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
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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
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