (ii) semi-structured interviews, surveys and questionnaires with Fund stakeholders, including current and former Board members, authorities, management, staff, and external stakeholders (staff and representatives from other international organizations, think tanks, and civil society organizations (CSOs)). The analysis also draws on findings from previous IEO evaluations and updates and eight background papers produced for this evaluation: (i) Interpreting and Amending the IMF's Mandate, 1944–2011; (ii) Applying the IMF's Mandate—The Decision-Making Process; (iii) Enhancing Clarity of Key Elements in The Evolving Application of the IMF's Mandate; (iv) Toward an IMF Framework for Engagement with Partners; (v) The IMF's Integrated Surveillance Decision: Looking Backward, Thinking Forward; (vi) Evolution of IMF Engagement on Climate Change; (vii) The IMF and Its Mandate—Financial Sector Surveillance; and (viii) Applying the IMF's Mandate—Governance and Corruption.

The report is structured as follows: Section 2 provides historical and legal context for the evaluation; Section 3 evaluates the decision-making process that drove the evolution of the Fund's mandate; Section 4 considers the clarity of key criteria and principles that operationalize the Fund's engagement in newer policy areas in surveillance; Section 5 assesses the coherence of the Fund's framework for engagement with partners; Section 6 summarizes the key evaluation findings; and Section 7 sets out the IEO's recommendations.

2

HISTORICAL AND LEGAL BACKGROUND

A HISTORY OF RESPONDING TO MEMBERS' NEEDS: MANDATE IN MOTION

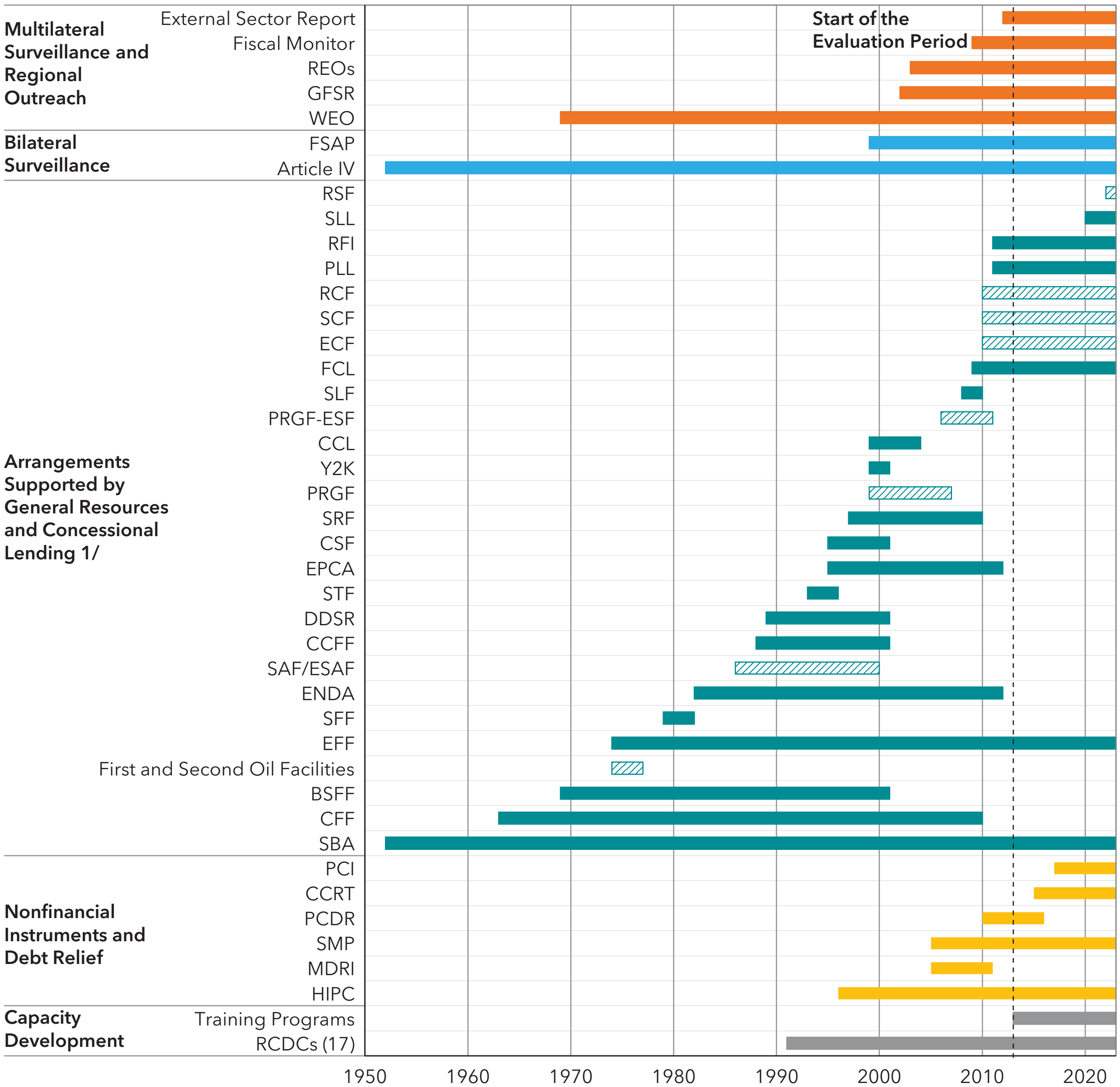
The history of the IMF and the evolution of its mandate have been characterized by continuous adaptation to a changing international economic landscape and the emerging needs of its member countries. Since its inception in 1944, the Fund has persistently adapted its instruments and policies to a changing world economic order. In 1952, the Stand-By Arrangement established a system of temporary lending and repurchases that set the basis for the Fund's lending policy, subsequently enlarged with a succession of numerous lending facilities to respond to the differing needs of members for BOP support, including in responding to exogenous shocks, structural challenges, and emergency and ad hoc needs (see Figure 2). The Fund has also progressively modified its surveillance to adapt it, for instance, to the collapse of the Bretton Woods system in the 1970s (see Section 2.B), establishing a shared economic policy strategy through the "Partnership for Sustainable Global Growth"[4] following the fall of the Berlin Wall, and, in the wake of the Asian financial crisis, adopting the 1997 Amendment of the 1977 Decision on Surveillance Over Exchange Rate Policies (hereafter the 1977 Decision) to add sustainability of capital flows, and launching in 1999 the Financial Sector Assessment Program (FSAP) jointly with the World Bank, initially conducted on a voluntary basis. Other notable initiatives include the Fund's role in managing the Latin American debt crisis in the 1980s and the IMF–World Bank Heavily Indebted Poor Countries (HIPC) initiative in 1996, which provided debt relief to countries with unmanageable debt burdens and a strong commitment to reduce poverty.

The pace of reform has accelerated since the turn of the century, including catalytic changes following the Global Financial Crisis (GFC) and, more recently, adaptation to the COVID-19 pandemic, the war in Ukraine, and climate change. Prior to the GFC, a sharp decline in lending operations and deterioration in confidence in the Fund among emerging market economies (EMEs) led to growing questions about the IMF's continued relevance, which prompted a downsizing.[5] The GFC led to major policy reforms related to the Fund's resources, governance, surveillance, and lending, and to increased attention

[4] The Partnership declaration was issued by the Interim Committee, the precursor of the IMFC. It outlined a common strategy promoted by the IMF for all countries that influenced the Fund's surveillance, which included objectives such as fiscal and monetary discipline, price stability, trade liberalization, freedom of capital movements, currency convertibility, market efficiency through structural reform, good governance, and sound banking systems (Interim Committee, 1996). For more in-depth information on the historical aspects of the evolving application of the IMF's mandate between 1944 and 2011, refer to Boughton (2024).

[5] Outstanding credit under the General Resources Account (GRA) fell to less than SDR 17 million by end-May 2008, from over SDR 47.5 billion in January 2004, as large creditors, such as Argentina, Brazil, and the Republic of Türkiye repaid their loans, and no large new arrangements were requested. Nearly 500 staff left the Fund between May 2008 and May 2009.

FIGURE 2. EVOLUTION OF FUND PRODUCTS, 1945–2023



Source: IEO staff.

Notes: BSFF = Buffer Stock Financing Facility; CCFF = Compensatory and Contingency Financing Facility; CCL = Contingent Credit Line; CFF = Compensatory Financing Facility; CCRT = Catastrophe Containment and Relief Trust; CSF = Currency Stabilization Fund; DDSR = Debt- and Debt-Service-Reduction; ECF = Extended Credit Facility; EFF = Extended Fund Facility; ENDA = Emergency Natural Disaster Assistance; EPCA = Emergency Post-Conflict Assistance; FCL = Flexible Credit Line; FSAP = Financial Sector Assessment Program; GFSR = Global Financial Stability Report; HIPC = Heavily Indebted Poor Countries; MDRI = Multilateral Debt Relief Initiative; PCDR = Post-Catastrophe Debt Relief; PCI = Policy Coordination Instrument; PLL = Precautionary and Liquidity Line; PRGF-ESF = Poverty Reduction and Growth Facility and Exogenous Shocks Facility; RCDC = Regional Capacity Development Center; RCF = Rapid Credit Facility; REO = Regional Economic Outlook; RFI = Rapid Financing Instrument; RSF = Resilience and Sustainability Facility; SAF/ESAF = Structural Adjustment Facility/Enhanced Structural Adjustment Facility; SBA = Stand-By Arrangement; SCF = Standby Credit Facility; SFF = Supplemental Financing Facility; SLF = Short-Term Liquidity Facility; SLL = Short-Term Liquidity Line; SMP = Staff Monitored Program; SRF = Supplemental Reserve Facility; STF = Systemic Transformation Facility; WEO = World Economic Outlook; Y2K = The Year 2000.

1/ Concessional lending and RSF facilities are shaded in green.

to financial stability, long-term growth potential, and addressing equity and inclusion issues.[6] More recently, in responding to the COVID-19 pandemic, the Fund moved swiftly, undertaking a wide range of measures, including providing prompt emergency financing support and approving a historically large US$650 billion general SDR allocation in 2021.[7] In 2022, the Fund activated a new Food Shock Window in its emergency lending framework to support addressing the global food shock that followed the war in Ukraine; and the Resilience and Sustainability Facility (RSF) to provide affordable long-term financing to low- and middle-income countries undertaking reforms to reduce risks to prospective BOP stability related to climate change and pandemic preparedness.

The evolving mandate is reflected in the systemic increase in Fund work, measured by its products and workstreams. Surveillance, lending, and CD products have increased considerably since the Fund's establishment (Figure 2 summarizes the evolution of the Fund's main products since 1945). Surveillance products have increased steadily. The number of annual Article IV reports has increased systematically as the membership expanded, with a growing range and complexity of topics covered, as have the FSAPs since they were added in 1999. Multilateral surveillance, which had mainly rested in the World Economic Outlook (WEO) since 1969, has gained significant depth since 2002, with a growing number of multilateral products and increased regional outreach with the Regional Economic Outlooks (REOs). The Fund's lending toolkit has also changed substantially. In this case, a number of facilities have been sunset or substituted by new, more updated ones. In delivering CD, the number of IMF Regional Capacity Development Centers has grown to 17 in 2023, from 2 in the early 1990s, while the framework for training programs has significantly expanded. In addition to products, Fund workstreams also have expanded, including enhanced information technology and statistical information, such as datasets and dashboards on newer policy areas, or increased engagement with other multinational fora and institutions. While each product and workstream has needed substantive institutional attention and human and budgetary resources (as we will see in Section 2), all this growth has been accomplished with the Fund's real budget remaining almost identical between 2003 and 2023 (see Figure 5).

THE EVOLVING APPLICATION OF THE IMF'S SURVEILLANCE MANDATE: ADAPTING TO CHANGE

The Fund's ability to continuously expand and deliver its work has been enabled by the built-in flexibility of the Articles of Agreement. The Articles accorded the Fund substantial leeway to interpret the mandate, introduce new policies, and operationalize the mandate as necessary through Board decisions. This built-in flexibility reflected the great uncertainty about how the world economy would evolve after the Second World War, and how member countries might call on the Fund to help them cope with new developments. While the term "mandate" is not specifically mentioned in the Articles, it has been interpreted as the Fund's purposes and powers as set forth in the Articles of Agreement and subsequently operationalized by successive Board decisions (IMF, 2010a). Consequently, an assessment of the IMF's surveillance mandate requires reference to both the Articles and to the ensuing Board decisions related to the mandate.

[6] The GFC was unforeseen and led to major reforms, including the quadrupling of Fund resources to about US$1 trillion by 2013 through a doubling of quotas and enhanced bilateral lending. Other reforms were the 2010 governance reform, which realigned quotas and increased the weight of EMEs; the activation of precautionary lending through the Flexible and Precautionary Credit Lines; and the revision of surveillance to strengthen the analysis of interconnections of global markets, risk assessments, and macro and financial sector surveillance. From 2010, the Fund engaged in historically large-scale lending to Eurozone countries, in cooperation with the European Stability Mechanism, to address their fiscal and banking sector vulnerabilities (IEO, 2011; 2014; 2016).

[7] From March 2020–December 2021, the Fund approved 128 COVID-19 related commitments, totaling US$160 billion. Other reforms designed to respond to COVID-19 included temporarily increasing access limits of different lending facilities, approving a Short-Term Liquidity Line without ex post conditionality; revamping of the Catastrophe Containment and Relief Trust to provide relief on debt service owed to the Fund by the poorest member countries; and developing a fundraising strategy to increase the Poverty Reduction and Growth Trust's (PRGT's) loan and subsidy resources (IEO, 2023).

The current surveillance framework is anchored in Article IV as amended in 1978. The Second Amendment established the flexibility for members to choose their exchange rate arrangements and set out surveillance, lending, and technical assistance (TA) as distinct strands of the mandate. It was preceded by several years of instability following the collapse of the Bretton Woods system and followed the Board's 1977 Decision.[8] Following the Second Amendment, Fund members gained the autonomy to select their exchange arrangements and the scope of surveillance expanded to include members' policies beyond just exchange rate rules. This change was formalized through a revised Article IV, which introduced the obligation for the Fund to oversee the effective operation of the international monetary system (IMS) and members' exchange rate policies, among others. Hence, the Fund's surveillance mandate, as established in the Second Amendment (Article IV, Section 3), was twofold, and set the basis for "multilateral" and "bilateral" surveillance (Boughton, 2024).[9]

Following the 1978 amendment, the most consequential decisions taken by the Board in applying the Fund's mandate were the 2007 Decision and the 2012 ISD,[10] which set the current framework for the Fund's surveillance to engage in newer policy areas. As global imbalances widened in the mid-2000s, the Fund faced pressures to strengthen its surveillance efforts, particularly over exchange rate policies. Amending Article IV was not considered to be a practical solution, and efforts focused on ways to revise the 1977 Decision. The 2007 Decision did not alter members' obligations, and reformulated the Principles for the Guidance of Members' Policies under Article IV, Section 1.[11] Importantly, it elevated the financial sector as one of the core policies (IMF, 2007). This is a relevant example demonstrating the process whereby policy issues that were initially deemed to be "newer" areas of Fund work were subsequently integrated formally within the traditional core policies of the mandate (illustrated in Box 1). The ISD affirmed that the Fund's bilateral surveillance will focus on those policies "that can significantly influence present or prospective [BOP] and domestic stability," which has come to be known as the "macrocriticality" criterion (see Section 4.A). It also explicitly signaled four policies, i.e., exchange rate, monetary, fiscal, and financial sector policies as "always" being the subject of bilateral surveillance (both their macroeconomic aspects and macroeconomically relevant structural aspects). Coverage of other policies would be assessed against whether they met this macrocriticality criterion (IMF, 2012).

[8] Under the Bretton Woods system, the United States had agreed to fix the value of the U.S. dollar against gold, while other Fund members guaranteed the convertibility of their currencies into U.S. dollars within a narrow band around fixed parity rates.

[9] As noted in Boughton (2024), first, the Fund was to "oversee the international monetary system in order to ensure its effective operation, and [to] oversee the compliance of each member with its obligations," as specified in Section 1 of the new Article IV. Over time, the systemic oversight function came to be known as "multilateral surveillance." Second, the Fund was to "exercise firm surveillance over the exchange rate policies of members, and … adopt specific principles for the guidance of all members with respect to those policies." This second function, "bilateral surveillance," was the subject of the abovementioned 1977 Decision.

[10] For a more detailed discussion of the 2007 Decision on Bilateral Surveillance over Member's Policies (hereafter the 2007 Decision) and the 2012 ISD, including what elements of the ISD originated in the 2007 Decision, see Bossone (2024).

[11] In particular, the 2007 Decision clarified the distinction between members' obligations under Article IV and the desirable (but not required) goals for members' policies and introduced a new principle to cover the effects of exchange rate policies, not just the policies themselves, specifically by adding that: "A member should avoid exchange rate policies that result in external instability" (IMF, 2007).

BOX 1. OPERATIONALIZATION OF FINANCIAL SECTOR SURVEILLANCE

A relevant example of the evolution of the mandate and the mainstreaming and operationalization of newer areas into the core is that of financial sector surveillance. Before the 1990s, the Fund did not regularly include assessments of the soundness of the financial sector in Article IV consultations. This gap in surveillance and the need to focus on financial sectors and understand how financial weaknesses impacted macroeconomic aspects was evidenced in the Swedish, Mexican, and East Asian crises during the 1990s. An External Evaluation of Fund Surveillance in 1999 further stressed the need to place greater emphasis in surveillance on financial sector and capital market issues, and that more financial sector expertise was needed (IMF, 1999).

In response to these crises, the Fund launched three new vehicles to assess financial sector policies and conditions: the FSAP in 1999, the Global Financial Stability Report in 2002, and the Vulnerability Exercise for EMEs. These instruments paid particular attention to EMEs, seen at the time as the main potential sources of financial instability. The IMF also increased coverage of financial sector policies and conditions in Article IV consultations, as laid out in successive operational guidance notes for staff. In 2007, the Board clarified the aim of bilateral surveillance, centering on a country's external economic stability.

Organizational restructuring was also undertaken. In 2001, the International Capital Markets Department was created, which subsequently merged with the Monetary and Financial Systems Department in 2006. This merger led to the formation of the Monetary and Capital Markets Department (MCM), enhancing the integration of financial institution and capital market work.

The GFC further catalyzed the integration of financial sector surveillance into the core mandate. There was recognition that because of its global membership and governance and macroeconomic expertise, the IMF was well placed to identify and warn about financial and macrofinancial vulnerabilities and risks, and to provide an independent perspective to the collective efforts at regulatory reform. The IMF launched several initiatives to expand and strengthen financial surveillance, among them a decision to make financial stability assessments mandatory in 2010, with coverage at least every five years for jurisdictions with systemically important financial sectors (IMF, 2010b). While the 2007 Decision included the financial sector as part of the core policies, the expanded responsibilities were made explicit in the 2012 ISD and through the adoption of a new financial surveillance strategy (IEO, 2019a).

Sources: IEO (2011; 2019a); Boughton (2012); Towe (2024).

The ISD also integrated bilateral and multilateral surveillance, making Article IV consultations a vehicle for both types of surveillance, and providing guidance on the coverage of spillovers that could hinder the effective operation of the IMS. The 2007 Decision guided the Fund to cover spillovers in Article IV consultations only "to the extent that the member's policies undermine the promotion of its own external stability," and did not provide guidance on multilateral surveillance (IMF, 2007). The ISD subsequently established Article IV consultations as a vehicle for multilateral surveillance and guided the Fund to cover "the spillovers arising from policies of individual members that may significantly influence the effective operation of the international monetary system, for example by undermining global economic and financial stability" (IMF, 2012).[12] The ISD also implicitly distinguished between the coverage of spillovers in multilateral surveillance, which "focuses on outward spillovers arising from policies of individual members," and bilateral surveillance, which "covers the actual or potential impact of inward spillovers on a member's economic and financial stability" (IMF, 2021d).

Following the ISD, successive Board decisions further operationalized the surveillance coverage of newer policy areas. At the time of the ISD Board discussion, there was no consensus on a specific list of "other policies," nor was there an agreement on whether all or some of the policies impacted the membership. However, the principle that other policies could be examined if they were to significantly influence present or prospective BOP or domestic stability was agreed. This principle granted a considerable degree of discretion in determining the topics that could be covered. Following the ISD, the surveillance priorities and proposed criteria to operationalize the principles guiding Fund engagement on newer policy areas have been further clarified in the periodic surveillance reviews and subsequent staff guidance notes, as well as in the five specific policy strategies on governance, social spending, digital money, climate change, and gender, which are discussed further in this report (Figure 3). Annex 1 further analyzes the periodic surveillance reviews.

While these policy strategies provided specific details for their operationalization, the Board's approval only committed the Fund to their general terms in several cases. Formal Board meetings, such as those discussing the five specific strategies, can generally be delineated based on the type of proposal management puts forward. These proposals can take two forms: (i) a formal Decision that is drafted by the Legal Department, and (ii) a proposal for consideration. The governance strategy, for example, included a formal Decision to adopt specific text. The social spending, digital money, climate change, and gender strategies, by contrast, included proposals for consideration where the Board was agreeing to their general terms (e.g., the key elements or pillars) rather than the specific details. The ambition expressed publicly in these Board-approved strategies was therefore misaligned with the commitment imposed by the Board's decisions, creating a risk that country authorities and other external stakeholders either would put unsustainable demands on staff, or that the Fund would be unable to live up to the expectations of its members.

[12] The scope of multilateral surveillance is determined by the obligation of the Fund, under Article IV, Section 3(a), to "oversee the international monetary system in order to ensure its effective operation" (IMF, 2012).

FIGURE 3. KEY REVIEWS IN OPERATIONALIZING THE ISD

Policy review	New policies or areas of engagement
2012	
INTEGRATED SURVEILLANCE DECISION	Confirmed the four traditional core policies (exchange rate, monetary, fiscal, and financial sector) and specified the principles guiding engagement in additional policy areas.
2014	
TRIENNIAL SURVEILLANCE REVIEW	Developed criteria to operationalize the principles guiding engagement in additional policy areas.
2015	
SURVEILLANCE GUIDANCE NOTE	Further clarified the 2014 criteria for engagement in additional policy areas, as well as when and how to engage. Specified eight potential additional policy areas: jobs and growth, infrastructure, labor markets, social safety nets, public sector enterprises, governance, gender, and climate change.
2017	
APPROACH TO MACROFINANCIAL SURVEILLANCE	Proposed to mainstream macrofinancial analysis in Article IV Consultations.
2018	
INTERIM SURVEILLANCE REVIEW	Confirmed the 2012 ISD and 2014 criteria for engagement in additional policy areas. Recognized work done on governance, inequality, gender, and climate.
GOVERNANCE POLICY STRATEGY	Articulated the principles that would underpin the Framework for Enhanced Fund Engagement to promote more systematic, effective, candid, and evenhanded engagement with member countries regarding governance vulnerabilities, including corruption, that were judged to be macroeconomically critical.
2019	
SOCIAL SPENDING STRATEGY	Outlined the scope, objectives, and boundaries of engagement and provides guidance on when and how to engage on social spending.
2021	
SUPPLEMENT TO THE 2015 SURVEILLANCE GUIDANCE NOTE	Focused surveillance on the impact of the COVID-19 pandemic and expanded flexibility in terms of presentation of staff reports.
COMPREHENSIVE SURVEILLANCE REVIEW	Confirmed the 2012 ISD and the 2014 criteria for engagement in additional policy areas. Recognized that the ISD is sufficiently flexible. Emphasized the concept of economic sustainability as a surveillance priority and specified five key policy areas: demographics, technological change, inequality, sociopolitical and geopolitical developments, and climate change.
FSAP REVIEW	Emphasized the importance of climate, cyber, and fintech risks for financial stability and the need to address these issues in FSAPs.
CLIMATE STRATEGY	Determined the need for a systematic and strategic integration of macrocritical aspects of climate change into the IMF's core activities. Proposed comprehensive coverage of climate-related policy challenges in Article IV consultations, expanding coverage of climate risk to all FSAPs, and scaling up of climate-related CD activity in line with member demand.
DIGITAL MONEY STRATEGY	Determined a strategy for the Fund to strengthen, widen, and deepen its well-established work on digital money, while coordinating and collaborating closely with other institutions within the confines of its mandate.
2022	
SURVEILLANCE GUIDANCE NOTE	Provided the most specific guidance on the coverage of governance and anti-corruption, inclusion (which includes social spending), climate, and gender.
GENDER STRATEGY	The strategy comprised four key pillars: i. gender-disaggregated data collection and modeling tools for policy analysis; ii. a governance framework for an evenhanded approach based on gender macrocriticality; iii. strengthening collaboration with external partners; and iv. the efficient use of resources allocated to gender.

Source: IEO staff.

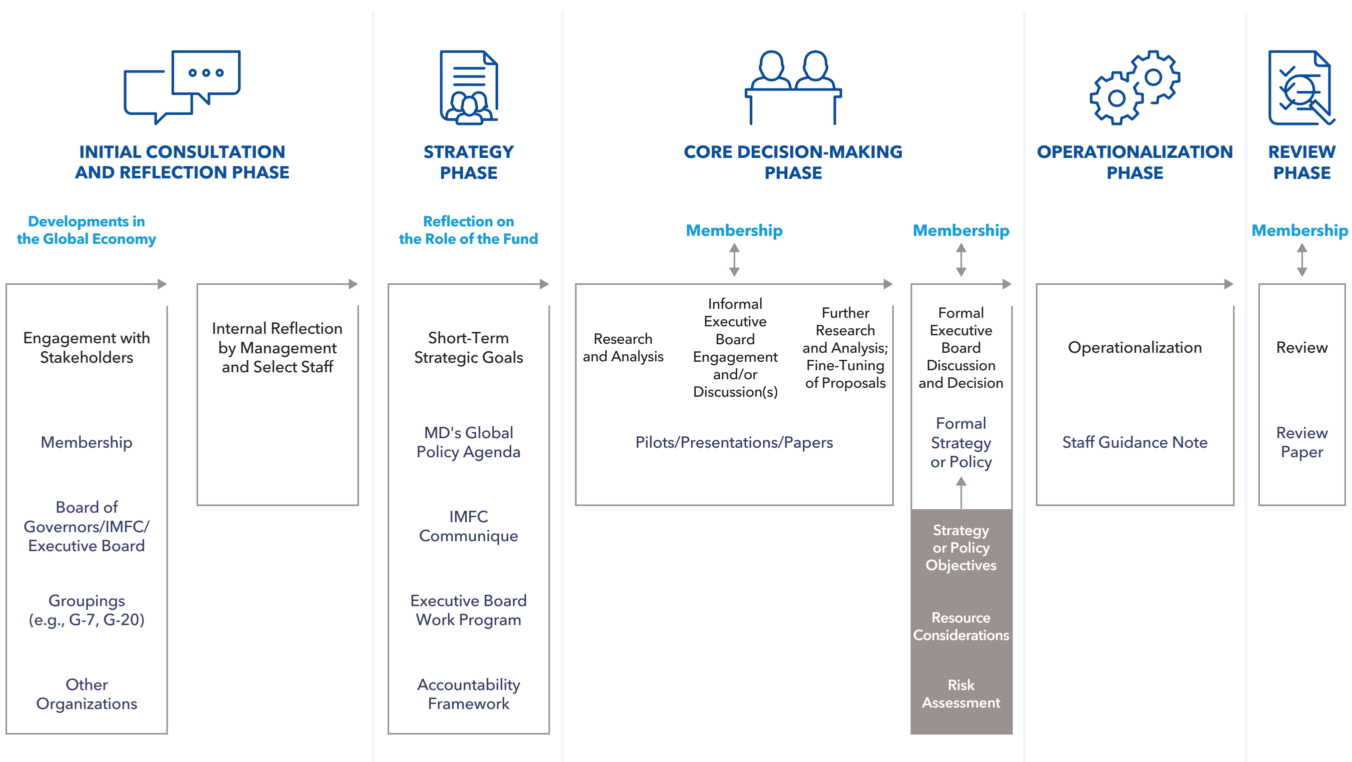
3 THE DECISION-MAKING PROCESS[13]

This section assesses the decision-making process related to strategy and policy design, resources, and risk management considerations, which resulted in Fund engagement in newer policy areas. It focuses on those areas that generated the five specific strategies for governance, social spending, digital money, climate change, and gender. This section uses four evaluation criteria (inclusiveness, transparency, comprehensiveness, and coherence), which resulted in key findings 1, 2, 4, 5, and 6, summarized in Section 6.

DECISION-MAKING PRACTICES: BRIDGING THE GAP IN STRATEGIC DIRECTION AND INCLUSIVENESS

The process of engagement in newer policy areas beyond the four traditional core policies explicitly identified in the ISD can be characterized through five broad phases (Figure 4). This process typically took several years to complete, from initial consultations and reflections, to development, and, ultimately, endorsement by the Board of a Fund strategy or policy.

FIGURE 4. KEY STEPS IN THE DECISION-MAKING PROCESS



Source: De Lannoy (2024).

[13] This section draws on the background paper by De Lannoy (2024).

First, the Initial Consultation and Reflection Phase was characterized by dialogue and iteration among key internal and external stakeholders and a critical role for the Managing Director. The Managing Director's role was central in driving changes in terms of engagement in newer policy areas. Executive Directors supported the Managing Director's prerogative to take initiatives and consider engaging in newer policy areas relevant to the Fund's membership. Through frequent formal and informal interactions with the Board and the broader membership, the Managing Director was well positioned to gather different views about changes in the global economy, and to launch initiatives to address challenges facing the membership. Staff also played an influential role, as some early research and initiatives, like those on governance and anti-corruption, were originated by select groups of staff. Specific groups of Fund members, as well as other institutions and stakeholders, such as the International Monetary and Financial Committee (IMFC), the G7, the G20, and the Intergovernmental Group of TwentyFour (G24), contributed to influencing the evolving scope in applying the Fund's mandate by calling on the Managing Director and the Fund to engage in newer policy areas. However, the IMFC and the Board were not considered drivers of change, at least not in this phase. The IMFC mostly endorsed proposals by the Managing Director and played a limited role in initiating workstreams. The policies that resulted in the five specific strategies were all introduced in the Managing Director's Global Policy Agenda (GPA) before being mentioned in the IMFC Communiqué/Chair's Statement and did not originate from the Board.

Second, the Strategy Phase was driven by four key internal Fund processes but lacked a Fund-wide, institutional strategy for engagement in newer policy areas. The four key internal processes were (i) the Managing Director's semi-annual GPA, which identified the policy challenges faced by the membership, outlined policy responses needed to address said challenges, and laid out the role of the Fund; (ii) the semi-annual IMFC Communiqué/Chair's Statement, issued following the deliberations of the IMFC; (iii) the semiannual Board Work Program, which translated the strategic directions laid out in the GPA and IMFC Communiqué/Chair's Statement into concrete actions; and (iv) the Accountability Frameworks, which set goals and objectives for individual departments. These processes typically focused on short-term policy priorities and the allocation of resources for the year ahead. Initiatives aimed at developing longer-term approaches to policy decision making and creating an overarching Fund-wide, institutional strategy to consider broader strategic questions or alternative options, were not sustained. One precedent was the Medium-Term Strategy (Box 2) initiated in 2004. In 2023, the Board began a reflection on how to enhance the discussion of longer-term institutional strategic priorities, which is still a work in progress, and is expected to be reviewed in the summer of 2024.[14]

Third, in the Core Decision-Making Phase, the Board had the biggest impact in shaping any proposals for Fund engagement in newer policy areas. In this phase, staff typically commenced more in-depth work and prepared presentations, pilots, and/or papers based on their research and analysis, both for informal and formal Board discussions. The Board influenced any proposals for Fund engagement in newer policy areas through overseeing and providing guidance to management and staff, first informally, when management and staff explored newer policy areas and reflected on ways forward, and later formally, once a policy or strategy was defined and sent to the Board for discussion and ultimately endorsement. Often, management and staff also consulted informally and bilaterally with Board members during this process. The informal bilateral consultations and Board meetings were particularly important for the Board to shape the proposals before they were finalized, indicating the extent to which they were willing to support proposals' specific elements.

[14] This process resulted in a number of proposals discussed by the Fund's Agenda and Procedures Committee (APC) in August 2023, introduced on a pilot basis. One practice is an informal dialogue between the Board and management (in the form of an informal half-day retreat) on medium-term strategic priorities, to take place annually and serve as an anchor for other products (IMF, 2023d). It is too early to evaluate its impact or whether it will fully address the lack of a Fund-wide, institutional strategy for engagement in newer policy areas.

BOX 2. THE FUND'S MEDIUM-TERM STRATEGY, 2004–06

The MTS sought to develop a strategic approach to deciding on the Fund's medium-term priorities, while integrating consideration of the available human and budget resources. It noted that (i) there was a sense that, over time, the Fund had been pulled in too many new directions, straining its original mandate; (ii) engaging in new areas without eliminating old ones had made it difficult to allocate resources effectively and to stay ahead of emerging challenges; and (iii) there was the question of whether the Fund was fully prepared to meet the macroeconomic challenges ahead (IMFC, 2005).

The MTS, endorsed by the IMFC in 2006, laid out several Fund-wide, institutional medium-term priorities, including establishing a multilateral consultation process to address global imbalances, reviewing the 1977 Decision, strengthening support for emerging markets through deepening financial and capital market surveillance, and focusing Fund policy advice to low-income countries on sustainable growth and structural policies that would support achievement of the Millennium Development Goals (IMF, 2006b). However, with the departure of the then Managing Director in 2007 and the onset of the GFC, interest in the MTS exercise waned. Looking back on the MTS experience, staff interviewed for this evaluation questioned its added value and considered its development to be resource intensive and ultimately top-down, rather than inclusive. There has been no similar initiative since.

Bossone (2008) found that the Managing Director and the Committee on the Fund's Strategic Priorities were the strategy's predominant originators. By contrast, the IMFC and the Board played only a limited role in establishing and designing the MTS. Through formal and informal discussions, however, the Board did play a key role by providing direction and feedback on management's proposals, ensuring that the MTS would reflect the membership's preferences and needs. The Board also helped define what was politically feasible and ensured that the MTS would be integrated into the Fund's medium-term budget.

Sources: IMFC (2005); IMF (2006b); Bossone (2008); De Lannoy (2024).

Finally, in the Operationalization (fourth) and Review (fifth) Phases, the strategy was implemented, including through the preparation of a guidance note, and was later reviewed based on its implementation. Following a Board-endorsed strategy or policy, staff sometimes prepared a guidance note to provide further clarification on its operationalization. As of this writing, staff has produced an interim guidance note on gender (IMF, 2024a) and a guidance note on social spending (IMF, 2024b). Staff has also included operational guidance related to governance, social spending, digital money, climate change, and gender in the 2022 Guidance Note for Surveillance Under Article IV Consultations (hereafter the 2022 Guidance Note) (IMF, 2022a). While guidance notes were expected to remain within the scope of the policy paper approved by the Board, staff had a margin of discretion in working out the operational details. In the Review Phase, a strategy or policy was reviewed after some time, based on the experience gained through its implementation. Paying sustained attention to specific topical areas is key for Fund work in those areas to move forward. For the governance strategy (endorsed in 2018), the Fund undertook an interim update in 2020. In 2023, the Board discussed, first informally and then formally, the review of its implementation (IMF, 2023b).[15] While the Board indicated it looked forward to regular updates on the social spending, digital money, climate, and gender strategies, it did not call for a full review within a specific time frame.

The absence of a strategic anchor to guide decisions negatively impacted comprehensiveness and coherence and resulted in ad hoc decisions that were not part of a larger discussion of the longer-term role of the Fund. The absence of a Fund-wide, institutional strategy for Fund engagement in newer policy areas did not allow the Board to anchor discussions in a broader strategic reflection

[15] For a discussion on the challenges related to ensuring sustained attention to governance and corruption issues, see Levonian (2024).

and resulted in ad hoc decisions on specific strategies without a broader discussion on how they fit into the overall Fund strategy or possible alternative options. This prevented discussions about which among the wide range of macrocritical policy areas were considered more relevant for Fund engagement, how to prioritize among them once decided, and how to qualify to what extent the Fund should engage in them in terms of depth and frequency. Executive Directors almost unanimously signaled the lack of a Fund-wide institutional setup to discuss the Fund's longer-term strategic priorities. While they welcomed the Managing Director's GPA, they did not believe the GPA reflected a medium-term orientation and argued that the role of the Board was limited.

Most Executive Directors believed that overall engagement with the Board as part of the decision-making process that resulted in the five specific strategies was not fully inclusive. The inclusiveness of the decision-making process is defined by how extensively all relevant stakeholders are engaged and the level of consideration given to their perspectives and interests. As part of an inclusive process, most Executive Directors argued that, ideally, regardless of voting power, all Executive Directors should receive the same information, at the same time, so they could analyze and respond to it in consultation with their capitals, and that management and staff should seek inputs during informal meetings with the entire Board. While the Board held 20 informal Board meetings and 8 formal Board meetings to discuss the governance, social spending, digital money, climate change, and gender strategies, many Executive Directors and staff interviewed for this evaluation indicated that not all Executive Directors had the same opportunity to shape the proposals related to Fund engagement. In parallel with these Board meetings, management and staff also held informal bilateral meetings with Executive Directors, but not always with all of them, or with all of them to the same extent. Changes made to proposals following these informal bilateral consultations therefore only reflected the views or were known only to a select group of Executive Directors. This resulted in the perception that some options were already taken off the table before they could be discussed with the entire Board. Most Executive Directors believed that choices related to how and to what extent to engage in newer policy areas were largely driven by the Managing Director and the views of some key members with larger voting powers. These concerns intertwined with the broader discussion on members' voice and representation in the Fund, as well as the perception that members' quota shares no longer reflected their position in the global economy.[16]

RETHINKING RESOURCES: THE CALL FOR A MORE HOLISTIC APPROACH AND GRANULAR DATA

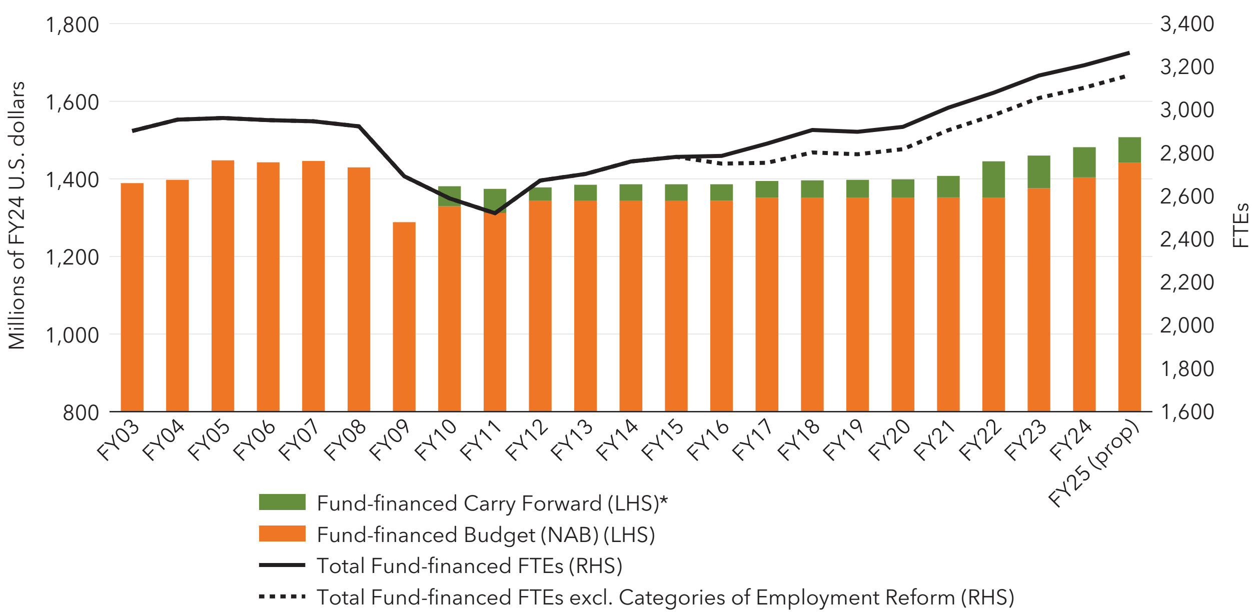
The Fund's capability to absorb and implement a steadily expanding range of ongoing work and newer activities, while sustaining high-quality work, requires an adequate resource allocation. Yet, interviews conducted with Fund staff at all grade levels, for both the current evaluation and past IEO evaluations (IEO, 2014; 2016; 2017; 2020b; 2023), have emphasized several persistent concerns and challenges, which, if resolved, could help minimize the tension presented by the Scope-Traction-Resources trilemma (Section 1). Broadly, interviewees' concerns centered on four interrelated areas: (i) the persistent high work pressures and insufficient fungible staff and expertise required to respond effectively to both internal and members' demands to engage in newer policy areas; (ii) the need to accompany newer workstreams with sufficient budget resources and that critical choices are needed, either to reprioritize among current activities or to increase resources to support newer areas; (iii) broader concerns about the Fund's relevance, including that the Fund may have spread "too wide and too thin" and is suffering from mission creep; and (iv) the impact on the Fund's reputation as a result of the deteriorating quality of work, both in traditional core policies and newer policy areas. The rest of this section assesses some of these trends in further detail.

[16] Complaints about the current state of voice and representation in the Fund, particularly by EMEs, are well documented. The last quota and governance reforms that resulted in a realignment of quota shares (and therefore also voting power) were approved by the Board of Governors in December 2010 and only came into effect in January 2016 after a long ratification process. As part of the 16th General Review of Quotas, on December 15, 2023, the Board of Governors approved a 50 percent quota increase allocated to members in proportion to their current quotas. As the membership could not agree on a realignment of quota shares to reflect changes in the global economy since 2010, the Executive Board was asked to work to develop possible options for a quota realignment as part of the 17th General Review of Quotas by June 2025 (IMF, 2023f). The membership did agree to increase the number of Executive Directors from 24 to 25, to allow for the creation of an additional Sub-Saharan African constituency in the Board.

At the time of the endorsement of the five specific strategies and their external publication, there was no formal decision on resource allocations, which were later included in the Medium-Term Budget (MTB), guided by a zero real growth rule. When the Board endorsed the governance, social spending, digital money, climate, and gender strategies, it did not include a formal decision on the resources allocated to them. As a result, the resource impact of these five specific strategies still needed to be incorporated in subsequent MTB decisions. The Fund's MTB is led by the Office of Budget and Planning (OBP), is subject to Board approval, and has been discussed every year in the period from March to May. The MTB allocated the budgetary resources across all Fund activities, and the process was structured to incorporate input from the GPA, Board Work Program, and policy-specific discussions, and was the result of extensive engagement between staff, management, and the Board. Throughout almost the entire evaluation period, decisions related to the MTB were guided by a zero real growth rule, until the approval of the Budget Augmentation Framework in 2021. Further, since 2021, the real budget has been measured using a deflator based on the U.S. consumer price index, which is not necessarily aligned with the Fund's actual pattern of expenditure. The Fund's real budget remained almost identical between FY2003 and FY2023. In FY2003, the Fund spent US$1,389 million (real 2024 USD), compared to US$1,376 million in FY2023 (Figure 5). Over the same period, staff numbers, measured as IMF-funded Full-Time Equivalent (FTE) staff, increased by a modest 8.6 percent from 2,902 (FY2003) to 3,152 (FY2023).

As a result of the decision to maintain a flat real budget through 2021, work on newer policy areas was covered through a combination of resource reallocations, internal savings, and staff overtime. While all MTB documents since 2012 have described efforts to reprioritize, streamline, and, where possible, sunset workstreams, in practice, substantively scaling back workstreams has proved elusive, with continued demands on the Fund to deliver a persistent increase of the scope of work. While the Board decided to add new workstreams or identified new priorities, experience showed that it was very difficult—given the Fund's heterogeneous membership and the fact that priorities are not always aligned across the membership—for the Board to agree on what activities or workstreams to end.

FIGURE 5. FUND-FINANCED BUDGET ENVELOPE AND PERSONNEL, FY2003–23



Source: FACTS, OBP (including historical outturn reports).

Notes: Figure excludes special travel allocations for Annual Meetings and OED/IEO transfers in relevant years. FTEs include longer-term contractual staff who were recategorized as FTE staff in 2010. *Carry Forward: from 2010, the Board agreed to transferring a portion of unused resources in a fiscal year to the next one.

As a result, in practice, reprioritization options have been limited. OBP did initiate two major streamlining exercises,[17] which provided average savings of around 4 percent of the aggregate budget envelope per year for reprioritization (IMF, 2021l).

The higher workload resulted in unsustainable work pressures for staff. Staff work pressures, measured in terms of overtime, annual leave usage, and unused leave balances, while declining, remained consistently high and above targets during the evaluation period (Figure 6). While the Fund had a targeted average overtime rate of 10 percent,[18] for the Fund's professional staff (levels A9-B5), this threshold was exceeded in every year in the period FY2012–23 in all five area departments, as well as in the Strategy, Policy and Review Department (SPR), MCM, and the Institute for Capacity Development, and for all but one year in the Fiscal Affairs Department (FAD). SPR (17 percent) and FAD (15.4 percent) accounted for the highest average annual overtime use. Average annual leave usage remained under the 30 days per fiscal year allocated to full-time staff (26 days before May 1, 2021). Work pressures have been elevated since the COVID19 pandemic, with average overtime among senior-level staff (B-level), in both area and functional departments, exceeding 20 percent in the period FY2020–23.[19] Indeed, MTB documents and annual risk reports (see Section C) discussed between 2012 and 2023 noted on a regular basis that demands on staff were unsustainable and constrained staff's ability to deliver outputs, both related to the traditional core policies as well as the newer policy areas.

After maintaining zero real budget growth for almost a decade, the Board approved the Budget Augmentation Framework in 2021 with a 6 percent increase in the Fund's net administrative budget, significantly below the 9.1 percent increase originally requested by management. In early 2021, management requested an increase in the budget because of rising pressures to address the priorities and needs of the membership, reduced budget buffers, and unsustainable demands on staff. While acknowledging that a budget increase was justified, Board members commanding a majority of voting power believed that the initial budget augmentation proposal went too far. The Board's input resulted in a formal proposal for a Budget Augmentation Framework (IMF, 2021l), discussed by the Board on December 1, 2021. It amounted to a 33.6 percent decrease from what was originally proposed by staff in July, and realigned the shares of specific policy areas within the budget augmentation envelope, notably increasing the share of climate and macrofinancial surveillance and reducing that of inclusion and gender (Table 1).[20] Overall, staff believed that the resources allocated under the approved Budget Augmentation Framework were inadequate to comprehensively cover all issues deemed macrocritical, and despite this increase, work pressures remained high and above target.

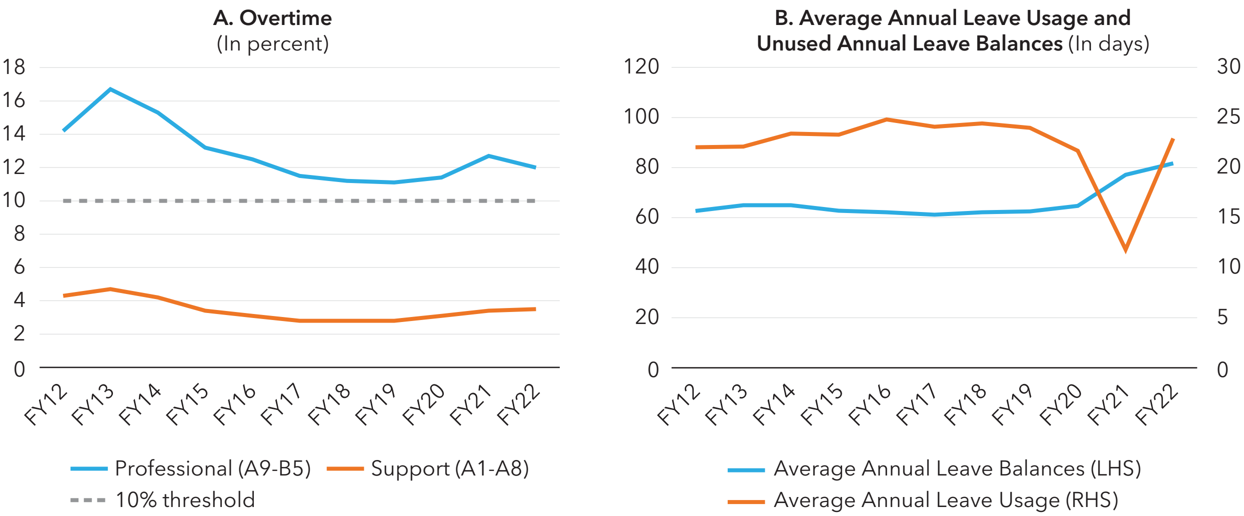
[17] The first exercise was discussed and approved by the Board on April 23, 2015, and streamlined a number of policies and procedures including the frequency of Article IV consultations, reducing the frequency of country program reviews and post-program monitoring, discontinuing Ex Post Assessments, and streamlining safeguards assessments. Some of these changes to policies and procedures required formally amending earlier Board decisions (IMF, 2015a). The second streamlining exercise was discussed by the Board on June 15, 2018, but did not require a formal Board decision as management's proposals were more limited in scope (IMF, 2018c).

[18] FY2017 Output Cost Estimates and Budget Outturn paper.

[19] While annual estimates of the excess overtime equivalent for FTE staff are not available, a staff estimate in 2014 suggested that excess overtime over the period FY2008–13 accounted for an equivalent of 60 FTE staff (FY2014–16 Medium-Term Budget).

[20] While the Budget Augmentation Framework paper provided indicative FTE numbers, these numbers were based on average grade/salary levels, and the binding constraint was the dollar amount. For example, with the additional US$27 million reserved for the Fund's climate work (Table 1), the Budget Augmentation Framework paper proposed to recruit 73 FTEs (2/3 fungible macroeconomists and 1/3 climate or operational experts). However, in practice, the number of FTEs that can be hired within the USD$27 million envelope depends on their grade/salary level. As a result, in this paper, we focused on dollar amounts rather than FTE numbers. While there was no data available on the aggregate number of FTEs, for example, on climate, digital money, or gender experts working at the Fund, the annual Staff Recruitment and Retention Experience Reports provided information on hiring within newer policy areas.

FIGURE 6. STAFF OVERTIME AND ANNUAL LEAVE, FY2012–22



Source: IEO staff calculations based on Human Resources Department data.

Note: (a) Data shows average overtime rates for professional and support level staff, as well as long-term contractual staff, as of the end of each respective fiscal year. Employees on LWOP, visiting scholars, and field experts are excluded. (b) Data includes all staff and shows average annual leave usage and unused annual leave balances, as of April 30 of each respective fiscal year.

In addition, the decisions related to Fund engagement in newer policy areas and their resource and risk implications were taken in a piecemeal way, negatively impacting comprehensiveness and coherence, and resulting in misalignments between the ambition expressed in the policy decisions and the resources committed to implementing them.[21] While the approved Budget Augmentation Framework increased the Fund's budget, it only provided additional resources and set priorities for five select workstreams (Table 1). As they are implemented, or when new priorities arise, further trade-offs will have to be made. For some newer policy areas, this has resulted in significant differences between the resources deemed necessary to implement the strategy and the resources finally approved by the Board (Table 2), which required strategies to be scaled down in scope, depth, and number of countries reviewed after they had been formally endorsed by the Board and published externally on the Fund's website. Over half of Executive Directors, representing almost 64 percent of voting power, believed that the budget augmentation process was a step forward in providing better information and different options, but still fell short of a fully integrated decision-making process allowing for prioritization and trade-off decisions across all Fund activities. A more holistic approach would not preclude an iterative process considering decisions related to scope, required resources, and the risk implications of a newer policy area. However, it does imply that the formal endorsement of a strategy and its publication may only take place after rightsizing the initial proposals and there is an agreement on all these elements.

Evidence gathered for this evaluation suggests that data presented in the MTB underestimated the real cost in terms of the time staff worked on newer policy areas, and the extent to which this work crowded out work on the four traditional core policies, which raises transparency concerns. Despite their high profile in Fund communications, the GPA, and the Board Work Program, data presented in the MTB suggest that resources allocated to newer policy areas remained relatively limited. However, as detailed in Annex 2, such data were subject to significant limitations. For example, the Fund's time management system did not allow the Fund to systematically track what policy areas staff worked on and therefore did not generate the granular budget data needed to correctly

[21] See Gallagher, Rustomjee, and Arevalo (2024) in relation to decisions taken on the Fund's Climate Strategy and subsequent discussions related to the budget allocation for implementing said strategy.

measure the real cost and the share of newer policy areas in the Fund's budget. Evidence gathered from interviews and a staff survey[22] conducted for this evaluation, as well as analysis of alternative data to measure Fund engagement in newer policy areas in De Lannoy (2024), indicate that staff dedicated more time to newer policy areas than suggested by data presented in the MTB, at times, at the expense of work on traditional core policies. Further, mission chiefs raised concerns that coverage of newer policy areas impacted the quality of bilateral surveillance given the expansion of the number of policy areas expected to be covered and the relatively small country teams with limited expertise on certain topics. More broadly, previous IEO evaluations have found that Fund-wide resource constraints have particularly impacted the quality of bilateral surveillance for small, fragile, and conflict-affected states (IEO, 2018a; 2022a). In this respect, the resource decision-making process was not sufficiently transparent, as the lack of granular budget data by policy area did not allow the Board to understand in sufficient detail how resources were allocated by policy area across all Fund activities.

TABLE 1. THE BUDGET AUGMENTATION FRAMEWORK

(In millions of FY2022 USD)

	INITIAL PROPOSAL *July 2021*		APPROVED BUDGET AUGMENTATION FRAMEWORK *December 2021*				
	9.1% Total Increase		6% Total Increase		PHASE I (1.8%)	PHASE II (2.1%)	PHASE III (2.1%)
	USD	SHARE	USD	SHARE	USD	USD	USD
Total	**110**	**100%**	**73**	**100%**	**22**	**25**	**26**
Climate	36	32%	24	37%	8	9.3	9.3
Digital Money	20	18%	14	19%	3.6	5	5.7
Inclusion and Gender	7	7%	2	3%	1	1	0
Fragile & Conflict-Affected States	31	28%	21	29%	5.3	7.4	8.5
Macrofinancial Surveillance	9	8%	9	12%	3.9	2.6	2.2
Buffer	12	11%	0	0%			
Synergies	−5	−5%	0	0%			

Source: IMF (2021k; 2021l).

TABLE 2. GAP BETWEEN STAFF REQUESTS AND BOARD-APPROVED ALLOCATIONS

(In millions of FY2022 USD)

	CLIMATE		DIGITAL MONEY		INCLUSION AND GENDER	
	USD	PERCENT	USD	PERCENT	USD	PERCENT
Strategy/Policy Document	36		21		-	
Initial Budget Augmentation Proposal	36		20		7	
Approved Budget Augmentation Framework	27		14		2	
Difference Relative to Strategy/Policy Document	**−9**	**−25%**	**−7**	**−33%**	**-**	**-**
Difference Relative to Initial Budget Augmentation Proposal	**−9**	**−25%**	**−6**	**−30%**	**−5**	**−71%**

Source: Author calculations based on IMF (2019; 2021h; 2021i; 2021l).

[22] The response rate to the IEO survey was 17.8 percent, corresponding to a total of 441 responses. The response rate for this survey was similar to previous IEO surveys. The survey's findings were further corroborated by in-depth interviews with staff.

NAVIGATING RISKS: MISSING A THOROUGH RISK EVALUATION

The Fund's risk management practices evolved substantially during the evaluation period, culminating in the establishment of the Office of Risk Management (ORM) in 2018. By design, in light of the Fund's role in the global economy, the nature of the Fund's operations entails risk taking. As a result, the goal of the Fund's risk management practices is to understand and manage risks more effectively, not to eliminate them. In March 2012, the Managing Director established a Working Group on the Fund's Risk Management Framework, which recommended inter alia establishing an enhanced central risk management function. This led to the creation of the Risk Management Unit in 2014, which became the ORM in 2018 (IMF, 2021b). While individual Fund departments and units constituted the first line, responsible for day-to-day risk management, including the identification, assessment, and mitigation of risks, ORM reported directly to management and provided an independent view and challenge to ensure the quality and uniformity of the risk management process across the Fund, flagging possible disagreements with staff's risk assessment.

The discussion of risks related to Fund engagement in newer policy areas was limited, ad hoc, and lacked a comprehensive risk assessment, which raised transparency concerns. The documents for the governance, social spending, digital money, climate, and gender strategies covered risks in a very limited and high-level way. None of the strategy or policy documents provided a systematic and comprehensive discussion of the risks, covering arguments both in favor of and against engaging in newer policy areas. The Fund's risk profile and relevant risk management decisions were mostly discussed by the Board once a year at the time of the risk report Board meeting. These risk reports[23] were formally discussed by the Board, but not published, and since 2016, they have been complemented by informal midyear risk updates. However, annual risk reports did not discuss specific risks or risk mitigation measures[24] related to newer policy areas. Furthermore, they did not constitute an ideal instrument for doing so, as the Board discussion took place ex post when individual strategies or policies had already been endorsed by the Board and published externally.

In December 2022, the Board approved the Fund's Enterprise Risk Management (ERM) framework, which covers risks related to the application of the Fund's mandate extensively, but a strategic approach is still missing. The Fund's ERM framework was approved at the end of 2022 and includes an extensive ERM Risk Taxonomy, which categorizes four hierarchical risk levels (from 1 to 4), based on six Level-1 risks: (i) business; (ii) environmental, social, and governance; (iii) financial; (iv) operational; (v) reputational; and (vi) strategic. The risks related to the application of the Fund's mandate are covered across all six Level-1 risks (IMF, 2023a). Going forward, this framework should allow staff to prepare a comprehensive risk assessment when contemplating or reviewing Fund engagement in newer policy areas, assessing risks across all six Level-1 risks. However, without an overarching Fund-wide, institutional strategy (Section 3.A.), risk management would be limited to analyzing the risks of individual strategies or policies ad hoc, without the context of a broader institutional strategy and an analysis of longer-term risks for the Fund as an institution.

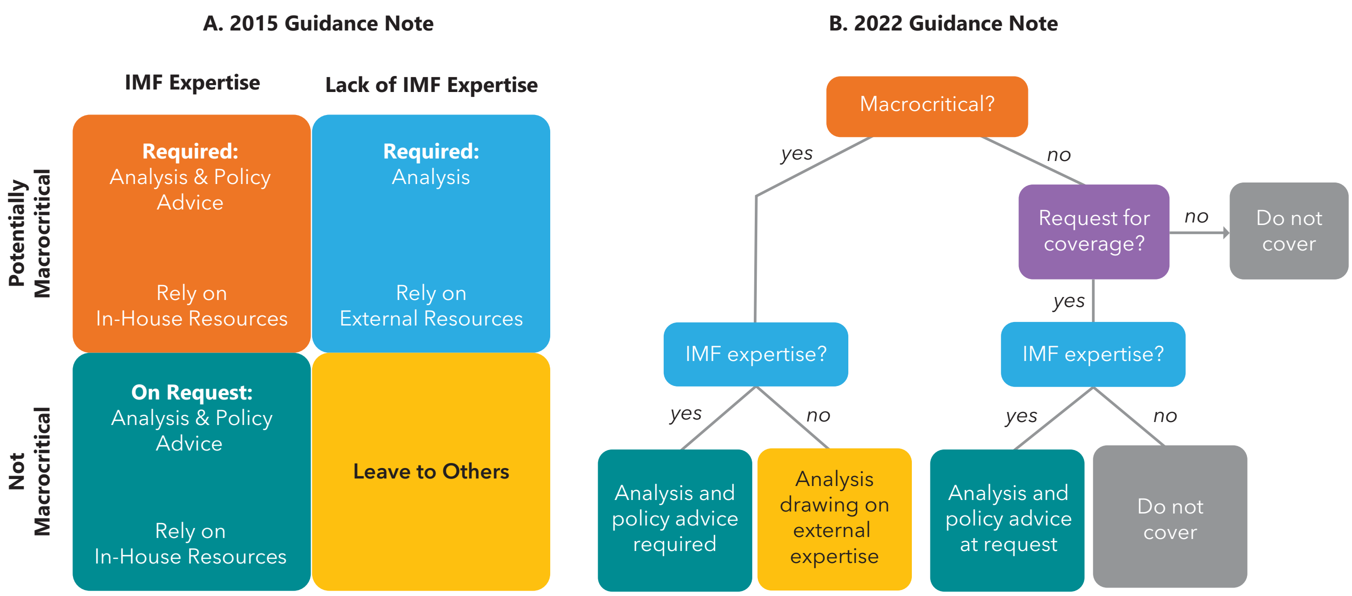
[23] The Fund's risk reports, the Reports on Risk Management in the period 2012–14, and the Risk Reports from 2015 onward, provided an assessment of the Fund's risk profile across its different business areas.

[24] For instance, the Fund's climate strategy argued that stepping up the IMF's engagement on climate change would help mitigate reputational and strategic risks to the Fund, noting that if it was not properly resourced, it could increase business risks by straining other critical issues central to the IMF mandate and could result in reduced quality and traction of the Fund's advice, in turn affecting its reputation (IMF, 2021i). As explained earlier, however, the Budget Augmentation Framework scaled down the resources requested by staff for the Fund's climate strategy and there was no comprehensive follow-up assessment of how this misalignment would affect the risks signaled by staff. This unassessed misalignment can, in itself, create reputational risks for the Fund.

4 ENHANCING CLARITY OF PRINCIPLES FOR ENGAGEMENT[25]

The IMF's framework for engagement on structural issues was operationalized through a series of principles that were developed through different surveillance reviews, decisions, and guidance notes. The 2014 Triennial Surveillance Review (TSR) concluded that "[e]stablishing clearer principles for engagement would help avoid an ad hoc focus on structural issues. Principles or 'filters' could also help delineate the depth of the Fund's involvement, namely when and when not to offer specific policy advice" (IMF, 2014b). Since then, the Fund has adopted specific principles and refined them through different guidance notes to enhance the relevance and value-added of the Fund's engagement on structural issues (Figure 7). The 2015 Guidance Note embraced two specific principles as the basis for more systematic engagement: the principle of "macrocriticality," which establishes the perimeter, i.e., when the Fund should engage, and the principle of "IMF expertise," which determines whether the Fund should provide policy advice (IMF, 2015b). The 2021 Comprehensive Surveillance Review (CSR) proposed a new criterion, namely, "relevance, severity, and urgency," to determine the depth and frequency of coverage (IMF, 2021c). Subsequently, the 2022 Guidance Note introduced this third filter to determine the depth of coverage, but it did not specify a filter to govern the frequency.

FIGURE 7. CRITERIA FOR COVERAGE OF STRUCTURAL ISSUES IN SURVEILLANCE



Sources: IMF (2015b) and IMF (2022a), respectively.

[25] This section draws on the background paper by Jannils and Wojnilower (2024).

TABLE 3. OPEN QUESTIONS ABOUT THE PRINCIPLES FOR ENGAGEMENT

OBJECTIVE	FILTER	OPEN QUESTIONS
Establish the Perimeter	**Macrocriticality**	1. How should staff determine if a structural issue is macrocritical for a specific country? 2. To what extent is coverage of macrocritical structural issues required? 3. What time horizon(s) should staff consider when making their assessments of macrocriticality and economic sustainability?
Provision of Policy Advice	**IMF Expertise**	4. How should staff determine if the Fund has expertise on a particular structural issue? 5. To what extent should staff provide policy advice when Fund expertise exists but supply is lacking? 6. Should the IMF expertise filter be applied at all?
Depth of Coverage	**Relevance, Severity, and Urgency**	7. How should staff determine the relevance, severity, and urgency of a macrocritical issue, both independently and relative to others? 8. What are the different depths of engagement?
Frequency of Coverage	**Unspecified**	9. How should staff determine when and how often to engage on a macrocritical structural issue?
Uniformity of Treatment	**Evenhandedness**	10. How should staff determine which "similar circumstances" are relevant when assessing evenhandedness? 11. To what extent does the application of risk-adjusted inputs lead to outputs that both are and are perceived to be uniform in treatment?

Source: IEO staff.

However, in trying to balance consistency and flexibility, this framework left open important questions about how these principles should be applied, which ultimately could affect the traction of surveillance (Table 3). While this framework is designed to limit the scope and increase the consistency of Fund engagement, the Board, management, and staff simultaneously have sought to ensure it also retained enough flexibility to cover new policy areas and adapt to country-specific circumstances. Consequently, this framework left open important questions regarding how the filters should be applied in Fund surveillance to achieve the desired objectives. Further, the five specific strategies adopted by the Fund depart from these principles in various ways, reducing clarity about this framework.[26] To the extent these questions remain open, they ultimately could affect the traction of the Fund's surveillance, which primarily depends on members' perceptions about the quality and relevance of the Fund's analysis and policy advice. Additionally, traction depends on the extent to which members believe the Fund's treatment is uniform, i.e., evenhanded. To enhance this concept's clarity, the Board approved a framework for addressing evenhandedness concerns which, nevertheless, also left open important questions regarding its application (IMF, 2016b).

The rest of this section focuses on the operationalization of the surveillance mandate through the different periodic surveillance reviews, guidance notes, and the five specific strategies for governance, social spending, digital money, climate change, and gender. It is structured around the principles of macrocriticality, expertise, depth, frequency, and uniformity of treatment, and results in key findings 7 and 8, summarized in Section 6.

PERIMETER: WHAT IS MACROCRITICAL FOR SURVEILLANCE PURPOSES?

The 2014 TSR recommended macrocriticality remain as the first filter for establishing the perimeter of Fund engagement on structural issues, which was further operationalized in the 2015 Guidance Note and affirmed in the 2022 Guidance Note. Macrocriticality, in this case, reflected whether an issue or policy significantly influences

[26] These strategies did not modify the existing legal framework for surveillance, which is set forth in the ISD, but they did attempt to clarify how the ISD should be operationalized in their respective policy areas.

present or prospective BOP or domestic stability.[27, 28] Nevertheless, the 2014 TSR cautioned that "[t]his single filter could imply a massive expansion of the Fund's advice on specific structural issues, some of which fall beyond its expertise." The Board endorsed the 2014 TSR's recommendations, yet several Executive Directors sought clarification on how the recommendations would be implemented and called for a more detailed framework for assessing the macrocriticality of structural reforms (IMF, 2014c). Using the 2014 TSR's recommended principles, the 2015 Guidance Note introduced a more detailed framework for assessing the macrocriticality of structural issues (IMF, 2015b):

- (i) "For structural issues that are ***macrocritical*** and where the Fund has ***in-house expertise***, analysis and policy advice <u>are required</u>."
- (ii) "For structural issues that are ***macrocritical*** but where ***Fund expertise is lacking***, staff <u>should</u> analyze the issue, drawing on expertise from other organizations."
- (iii) "For structural issues that are ***not macro-critical*** but for which the ***Fund has expertise***, staff <u>may</u> provide analysis and policy advice when requested by the authorities."
- (iv) "For structural issues that are ***not macro-critical*** and ***Fund expertise is lacking***, analysis and policy advice <u>should be left to other organizations</u>."

While this framework is more detailed, it initially left open two important questions: (1) How should staff determine if a structural issue is macrocritical for a specific country; and (2) to what extent is coverage of macrocritical structural issues required? On question (1), the 2015 Guidance Note directed staff to "exercise judgment and take into account country circumstances," but offered little else in terms of practical guidance for making that determination. On question (2), the text of the 2015 Guidance Note differentiated between the terms "required" and "should" with regard to macrocritical structural issues. However, the corresponding figure (see Figure 7, left panel) converted the term "should" to "required" when referring to analysis of structural issues that are macrocritical, but where Fund expertise is lacking.

This evaluation found a lack of clarity on both questions in the five specific strategies of governance, social spending, digital money, climate change, and gender. On question (1), all five strategies lacked granular guidance about how to determine whether a particular structural issue is macrocritical in a particular country.[29] On question (2), four of the five specific strategies noted that Article IV consultations <u>should</u> cover macrocritical structural issues, however, their interpretations of that term differed.[30] The governance framework and social spending strategy, for example, emphasized that a discussion of macrocritical structural issues is required. The climate change and gender

[27] The term "macrocritical" has been used by the IMF dating back at least to the IEO's first evaluation on the Prolonged Use of IMF Resources (IEO, 2002). In that instance, the term referred to the extent to which structural conditionality in IMF lending was "critical to achieving the programs' macroeconomic objectives" (IEO, 2002). It also has been used in Article IV staff reports dating back to at least 2003. In the Article IV staff report on Ukraine that year, the term was used similarly in reference to structural conditionality in IMF programs (IMF, 2003). Subsequently, the term was used many times as a conditionality criterion in Fund reports on Poverty Reduction and Growth Facility (PRGF) arrangements. However, the term currently is clearly understood as a shorthand for the scope of bilateral surveillance set forth under the 2007 Decision and then the 2012 ISD.

[28] "In the Use of Fund Resources (UFR) context, while IMF staff routinely discusses with member authorities issues that are considered to be macrocritical, the establishment of program conditionality is subject to specific standards that do not refer to 'macrocriticality.' These standards are set forth in the Guidelines on Conditionality and state that conditionality should only be set on measures that are (i) critical for meeting program objectives or for monitoring the program's implementation, or (ii) necessary for implementing specific provisions of the Fund's Articles of Agreement or policies adopted under them" (IMF, 2019).

[29] The social spending and gender strategies deferred this content to future guidance notes specific to their respective policy areas, whereas the climate strategy deferred this content to the 2022 Guidance Note. The governance framework, in contrast, suggested the need for a guidance note would be obviated by its top-down approach to macrocriticality assessments. Furthermore, the digital money strategy did not specify a plan for it, as digital money issues were not considered to be macrocritical (though they were expected to become so in the future). Subsequently, and as of this writing (February 2024), the Fund produced the 2022 Guidance Note and a series of additional analytical work in various areas, including a how-to note on operationalizing IMF engagement on social spending during, and in the aftermath of, the COVID-19 crisis (IMF, 2020b). The Fund also created technical notes on pensions and social safety nets (IMF, 2022b; d), and an interim guidance note on mainstreaming gender (IMF, 2024a). While these guidance notes and analytical work offered far greater detail on how to engage, they still offered limited practical guidance on determining whether a particular structural issue is macrocritical in a particular country.

[30] The digital money strategy did not include a discussion of the macrocriticality requirements, potentially because digital money issues were not yet considered to be macrocritical.

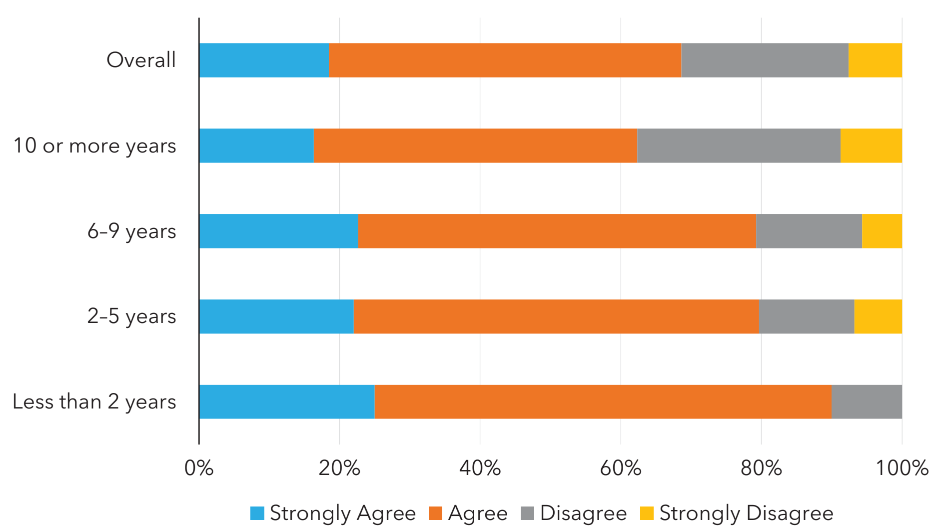
strategies, by contrast, deemed the coverage of at least some macrocritical structural issues to be voluntary. This difference seemingly stemmed from a lack of sufficient resources to make coverage mandatory. Further, a gradual approach to implementing new strategies provides the Fund with the flexibility to identify best practices via a process of learning-by-doing.

While the Fund clearly has gone to great lengths to elucidate how to apply the concept of macrocriticality in surveillance, this evaluation found that enhanced clarity still is needed. More specifically, the IEO survey's results showed that a large minority of staff (31 percent) did not agree that a common understanding existed on how the concept of macrocriticality should be applied in IMF surveillance (Figure 8). The results also suggested the perception of a common understanding decline the longer someone works at the Fund. Interviews with Fund staff revealed a similar lack of clarity regarding the concept of macrocriticality. For example, many interviewees found the term too vague to implement in practice and expressed a desire for further clarification. Yet, highlighting the tension between flexibility and consistency, numerous staff also expressed a desire to retain a significant degree of judgment on whether an issue is macrocritical given country-specific circumstances. Numerous Executive Directors, in interviews, expressed separate concerns that too many issues were being labeled as macrocritical, which has led to inconsistent engagement across structural issues and countries. Several Executive Directors proposed developing a clearer definition, yet, reflecting the tension between flexibility and consistency, acknowledged that such efforts should not prohibit the Fund from adapting its activities in response to global events.

The 2021 CSR further broadened the perimeter of surveillance through the priority of fostering economic sustainability, which raised a third question: (3) What time horizon(s) should staff consider when making their assessments of macrocriticality and economic sustainability? Following the Board's approval of the 2021 CSR, the 2022 Guidance Note seemingly incorporated the concept of economic sustainability under the umbrella of macrocriticality. It defined economic sustainability "as a set of conditions that, under realistic assumptions, will support sustained, balanced, and inclusive growth, without requiring large or disruptive adjustments to the BOP or domestic stability." Thus, the notion of prospective stability apparently was clarified to include the set of conditions that lead to economic sustainability. Here, Fund surveillance

FIGURE 8. COMMON UNDERSTANDING OF MACROCRITICALITY

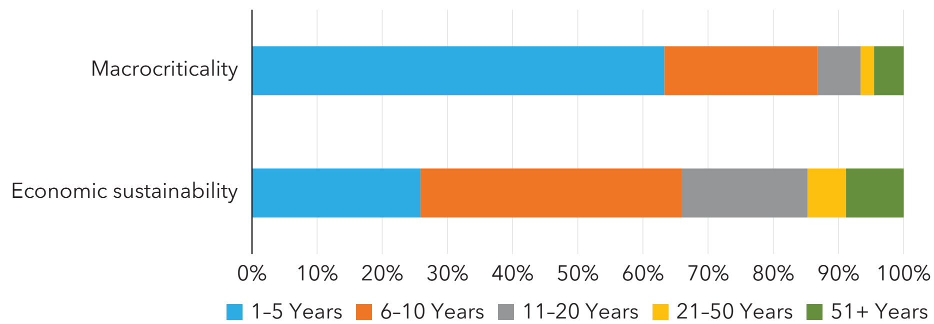
To what extent do you agree that most people working for the IMF have a common understanding of how the concept of macrocriticality should be applied in IMF surveillance?



Source: IEO survey of Fund staff.

FIGURE 9. TIME FRAMES FOR SURVEILLANCE

In your view, the following concepts should be applied in IMF surveillance in which of the following time frames?



Source: IEO survey of Fund staff.

generally has focused on the short to medium term (1–5 years), which coincides with political cycles and the typical lengths of Fund programs.[31] However, the 2022 Guidance Note established that "[c]overage of issues related to economic sustainability may require a broader perspective and longer time horizon than has been typical for Fund surveillance."

While the Fund has tried to break down how the concept of economic sustainability should be applied in IMF surveillance, this evaluation finds that further effort is needed to enhance clarity among Fund staff. Results from the IEO survey showed that while most respondents (63 percent) believed assessments of macrocriticality should be limited to the short to medium term, most respondents (74 percent) also thought assessments of economic sustainability should cover a longer time horizon than has been typical in Fund surveillance, i.e., more than five years (Figure 9). Moreover, staff broadly supported an array of time frames in each case. Interviews with Fund staff separately revealed a general lack of awareness that the 2021 CSR had established economic sustainability as a surveillance priority. Nevertheless, most respondents indicated that they had been engaging on structural issues related to economic sustainability since long before the 2021 CSR was published.

POLICY ADVICE: WHAT IF IMF EXPERTISE IS LACKING?

The 2014 TSR recommended IMF expertise as the second filter to determine whether the Fund should provide policy advice on structural issues. This second filter was operationalized in the 2015 and 2022 Guidance Notes (see Figure 7). More specifically, for macrocritical structural issues, the IMF expertise filter delineated whether policy advice is required or not expected (notwithstanding that the issue should be covered without policy advice). For structural issues that are not macrocritical, the IMF expertise filter delineated whether or not policy advice should be provided.

However, the IMF expertise filter initially left open two additional questions: (4) How should staff determine if the Fund has expertise on a particular structural issue; and (5) to what extent should staff provide policy advice when Fund expertise exists but supply is lacking? On question (4), the 2022 Guidance Note mentioned "expertise" numerous times but was silent in terms of practical guidance. On question (5), the Fund's past efforts to ramp up its work on macroprudential policy and macrofinancial analysis demonstrated that there are limits to how quickly and widely the Fund can build expertise on a broad topic.

[31] The ISD specifically states that the "Fund's assessment of a member's policies and its advice to a member will, to the extent possible, be placed in the context of an examination of the member's medium-term objectives and the planned conduct of policies, including possible responses to the most relevant contingencies." The 2022 Guidance Note, accordingly, mentions that "[s]taff reports should be based on realistic projections and discuss short- and medium-term objectives and policies as well as possible policy responses to the most relevant contingencies."

The demand for expertise will therefore likely exceed the available supply for the foreseeable future, at least for some structural issues.

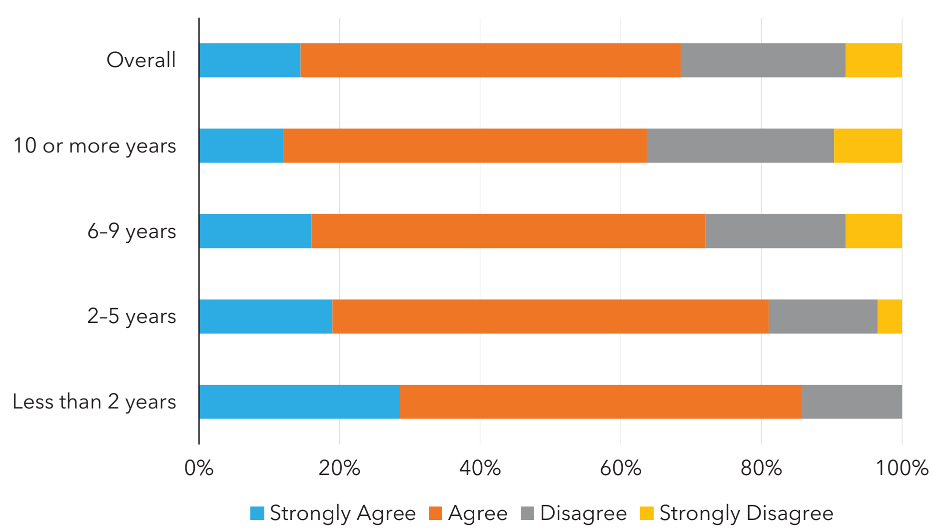
This evaluation found a lack of clarity on both questions for the five specific strategies. On question (4), the five specific strategies were sorely lacking in terms of offering practical guidance to staff on determining whether the Fund has expertise on a particular macrocritical issue. The subsequent analytical work and guidance notes also have left this question largely open. On question (5), the five specific strategies provided some discussion about where expertise will reside in the Fund, and how it will be organized. The strategies also revealed, at least implicitly, that the Fund's expertise is lacking on some issues and unavailable in some instances. Nevertheless, the strategies and subsequent guidance notes offered minimal practical guidance on whether and how to proceed with policy advice on such occasions.

Further, the five specific strategies raised an additional important question: (6) Should the IMF expertise filter be applied at all? The governance framework and climate change strategy, for example, implied that the Fund should provide policy advice when their respective issues are deemed macrocritical, independent of whether the IMF has expertise on a matter. The social spending strategy, meanwhile, appeared to use the IMF expertise filter to differentiate between general and specific policy advice, i.e., to provide general policy advice when a social spending issue is deemed macrocritical and the Fund lacks expertise, and to reserve specific policy advice for instances where the Fund has expertise. For gender issues, the interim guidance note implied that the expertise filter also should be used to differentiate between general and specific policy advice.

While the Fund has attempted to explain how the concept of IMF expertise should be applied in surveillance, this evaluation found that enhanced clarity is needed. More specifically, the IEO's survey showed that a large minority of respondents (31 percent) did not agree that a common understanding exists on how the concept of IMF expertise should be applied in surveillance (Figure 10). The results also suggested that the perception of a common understanding declines the longer someone works at the Fund. Interviews with Fund staff revealed a similar lack of clarity regarding the concept. Several interviewees, for example, expressed concerns about the slow progress in hiring specialists and the challenges accessing specialized knowledge, given that demand often exceeds the limited supply. They also explained that the addition of new topics

FIGURE 10. COMMON UNDERSTANDING OF IMF EXPERTISE

To what extent do you agree that most people working for the IMF have a common understanding of how the concept of IMF expertise should be applied in IMF surveillance?



Source: IEO survey of Fund staff.

has strained country desks, as they seek to build expertise in these areas and learn to employ new analytical tools in addition to their previous responsibilities.[32] Several Executive Directors in interviews, expressed a separate concern that the Fund is providing detailed policy advice in areas where it lacks sufficient expertise, and that the Fund's increased efforts on these structural issues were impacting the quality of the Fund's analyses and policy advice in core areas. They called for greater clarity on the Fund's plans to develop internal expertise and collaborate with other international organizations, such as the World Bank.

DEPTH: DEEP DIVES AND LIGHT TOUCHES

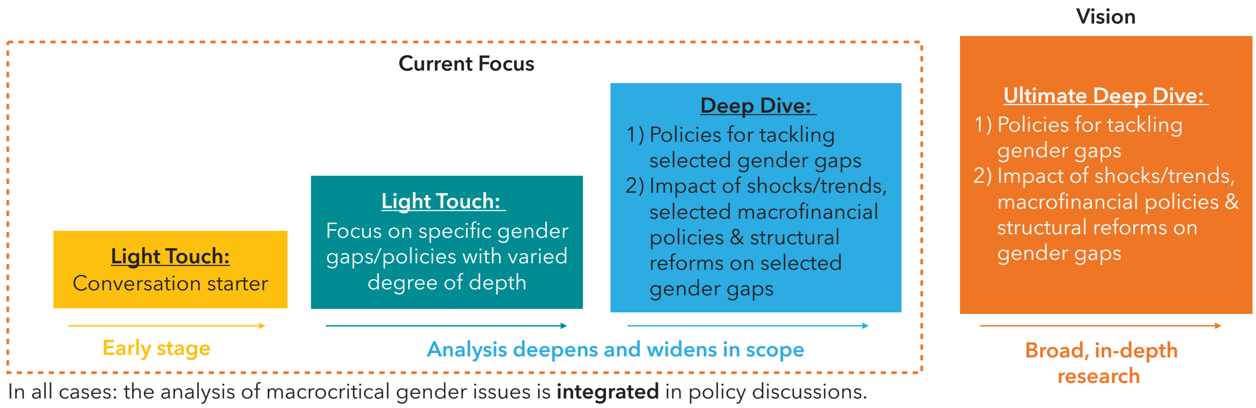
The 2022 Guidance Note developed the criteria of "relevance, severity, and urgency" as a third filter to determine the depth of Fund engagement on structural issues, but left open two additional questions: (7) How should staff determine the relevance, severity, and urgency of a macrocritical issue, both independently and relative to others; and (8) what are the different depths of engagement? The 2015 Guidance Note stated that not all macrocritical issues are expected to be covered in the same depth in every Article IV consultation. Thus, determining how deep that coverage should be required a different filter. The 2022 Guidance Note adopted the 2021 CSR's proposed criteria of relevance, severity, and urgency as the third filter. On question (7), the 2022 Guidance Note did not provide any additional details as to how these criteria should be defined or assessed. On question (8), the 2022 Guidance Note differentiated between in-depth coverage and updates on recent developments or references to previous reports, but did not go deeper (e.g., to describe what in-depth coverage entails).

This evaluation found a lack of clarity on both questions for the five specific strategies. On question (7), as expected, this third filter was not covered in any of the four specific strategies that were completed before this filter was established (among them, only the social spending strategy even discussed an approach to determining the depth of policy advice). The gender strategy, which was completed after the 2022 Guidance Note, repeated the third filter verbatim, yet offered no additional details on how to define or assess these criteria. On question (8), only three of the five strategies discussed different depths of engagement. Two of those three—the digital money and climate change strategies—offered limited details on the different types of depth. The gender strategy, in contrast, created new terminology, i.e., "deep dives" and "light touches," that was further developed in the interim guidance note on mainstreaming gender, which depicted a continuum of coverage differentiating between two types of deep dives and light touches (Figure 11). While this note provided "a more step-by-step approach" to gender coverage, it remains unclear as to how fully this taxonomy could be applied to other structural issues (IMF, 2024a).

While the Fund has endeavored to clarify how the concept of depth should be applied in surveillance, this evaluation found that enhanced clarity still is needed. The IEO's survey showed that most respondents (nearly 60 percent) did not agree that there is clear guidance on determining the relevance, severity, and urgency of a macrocritical issue (Figure 12). Separately, interviews with Fund staff revealed that the decision to conduct a light touch rather than a deep dive was based, at times, on a lack of access to the Fund's expertise, a lack of adequate data and indicators, or a country authority's willingness to engage.

[32] The Fund's efforts to build and strengthen expertise included allocating resources to the newer policy areas, as discussed in Section 3, and kickstarting initiatives in terms of data and analytical tools and frameworks, which, in some cases, were joint ventures with other partners. For example, with regard to climate change, the Fund began developing expertise on carbon taxes early in the evaluation period and led efforts with the World Bank to build the Climate Policy Assessment Tool. The IMF also has striven to incorporate assessments of climate-related risks and climate stress testing in existing frameworks, such as FSAPs, Debt Sustainability Frameworks, and the External Balance Assessment-lite, as well as to create new tools, such as the Debt-Investment-Growth and Natural Disasters toolkit. Moreover, as improving data availability is fundamental to assessing newer policy areas, in 2021, the Fund, in collaboration with other partners, launched the Climate Change Indicators Dashboard, which could provide a useful precedent for other newer policy areas.

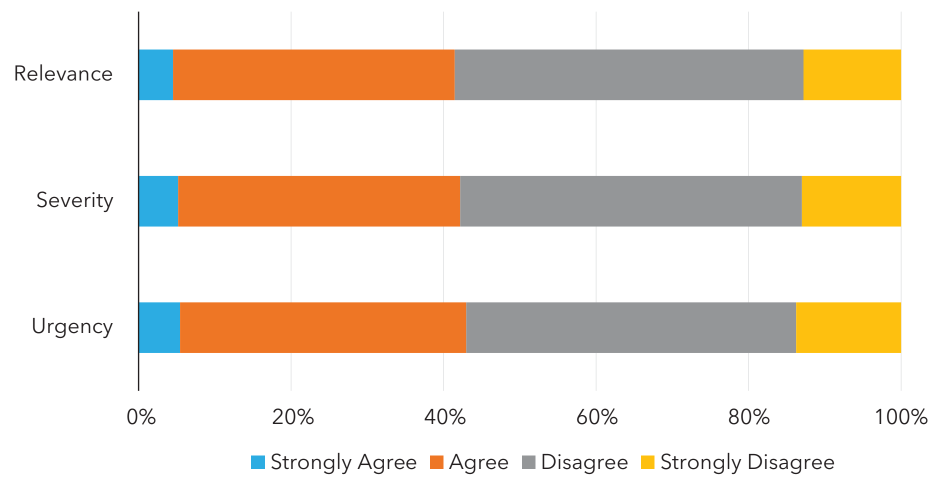
FIGURE 11. TAXONOMY OF DEEP DIVES AND LIGHT TOUCHES



Source: IMF (2024a).

FIGURE 12. CLEAR GUIDANCE ON DEPTH OF COVERAGE

To what extent do you agree there is clear guidance to IMF staff at the institutional level regarding how to determine the following conditions in IMF surveillance?



Source: IEO survey of Fund staff.

FREQUENCY: A NEED FOR A NEW FILTER?

The 2022 Guidance Note did not establish a fourth filter to determine the frequency of coverage of structural issues and thereby left another important question open: (9) How should staff determine when and how often to engage on a macrocritical structural issue? The 2015 Guidance Note stated that not every macrocritical issue must be included in every report.[33] Thus, determining when and how often that coverage should take place requires a different filter. The 2021 CSR proposed using the same set of criteria (i.e., relevance, severity, and urgency) to determine the depth and timing of coverage, yet the 2022 Guidance Note did not adopt those criteria or any others as the fourth filter.

[33] The 2022 Guidance Note, meanwhile, stated that "the ISD requires [macrocritical issues] to be discussed in Article IV consultations to the extent the Fund has expertise."

This evaluation found a lack of clarity on question (9) for the five specific strategies. Only three of the five strategies discussed the frequency of engagement. Two of those three, the social spending and climate change strategies, only offered high-level guidance on the number of years within which the Fund should engage. The governance framework, in contrast, established criteria to determine the frequency of engagement, which included the urgency of the problem, a country's specific circumstances, and other competing policy issues. While these criteria could constitute the fourth filter, it seems unlikely that they could be applied in a manner consistent with the uniformity of treatment principle.

The lack of a fourth filter opens the door to several options, including the possibility of establishing a "new core." While the 2022 Guidance Note did not specify a fourth filter for all structural issues, it did contain another option. It discussed using the criteria of severity and urgency solely for macrocritical climate issues. Alternatively, this fourth filter could be obviated by bridging a gap in the ISD between traditional core policies and at least some newer policy areas. More precisely, the ISD affirmed that the Fund's bilateral surveillance should always focus on traditional core policies, whereas newer policy areas would be subject to the macrocriticality test. A new surveillance decision could therefore elevate one or more of the newer policy areas to the "core," as was done with the financial sector in the 2007 Decision.[34] Another option would be to explicitly establish a requirement for newer macrocritical policies, to be covered within a specific time frame or with a sequencing framework. Furthermore, a new surveillance decision could bridge a gap in the ISD between bilateral and multilateral surveillance (Box 3).[35]

Whether or not the Fund establishes a filter to determine the frequency of coverage, it will be important to ensure that the interdepartmental review process is consistent with Article IV guidance to avoid a checklist mentality. While the Board, management, and staff appear to share a view that every macrocritical issue does not need to be included in each Article IV report, interviews conducted for this evaluation revealed general pressure from the interdepartmental review process to cover specific areas in every report.[36] An analysis of Article IV staff reports lends support to this perception, since nearly all reports covered governance, social spending, and climate change issues, at least to some extent, in the last two years of our data (Figure 13). Overcoming this perceived checklist approach may require a concerted effort by the Board, management, and staff reviewers in order to avoid an expectation of coverage, independent from a review of past Article IV reports and planned future examinations.

[34] In 2006, *The Managing Director's Report on Implementing the Fund's Medium-Term Strategy* stated that the "coverage of financial sector issues in Article IVs needs to be elevated to a higher level … to give financial issues coverage that is at least on par with, say, the traditional fiscal policy analysis found in Article IV reports" (IMF, 2006a). This suggestion was later formalized in the 2007 Decision (see Box 1, Section 2).

[35] Bossone (2024) elaborates on proposals to improve the ISD.

[36] There are different interdepartmental review processes for country work, policy work, Staff Discussion Notes (SDNs), and multilateral surveillance products. The steps involved in country work, which includes Article IV staff reports, broadly are as follows: (i) early engagement with SPR (and other relevant departments) to ensure that all relevant topics are covered in the initial draft; (ii) formal interdepartmental reviews, where reviewers produce comments that are focused on the areas for which their department is responsible; (iii) SPR clearance of the revised document to ensure the main comments have been addressed; and (iv) management review and clearance, "to mediate key departmental differences, make judgment calls on options," and endorse the report (IMF, 2023e).

BOX 3. COVERAGE OF CLIMATE CHANGE MITIGATION

As part of the 2021 CSR, the Board approved a background paper on integrating climate change into Article IV consultations (IMF, 2021f). This paper focused on three types of policy challenges: (i) mitigation; (ii) adaptation; and (iii) managing the transition to a low-carbon economy. The latter two types were deemed *domestic policy challenges*; thus, coverage was warranted under the ISD's bilateral surveillance provisions, "provided they cross the threshold of macro-criticality." On the other hand, this paper determined that "climate change mitigation is *not* primarily a domestic policy challenge" because an individual country's policies would be insufficient to prevent climate change on their own. Nevertheless, this paper pointed out that the global "macroeconomic relevance of climate change mitigation is beyond doubt."

This raised two important questions about the extent to which climate change mitigation can be covered in Article IV consultations under the ISD's multilateral spillover provision, which covers "domestic economic and financial policies that may significantly influence the effective operation of the international monetary system" (IMF, 2012):

- First, to what extent are climate change mitigation policies considered economic and financial policies and, if so, can the Fund cover the spillover effects from the absence of such a mitigation policy?[1] The CSR background paper implicitly answers this question affirmatively, thereby allowing for coverage of climate change mitigation policies, even in their absence.

- Second, how should the Fund determine if the spillover effects of a member's policies, or their absence, *significantly* influence the effective operation of the IMS? The CSR background paper acknowledged the difficulty in establishing a straightforward assessment and proposed a pragmatic approach. It *strongly* encouraged covering a country's contribution to the global mitigation effort for the 20 largest emitters of greenhouse gases[2] and, for all other countries, coverage was encouraged, but not necessarily expected. This proposal raised a debate at the CSR's Board discussion with numerous Executive Directors emphasizing that coverage should be voluntary and demand driven, i.e., at the request of country authorities.

The 2022 Guidance Note attempted to clarify the what, when, and how of the Fund's coverage of climate change mitigation issues, while affirming that coverage under multilateral surveillance would be "voluntary but strongly encouraged." The internal version of the 2022 Guidance Note added context to this notion by asking country teams for the top 20 emitters to discuss coverage of multilateral aspects of climate mitigation with the authorities, and, if the authorities were not willing to engage, to reflect the authorities' reservations in a back-to-office report. The internal 2022 Guidance Note did not clarify what should happen, if anything, beyond that step. Thus, questions remain regarding the expectation of coverage of climate change mitigation for the 20 largest emitters, as well as its depth and frequency.

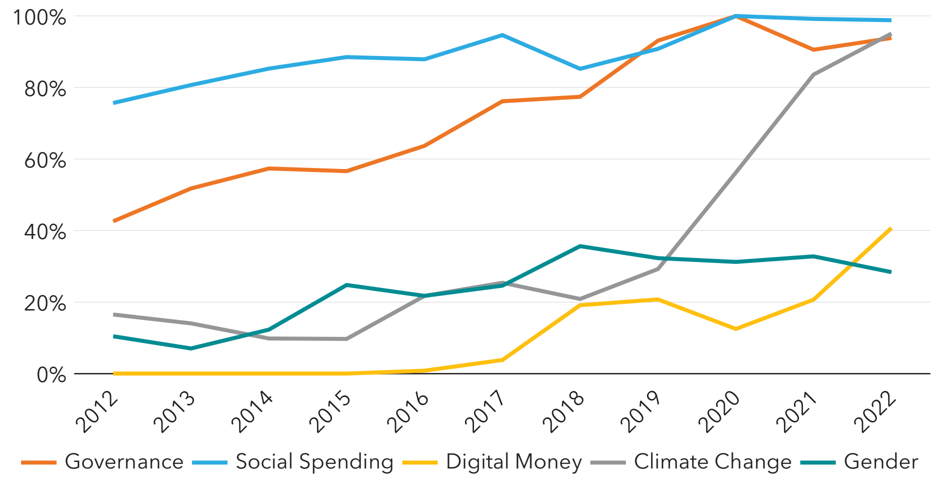
Source: Authors' assessment.

[1] In the Board minutes on the 2021 CSR and the climate change strategy, several Executive Directors expressed the view that at least some climate change mitigation policies fall outside the economic and financial realm and therefore extend beyond the Fund's expertise and mandate (IMF, 2021g; j).

[2] The background paper noted the existence of valid concerns as to whether current greenhouse gas emissions constitute an appropriate standard for determining significance. In the accompanying Board minutes, as well as the Board minutes on the climate change strategy, several Executive Directors took issue with using this yardstick and expressed a preference for factoring in a country's historical contributions to the emission of greenhouse gases (IMF, 2021g; j).

FIGURE 13. COVERAGE OF STRUCTURAL ISSUES IN ARTICLE IV STAFF REPORTS

(In percent of Article IV consultations)



Source: IEO staff calculations.

Note: This chart shows the percentage of Article IV staff reports containing at least three paragraphs covering each issue. The analysis utilizes the Fund Document Extraction Tool (FDET) developed by the Information Technology Department. This chart covers all 1,192 Article IV reports available in FDET for the period 2012–22.

UNIFORMITY OF TREATMENT: A NEW APPROACH TO ASSESSING EVENHANDEDNESS?

Traction of the Fund's policy advice, which is a main objective of its surveillance, partially depends on the extent to which members believe the Fund's treatment is uniform, i.e., evenhanded. The objective of "uniformity of treatment" has been operationalized via the concept of "evenhandedness."[37] The ISD stated that the Fund "will be evenhanded across members, affording similar treatment to members in similar relevant circumstances." When the Board approved the ISD, the accompanying Board minutes reflected a concern about the extent to which Fund surveillance could be applied consistently, i.e., in an evenhanded manner, while maintaining sufficient flexibility to adapt to country-specific circumstances (IMF, 2012). The 2014 TSR recommended a new approach to assessing evenhandedness based on inputs to rather than outputs from surveillance. Inputs refer to resources, such as the number and experience of staff, as well as the depth of analysis. Outputs from surveillance, meanwhile, refer to the particular policy advice and the way it is presented. Management and staff subsequently proposed a framework for addressing concerns related to the evenhandedness of Fund surveillance (IMF, 2016b).

The 2016 evenhandedness framework left open two important questions: (10) How should staff determine which "similar circumstances" are relevant when assessing evenhandedness ... The definition of evenhandedness in the 2016 framework departed slightly from the one contained in the ISD, when it noted that "countries in similar circumstances should be treated similarly." In other words, it omitted the term "relevant" as a qualifier for "similar circumstances," thereby widening the filter. This raised an important question because the overall circumstances facing every individual member country are unique, at least to some extent. So, in principle, an approach that excludes a relevance filter could imply that any pair of countries could be treated differently and still meet the evenhandedness criteria. On the other hand, with the narrower relevance filter, treating two countries differently on a specific structural issue would

[37] The specific notion of uniform treatment was mentioned at least as far back as the 2002 Guidelines on Conditionality, which state that the "Fund will ensure consistency in the application of policies relating to the use of its resources with a view to maintaining the uniform treatment of members" (IMF, 2002).

be evenhanded only if the country circumstances relevant to that particular issue are different.[38] The 2022 Guidance Note, when discussing evenhandedness, stated that "relevant country circumstances can include, but are not limited to, the income level, fragility and vulnerability of the members, institutional capacity, data adequacy, and whether the country member is engaged in Fund-supported programs or is a member of a currency or other economic union." While this formulation of the evenhandedness concept helped reconcile the omission of the term "relevant" in other instances, it did not offer staff any practical guidance on determining which of those country circumstances would be relevant for assessing evenhandedness on a specific issue.

… and (11) to what extent does the application of risk-adjusted inputs lead to outputs that both are and are perceived to be uniform in treatment?[39] In the framework's Summing Up, Executive Directors "emphasized that the 'outputs' of surveillance—effectively, the Fund's policy analysis and advice as well as their presentation—should continue to be the primary basis for gauging evenhandedness" (IMF, 2016a). This reflected a concern that applying evenhanded risk-adjusted inputs could result in surveillance outputs that either are or are perceived to be lacking in uniformity of treatment. The 2022 Guidance Note provided some additional details to encourage greater consistency in risk-adjusted inputs, which "could include choices about: (i) the focus of resources; (ii) the depth of risk and spillovers analysis; (iii) the analytical approaches and tools; (iv) the selection of policy themes; and (v) the approach to contentious issues." These choices, nevertheless, imply that the Fund could evenhandedly differentiate its policy advice between countries facing similar circumstances, solely based on the issues being more contentious for one country's authorities. The Executive Directors' and authorities' persistent concerns about a lack of evenhandedness suggest that such differentiated outputs would at least be perceived as failing to adhere to the uniformity of treatment principle.

This evaluation found a lack of clarity on both questions surrounding the five specific strategies. On question (10), only the governance and gender strategies addressed this question, and each took a different approach.[40] On question (11), the five specific strategies each referred to the goal of making surveillance evenhanded, but rarely mentioned the input-based approach or offered practical guidance to staff on how to ensure countries are treated uniformly.

While the Fund evidently sought to clarify how the concept of evenhandedness should be assessed in surveillance, and to promote a consistent use of risk-adjusted inputs, this evaluation found that enhanced clarity still is needed. More specifically, results from the IEO's survey showed that nearly half of respondents (46 and 48 percent, respectively) did not agree that the macrocriticality test or the determination of whether the IMF has expertise were conducted in an evenhanded manner across the five newer policy areas (Figure 14). Fund staff, in interviews, also acknowledged difficulty assessing evenhandedness, given the number of different factors that informed their decisions on when and how to engage on structural issues.

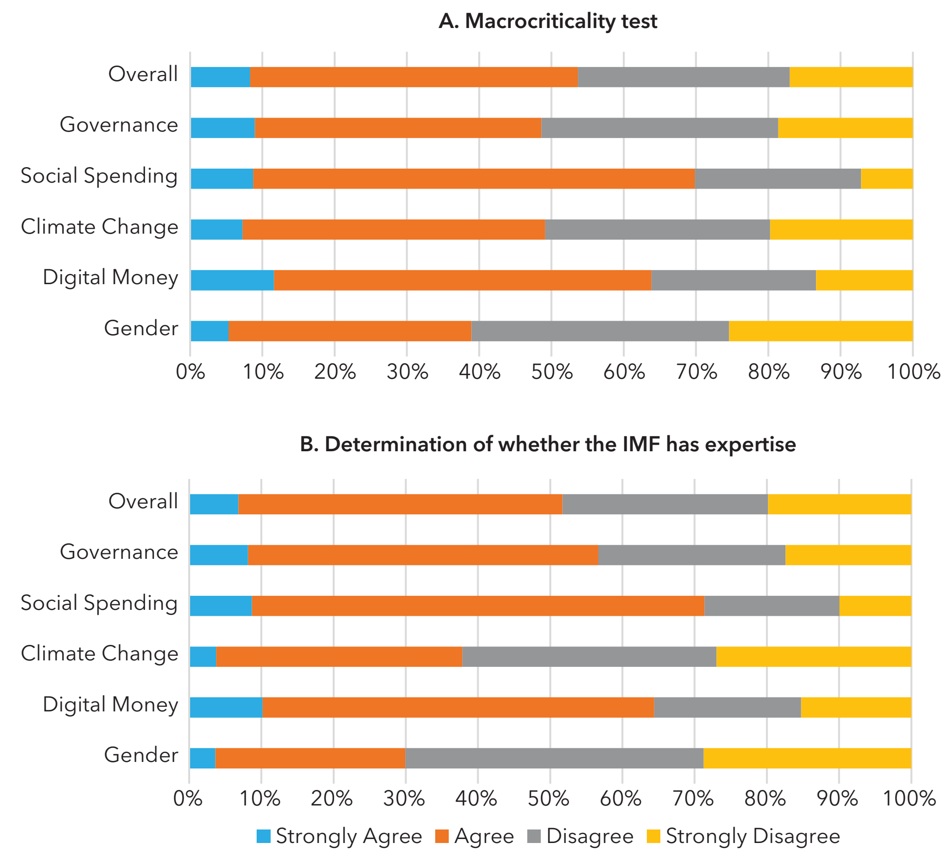
[38] For example, the governance framework called for "a centralized, institutional process to ensure that similarly-situated countries (in terms of their governance vulnerabilities) are treated similarly" (IMF, 2018b). In this context, a country's region or income level would seem to be largely irrelevant to assessing governance vulnerabilities. Nevertheless, in reviewing the 1997 Guidance Note, many Fund mission chiefs expressed a view that the Fund lacked evenhandedness in addressing governance vulnerabilities, either because "the Fund was more lenient towards countries from certain regions," or it "tended to overlook corruption problems … in advanced economies." Country authorities similarly cited a "lack of discussion of corruption in advanced economies" as indicating a lack of evenhandedness (IMF, 2017b). These perceptions would reflect a formal lack of evenhandedness only if a narrower relevance filter were applied, so that similar governance vulnerabilities would require similar treatment, irrespective of region and income level.

[39] "Risk-adjusted," in this case, refers to inputs that account for "risks to a country's own domestic and external stability, as well as global economic and financial stability" (IMF, 2016b).

[40] As seen in footnote 38, the governance framework aimed to ensure that similarly-situated countries (in terms of their governance vulnerabilities) are treated similarly, while the gender strategy, in contrast, suggested that "[c]ountries in similar circumstances should be treated in a similar manner, considering domestic and cross-country risks, resource constraints, the availability of analytical tools and data, and coverage of different policy themes" (IMF, 2022c).

FIGURE 14. EVENHANDEDNESS

To what extent do you agree that _____ was conducted in a manner consistent with the uniformity-of-treatment principle (i.e., evenhandedness) in the following areas?



Source: IEO survey of Fund staff.

5 ENGAGEMENT WITH PARTNERS[41]

This section assesses the Fund's framework of engagement with external partners, which resulted in Key Finding 3, summarized in Section 6.

SCOPE AND MODALITIES: A DIVERSITY OF APPROACHES

The Fund's original 1944 Articles of Agreement already contemplated its cooperation with other international organizations, thereby enabling longstanding formal frameworks of engagement. Article X provides that "[t]he Fund shall cooperate within the terms of this Agreement with any general international organization and with public international organizations having specialized responsibilities in related fields" (IMF, 2020a). The Fund has engaged in longstanding cooperation arrangements with organizations such as the World Bank, United Nations (UN), World Trade Organization (WTO), and the Financial Stability Board (FSB). This has been carried out through formal frameworks that have ranged from concise bullet point notations to detailed agreements, yet all setting out modalities regarding the division of responsibilities of both partner organizations. Examples of policy areas included debt sustainability, financial sector assessment, financing for development, and macroeconomic aspects of trade policy. In most cases, the work in these areas was instituted prior to the evaluation period, and the associated frameworks were preceded by informal arrangements.

During the evaluation period, the Fund also engaged with other external partners in newer policy areas through informal and ad hoc arrangements.[42] Examples of organizations with whom the Fund engaged through informal arrangements included: UN Women for work on gender mainstreaming; the Organization for Economic Co-operation and Development (OECD) and Food and Agriculture Organization (FAO) for work on climate change; and the Bank for International Settlement (BIS) on digital money. Examples of ad hoc arrangements included IMF engagement on the Multilateral Leaders Task Force on COVID-19 Vaccinations with the World Bank Group, World Health Organization (WHO), and the WTO; a food security Working Group including the FAO, World Bank, and WTO; and Executive Board meetings with the UN ECOSOC and other international organizations.

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[41] This section primarily draws from Abrams and Rustomjee (2024). Further evidence regarding the effectiveness of Fund engagement in newer policy areas is provided in IEO (2020b). This paper uses the term "partners" and "partnerships" as common non-legal terms to refer to external parties with whom the IMF may engage when carrying out work in connection with the application of its mandate.

[42] See Annex 3 for more details on select framework arrangements for Fund engagement with external partners during 2012–23.

During the evaluation period, the Fund dubbed various types of engagement with external partners as "collaboration," although this conflates terminology. The hallmark of collaboration involves working together based on shared interests to achieve shared goals that cannot be reached independently.[43] An external partnership that involves shared objectives is another type of collaboration. However, some Fund engagement with external partners did not meet these features and took different forms, such as (i) coordination, which in its own right is merely a mechanism or means of facilitation; (ii) cooperation, which involves an agreement to accomplish separate goals; (iii) convening, which is a means to bring actors together to act collectively; and (iv) orchestration, a type of convening where international organizations have specific goals that they accomplish through intermediaries. Staff also drew on the resources (such as through extraction of data or research) of external partners without actual engagement, which does not constitute cooperation or collaboration, as that would require some type of arrangement to work together.

Fund engagement with external partners occurred both at the high level across institutions and at the operational staff level. Engagement with external partners ranged from high-level institutional coordination or collaboration as a joint effort between the Managing Director and the head(s) of (an)other organization(s)[44] to Fund engagement at the operational staff level, including at the country or regional level and through periodic or occasional meetings. The engagements were undertaken through a wide range of forms, including coordination, cooperation, collaboration, information sharing, preparing joint analytical products, and/or participating in joint missions.

Other international organizations also sought out the Fund when carrying out their purposes, weighing on its comparative advantage on signaling and traction. Other international organizations recognized that the Fund has a preeminent comparative advantage in macroeconomic analysis and access to and traction with ministries of finance. In this respect, evidence from interviews for this evaluation, as well as previous IEO evaluations, indicate that engagement with the Fund is often essential for external stakeholders as a means for access to and traction with officials who hold the purse strings, even in the case of policies outside the Fund's traditional remit. Interviewees underscored, however, that even while assisting external partners in this context, the Fund must strive to remain within its sphere of expertise.

Both internal and external stakeholders acknowledged the usefulness of having formal frameworks when initiating engagement with external partners in new policy areas. As reflected in interviews, surveys, and questionnaires conducted for this evaluation, formal arrangements were viewed as particularly useful in order to lay out shared objectives and establish expectations and boundaries related to the respective mandates of the Fund and partner organizations. The implications of this are twofold. First, it is essential for the Fund to foster and maintain ongoing relationships with other organizations so as to understand the boundaries of their mandates and synergies with the Fund. Second, early formal frameworks, at the start of an engagement, are preferred over informal arrangements or delayed formal frameworks, to ensure shared objectives, alignment of incentives, complementarity, a proper division of expertise, and the aim for effective outcomes. These frameworks could be designed with a degree of flexibility to address key concerns expressed by some Fund staff and Executive Directors.

[43] An example of collaboration is the Joint IMF–World Bank Debt Sustainability Framework developed for the shared purpose of assessing debt vulnerabilities. In this example, each institution provides data and analysis based on its own expertise, and staff produce a joint report, which is used by both institutions as input for policy advice and lending decisions, albeit executed independently.

[44] For example, in September 2023, the heads of the IMF and World Bank announced a renewed phase of collaboration premised on specialist expertise. In a joint statement issued in the run-up to the G20 Leaders' Summit, the IMF Managing Director and newly appointed World Bank President pledged that the two organizations would collaborate more closely in the areas of climate change, debt vulnerabilities, and the digital transition. They aimed to achieve this by drawing on each organization's respective mandate and expertise, as well as by building on their long history of joint action and collaboration frameworks, for example, in the areas of financial sector and debt sustainability assessment, and through mechanisms including the 1989 Concordat, the 2007 Joint Management Action Plan, and the creation of a Bank-Fund Climate Advisory Group.

ENGAGEMENT WITH PARTNERS: LACK OF A COHERENT FRAMEWORK

The depth of treatment of engagement with partners generally increased over time, paving the way for a more coherent framework for engagement with external partners. As evidenced by a desk analysis for this evaluation, the depth of treatment of engagement with partners generally increased over time among most of the five specific strategies, enhancing the efficiency of allocation of resources.[45] This enhanced treatment has been conducted in an ad hoc manner, as there is no consolidated management or Board-approved Fund strategy, policy, or guidance on engagement with external partners. The increased depth of treatment in newer policy areas greatly enhanced the Fund's move towards a coherent framework for engagement with external partners as compared to existing surveillance and lending policies, which primarily relied on generic language noting that staff "could" or "should" rely on external partners, but without further explication of how to do so.

For surveillance and lending, the depth of treatment of engagement with external partners in guidance notes varied, and in some cases was inconsistent. As in previous IEO evaluations, a majority of staff survey respondents and interviewees for this evaluation believed that surveillance guidance notes were not clear about when and how to engage with external partners. For example, while the 2022 update of the Surveillance Guidance Note incorporated references to collaboration with the World Bank on newer policy issues, only in the case of inclusion and gender did it discuss collaboration with other external partners beyond the World Bank. The text continued primarily to rely on generalized statements, such as "[c]ollaboration with other IFIs, in particular the World Bank, where applicable in surveillance can maximize synergies between each institution's areas of comparative advantage." On lending, desk analysis conducted for this evaluation found that guidance notes for lending under the PRGT were consistent and coherent across the evaluation period, even as Fund facilities and modalities for engagement (primarily with the World Bank) continued to shift. However, while some specific mechanisms were present, there was no consolidated policy or operational guidance regarding collaboration in the cases of GRA-supported arrangements, even while these programs may increasingly address newer policy areas.[46]

The monitoring mechanisms related to engagement with external partners were mixed. For management and staff, while existing Fund monitoring mechanisms potentially allow for monitoring engagement, there is scope for enhancing their use. There is evidence that departmental accountability frameworks were used by staff in some departments to highlight intended objectives related to collaboration and coordination with external partners, including in the case of newer policy areas. On the other hand, IEO (2020b) evidence and staff feedback during this assessment indicated that that there was little SPR review regarding collaboration in the context of surveillance. Despite the requirement to provide information in staff reports regarding engagement with other organizations, Executive Directors continued to lack detailed information in the context of surveillance regarding the extent to which, and how, the Fund relies on engagement with external partners in newer policy areas. Many Executive Directors believed it would be appropriate for the Board to be more involved in monitoring Fund engagement with external partners.

Real-time monitoring of Fund conditionality design based on input from external partners was discontinued. While there is no cross-conditionality in IMF programs, when designing conditionality in a policy area outside the traditional core, the Fund needs to rely on other organizations with sectoral or thematic expertise. The capacity to track which organizations assisted the Fund in designing conditionality or responsible lead agency for policies in shared or newer policy areas that featured in Fund-supported programs was reduced over the evaluation period and has since been discontinued. The Fund used to

[45] The analysis examined the extent to which each strategy incorporated a discussion of engagement with other organizations across six dimensions corresponding to the standard OECD-DAC evaluation criteria, with each strategy assigned a depth rating. The Gender Mainstreaming Strategy was rated "high" and the Climate Strategy was rated "substantial." For a detailed assessment of depth of treatment of engagement with partners, see Abrams and Rustomjee (2024).

[46] Two specific mechanisms include the principles for IMF collaboration with RFAs and the coordination framework between the IMF and the World Bank in place at the time the RST was established. However, they do not apply in the case of all GRA lending across the membership.

have the capacity to efficiently and systematically report this information through the use of a dedicated field in the Monitoring of Fund Arrangements (MONA) database. As discussed in the IEO evaluation update on Fund structural conditionality (IEO, 2018b), the field was rarely populated and, during a MONA revamp pilot project, was made optional. Since then, the field has been removed from the template.

There is also no institutional self-evaluation framework for engagement with external partners. Self-evaluation of engagement with external partners is in place only for the Fund's CD work. There has never been a comprehensive review of Fund engagement with other organizations, nor has there been a review of Fund–World Bank collaboration since 2010.

6 KEY FINDINGS

Drawing from the previous sections' findings, this section summarizes the key findings of the evaluation related to Fund engagement in newer policy areas. It first develops the overall findings, followed by eight more specific findings organized around seven evaluation criteria: comprehensiveness, coherence, inclusiveness, transparency, clarity, flexibility, and consistency. These findings guide the evaluation recommendations in the next section.

OVERALL FINDINGS

The built-in flexibility of the IMF's mandate has allowed the Fund to engage in a wide range of newer policy areas that go beyond the traditional focus on exchange rate, monetary, fiscal, and financial sector policies. As elaborated in Section 2, the Fund's legal mandate has not changed since the Second Amendment of the Articles of Agreement in 1978. Using the flexibility provided by the Articles, successive Board decisions have expanded the policies subject to Fund surveillance. The inclusion of financial sector policies in the 2007 Bilateral Surveillance Decision, on par with exchange rate, monetary, and fiscal policies, showed that the specific policies the membership considers central to Fund surveillance can evolve over time. Subsequently, and particularly since the approval of the ISD in 2012, an array of newer policy areas identified as particularly important, or that are covered under the macrocriticality criterion, have been incrementally incorporated into IMF surveillance. This evaluation has focused primarily on the lessons learned from the expansion of Fund engagement in the five policy areas, which resulted in specific Board-approved strategies, i.e., governance, social spending, digital money, climate change, and gender. However, the list of newer policy areas that various Board decisions have signaled as priorities for the Fund, and that may well be further institutionalized in the future, is larger and continuously evolving.[47]

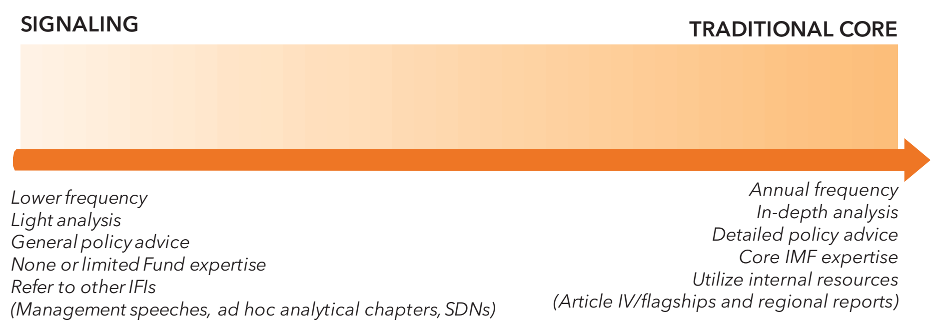
This widened scope has allowed the Fund to adapt to a rapidly changing global economy and has been aligned with members' preferences and needs. The number of newer macrocritical policy areas has increased rapidly, driven both by the global economy's swift evolution, characterized in the last decade by increased multipolarity and a shock-prone context, and by a deeper understanding of how these newer policy areas significantly impact long-term economic stability. There was a broad consensus across the membership that both traditional core and newer policy areas were relevant and reflected important needs and priorities of the Fund's membership, albeit with different degrees of preference within the newer policy areas and the extent to which the Fund should engage in them.

[47] The list of policy areas endorsed by Board decisions includes growth, infrastructure, labor markets, social safety nets, public sector enterprises, mainstreaming macrofinancial analysis, health, inequality, demographics, technological change, cyber and fintech risks, and sociopolitical and geopolitical developments (Figure 3). Further, this is a living list, and the Fund is already engaging in additional newer policy areas, such as artificial intelligence and industrial policies. While some policy areas have evolved into formal strategies or policies, Fund engagement in others has remained less defined, even in cases where they are prominently featured in surveillance activities.

However, the incremental, relatively condensed, and ad hoc nature of the process of engaging in newer macrocritical policy areas has created confusion and several operationalization challenges within the Scope-Traction-Resources trilemma. The five policy areas that resulted in specific strategies were approved by the Board between 2018 and 2022. They were established and operationalized through ad hoc processes that did not consider all relevant elements or broader strategic questions about the Fund's role, and were not coupled with a proportionate increase in funding. This enlarging scope, in a mostly flat real budget environment, was addressed through a combination of reprioritizations, internal savings, high work pressures for staff, and uneven coverage within and between the traditional and newer policy areas in terms of quality, depth, frequency, and perceived uniformity of treatment. This, in turn, affected the traction of the Fund's analysis and policy advice. Further, the principles of engagement in newer policy areas have left a number of open questions (Table 3), creating confusion and a lack of a common understanding among staff, management, the Board, and external stakeholders about the coverage of newer policy areas in surveillance.

Looking forward, the tensions within the Scope-Traction-Resources trilemma can be addressed in a number of different ways. The Board and management could prioritize and reduce the number of policy areas within the scope or align available resources with the existing scope by increasing the Fund's budget beyond the 2021 Budget Augmentation Framework. These options have proven difficult, as, to date, none of the newer policy areas have been determined to be no longer macrocritical or relevant to Fund surveillance. On resources, the Board approved a Budget Augmentation Framework in 2021, lowering management's initial request and viewing it as a one-off measure, returning to a real flat-real budget once implemented. An alternative approach could be to modulate the coverage of newer macrocritical policy areas across a spectrum of engagement with differing degrees of depth, frequency, and reliance on the expertise of other institutions versus developing IMF expertise (Figure 15). Fund engagement in macrocritical policy areas does not need to be binary. There are various incremental options: on one end, the Fund could signal the macrocriticality of a policy area, with low frequency or episodic engagement, and, if needed, leave more in-depth engagement to other institutions; and on the other end, the Fund could provide annual in-depth coverage based on comprehensive IMF expertise, as is the case with traditional core policies. Different macrocritical policy areas could be covered intermittently across this spectrum (with appropriate sequencing among them), with varying levels of depth and reliance on the knowledge of external partners, and with the possibility of some demand-driven coverage based on authorities' interests.

FIGURE 15. A SPECTRUM APPROACH TO MACROCRITICAL ISSUES IN FUND SURVEILLANCE



Source: IEO staff.

SPECIFIC FINDINGS

Comprehensiveness and Coherence

Was all relevant information considered, and were possible alternatives explored, as well as their resource and risk management implications? Did the Fund have a coherent framework in place to engage with partners?

Finding 1: Decisions on Fund engagement in newer policy areas were undertaken in an ad hoc manner without a strategic longer-term anchor to guide them. The main instrument for discussing broader Fund-wide strategic questions was the GPA, which did not reflect a medium-term orientation and was prepared by management with a limited role for the Board. The GPA's frequency also created an incentive to bring up new policy areas on a regular basis to avoid repetition. The absence of a Fund-wide, institutional strategy for engagement in newer policy areas did not allow to anchor discussions in a broader strategic reflection of the role of the Fund and resulted in ad hoc decisions on specific strategies. This prevented discussions around which macrocritical policy areas were considered more relevant for Fund engagement, how to prioritize among them once decided, and how to qualify the extent to which the Fund should engage in them. Further, risk management was limited to analyzing risks of individual strategies or policies on an ad hoc basis, without the context of a broader institutional strategy and an analysis of the longer-term risks for the Fund as an institution.

Finding 2: The decisions related to Fund engagement in newer policy areas and their resource and risk implications were taken in a piecemeal way, resulting in misalignments between the ambition expressed in the policy decisions and the resources committed to implementing them. For some newer policy areas, this resulted in significant differences between the resources deemed necessary by staff and the resources the Board was willing to allocate. This required previously endorsed strategies to be scaled down in scope after having been formally discussed by the Board and published externally. A more holistic approach does not preclude an iterative process in which a proposed strategy or policy is rightsized by aligning its scope, allocated resources, and risk management implications, but implies that its formal endorsement and external publication only takes place when there is an agreement on all these elements. While the approval of the Budget Augmentation Framework increased the Fund's budget in 2021, it only provided additional resources and set priorities for five select workstreams. This framework was a step forward in providing better information and different options, but still fell short of a fully integrated decision-making process that allowed for prioritization and trade-offs across all Fund activities. The lack of a holistic approach also impeded the follow-up of suggested risk mitigation measures in the implementation of Fund strategies for newer policy areas.

Finding 3: While elements of a coherent approach are in place, there is currently no comprehensive institutional approach for Fund engagement with partners. The Fund's engagement with its respective partners is characterized by a diverse approach that ranges from formal frameworks that have been developed over the years in longstanding policy areas, to informal or ad hoc arrangements, particularly in newer policy areas. While this approach has provided the needed flexibility, the increasing number of partners and casuistic types of arrangements have introduced risks for the coherence of frameworks across the institution. Further, experience with the monitoring mechanisms related to engagement with external partners was mixed, and there is no institutional self-evaluation framework for engagement with external partners other than for CD. The different arrangements already provide the nascent elements of an overarching institutional approach for engagement with partners, which can be built upon.

Inclusiveness

Throughout the decision-making process to determine Fund engagement in newer policy areas, were all relevant stakeholders involved in an evenhanded way, and were their perspectives and interests considered?

Finding 4: Engagement with the Board, as part of the decision-making process that resulted in Fund engagement in the five specific strategies, was not fully inclusive. The various newer policy areas underwent comprehensive processes that progressed through a series of carefully ordered phases that included consultation, analysis, strategy formulation, decision making, pilot testing, and reviews. These stages engaged an extensive array of stakeholders, encompassing the Board, authorities, management, staff, other organizations, CSOs, and experts (Section 3). However, there was a perception among most Executive Directors that through these processes, the choices related to how, and to what extent, to engage in newer policy areas were largely driven by the Managing Director (because of lack of consensus in the Board) and the preferences of some key members (because of their voting power). In all cases under review, initiatives for engagement in newer policy areas were set in motion by the Managing Director through the GPA and the Work Program. Once the Managing Director set such a process in motion, many Executive Directors indicated that the lack of a strategic anchor to guide decisions on engagement in newer policy areas, made it challenging to correct course. While the Board held 20 informal and eight formal Board meetings to discuss the governance, social spending, climate change, digital money, and gender strategies, the weight given to views from Executive Directors tended to reflect their voting power, which intertwined with the broader discussion on members' voice and representation and quota shares no longer reflecting their position in the global economy. Moreover, not all Executive Directors had the same opportunity to shape the proposals. In parallel to the Board meetings, management and staff also held informal bilateral consultations with Executive Directors, but not always with all of them or with all of them to the same extent, which led to changes to the proposals only known to or reflecting the views of a select group of Executive Directors.

Transparency

Was adequate information to consider Fund engagement in newer policy areas available to all relevant stakeholders and open to scrutiny?

Finding 5: The lack of more granular budget data by policy area limited the transparency of the decision-making process. The Fund's time management system did not allow it to systematically track what policy areas staff worked on and, therefore, did not generate the granular budget data needed to measure and monitor the real cost and the share of newer policy areas in the Fund's budget correctly. The lack of more granular budget data prevented the Executive Board from taking decisions informed by more precise data on how resources were allocated by policy area across all Fund activities, thereby reducing the transparency of the decision-making process.

Finding 6: The discussion of risks related to Fund engagement in newer policy areas was limited, ad hoc, and lacked a comprehensive risk assessment. The documents for the governance, social spending, digital money, climate, and gender strategies covered risks in a very limited and high-level manner. Annual risk reports did not discuss specific risks related to newer policy areas, and the Board discussion on the annual risk report, very much like the MTB discussions, took place ex post, when individual strategies or policies had already been endorsed by the Board. By committing to engage in several newer policy areas, the Fund has raised expectations among various constituencies, which entails reputational risk for the Fund if it is unable to meet these expectations. The recently approved ERM framework provides a framework to discuss all relevant risks related to the application of the Fund's mandate. Going forward, this framework should allow staff to prepare a comprehensive risk assessment when contemplating or reviewing Fund engagement in newer policy areas.[48]

Clarity

Were key criteria, priorities, and other concepts related to Fund engagement in newer policy areas clearly defined and understood?

Finding 7: There remains a lack of clarity regarding the Fund's principles for engagement on structural issues and their operationalization in surveillance. The Fund has adopted and refined four filters to enhance the relevance and value-added of the Fund's engagement on structural issues in surveillance. The four filters are (i) macrocriticality, to determine when to engage; (ii) IMF expertise, to determine whether to provide policy advice; (iii) relevance, severity, and urgency, to determine depth of engagement; and (iv) an undefined filter to determine the frequency of engagement. This framework, however, left open important questions regarding its implementation (see Table 3). Subsequently, the Fund adopted strategies to support more systematic engagement on five specific

[48] Annex 4 summarizes our assessment of the enterprise risks identified through the evaluation process.

structural issues. This evaluation found that the five specific strategies and corresponding guidance notes have addressed those questions insufficiently and, at times, offered conflicting approaches for implementing the filters. Further, in interviews and the IEO's survey, the Board and staff expressed concerns about these concepts being too vague to implement effectively. This lack of clarity may impair the quality and consistency of the Fund's engagement on structural issues and ultimately hinder its traction. Alternatively, benefits arise from maintaining "strategic ambiguity." For example, a lack of clarity may enable the Fund to tailor its bilateral surveillance more strategically to country-specific circumstances. The optimal amount of clarity will therefore remain an important question for the Fund's stakeholders to address now and for the foreseeable future.

Flexibility and Consistency

To what extent do key criteria, priorities, and concepts related to Fund engagement in newer policy areas balance the objective of adapting surveillance to evolving resources, risks, and country circumstances while providing consistent high-quality policy advice and ensuring greater uniformity of treatment?

Finding 8: The Fund's principles for engagement on structural issues and their operationalization in surveillance are better suited to retaining flexibility than ensuring consistency. A recurring theme in this evaluation is that the Board, management, and staff have been trying to balance the objectives of enhancing the traction of policy advice, expanding the scope of activities, and limiting an increase in resources. Given the desire to maintain a largely flat budget in real terms, the four filters broadly serve two competing purposes: (i) to permit flexibility in the application of Fund surveillance, thus allowing resources, risks, and country circumstances to play their respective roles; and (ii) to limit the application of Fund surveillance to issues where it can provide high-quality policy advice and make the Fund's engagement more consistent, thereby ensuring greater uniformity of treatment. This evaluation found that the filters are currently better suited to flexibility. They constitute a relatively low hurdle for the Fund to engage in newer policy areas and to adapt the provision of policy advice, as well as the depth and frequency of engagement, to country-specific circumstances in a context of limited resources. The Fund also has adapted the concept of evenhandedness, resulting in greater flexibility in conforming to the objective of uniformity of treatment. While interviews revealed that this flexibility reflects the Board and staff's desire to retain a significant degree of judgment on these matters, they also voiced concerns that the expanding scope is affecting the quality of Fund surveillance and that the inconsistency is leading to a lack of uniformity of treatment. The Fund should therefore continue to adjust the balance between these competing purposes towards an overarching objective of enhancing the traction of Fund analysis and policy advice.

RECOMMENDATIONS

Recommendation 1: The Board and management should enhance the decision-making process by (i) developing an inclusive Fund-wide institutional strategy for Fund engagement in newer policy areas; and (ii) taking a more holistic approach when endorsing individual strategies for newer policy areas by better linking decisions related to scope, required resources, and risk management implications. Suggestions include the following:

(i) A Fund-wide institutional strategy for engagement in newer policy areas that involves all Fund members in an inclusive manner would allow the Fund to take a step back and reflect on the Fund's role in the global economy. It would also enhance the comprehensiveness, coherence, and clarity of the Fund's engagement in both traditional core and newer policy areas. Such a strategy should be periodically reviewed, and should include the following elements:

- An assessment of the alternative options in terms of which policy areas to engage in and which not, and the desired level of engagement, which can range from simply signaling a policy area's macrocriticality while leaving more in-depth engagement to other institutions, to engagement on par with the traditional core policies in terms of policy advice, depth, and frequency of engagement.
- An assessment of how the abovementioned choices related to Fund engagement would affect the budget, overall size, and risk profile of the Fund, including their impact on staff in terms of work pressures and overall well-being, as well as how this positions the Fund in the international financial system.
- An assessment of the desired balance between retaining flexibility and ensuring consistency when implementing surveillance in newer policy areas, which can be developed through principles of engagement that answer the above questions, as well as the extent to which the Fund should adopt a narrow or broad interpretation of "similar circumstances" when assessing evenhandedness.

(ii) Endorsing individual strategies for newer policy areas in a more holistic way would enhance their transparency and coherence. Such a holistic approach can still be iterative, but the formal endorsement and publication of a strategy or policy for Fund engagement in a newer policy area should include the following elements:

- An assessment of the perimeter, depth, frequency, and required Fund expertise of the newer policy area.
- An assessment of the adequacy of the allocated resources, as well as where they will come from, to avoid unintentionally impacting other Fund activities or workstreams and placing unsustainable demands on staff.
- A comprehensive risk assessment covering the risks of engaging, as well as not engaging, in a newer policy area across all six Level-1 risks of the ERM framework.
- How the Fund intends to engage with other partners on the newer policy area and, ultimately, its consistency with the principles of engagement with partners (see Recommendation 4).

Recommendation 2: Management and staff should address operational challenges by producing budget data in a manner that allows tracking by policy area across all Fund activities and operations. The Board should consider what policy areas need to be tracked and the level of granularity required, balancing the need for more detailed data with the costs and complexities involved in providing such data. Suggestions include the following:

- Collecting, tracking, and reporting budget data in a multidimensional way, not just by output area, country grouping, and department, but also by policy area, across all Fund activities and operations, would allow the Fund to estimate the costs and resource needs more precisely. This would help the Board better understand how resources are allocated and enable it to recognize the impacts of trade-offs on new activities/workstreams as well as existing ones, so it can set priorities accordingly. However, collecting more comprehensive, granular budget data for all policy areas across all Fund activities may have significant resource implications, both in terms of dollars and staff time. It would require adapting the current time registration system or investing in a more modern, multidimensional system. It would also require additional inputs at the individual staff level to register what policy areas staff are working on in a regular and systematic way. Transitioning from the current system to a more comprehensive one would also involve process planning, change management, and managing risks related to compliance and data quality. To better balance these costs, the Board should review what policy areas need to be tracked and the level of granularity required.

Recommendation 3: Management and staff should update the 2022 Guidance Note for Surveillance Under Article IV Consultations in order to enhance the clarity of key elements regarding Fund surveillance in newer policy areas.

An updated Guidance Note should include more granular guidance on the filters for engagement on structural issues. This update would enhance the clarity and consistency of engagement in newer policy areas, including through better internal and external communications regarding the key elements of Fund surveillance in newer policy areas. The updated Guidance Note could include greater detail to answer the following questions related to Fund engagement in newer policy areas:

- *On the perimeter:* (i) How should staff determine if a structural issue is macrocritical; (ii) to what extent is coverage of macrocritical structural issues required; and (iii) what time horizon(s) should staff consider when making macrocriticality assessments?
- *On the provision of policy advice:* (i) How should staff determine if the Fund has expertise on a particular structural issue; (ii) to what extent should staff provide policy advice when Fund expertise exists but supply is lacking; and (iii) should the IMF expertise filter be applied at all?

- *On the depth:* (i) How should staff determine the relevance, severity, and urgency of a macrocritical structural issue, both independently and relative to others; and (ii) what are the different depths of engagement?
- *On the frequency:* How should staff determine when and how often to engage on a macrocritical structural issue?
- *On the uniformity of treatment:* (i) How should staff determine which similar circumstances are relevant when assessing evenhandedness; and (ii) should the Fund adopt an output-based approach to evenhandedness?

Recommendation 4: The IMF should adopt an Executive Board-approved high-level Statement of Principles for Engagement with Partners to establish a coherent best practice framework.

An Executive Board-approved high-level Statement of Principles would provide the Fund with an institutional anchor for engagement with partners. The principles approach would guide the motivating rationale, objectives, policies, monitoring, and evaluation criteria and modalities. At the same time, it should provide flexibility on the type of framework arrangement with a respective partner, be it formal, informal, or ad hoc. The establishment of principles would help mitigate risks related to time lags arising from the Fund's current model of "learning by doing" pilot projects, which it relies upon before adopting strategies in newer areas, and which inform decision making in relation to the expected engagement with partners when approving new policy areas.

BUDGETARY IMPLICATIONS

Recognizing the budgetary constraints throughout the Fund's activities, the recommendations aim to enhance and align with existing institutional efforts, including the pilot of a new strategic cycle, updates to guidance notes, and the continuous reinforcement of operational systems. Although these recommendations come with their own financial considerations, they are expected to have generally modest impacts on the overall budget. However, certain aspects, especially those related to strengthening the granularity of data, are likely to necessitate higher initial investments, depending on the requirements for information technology and data management system enhancements. The proposal for and implementation of a comprehensive, Fund-wide strategy for engaging in new policy areas is likely to incur some upfront costs. Nonetheless, the third and fourth recommendations are anticipated to bear minimal direct financial implications, concentrating on refining guidance for greater clarity and establishing principles for partnerships, respectively.

ANNEX 1

SURVEILLANCE REVIEWS POST ISD

Successive surveillance reviews following the ISD, as well as subsequent staff guidance notes and specific policy strategies, further clarified the surveillance priorities and proposed criteria to operationalize the principles guiding Fund engagement on newer policy areas. These reviews are discussed below.

Discussion during the 2014 TSR resulted in criteria for determining whether or not to engage in a specific area, with these criteria having been further clarified in a 2015 Guidance Note. During the 2014 TSR, discussion among management, staff, and the Board considered criteria that could be used to determine whether or not to engage in a specific area. Most Executive Directors supported developing clearer criteria for Fund engagement "based on macrocriticality and the Fund's expertise or interest in a 'critical mass' of the membership, leveraging the expertise of other international organizations and local experts where possible" (IMF, 2014c).[1] These criteria, as well as when and how to engage, were further clarified in the 2015 Guidance Note. The 2015 Guidance Note also specified eight additional policy areas that staff may wish to consider in Article IV consultations (jobs and growth, infrastructure, labor markets, social safety nets, public sector enterprises, governance, gender, and climate change), and noted that initiatives were already underway to enhance the analysis and coverage on inequality, climate change and energy policies, and gender issues (IMF, 2015b).[2]

The 2018 Interim Surveillance Review (ISR) reaffirmed the approach taken to date. It took stock of progress made in surveillance since the 2014 TSR and found that Fund surveillance had become better adapted to global conjuncture, more integrated, and more risk based. It also noted the work done on the additional policy areas of governance, inequality, gender, and climate. Work on these policy areas relied on a pilot approach to build knowledge and experience, and coverage had been selective and linked to macroeconomic importance. The ISR further confirmed that the criteria developed in 2014 for engagement in additional policy areas remained relevant (IMF, 2018a).

The 2021 CSR adopted a forward-looking approach and introduced the priority of economic sustainability. Originally scheduled for 2020 and delayed due to the severe impact of the COVID-19 pandemic on Fund operations, the CSR adopted a forward-looking approach to surveillance by trying to anticipate the challenges ahead in a shock-prone global

[1] An external study on Structural Policies in Fund Surveillance, prepared as part of the TSR, suggested that the Fund should look into some additional policy areas based on three criteria (macrocriticality, underemphasis by others, and whether the Fund has the necessary expertise). It suggested five specific structural policies for enhanced Fund surveillance: the curtailment of rent seeking, reform of public sector accounting, the regulation of utilities, tax reform, and pension reform (IMF, 2014a).

[2] The 2021 Supplement to the 2015 Guidance Note focused specifically on increasing the focus of surveillance on the impact of the COVID-19 pandemic and expanded flexibility in terms of the presentation of staff reports (IMF, 2021a). It did not have a significant impact on the application of the Fund's mandate.

economy. In this respect, it identified five trends that could adversely impact economic sustainability and therefore warrant attention in the period ahead: demographics, technological change, inequality, sociopolitical and geopolitical developments, and climate change. It identified four surveillance priorities to guide Fund surveillance: (i) confronting risks and uncertainties, particularly those of major underlying trends; (ii) preempting and mitigating adverse spillovers, particularly those from new and less well understood channels for contagion; (iii) fostering economic sustainability; and (iv) adopting a more unified approach to policy advice to promote greater coherence while accounting for country-specific circumstances (IMF, 2021c). The priority of economic sustainability is particularly relevant, as it broadens the time horizon and scope of surveillance (see Section 4.A)

Two other exercises—the 2017 Approach to Macrofinancial Surveillance and the 2021 FSAP Review: mainstreaming financial surveillance in Article IVs and broadening the risks to financial stability—provided further guidance in the conduct of surveillance. In line with the 2014 TSR, the 2017 Approach offered guidance to staff on tailoring macrofinancial analyses to the circumstances of a diverse set of economies and proposed mainstreaming it in Article IV consultations (IMF, 2017a). The 2021 FSAP Review further supported financial surveillance in Article IV consultations and strengthened the risk-based approach to mandatory FSAP assessments. The Review also emphasized the increasing importance for financial stability of risks arising from climate change, cyber, and fintech. It also proposed that future FSAPs strike a balance between traditional topics and these newer issues based on country circumstances, drawing both from collaborations with other organizations and from investing in in-house expertise (IMF, 2021e; Towe, 2024).

The 2022 Surveillance Guidance Note provided further guidance on the coverage of governance, inclusion (which includes social spending), climate, and gender. For example, governance weaknesses identified by an interdepartmental Governance Working Group are expected to be covered in depth in Article IV consultations at some point during the course of a medium-term surveillance cycle (normally three years). Climate change coverage in Article IV consultations should be selective, and the frequency would depend on the severity of the policy challenge and the pace at which it evolves, with staff reports providing updates on recent developments between in-depth assessments. Coverage cycles for climate change mitigation should be no longer than three years. However, the Guidance Note emphasized that, while discussing the contribution of the 20 largest greenhouse gas emitters to the global mitigation effort in Article IV consultations is strongly encouraged, covering these issues in Article IVs is voluntary for the authorities (IMF, 2022a).

In parallel to these surveillance (TSR, ISR, CSR) and policy reviews, the Fund has approved several specific policy strategies. Initially, much of this work was organized in pilot strategies over the period 2015–18 (IEO, 2020b), but eventually, the work was institutionalized in specific, formal strategies approved by the Board. A Jobs and Growth workstream was launched in 2012. In 2014, pilot programs were launched on inequality, gender, and energy/climate issues, as well as other macrostructural reforms, such as labor market and product market reforms. Another pilot program was launched to address social policy reforms in 2016 (see Stedman, Abrams, and Kell, 2020). In late 2017, management decided to mainstream inequality, gender, and macrostructural reform issues in surveillance from FY2019. The remaining energy/climate pilot was not mainstreamed, pending the development of sufficient internal expertise and experience. From 2018, the Executive Board endorsed five specific strategies for governance (IMF, 2018b), social spending (IMF, 2019), digital money (IMF, 2021h), climate change (IMF, 2021i), and gender (IMF, 2022c). Each of these Board decisions further clarified how these other policies were to be operationalized and integrated into Fund operations. These strategies are covered further in this paper, and background papers for this evaluation provide further detailed coverage of the strategies on governance and corruption (Levonian, 2024), and climate change (Gallagher, Rustomjee, and Arevalo, 2024).

ANNEX 2

MEASURING THE FUND'S ENGAGEMENT IN NEWER POLICY AREAS[1]

Only partial budget data was available on the Fund's work related to the five specific strategies for governance, social spending, digital money, climate, and gender:

- **Time and cost tracking.** The Fund's Time Reporting Analytic Costing and Estimation System focused on outputs and therefore did not track time or work by policy area in a granular or systematic way. As a result, OBP used estimates collected through semiannual staff surveys to report how much time staff had worked on specific topics.

- **Funding source.** Data presented in MTB documents were based on Fund-financed spending (IMF01). Estimation techniques for systematically tracking both internally (IMF01) and externally (IMF02) financed spending are still in the works.

- **Reporting.** MTB documents, as well as those related to the Budget Augmentation Framework, reported on so-called priority areas. These priority areas have changed during the evaluation period and have included priorities linked to both the four traditional core policies identified in the ISD and newer ones. For example, the FY2023 outturn documents considered climate change, debt, digital money, governance and anti-corruption, inclusion and gender, and macrofinancial surveillance to be priority areas.

- **Flows versus stocks.** When reported, data on priority areas in MTB documents before FY2020 referred to net changes in budget allocations (flows). OBP initiated work on measuring overall spending (stocks) in FY2020.

- **Evolving definitions.** The definition of some policy areas has changed over the years. For example, while earlier MTB documents reported on workstreams related to inclusive growth, social spending, and gender separately (for example, the FY2020 Output Cost Estimates and Budget Outturn), more recent documents reported only on inclusion and gender as a single category. In the FY2023–25 MTB paper, priority area definitions were anchored in the scope established in the different strategies supported by the Budget Augmentation Framework.

- **Overlaps.** For the FY2022 data, OBP clarified the methodology to avoid overlaps when reporting data on priority areas. This was relevant for figures for governance and anti-corruption and inclusion and gender.

While comparable data are available for FY2022–24, it is difficult to build a reliable time series for the evaluation period 2012–23. Resources for climate and digital money increased over the period FY2020–23, particularly after the endorsement of the climate and

[1] Sources: Interviews with current and former staff, Medium-Term Budget and Output Cost Estimates and Budget Outturn documents (multiple years).

TABLE A2.1. SHARE OF NEWER POLICY AREAS IN THE FUND'S BUDGET
(In millions of USD)

	FY2020	FY2021	FY2022	FY2023	FY2024p
	30-APR-20	30-APR-21	30-APR-22	30-APR-23	30-APR-24
Overall budget					
Budget—total net expenditures (Fund-financed)	1,158	1,186	1,214	1,295	1,411
Outturn—total net expenditures (Fund-financed)	1,150	1,126	1,180	1,293	1,411
Utilization	99.3%	94.9%	97.2%	99.8%	100.0%
Direct non-CD spending in newer policy areas					
Governance and Anti-Corruption	43	24	18	21	23
Climate	16	28	28	44	56
Digital Money	6	4	11	18	23
Inclusion and Gender	62	36	16	16	18
Total	**127**	**92**	**73**	**99**	**120**
As a percentage of outturn	**11.0%**	**8.2%**	**6.2%**	**7.6%**	**8.5%**

Source: Author's calculations based on output cost estimates and budget outturn documents (multiple years).
Note: "p" in column FY2024p represents projections.

digital money strategies. The data for FY2020–23 suggest a substantial decline in available resources for governance and anti-corruption and inclusion and gender, but this was due to corrections related to overlaps and changes in definition, as discussed above (Table A2.1).

As the Board's interest in budget tracking has grown over time, OBP is now updating the methodology and contemplating ways to estimate spending in different policy areas more robustly.

ANNEX 3

MATRIX OF SELECT FRAMEWORK ARRANGEMENTS FOR IMF ENGAGEMENT WITH PARTNERS

TYPE OF FRAMEWORK	WORLD BANK	UN AND SPECIALIZED AGENCIES; WTO; OECD	STANDARDS SETTERS	OTHERS
Formal frameworks	*Umbrella:* * Concordat; * JMAP (both for EM/LIC only; all country operations) *Policy issue areas:* *Debt Sustainability Framework (LIC only; EM is IMF-only); *FSAP (for EM/LIC)	*Umbrella:* *SDGs/Financing for Development (ECOSOC) *Trade policy (WTO)	*Umbrella:* *Financial stability (IMF–FSF Joint Memo; IMF membership in the FSB)	*Umbrella:* *G20 Principles for Effective Coordination Between the IMF and MDBs *Framework for Collaboration Between RFAs and the IMF
Informal arrangements	*Social protection/social spending *Climate change *Gender *Labor reforms *Macrostructural issues *Public investment	*Social protection/social spending (ILO) *Gender (UN Women) *Statistical indicators (FAO)	*Digital money (IMF–BIS) *Governance and Anti-Corruption (IMF–FATF)	
	*Tax (IMF/World Bank/OECD Platform for Collaboration on Tax)			
Ad hoc arrangements/ initiatives	*IMF–World Bank Debt Service Suspension Initiative			
	*COVID-19 Vaccinations (Multilateral Leaders Task Force: IMF, WBG, WHO, WTO)			
	*Food insecurity (IMF–FAO/WBG/WTO Working Group); (IMF–FAO/WBG/WTO/WFP Joint Statement)			

Source: Abrams and Rustomjee (2024).
Notes: BIS = Bank for International Settlements; ECOSOC = UN Economic and Social Council; EM = Emerging Market; FAO = Food and Agriculture Organization (UN); FATF = Financial Action Task Force; FSAP = Financial Stability Assessment Program; FSB = Financial Stability Board; FSF = Financial Stability Forum (precursor to the FSB); ILO = International Labour Organization (UN); JMAP = Joint Management Action Plan; LIC = Low-income Country; MDB = Multilateral Development Bank; OECD = Organisation for Economic Co-operation and Development; RFA = Regional Financing Arrangement; UN = United Nations; WFP = World Food Programme (UN); WHO = World Health Organization (UN); WTO = World Trade Organization.

ANNEX 4

ENTERPRISE RISK ASSESSMENT

This annex provides an overview of the enterprise risks identified through the evaluation process, the efforts the Fund has made to address them, the residual risks that remain, and how the IEO's recommendations may help mitigate them.

Risk identification. The significant expansion of the IMF's work into newer policy areas conducted through ad hoc processes results in several enterprise risks:

- Insufficiently inclusive and transparent decision-making processes and lack of clarity and consistency in the principles of engagement in newer policy areas harm the perception of the Fund's impartiality and entail reputational risk. It also creates a business risk for the Fund insofar as it might lead to lack of consistency in policy advice.
- Decisions on strategies to engage in newer policy areas are not taken in a holistic manner with appropriate scope, resource allocation, and risk management considerations. This leads to the misalignment between the ambition of Fund strategies and their implementation, including insufficient availability of expertise in the newer policy areas and unsustainable work pressures on staff. The absence of critical information, including granular human resource and budget data by policy area, restricts the Board's ability to carry out the strategic oversight of Fund operations. This creates a variety of risks, including operational (process and human capital), business (management effectiveness and analytical accuracy), and reputational (credibility) risks.
- The absence of a comprehensive institutional approach for Fund engagement with partners, paired with inadequate deliberation on how decisions to expand Fund activities into newer policy areas fit into a larger context, including the Fund's position vis-à-vis other international organizations, entails business, operational, and reputational risks.

Risk mitigation. The following measures have helped mitigate these risks:

- *Decision-making process measures.* To improve formulation of institutional priorities and increase effectiveness in delivering the Fund's mandate, management implemented a new planning cycle and framework in 2012. It included two new instruments, namely, the Global Policy Agenda and the departmental Accountability Framework. To improve understanding of key terms and how they should be used to operationalize the expansion of Fund activities into newer areas, management and staff prepared multiple documents, including guidance notes, frameworks, strategies, and how-to notes.
- *Budget measures.* Within the context of a real flat budget, the IMF undertook several initiatives to make the use of existing resources more efficient. First, the Fund undertook two major streamlining exercises in 2015 and 2018, which allowed it to redirect, on average, 4 percent of the aggregate budget envelope to

high-priority tasks and new initiatives. Second, from FY2018 onward, the Fund's MTBs included dedicated risk sections which identified near- and medium-term risks related to budget preparation and implementation. Third, the Budget Augmentation Framework approved by the Board in 2021 increased the Fund's administrative budget by 6 percent to provide additional resources to expand the Fund's activities into newer areas and help relieve unsustainable work pressures.

- *Modernization agenda*. The Fund has been implementing a modernization agenda aimed at increasing the effectiveness of its operations, and which focused primarily on investment in modern IT solutions, such as document, data, and HR management systems; cyber security; and Artificial Intelligence.

Residual Risks. The risk mitigation efforts described above were only partially successful, as residual risks persist:

- *Overstretched resources.* Despite the efforts described above, the IMF's operational budget remains overstretched, and the workload remains unsustainable. The 2021 decision to increase the operational budget by 6 percent in real terms fell short of management's request of 9.1 percent, and also underestimated the real costs of expansion of work into newer areas. Consequently, significant business, operational, and reputational risks remain unaddressed. In particular, the excessive staff workload continues to create operational risk and provision of advice in areas where Fund staff has limited expertise is a source of reputational risk.

- *Lack of clarity on principles of engagement in newer policy areas.* The legal implications of the Board's decisions to expand the Fund's activities into newer policy areas remain unclear to key stakeholders, and insofar as they create unrealistic expectations regarding deliverables in these areas, they pose a reputational risk to the Fund. Insufficient clarity on the operationalization of the five specific strategies constrains staff's ability to deliver consistently high-quality policy advice in these new areas, creating business, operational, and reputational risks.

- *Insufficient information.* The absence of critical information, particularly (i) granular budget data by policy area; (ii) a comprehensive risk assessment; and (iii) knowledge on the extent to which and in what ways the IMF relies on engagement with partners in areas beyond its expertise remains unaddressed and continues to pose business and operational risks to the Fund.

- *Engagement with partners.* The Fund has failed to address business, operational, and reputational risks stemming from the lack of a Board-approved Statement of Principles and a lack of deeper reflection on how the Fund should position itself within the international institutional structure.

Impact of IEO recommendations on addressing residual risks. The recommendations made by this evaluation could help the Fund to mitigate the residual risks in the following ways:

- **Recommendation 1** advises that the Board and management enhance the decision-making process by (i) developing a Fund-wide institutional strategy in an inclusive manner, and (ii) taking a more holistic approach when endorsing newer policy areas by better linking the decisions related to scope, budget, human resource, and risk management implications. Implementation of this recommendation would limit existing and potential future discrepancies between ambition and ability to deliver, mitigating business, operational, and reputational risks. Enhancing the inclusiveness of decision-making processes would limit the perception of a lack of evenhandedness, which would further mitigate reputational risk.

- **Recommendation 2** calls on management and staff to address certain operational challenges by producing more granular budget data by policy area across all Fund activities and operations. It also recommends that the Board consider which policy areas to track and the level of granularity required. This recommendation directly addresses operational (process) and business (management effectiveness) risks, as providing sufficiently granular data would allow more precise estimation of costs and resource needs by policy area. It would also enable the Board and management to make more informed decisions that account for trade-offs, risks, and budget implications, better ensuring the delivery of institutional priorities.

- **Recommendation 3** proposes that management and staff update the 2022 Guidance Note for Surveillance Under Article IV Consultations in order to enhance the clarity of key elements regarding Fund surveillance in newer policy areas. Implementing this recommendation would enhance the clarity and consistency of engagement in newer policy areas, including through better internal and external communications around these key elements, which would mitigate reputational and business risks.

- **Recommendation 4** advocates for the adoption of an Executive Board-approved high-level Statement of Principles for Engagement with Partners. Implementing this recommendation would enable a coherent institutional approach to engagement with external organizations and would properly position the Fund vis-à-vis other international organizations, which, in turn, would help mitigate operational (process), business (management effectiveness), and reputational risks.

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STATEMENT BY THE MANAGING DIRECTOR

ON THE INDEPENDENT EVALUATION OFFICE REPORT ON THE EVOLVING APPLICATION OF THE IMF'S MANDATE
EXECUTIVE BOARD MEETING, JUNE 10, 2024

I welcome the Independent Evaluation Office (IEO)'s report on The Evolving Application of the IMF's Mandate. I am pleased that the evaluation finds that the application and the scope of the Fund's mandate were consistent with its legal framework and with the needs and priorities of the Fund's membership. I concur with the thrust of the evaluation's message that the Fund needs to holistically consider the scope, traction, resources, and risks of the activities it undertakes in the pursuit of its mandate. I fully endorse the evaluation's two recommendations (i) to enhance clarity regarding surveillance in newer policy areas and (ii) to better track budget data by policy area. I qualify my support for the other two recommendations (iii) to enhance the Fund's decision-making process and (iv) to clarify our interaction with external partners due to concerns about the IEO's proposed approach to implement these recommendations—development of a Fund-wide institutional strategy for engagement in newer policy areas and establishment of high-level principles for engagement with partners. We should instead leverage the existing workstreams and processes, especially the Comprehensive Surveillance Review, and adjust our engagement with partners within the context of individual strategies or policy reviews, in those instances where the policy area calls for substantive collaboration with one or more external partners. In preparing the Management Implementation Plan (MIP), staff will carefully consider how best to implement the Board-endorsed recommendations, drawing on the IEO's specific suggestions, while ensuring synergies with the existing workstreams and being mindful of resource constraints.

FINDINGS

I am pleased that the evaluation finds that the Fund has steadily stepped up its engagement in a broader set of macrocritical policy areas. This finding reflects the Fund's agile and adaptive response to global challenges, including the Global Financial Crisis (GFC), COVID-19 pandemic, conflicts, and climate change.

The evaluation rightly highlights the challenges and trade-offs the Fund faces in adopting new policy areas, marked by a trilemma of scope, traction, and resources. With hindsight, the report finds that in the context of a flat real budget during 2003–2023, work on newer policy areas was covered through a combination of reallocating resources, internal savings, and staff overtime. I was disheartened to learn that some stakeholders felt insufficiently consulted. Going forward, we reiterate our commitment to making every effort to strengthen consensus across the membership, within the Fund's decision-making structure.

The IEO report's findings offer important lessons, and I am optimistic that we can successfully draw on these lessons to improve our processes going forward.

RECOMMENDATIONS

I broadly support the thrust of the report's key recommendations with some qualifications regarding specific suggestions due to cost-benefit considerations, high work pressures, and the potential to impact the Fund's agility in a rapidly changing world and in an exceptionally tight budget environment.

Below is my proposed response to each of the IEO's four recommendations.

> **Recommendation 1: The Board and management should enhance the decision-making process by: (i) developing an inclusive Fund-wide institutional strategy for Fund engagement in newer policy areas; and (ii) taking a more holistic approach when endorsing individual strategies for newer policy areas by better linking the decisions related to their scope, required resources, and risk management implications.**

Summary of Specific Suggestions

(i) The proposed inclusive Fund-wide institutional strategy should include the following elements:

- An assessment of the alternative options in terms of which policy areas to engage in and which not, and the desired level of engagement, which can range from just signaling a policy area's macro-criticality, leaving more in-depth engagement to other institutions, to engagement on par with the traditional core policies in terms of policy advice, depth, and frequency of engagement.
- An assessment of what the above-mentioned choices related to Fund engagement mean for the budget, overall size, and risk profile of the Fund, including their impact on staff in terms of work pressures and overall well-being, and how this positions the Fund in the international financial system.
- An assessment of the desired balance between retaining flexibility and ensuring consistency when implementing surveillance in newer policy areas, which can be developed through principles of engagement that answer the above questions as well as the extent to which the Fund should adopt a narrow or broad interpretation of "similar circumstances" when assessing evenhandedness.

(ii) Endorsing individual strategies for newer policy areas in a more holistic way would enhance their transparency and coherence. Such a holistic approach can still be iterative, but the formal endorsement and publication of a strategy or policy for Fund engagement in a newer policy area should include the following elements:

- An assessment of the perimeter, depth, frequency, and required Fund expertise of the newer policy area.
- An assessment of the adequacy of the allocated resources, as well as where they will come from, to avoid unintentionally impacting other Fund activities or workstreams and placing unsustainable demands on staff.
- A comprehensive risk assessment covering the risks related to engaging, as well as not engaging, in a newer policy area across all six Level-1 risks of the ERM Framework.
- How the Fund intends to engage with other partners on the newer policy area.

I support this recommendation, with some qualifications. I support the goal of enhancing the Fund's decision-making process. Instead of embarking on a separate exercise to develop a Fund-wide institutional strategy for engagement in newer policy areas, we should leverage the synergies within existing workstreams.[1] The upcoming Comprehensive Surveillance Review (CSR) provides a very good opportunity to enhance decision-making at the Fund and provide strategic guidance on the Fund's surveillance activities drawing on key elements of the IEO's recommendation. Specifically:

[1] The evaluation rightly recalls that a previous attempt to formulate a medium-term strategy for the Fund during 2004–06, is generally perceived to have yielded little value relative to the substantial resource costs its development entailed.

- The CSR will include an assessment of implementation of the 2021 CSR surveillance priorities. It will also re-assess Fund's surveillance priorities going forward to ensure that surveillance remains fit for purpose given global trends and policy challenges facing our membership.
- The CSR will guide our surveillance activities, including the desired level of Fund engagement in newer policy areas. Therefore, work on the 2026 CSR will aim to align in spirit with the medium-term strategy recommended by the IEO.
- Moreover, other initiatives such as the 80th anniversary of the Bretton Woods institutions (IMF and World Bank), as well as the Fund for the Future workstream may provide further opportunity to think strategically about the future course of the Fund, potentially going beyond surveillance to consider lending and capacity development, as well as how these activities can together best serve the needs of the membership.

I also consider sub-recommendation II, advocating for a holistic and consultative decision-making approach that aligns with the Fund's legal framework to be promising. This approach, especially when it strengthens the linkages between scope, resources, and risk in new policy areas, will support the goal of enhanced decision-making, and could effectively embody the core aspects of the proposed strategy without the need for its explicit formulation.
The Fund is already taking steps to integrate risk management and budgetary tradeoffs with decision-making. Specifically:

- Work is underway in the Office of Budget and Planning to ensure consistent inclusion of both the gross and net resource requirements for new initiatives and policy reviews to ensure transparency and recognize the impact on other Fund activities and workload in the constrained budget context. At the same time, I would like to underscore the necessity of an iterative process that includes both issue specific deep dives and a holistic consideration of strategic and budgetary tradeoffs that go beyond individual strategies and are better considered in a broader context.
- The Fund continues to make progress in recognizing and integrating risk considerations into its operations since the establishment of the office of risk management including in the context of bi-annual enterprise risk reports that have started integrating tradeoffs between risk mitigation and budget constraints. Going forward, departments will continue to comprehensively assess enterprise risks related to engaging, as well as not engaging, in new policy areas in the context of enterprise risk assessments supported by Document Risk Self Assessments (DRSAs) for policy papers. These assessments will be reviewed by departments, including ORM which will continue to support departments in building their risk assessment capacity, thus supporting the effective integration of risk considerations in policy decisions.

Recommendation 2: Management and staff should address operational challenges by producing budget data in a manner that allows tracking by policy area, across all Fund activities and operations. The Board should consider what policy areas need to be tracked and the level of granularity required, balancing the need for more detailed data with the costs and complexity involved in providing such data.

Summary of Specific Suggestions

Collecting, tracking, and reporting budget data in a multidimensional way, not just by output area, country grouping, and department, but also by policy area, across all Fund activities and operations, would allow the Fund to estimate more precisely the costs and resource needs. This would help the Board better understand how resources are allocated and what the impact of trade-offs is, not just on new activities or workstreams, but also on existing ones, so it can set priorities accordingly. However, collecting more comprehensive, granular budget data for all policy areas across all Fund activities may have significant resource implications, both in terms of dollars and staff time. It would require to adapt the current time registration system or invest in a more modern, multidimensional system, and additional inputs at the individual staff level to register what policy areas they are working on in a regular and systematic way. Transitioning from the current system to a more comprehensive one would also involve process planning, change management, and managing risks related to compliance and data quality. To better balance these costs, the Board should review what policy areas need to be tracked and the level of granularity required.

I support this recommendation. Work to strengthen the granularity of budget data in key policy areas is well underway, as highlighted in Box 1 of the FY25–27 budget report, with increasing information being provided in budget and work program reports, as well as policy documents. Reporting includes information on both where resourcing is increasing and where savings are being derived from. Indeed, since the IEO review period of FY12–23, both activity and tracking have picked up significantly, including in newer areas of Fund focus, like climate.

In moving this work forward in a period of resource constraints and high work pressures, staff will continue to target high-quality information of greatest relevance to strategic decision making, with the specific issue areas to be tracked reflecting engagement with the Board. Moving this work forward will continue to require careful weighing of the costs and benefits of alternative solutions, prioritization with an eye to ensuring high-impact investments of scarce resources and staff time, and steps to avoid excessive ongoing reporting burdens on staff while ensuring strong data quality. Staff will continue to consider lessons from other modernization efforts and experience of external organizations also working to improve decision support/business intelligence capabilities. Staff will also continue and enhance the high-level costing exercise to broadly assess the costs of non-recurring items in the FY25 Board Work Program which has helped support selectivity and prioritization of policy work.

Finally, the IEO report highlights the gap between the scale of resources that staff indicated would be needed for work in new areas supported by the augmentation, like climate, and the scale of resourcing ultimately approved. Indeed, this was an informed decision by the Board as part of the augmentation framework, where the trade-offs in terms of the scale and sequencing of activities were actively discussed. Consistent with the findings of the IEO team, budget and spending data reported in the FY25–27 budget point to spending pressures, reflecting the tight overall budget and ongoing developments, including, for example, the impact of strong demand for RST operations on climate demand. The difficult trade-offs implied by these pressures will continue to require attention at the Board, management, and staff levels.

As noted, staff will continue to seek guidance from the Board on the information they need to inform strategic budget discussions. OBP will report on ongoing efforts to strengthen budget data as part of the FY27–29 medium-term budget.

Recommendation 3: Management and staff should enhance clarity of key elements regarding its surveillance in newer policy areas by updating the 2022 Guidance Note for Surveillance Under Article IV Consultations.

Summary of Specific Suggestions

The updated Guidance Note could include greater detail to answer the following questions related to Fund engagement in newer policy areas:

- *On the perimeter:* (i) how should staff determine if a structural issue is macrocritical; (ii) to what extent is coverage of macrocritical structural issues required; and (iii) what time horizon(s) should staff consider when making their assessments of macrocriticality?
- *On the provision of policy advice:* (i) how should staff determine if the Fund has expertise on a particular structural issue; (ii) to what extent should staff provide policy advice when Fund expertise exists but supply is lacking; and (iii) should the IMF expertise filter be applied at all?
- *On the depth:* (i) how should staff determine the relevance, severity, and urgency of a macrocritical structural issue, both independently and relative to others; and (ii) what are the different depths of engagement?
- *On the frequency:* how should staff determine when and how often to engage on a macrocritical structural issue?

- *On the uniformity of treatment:* (i) how should staff determine which similar circumstances are relevant when assessing evenhandedness; and (ii) should the Fund adopt an output-based approach to evenhandedness?

I support this recommendation. I agree that updating the Staff Guidance Note (SGN) would ensure clearer and more consistent guidance and communication about the IMF's surveillance activities, including on newer policy areas. I highlight a few additional points below:

- We will continue with the practice of a comprehensive update of the SGN following the completion of the ongoing periodic Comprehensive Surveillance Reviews (CSR).
- In the meantime, we will continue ongoing practices and efforts to enhance clarity in the surveillance of newer policy areas while ensuring that country teams are not constrained by overly specific requirements including through regular updates to staff operational guidance on surveillance provided by management.
- We will strive to include greater guidance on issues such as the perimeter, depth, and frequency of engagement in newer policy areas, while being mindful of the possible trade-offs between providing greater specificity and maintaining flexibility for staff when engaging with the membership.

Recommendation 4: The IMF should adopt an Executive Board-approved high-level Statement of Principles for Engagement with Partners to establish a coherent best practice framework.

Details

- An Executive Board-approved high-level Statement of Principles would provide the Fund with an institutional anchor for engagement with partners.
- The principles approach would guide the motivating rationale, objectives, policies, monitoring, and evaluation criteria and modalities, and, at the same time, it should provide flexibility on the type of framework arrangement with a respective partner, be it formal, informal, or ad hoc.
- The establishment of principles would help mitigate risks related to time lags arising from the Fund's current model of "learning by doing" pilot projects that it relies upon before it adopts strategies in newer areas and inform decision making in relation to the expected engagement with partners when approving a new policy area.

I partially support this recommendation with qualifications. I agree with the IEO's findings that the Fund's engagement with external partners increased over time at all levels across the institution. The report also notes that other international organizations also sought out the Fund when carrying out their operations.

I note that this organic and tailored two-way engagement has occurred in the absence of a formal framework for engagement. Overall, the evidence presented in the report shows the Fund's current approach of engaging with external partners works in that it is specific, tailored to the relevance and needs of different partners, and consistent with its legal framework for engagement with external parties.

Given the diversity of the nature (and depth) of our engagement across external partners—and, indeed, across various activities with each external partner—any Statement of Principles would have to be of such generality that I am doubtful that it would be of much practical use. Nonetheless, I share some of the concerns raised by the IEO. I believe that a more fruitful approach would be to review and assess (and—if necessary—adjust) our engagement with partners within the context of individual strategies or policy reviews, in those instances where the policy area calls for substantive collaboration with one or more external partners. Further, in the context of enhancing key elements regarding surveillance of newer policy areas (recommendation 3), we would strive to provide greater clarity on the demarcation of responsibilities between the Fund and other partners. This would allow for a more holistic assessment of our own contribution and its complementarity to those of external partners in specific policy areas.

RECOMMENDATION	POSITION
Recommendation 1: The Board and management should enhance the decision-making process by: (i) developing an inclusive Fund-wide institutional strategy for Fund engagement in newer policy areas; and (ii) taking a more holistic approach when endorsing individual strategies for newer policy areas by better linking the decisions related to their scope, required resources, and risk management implications.	Qualified support
Recommendation 2: Management and staff should address operational challenges by producing budget data in a manner that allows tracking by policy area, across all Fund activities and operations. The Board should consider what policy areas need to be tracked and the level of granularity required, balancing the need for more detailed data with the costs and complexity involved in providing such data.	Support
Recommendation 3: Management and staff should enhance clarity of key elements regarding its surveillance in newer policy areas by updating the 2022 Guidance Note for Surveillance Under Article IV Consultations.	Support
Recommendation 4: The IMF should adopt an Executive Board-approved high-level Statement of Principles for Engagement with Partners to establish a coherent best practice framework.	Qualified support

THE CHAIR'S SUMMING UP

INDEPENDENT EVALUATION OFFICE—THE EVOLVING APPLICATION OF THE IMF'S MANDATE
EXECUTIVE BOARD MEETING 24/57, JUNE 10, 2024

Executive Directors welcomed the report of the Independent Evaluation Office (IEO) on The Evolving Application of the IMF's Mandate. They welcomed the report's findings that the application and scope of the Fund's mandate were consistent with its legal framework, and that there was consensus across the membership that both the traditional core policies and the newer policy areas reflected important needs and priorities of the Fund's membership. At the same time, the evaluation has highlighted the challenges (as seen through various lenses including, for example, comprehensiveness, inclusive decision-making, transparency, and evenhandedness) that the Fund has faced in adopting and operationalizing strategies in newer policy areas. Directors concurred with the thrust of the evaluation's message that the Fund needs to holistically consider the scope, traction, resources, and risks of the newer activities it undertakes in the pursuit of its mandate. They welcomed the Managing Director's broad support for the IEO's key findings and recommendations, while noting the qualifications.

Directors agreed that the Board and Management should enhance the decision-making process (Recommendation 1). Most Directors noted the report's finding that there was a perception that the engagement with the Board in the decision-making process that led to the strategies in newer policy areas was not fully inclusive and saw merit in developing an inclusive Fund-wide institutional strategy as a long-term anchor for Fund engagement in newer policy areas. Such a strategy would strengthen the comprehensiveness, coherence, and prioritization of the level of engagement in newer policy areas, while enhancing the Board's oversight and ownership. A few Directors felt that the proposed exercise could be challenging and preferred to leverage other workstreams. They noted that the upcoming Comprehensive Surveillance Review (CSR) could be the pragmatic vehicle to provide strategic guidance on the Fund's surveillance activities. In responding to Directors' views, the Managing Director proposed an intermediate approach that could be incorporated into the Management Implementation Plan and which would draw on key elements of the IEO's recommendation, to leverage a sequenced approach to the upcoming CSR that would give the Board the opportunity to consider trade-offs when providing strategic guidance on Fund surveillance, with Management and staff consulting widely with Executive Directors at each step. Directors also agreed that a holistic and consultative decision-making approach aligned with the Fund's legal framework for considering newer policy areas would be appropriate. They noted that strengthening the linkages between scope, resources, and comprehensive risk assessment in new policy areas would support the goal of enhanced decision-making. Some Directors emphasized the importance of resource reprioritization in the context of the IMF's flat real budget. A number of other Directors noted that work on the newer policy areas resulted in unsustainable work pressures for staff, with a few considering that additional resources are needed to ensure that the Fund continues to deliver well on the traditional core areas and the newer policy areas without overstretching staff and other resources. Directors supported periodic reviews of policy strategies.

Directors concurred with Recommendation 2 for Management and staff to address operational challenges by producing budget data in a manner that allows tracking by policy area, across all Fund activities and operations. This will help inform resource and budgetary decisions. Directors agreed that the Board should continue to advise the Office of Budget and Planning on the policy areas to be tracked and the level of granularity required. They welcomed the indications from Management that work to strengthen the granularity of budget data in key policy areas is under way, with increasing information being provided in budget and work program reports and in policy documents. They also welcomed plans to further engage with the Board to identify ways to target high-quality information of greatest relevance to strategic decision-making, while balancing the costs and benefits of alternative solutions against available resources and the administrative burden on staff.

Directors supported Recommendation 3 for Management and staff to enhance the clarity of key elements regarding its surveillance in newer policy areas by updating the 2022 Guidance Note for Surveillance under Article IV Consultations. Doing so would ensure clearer and more consistent guidance and communication about the IMF's surveillance activities, including on newer policy areas. They agreed that greater guidance on principles of engagement such as macrocriticality, expertise, depth, frequency of engagement, and uniformity of treatment in newer policy areas would be important, while being mindful of the tradeoff between greater specificity and maintaining flexibility when engaging with members. Directors noted Management's plan to comprehensively update the staff guidance note upon completion of the ongoing CSR.

Most Directors supported or were open to the recommendation for the IMF to adopt an Executive Board-approved high-level Statement of Principles for Engagement with Partners (Recommendation 4). They generally recognized the rationale for establishing a coherent best practice framework that would provide an institutional anchor for engagement with external partners while retaining flexibility for its application across individual strategies and partnerships. At the same time, many Directors raised questions as to whether a set of high-level principles could effectively address the operational challenges posed by the diverse nature and depth of Fund engagement across external partners and activities. A number of Directors agreed that a strategy reviewing and adjusting as needed the Fund's engagement with its partners within the context of individual strategy or policy reviews is more likely to result in tailored and effective engagement. Some Directors called for enhanced monitoring and self-evaluation of engagement with external partners.

In line with established practice, Management and staff will give careful consideration to today's discussion in formulating the Management Implementation Plan for Board-endorsed recommendations, drawing on the IEO's and Directors' specific suggestions and carefully assessing the resource implications.

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