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.

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

<table>
<thead>
<tr>
<th>SIGNALING</th>
<th>TRADITIONAL CORE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower frequency</td>
<td>Annual frequency</td>
</tr>
<tr>
<td>Light analysis</td>
<td>In-depth analysis</td>
</tr>
<tr>
<td>General policy advice</td>
<td>Detailed policy advice</td>
</tr>
<tr>
<td>None or limited Fund expertise</td>
<td>Core IMF expertise</td>
</tr>
<tr>
<td>Refer to other IFIs</td>
<td>Utilize internal resources</td>
</tr>
<tr>
<td>(Management speeches, ad hoc analytical chapters, SDNs)</td>
<td>(Article IV/flagships and regional reports)</td>
</tr>
</tbody>
</table>

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.

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 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.

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**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.

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

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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.