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BACKGROUND PAPER

BP/24-01/02

Applying the IMF's Mandate—The Decision-Making Process

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May 9, 2024

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ABBREVIATIONS

ACRM	Advisory Committee on Risk Management (IMF)
BCBS	Basel Committee on Banking Supervision
BOP	Balance of Payment
CD	Capacity Development
CDMAP	Capacity Development Management and Administration Program
CFSP	Committee on the Fund's Strategic Priorities (IMF)
DMD	Deputy Managing Director
ERM	Enterprise Risk Management
FDMD	First Deputy Managing Director
FM	Fiscal Monitor
FSAP	Financial Sector Assessment Program
G7	Group of Seven
G20	Group of Twenty
G24	Intergovernmental Group of Twenty-Four
GFSR	Global Financial Stability Report
GPA	Global Policy Agenda
HRD	Human Resources Department (IMF)
ICD	Institute for Capacity Development (IMF)
IFA WG	International Financial Architecture Working Group (G20)
IMFC	International Monetary and Financial Committee
ISD	Integrated Surveillance Decision
MTB	Medium-Term Budget
MTS	Medium-Term Strategy
OBP	Office of Budget and Planning (IMF)
ORM	Office of Risk Management (IMF)
RMU	Risk Management Unit (IMF)
RSF	Resilience and Sustainability Facility
RST	Resilience and Sustainability Trust
SPR	Strategy, Policy, and Review Department (IMF)
TRACES	Time Reporting Analytic Costing and Estimation System
WEO	World Economic Outlook

EXECUTIVE SUMMARY

This paper assesses, for the period 2012–23, the decision-making process related to the evolving application of the International Monetary Fund's mandate. This evolving application resulted in the extension of Fund activities into newer policy areas beyond the Fund's 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 the legal framework of the Fund's mandate and remained highly relevant. There was a broad 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. However, views differed on Fund engagement in newer policy areas, and in particular on the role of the Fund in the newer policy areas that resulted in five specific Fund strategies for governance, social spending, climate, digital money, and gender.

For decisions on the application of the Fund's mandate, the way decisions are taken is of great importance, including for members' perception of legitimacy and support. This paper therefore assesses the decision-making process using four evaluation criteria: comprehensiveness, coherence, inclusiveness, and transparency.

Comprehensiveness and coherence imply that all relevant information and possible alternatives were considered in the decision-making process, as well as their resource and risk management implications. Here, this paper finds that the absence of a strategic anchor to guide decisions on Fund engagement in newer policy areas resulted in ad hoc decisions and not as part of a larger discussion of the longer-term role of the Fund. Also, the fact that decisions on strategy and policy, resource allocations, and risk management were taken in a piecemeal way resulted in misalignments between the ambition expressed in the strategy or policy decisions and the resources committed to implement them.

Inclusiveness is defined by the extent to which the decision-making process involved all relevant stakeholders in an evenhanded manner and considered their perspectives and interests. This paper finds that there was a perception that choices related to how to engage in newer policy areas and to what extent were largely driven by the Managing Director and the views of some key members. These concerns intertwined with the broader discussion on members' voice and representation in the Fund and the perception that members' quota shares no longer reflected their position in the global economy.

Transparency refers to adequate information being available to all and open to scrutiny. However, the lack of more granular data by policy area did not allow the Executive Board to understand in sufficient detail how resources were allocated by policy area across all Fund activities. In addition, the discussion of risks related to Fund engagement throughout the evaluation period was limited and lacked a comprehensive risk assessment when taking strategic decisions on the application of the Fund's mandate.

Overall, the paper concludes that the challenges related to the comprehensiveness, coherence, inclusiveness, and transparency of the decision-making process could be addressed by implementing four actions: (i) developing a Fund-wide, institutional strategy for engagement in newer policy areas, involving all Fund members in an evenhanded way; (ii) considering a more holistic approach to decision-making by only formally endorsing and publishing a strategy or policy when the scope, the required resources, and the risk management implications have been considered and are aligned; (iii) producing budget data in a manner that allows tracking by policy area in a systematic way to estimate more precisely the costs and resource needs by policy area; and (iv) preparing a comprehensive risk assessment when determining or reviewing a Fund-wide, institutional strategy or individual strategies or policies related to Fund engagement in newer policy areas.

I. INTRODUCTION

1. **This paper assesses the decision-making process related to the evolving application of the International Monetary Fund's mandate.** This evolving application resulted in the extension of Fund activities into newer policy areas beyond the four traditional core policies explicitly mentioned in the 2012 Integrated Surveillance Decision (ISD).

2. **The Fund's legal mandate is laid out in the Articles of Agreement and has not changed since the Second Amendment of the Articles in 1978.** However, in the last 45 years the activities of the Fund have expanded significantly, as the Articles allow for considerable discretion in determining how the Fund's legal mandate should be operationalized. This evolution has been particularly marked since the ISD in 2012.

3. **The changing role of the Fund was the result of both evolutions in the global economy—such as the rapid growth and integration of international financial markets—and a better understanding of how issues, such as governance, inequality, climate change, and gender, have important longer-term consequences for balance of payments (BOP) and economic stability.** However, a number of concerns have been raised about the evolving application of the Fund's mandate, including the decision-making process that resulted in the endorsement by the Executive Board of five specific strategies for governance[1] (endorsed in 2018), social spending (2019), climate (2021), digital money (2021), and gender (2022).

4. **The term "mandate" is not specifically mentioned in the Articles of Agreement, and different stakeholders may interpret the term differently.** A paper on the Fund's legal framework prepared by the Fund's Legal Department (LEG) (IMF, 2010), essentially defines the Fund's mandate as the Fund's powers and purposes as set out in the Articles and subsequently operationalized by successive Executive Board decisions. Consequently, in this paper, the term "mandate" refers to the Fund's powers and purposes as set out in the Articles. The evolving application of the Fund's mandate refers to how, over time, the Fund has operationalized its mandate into concrete policies and actions.

5. **The ISD explicitly identified four policies—exchange rate, monetary, fiscal, and financial sector policies—that will "always" be the subject of the Fund's bilateral surveillance.** These four policies were often internally referred to as the Fund's traditional "core" policies. The ISD also provided guidance on when the Fund could engage in newer policy areas beyond these four, based on their potential to significantly influence present or prospective BOP or domestic stability. This resulted in Fund engagement in newer macrocritical policy areas, including those that resulted in the five aforementioned Board-endorsed strategies. For clarity purposes, and to distinguish these newer macrocritical

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[1] The Fund's strategy for governance covers governance issues in member countries, including related to corruption. It does not cover the Fund's own governance and related governance reforms.

policy areas from the four traditional core policies, this paper refers to these policy areas in a generic way as "newer" policy areas or policies. The use of "traditional core" and "newer" in this paper passes no judgement on whether some topical areas or policies are more or less important than others.

6. **Against this background, this paper will, for the period from 2012 through 2023, focus on how the application of the Fund's mandate in terms of expanding its engagement into newer policy areas was decided, what drove the expansion in activities, and how the consultation process was conducted; whether there was sufficient buy-in across the Fund's membership; how resource and risk management decisions supported the expansions; and whether expansion was the result of a broader strategic reflection.** This paper does not assess whether, once decisions were taken, key criteria, priorities, and other concepts related to Fund engagement in newer policy areas were clearly defined and understood; and whether the Fund had a coherent framework in place to engage with partners in newer policy areas. These issues are covered by Jannils and Wojnilower (2024) and Abrams and Rustomjee (2024), respectively.

7. **While the ISD was a surveillance decision, decisions related to what policies the Fund should engage in obviously have a bearing on its lending and capacity development (CD) operations.** Lending conditionality is more narrowly focused than surveillance on those specific policies that are critical to achieve program objectives and is anchored on attaining macroeconomic stability within a short time frame. CD activities are anchored on areas where the Fund has well-established expertise. In both cases, the Fund engaged largely in the same topical areas covered by surveillance. As the Fund engaged increasingly in areas like governance and anti-corruption, social spending, climate, digital money, and gender in surveillance, lending conditionality and CD activities in some of these newer policy areas picked up too.

8. **This paper assesses the decision-making process for Fund engagement in newer policy areas using four evaluation criteria: comprehensiveness, coherence, inclusiveness, and transparency.** Sources of evidence for this paper include interviews with current and former Executive Board members, management,[2] and staff, as well as a number of external stakeholders (mainly CSOs); Fund documents and data; empirical analysis; targeted surveys; and a review of other relevant literature.

9. **This report focuses on the Fund's five specific strategies for governance, social spending, climate, digital money, and gender.** The next section of this paper explains how the Fund's mandate was operationalized and the extent to which the application of the Fund's mandate and its scope were consistent with the legal framework of the Fund's mandate. Sections III, IV, and V outline, respectively, the strategy and policy, resource, and risk management decision-making practices and how they have impacted the expansion of the application of the

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[2] At the time of writing, Fund management comprised of the Managing Director, the First Deputy Managing Director), and three Deputy Managing Directors.

Fund's mandate into newer policy areas beyond the four traditional core policies since 2012. Section VI concludes and assesses the lessons learned, while Section VII suggests ways forward to enhance the Fund's decision-making process related to the application of its mandate.

II. THE LEGAL FRAMEWORK GOVERNING THE IMF'S MANDATE

10. **The Articles of Agreement of the IMF were adopted in 1944 and constitute the charter of the Fund. They lay out the Fund's mandate, as well as the rights and obligations of the Fund's members.**[3] While the Articles were amended seven times,[4] the Fund's mandate has not changed since the Second Amendment of the Articles in 1978.[5] Based on its mandate, the Fund performs three key functions: the monitoring of the international monetary system and members' economic and financial policies ("surveillance"), the provision of Fund resources to member countries having trouble meeting their international payments ("lending"), and the delivery of technical assistance and training ("CD"). Until 2012, the Fund has traditionally performed these three key functions across four policy areas, namely, exchange rate, monetary, fiscal, and financial sector policies, including their structural components (Georgieva and Weeks-Brown, 2023).

11. **The Second Amendment represented a substantial departure from the original Articles of Agreement by relying more on a combination of rules and principles.** Before the Second Amendment of the Articles in 1978, the central feature of the international monetary system was the Bretton Woods system.[6] As a result, the Fund's surveillance role was largely limited to evaluating member countries' observance of the exchange rate rules under the that system. Following the Second Amendment, however, Fund members were free to choose their exchange arrangements, including floating exchange rate arrangements, and surveillance over member countries' policies (as opposed to exchange rate rules) was introduced as one of the obligations of the Fund.

12. **Relying on both rules and principles allowed for enhanced discretion in the application of the Fund's mandate.** While the Fund's mandate has not changed since the Second Amendment, its application has changed substantially over time. Crises like the Latin American Debt Crisis (late 1970s/early 1980s), the Asian Financial Crisis (1990s), the Global Financial Crisis (GFC) (2008–09), the COVID-19 pandemic, and other developments in the global economy, as well as a shifting understanding of issues relevant to economic and financial stability,

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[3] See www.imf.org/external/pubs/ft/aa/index.htm.

[4] The most recent amendment was related to the reform of the Executive Board and the consents to the 2010 Quota increase and was adopted on December 15, 2010. It became effective on January 26, 2016.

[5] For a more detailed overview of the historical evolution of the Fund's mandate, see Boughton (2024).

[6] 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 and maintained the par values of their currencies by intervening in the exchange markets with U.S. dollars or with other currencies convertible into U.S. dollars.

resulted in the Fund adapting the composition and scope of its policies and operations. This adaptability to changing circumstances in the global economy, while remaining true to the Fund's mandate, stemmed from the Second Amendment, which allowed for the exercise of enhanced discretion in operationalizing the Fund's mandate, in particular by the Fund's Executive Board.

13. **Through a series of formal decisions, the Executive Board determined how the Fund's mandate should be operationalized.** According to Article XII, Section 3 of the Articles of Agreement, the Executive Board is responsible for conducting the business of the Fund, and for this purpose it exercises all powers delegated to it by the Board of Governors.[7] Most important in the current context, the Executive Board made a series of decisions that use the discretion allowed under the Articles to determine how the Fund's mandate should be operationalized. Over time, these decisions resulted in an expansion of the scope of the Fund's three key functions, surveillance, lending (for example, in its use of conditionality), and CD, to include, for example, financial sector surveillance and topical areas like governance and anti-corruption, inequality, climate change, and gender.[8]

14. **The 2007 Bilateral Surveillance Decision broadened the scope of the Fund's bilateral surveillance by including financial sector policies.[9]** Following the 1977 Surveillance over Exchange Rate Policies Decision and the 1978 Second Amendment of the Articles of Agreement, a review of the Fund's bilateral surveillance resulted in the 2007 Bilateral Surveillance Decision. While previous reviews focused mainly on implementation issues rather than the scope and content of the 1977 Decision itself, the 2007 Bilateral Surveillance Decision broadened the scope of bilateral surveillance: "*In its bilateral surveillance, the Fund will focus on those policies of members that can significantly influence present or prospective external stability. The Fund will assess whether these policies are promoting external stability and advise the member on policy adjustments necessary for this purpose. Accordingly, exchange rate policies will always be the subject of the Fund's bilateral surveillance with respect to each member, as will monetary, fiscal, and financial sector policies (both their macroeconomic aspects and macroeconomically relevant structural aspects). Other policies will be examined in the context of surveillance only to the extent that they significantly influence present or prospective external stability*" (IMF, 2007). The inclusion of financial sector policies resulted from the Asian Financial Crisis in the late 1990s and the introduction of the Fund's Financial Sector Assessment Program (FSAP) in 1999. It also showed that what specific policies the membership considers central to the Fund's bilateral surveillance can evolve over time.

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[7] The Board of Governors is the highest decision-making body of the Fund and consists of one governor and one alternate governor for each member country. Given that it normally only meets once a year, the Board of Governors delegated most powers to conduct the business of the Fund to the Executive Board. In this paper, "the Board" therefore refers to the Executive Board and not the Board of Governors.

[8] For a more detailed discussion of the application of the Fund's mandate related to financial sector surveillance, see Towe (2024); governance and anti-corruption, see Levonian (2024); and climate change, see Gallagher, Rustomjee, and Arevalo (2024).

[9] For a more detailed discussion of the 2007 Bilateral Surveillance Decision and the 2012 ISD, including what elements of the ISD originated in earlier surveillance decisions, see Bossone (2024).

15. **The 2012 ISD confirmed that the four policies identified in the 2007 Bilateral Surveillance Decision will "always" be the subject of the Fund's bilateral surveillance and specified that other policies can be considered when they significantly influence present or prospective BOP or domestic stability.** One of the most consequential decisions taken by the Board in applying the Fund's mandate was the 2012 ISD, which stated that "*in its bilateral surveillance, the Fund will focus on those policies of members that can significantly influence present or prospective balance of payments and domestic stability*" (IMF, 2012). The decision explicitly mentioned four policies that are central to the Fund's bilateral surveillance: "… *exchange rate policies will always be the subject of the Fund's bilateral surveillance with respect to each member, as will monetary, fiscal, and financial sector policies (both their macroeconomic aspects and macroeconomically relevant structural aspects)*." These four policies (exchange rate, monetary, fiscal, and financial sector policies) were often internally referred to as the Fund's traditional "core" policies. The ISD also provided further guidance on when the Fund could engage in other policies beyond these four policies: "*Other policies will be examined in the context of surveillance only to the extent that they significantly influence present or prospective balance of payments or domestic stability.*" This went further than the 2007 Bilateral Surveillance Decision, which only mentioned present or prospective external stability and there was no agreed list of "other" policies. The remainder of this paper focuses on the decision-making process that resulted in Fund engagement in newer policy areas beyond the four policies explicitly identified in the ISD (exchange rate, monetary, fiscal, and financial sector). Such policies beyond the four traditional core policies will be referred to in a generic way as "newer" policy areas or policies.

16. **These agreed principles allowed for an expansion of surveillance in newer policy areas beyond the four policies explicitly identified in the ISD, resulting in five specific Board-endorsed Fund strategies.** As a result of a better understanding of the global economy and the evolving challenges facing the membership, the Fund widened the perimeter of surveillance to policies that could significantly influence BOP or domestic stability over the longer term, though not necessarily within the Fund's typical surveillance or program engagement time frame of one to five years. Surveillance reviews following the ISD, as well as subsequent staff guidance notes further clarified surveillance priorities and proposed criteria to operationalize the principles guiding Fund engagement in newer policy areas. One of the key criteria to determine whether the Fund should engage in a newer policy or not is whether that policy is "macrocritical" (Figure 1).[10] This led to the development of a Board-endorsed Fund strategy for governance (IMF, 2018a), social spending (IMF, 2019), climate (IMF, 2021c), digital money (IMF, 2021d), and gender (IMF, 2022b).

17. **The ISD also extended the role of multilateral surveillance, including coverage of spillovers, in the four policies explicitly mentioned in the ISD, as well as in newer policy areas beyond those four.** It clarified that "*in its multilateral surveillance, the Fund will focus on issues that may affect the effective operation of the international monetary system, including*

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[10] For a more detailed discussion of the operationalization of the principles guiding Fund engagement in newer policy areas, including the criteria and their definitions used, see Jannils and Wojnilower (2024).

(a) global economic and financial developments and the outlook for the global economy, including risks to global economic and financial stability, and (b) 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. The policies of members that may be relevant for this purpose include exchange rate, monetary, fiscal, and financial sector policies and policies respecting capital flows" (IMF, 2012).

Figure 1. Criteria for Fund Engagement

	IMF Expertise	**Lack of IMF Expertise**
Potentially Macrocritical	**Required:** Analysis & Policy Advice **Rely on:** In-House Resources	**Required:** Analysis **Rely on:** External Resources
Not Macrocritical	**On Request:** Analysis & Policy Advice **Rely on:** In-House Resources	**Leave to Others**

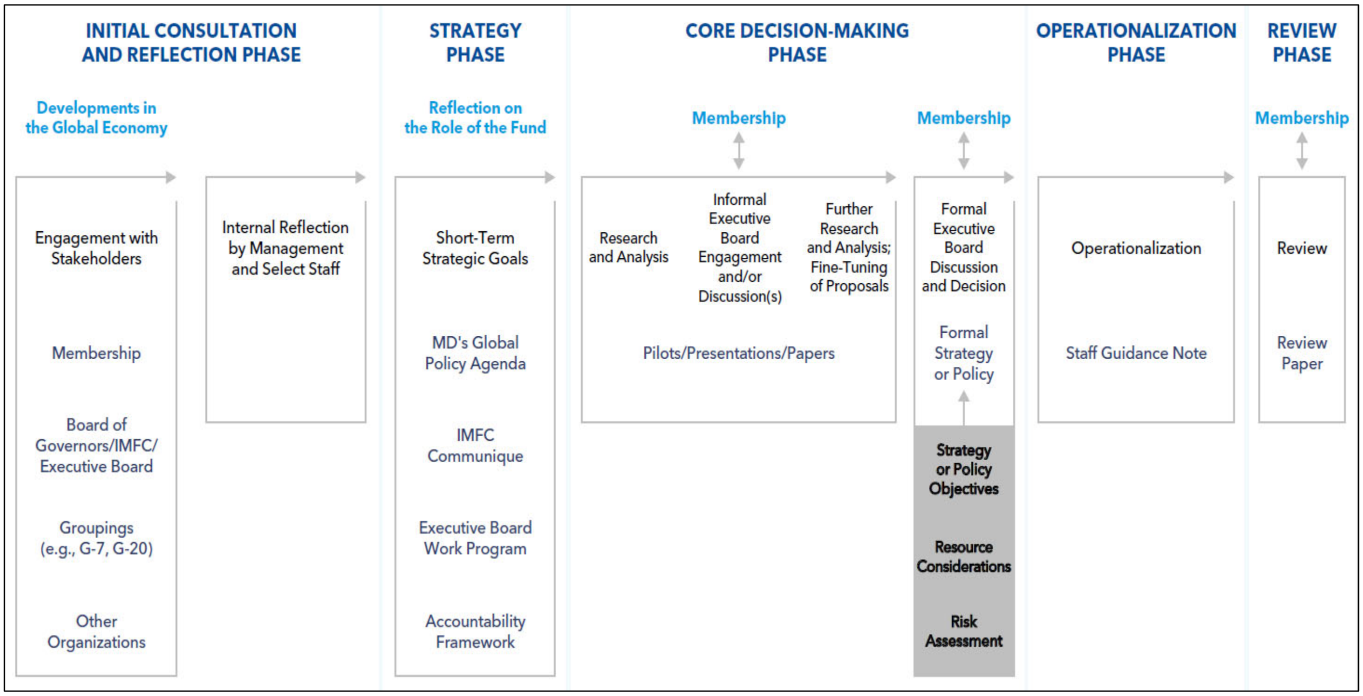
Source: IMF (2015c).

III. STRATEGY AND POLICY DECISION-MAKING PRACTICES IN APPLYING THE IMF'S MANDATE

A. Key Steps in the Decision-Making Process

18. **There were several key steps in the process to decide whether to engage in newer policy areas beyond the four traditional core policies.** Figure 2 represents a stylized description of the decision-making process that resulted in Fund engagement in newer policy areas, incorporating key elements of a model process. In a model process, the Fund would engage with the membership in an inclusive manner; decisions on individual strategies or policies for newer policy areas are anchored in a Fund-wide, institutional strategy; they consider the scope, resource needs, and risk management implications, and ensure they are aligned; and were based on adequate information available to all stakeholders. Typically, the key steps in the decision-making process could be divided in five broad phases: (i) the initial consultation and reflection phase; (ii) the strategy phase, in which the proposal became part of the Fund's short-term strategic goals and work program; (iii) the core decision-making phase, in which the proposal was developed into a concrete strategy or policy and endorsed by the Executive Board; (iv) the operationalization phase, when staff, for example, prepared a guidance note to apply the Board-endorsed proposals; and (v) the review phase, when the policy was reviewed after some time of implementation. This section analyses the issues related to decision-making practices in each of these phases in relation to the Fund's specific strategies for governance, social spending, climate, digital money, and gender. Sections IV and V will focus, respectively, on the resources and risk management aspects in the development of these five strategies.

Figure 2. Key Steps in the Decision-Making Process



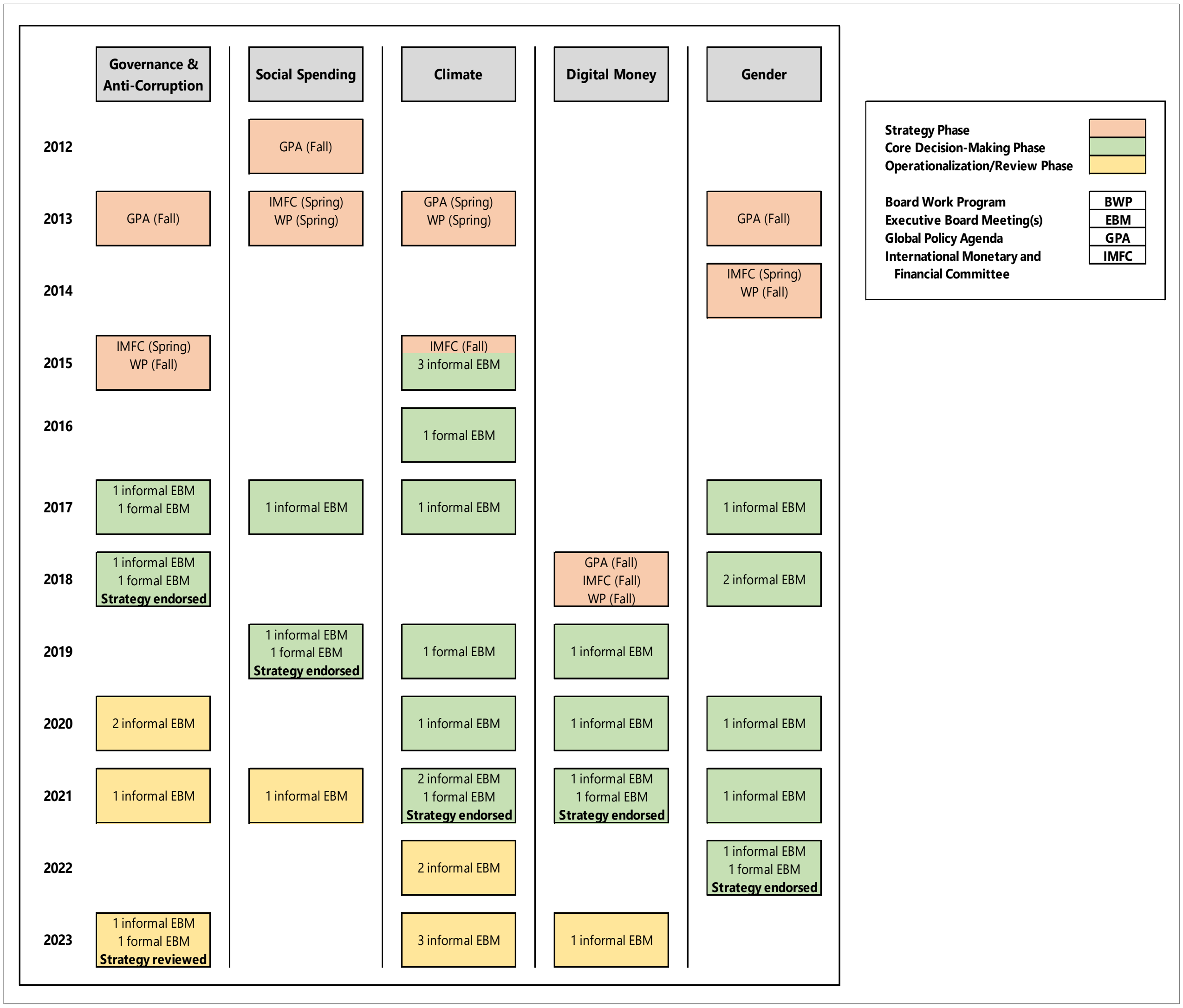
Source: Author.

19. **These steps took several years to complete (Figure 3), from initial consultations and reflections to the development and Board endorsement of a Fund strategy or policy for engagement in a newer policy area.** For example, climate was first mentioned in the Managing Director's Global Policy Agenda (GPA) and the Board Work Program in the Spring of 2013. In its October 2015 communiqué, the International Monetary and Financial Committee (IMFC) stated that it looked "*forward to the IMF's active contribution—including through the assessment of macroeconomic implications of climate change—to a positive outcome of the Conference of Parties 21 (COP21) in Paris*." That same year, the Board held three informal meeting to discuss Fund engagement in climate, one in September, and two in November. In total, the Board held seven informal meetings and three formal meetings between 2015 and 2021, including the formal meeting to discuss the Fund's climate strategy in July 2021.

B. The Initial Consultation and Reflection Phase

20. **The Initial Consultation and Reflection Phase was typically characterized by dialogue and iteration among key internal and external stakeholders.** These included management and staff, the Fund's membership, the Board of Governors, the IMFC, the Executive Board, as well as several specific groups of members, including the Group of Seven (G7), the Group of Twenty (G20), and the Intergovernmental Group of Twenty-Four (G24) (Annex I).

Figure 3. Moving Through the Different Phases



Source: Author, drawing on IMF Connect, GPA (multiple years), IMFC Communiqué/Chair's Statement (multiple years), Board Work Program (multiple years), and IMF (2018a, 2019, 2021c, 2021d, 2022b and 2023b).

21. **In the initial stages of exploring newer topics for Fund engagement, the role of the Managing Director[11] was key in driving changes in the application of the Fund's mandate.** Through their 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, how they affect the membership, and to launch initiatives to address challenges facing the membership. Particularly in the area of climate and gender, Executive Directors and staff interviewed for this evaluation deemed the role of the Managing Director critical in initiating and later accelerating the development of a specific Fund strategy.

[11] During the evaluation period (2012–23), the Fund was led by two Managing Directors: Christine Lagarde (from July 5, 2011, until September 12, 2019) and Kristalina Georgieva (as of October 1, 2019).

22. **Executive Directors supported the Managing Directors' prerogative to take initiatives and consider whether the Fund should engage in newer policy areas relevant for the Fund's membership.** However, most Executive Directors[12] also argued that the Managing Director was successful in driving Fund engagement in newer policy areas beyond the traditional core policies identified in the ISD because they had the support of key member countries. Staff also played an influential role, as some early research and initiatives, like for example, on governance and anti-corruption, were originated by select groups of staff.

23. **Key individual members and groups of Fund members played an influential role in supporting the Managing Director when contemplating Fund engagement in newer policy areas.** While formal decisions were taken by the Board, acting for all Fund member countries, interviews for this evaluation highlighted that key individual members, specific groups of Fund members, as well as other institutions and stakeholders, such as the IMFC,[13] the G7, the G20, and the G24, also contributed to influencing the evolving content and directions taken in applying the Fund's mandate by calling on the Managing Director and the Fund to engage in newer policy areas. Many Executive Directors and staff noted that the Fund did not consult with the broader membership of 190 member countries in the same way and that in particular consultations with some G7 and G20 member countries were more intense than with the rest of the membership.[14] Bilateral consultations between management and staff and some G7 and G20 member countries reflected their voting power, as well as their active engagement with the Fund, while Fund engagement with the G20 as a group grew over time and is now well established (Box 1).

24. **The IMFC and the Executive Board were not considered a driver of change, at least not in the initial consultation and reflection phase.** During the evaluation period, the IMFC mostly endorsed proposals by the Managing Director. Similar to the findings by Bossone (2008) and Boughton (2024), it played a limited role in initiating changes and setting strategic priorities. The policies that resulted in the five specific strategies for governance, social spending, climate, digital money, and gender, were all introduced in the Managing Director's GPA before being mentioned in the IMFC Communiqué/Chair's Statement and they did not originate from the Board. The Board played a key role in overseeing and providing guidance to management and staff, first informally, in the initial phase 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.

[12] Qualifiers follow those used internally by the Fund: "most" means 15 or more Executive Directors (out of 24), while "many" refers to 10 to 15 Executive Directors.

[13] For a historical overview of the IMFC and its role in Fund governance, see Shakow (2008).

[14] For a more detailed discussion of engagement with the G7 and the G20, see Boughton (2024); and with the G24, see Gallagher, Rustomjee, and Arevalo (2024).

Box 1. Fund Engagement with the Group of Twenty

The Group of Twenty (G20) was established in 1999 and brings together some of the largest economies in the world (Annex I). At the G20 Summit in Pittsburg in September 2009, the G20 defined itself as the main forum for international economic cooperation. The G20 Finance Track is led by the finance ministers and central bank heads of the G20 member countries, who normally meet four times a year, two of them in parallel to the Fund's Spring and Annual Meetings.

The Managing Director attends most, if not all, key G20 meetings, while staff participate in several G20 working groups, and in particular in the International Financial Architecture Working Group (IFA WG). The IFA WG was established following the GFC and focuses on the stability and resilience of the international financial system.

The G20 operates without a permanent secretariat or staff and therefore relies heavily on inputs from the Fund, the Organization for Economic Cooperation and Development (OECD), and the World Bank, among others. The G20's presidency rotates annually among its members and the incumbent presidency country establishes a temporary secretariat for the duration of its term to coordinate the G20's work and organize its meetings. Every incoming G20 presidency discusses its priorities with the Fund. Over time, this has become a well-coordinated process in which the G20 presidency indicates what it would like the Fund to contribute, Fund departments then consider these requests and indicate what they can deliver based on resource and expertise constraints, and the Fund subsequently agrees with the G20 presidency on a set of specific deliverables.

While details of the agreed deliverables are not shared with the Board, all materials prepared for the G20 are based on Fund work and papers that were previously presented to the Board. Only in exceptional cases does the Fund prepare original research for the G20. In that case, the resulting materials are shared with the Board for information. While Fund engagement with the G20 is primarily based on previous research, it does require Fund staff to participate in various G20 working group meetings, update information, and prepare materials in the form of documents or presentations which need to go through the Fund's internal review process. At the same time, while labor-intensive, staff argued that Fund engagement with the G20 entailed benefits for the Fund too, in terms of support for Fund work.

Source: Interviews with current and former Fund staff, www.g20.org.

C. The Strategy Phase

25. **In the strategy phase, four internal Fund processes drove decisions on initiatives and resources relevant to Fund engagement in newer policy areas.** These comprised:

- **Global Policy Agenda.** The Managing Director's semi-annual GPA was introduced in 2012, to provide the Managing Director an opportunity to engage with the IMFC (the Managing Director presents the GPA to the IMFC) and the Board on the key policy priorities to be taken up in the work agenda. It identified the policy challenges faced by the membership, outlined policy responses that were needed at the global and country levels to address them, and laid out what the Fund could do to provide support for the coming year. Newer policy areas like governance and anti-corruption, social spending, climate, digital money, and gender were introduced and mentioned in the GPA, sometimes several years before resulting in a specific Fund strategy (Figure 3). The GPA was shared with the Board before the Spring and Annual Meetings, which provided feedback to the Managing Director during two informal Board meetings. While the GPA generally reflected Executive Directors' input, ultimately it was the responsibility of the Managing Director and the role of the Board in developing the GPA was limited.

- **IMFC Communiqué/Chair's Statement.** The semi-annual deliberations of the IMFC discussed the GPA and issued an IMFC Communiqué/Chair's Statement, which summarized the guidance provided by IMFC members for the Board Work Program. As mentioned above, during the evaluation period, the IMFC mostly reacted to the GPA and endorsed proposals by the Managing Director. Most Executive Directors and staff interviewed for this paper believed that, overall, the role of the IMFC in setting strategic priorities for the Fund weakened over time, which echoes the findings of Bossone (2008) and Boughton (2024). The IMFC traditionally operated by consensus, requiring the support of all IMFC members to issue an IMFC Communiqué. Since April 2022, however, differences in views between Fund members related to the war in Ukraine have not allowed the IMFC to issue a communiqué and it was substituted by a Chair's Statement, which nonetheless reflected the shared views of IMFC members on Fund policies.

- **Board Work Program.** The Work Program of the Board, set out in a semi-annual statement issued by the Managing Director, translated the strategic directions laid out in the GPA and the guidance set out in the IMFC Communiqué/Chair's Statement into concrete actions. It was discussed in a formal Board meeting, usually in June and November (2012–18) or December (2019–present), after the publication of the GPA and the IMFC Communiqué/Chair's Statement, and after the Medium-Term Budget (MTB) discussion, which took place in the period March-May (Section IV).

- **Accountability Frameworks**. Once a specific topic or policy was included in the Managing Director's GPA and the Board Work Program, it was incorporated into the Accountability Frameworks, which set goals and objectives for individual departments that were reviewed annually by management.

26. **While the Fund developed a series of individual strategies for, for example, surveillance and CD, as well as for specific policy areas like governance, social spending, climate, digital money, and gender, there was no overarching Fund-wide, institutional strategy or reflection on the role of the Fund.** The Managing Director's GPA, the IMFC Communiqué/Chair's Statement, and the Board Work Program typically focused on short-term policy priorities and an allocation of resources for the year ahead. While there were some initiatives aimed at developing longer-term approaches to policy decision-making and to finding budgetary space for new initiatives (Section IV), these have not been sustained. One precedent was the Medium-Term Strategy (MTS) (Box 2) initiated in 2004 by the then Managing Director,[15] that sought to develop a strategic approach to making decisions on the medium-term priorities for the Fund, while integrating consideration of the available human and budget resources. This coincided with a period when policy makers questioned whether the Fund had become irrelevant,

[15] Rodrigo de Rato was Managing Director from June 7, 2004, until October 31, 2007.

given the sharp decline in lending operations.[16] However, with the departure of the Managing Director in 2007 and the onset of the GFC, interest in the initial MTS exercise waned. Looking back on the MTS experience, staff interviewed for this paper questioned its added value and considered its development resource-intensive and ultimately top-down, rather than inclusive. There has been no similar initiative since.

Box 2. The Fund's Medium-Term Strategy, 2004–06

In 2004, U.S. Treasury Secretary John Snow, as Chairman of the G7 Finance Ministers, called for a strategic review of the Bretton Woods institutions. When Rodrigo de Rato took over as Managing Director of the IMF in June 2004, he initiated a reflection on the Fund's strategic directions, involving staff and the Executive Board. On October 2, 2004, the IMFC welcomed the initiative and on December 13, 2004, the Managing Director established the Committee on the Fund's Strategic Priorities (CFSP). The CFSP was chaired by FDMD Anne Krueger and included all DMDs and 11 senior staff. It was tasked to propose strategic priorities and to identify possible new activities and potential trade-offs, considering past guidance from the Board and the IMFC. While initially steered by the FDMD, in July 2005, Managing Director de Rato took leadership of the MTS process.

Over the next year and a half, the CFSP produced several notes and papers which were discussed by the Board, while the IMFC was kept abreast of progress made in the discussions. On April 22, 2006, the IMFC endorsed the proposed MTS and provided further guidance, after which priorities and sequencing in MTS implementation were incorporated in the Board Work Program.

Similar to concerns voiced by stakeholders in the course of this evaluation, the MTS noted that: (i) there was a sense that over time, the Fund had been pulled in too many new directions, straining its original mandate focused on international monetary stability and the financing of temporary BOP problems; (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 Surveillance Decision (Section II), strengthening support for emerging markets, including deepening financial and capital market surveillance, and focusing Fund policy advice to low-income countries on sustainable growth and on macrocritical areas that would support achievement of the Millennium Development Goals (IMFC, 2006).

Similar to the findings in this paper, Bossone (2008) found that the IMFC only played a limited role in setting the Fund's MTS. Initiatives did not originate from the IMFC, nor the Board, but mostly from the Managing Director and the CFSP. Through formal and informal discussions, however, the Board did play a key role by providing direction and feedback on management's proposals, to ensure that the MTS would reflect the preferences and needs of the membership.

Sources: Bossone (2008), IMFC (2005 and 2006).

27. **The absence of a strategic anchor to guide decisions on Fund engagement in newer policy areas negatively impacted comprehensiveness and coherence.** Executive Directors almost unanimously signaled the lack of a Fund-wide, institutional vehicle to discuss the Fund's longer-term strategic priorities. They argued that having a way to discuss longer-term institutional strategic priorities, either through the development of a Fund-wide, institutional strategy for

[16] In the period 2004-2008, credit outstanding under the Fund's General Resources Account (GRA) declined substantially, as large creditors like Argentina, Brazil, and Türkiye, paid back their loans and no new large arrangements were requested. After Türkiye reimbursed the Fund in May 2008, outstanding credit under the GRA fell to less than SDR 17 million by end-May 2008, from over SDR 47.5 billion in January 2004.

engagement in newer policy areas or through some other instrument, would be useful. While they welcomed the Managing Director's GPA, they did not believe the GPA reflected a medium-term orientation and they argued that the role of the Board in the GPA was limited. In 2023, the Board initiated a reflection on how to enhance the discussion of longer-term institutional strategic priorities. During the January 2023 annual Board retreat, a working group of Executive Directors was tasked to consider ways forward. Based on input from this working group, as well as the Strategy, Policy, and Review Department (SPR), the Secretary's Department (SEC), other departments, and management, in June, the Fund's Agenda and Procedures Committee (APC) discussed initial considerations. More detailed proposals were discussed in August and introduced on a pilot basis. One practice introduced 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. The APC further indicated the intention to review the experience with these new practices in the Summer of 2024 (IMF, 2023c). As they are still a work in progress, it is too early to evaluate their impact.

28. **The absence of a Fund-wide, institutional strategy did not allow the Fund to anchor discussions on newer policy areas in a broader discussion of the role of the Fund in the medium and long term or to consider alternative options.** This resulted in ad hoc decisions on specific strategies for governance, social spending, climate, digital money, and gender, without a broader discussion on how they fit in the overall Fund strategy or possible alternative options. This has prevented discussions about which macrocritical policy areas are 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. Examples raised during the interviews in the course of this evaluation included, for instance, the choice to develop a specific gender strategy rather than, for example, a strategy for the broader policy area of demographics, or the choice to develop a specific digital money strategy rather than, for example, a strategy for cybersecurity. There was no instrument for the Board to consider these kind of broader strategic questions and tradeoffs.

D. The Core Decision-Making Phase

29. **Once a newer policy area was explored and found its way into the Fund's short-term policy priorities and Board Work Program, staff typically commenced more in-depth work and prepared presentations, pilots, and/or papers based on their research and analysis, for informal and formal Board discussions.** Often, management and staff also consulted informally and bilaterally with Board members during this process to gauge their views and better understand possible concerns related to potential changes in the application of the Fund's mandate. Based on feedback from Board members during such outreach meetings, as well as the informal Board meetings, staff typically did further work and finalized proposals for Board approval during a formal meeting. Such proposals, like those related to the five specific strategies for governance, social spending, climate, digital money, and gender, were primarily focused on strategy and policy decisions, and much less on the resource and risk management implications (Sections IV and V, respectively).

30. **During this phase the Board had the biggest impact in shaping any proposals for Fund engagement in newer policy areas.** During informal consultations between staff and Board members, as well as informal and formal Board meetings, Board members expressed preferences, and indicated the extent to which they were willing to support (specific elements of) a proposal. In practice, the Fund's consensus-based decision-making process implied that once a proposal was sent to the Board for formal discussion, it was all but certain to be endorsed. Therefore, informal bilateral consultations and Board meetings during this phase were particularly important for the Board to shape the proposals before they were finalized.

31. **Most Executive Directors, however, believed that engagement with the Board as part of the decision-making process that resulted in the five specific strategies was not fully inclusive.** Inclusiveness is defined by the extent to which the decision-making process involved all relevant stakeholders in an evenhanded manner and considered their perspectives and interests. Most Executive Directors argued that, ideally, regardless of voting power, all Executive Directors would receive the same information, at the same time, so they can pass such information on to their capitals and decide how to respond, and management and staff would seek their input during informal meetings with the entire Board. Since these meetings are informal, there is no recording of minutes and Executive Directors therefore can be more open in expressing their views, including those held independently of their capitals. These views then can be reflected in a formal proposal for consideration that is relatively inclusive and transparent. While the Board held 20 informal Board meetings and eight formal Board meetings (Figure 3) to discuss the governance, social spending, climate, digital money, 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 to these 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, and the weight given to views from Executive Directors often reflected their voting power. Changes made to proposals following these informal bilateral consultations therefore only reflected the views of or were known only by 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 in a Board meeting with all Executive Directors present.

32. **Most Executive Directors argued that choices related to how to engage in newer policy areas and to what extent were largely driven by the Managing Director (because of lack of consensus in the Board) and the views of some key members (because of their voting power).** They argued that Fund engagement in newer policy areas was to a large extent developed to reflect the Managing Director's priorities, as well as some key members' needs and/or interests, and not necessarily those of all Fund members. They argued that if the needs of a significant part of the membership that nevertheless only commanded limited voting power would require additional funding or a reallocation of funding away from issues important to some key members, it would be an uphill battle. Most Executive Directors also believed that the role of the G20 and the IMFC weakened over time, inter alia as a result of differences in views between key members.

33. **These concerns intertwined with the broader discussion on members' voice and representation in the Fund.** While in principle, inclusiveness can be fostered independently from members' voting power, many Executive Directors, particularly those representing emerging market economies, argued that the lack of inclusiveness was another manifestation of Fund members' quota shares no longer reflecting their position in the global economy and the fact that countries with the largest quota share have the largest weight in the decision-making process, even if their quota shares are outdated.[17]

E. The Operationalization and Review Phases

34. **In the operationalization phase, staff sometimes, but not always, prepared a guidance note to provide further clarification on how to operationalize a Board-endorsed strategy or policy.** If prepared, such guidance notes were shared with the Board for information but were not subject to Board approval. 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. As of this writing, staff produced an interim guidance note on gender (IMF, 2024a) and a guidance note on social spending (IMF, 2024b), and included operational guidance related to governance, social spending, climate, digital money, and gender in the 2022 Guidance Note for Surveillance under Article IV Consultations (IMF, 2022a).[18]

35. **In the review phase, Board-endorsed strategies or policies were reviewed after some time based on experience gained through their implementation.** Paying sustained attention to specific topical areas is key for Fund work in those areas to move forward.[19] The Board was briefed on a regular basis on the progress of the implementation of approved strategies or policies. In addition, many of the Fund's strategies or policies were formally reviewed on a regular basis. For example, following the approval of the 2012 ISD, the Fund's surveillance policy was reviewed during the 2014 Triennial Surveillance Review, the 2018 Interim Surveillance Review, and the 2021 Comprehensive Surveillance Review. When the Board endorsed the Fund's governance strategy in 2018, it looked forward to a review of the strategy within three years (IMF, 2018b).

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[17] Complaints about the current state of voice and representation in the Fund, particularly by emerging market economies, 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, by June 2025, possible options for a quota realignment as part of the 17th General Review of Quotas (IMF, 2023e). The membership did agree to increase the number of Executive Directors to 25 from 24, to allow for the creation of an additional Sub-Saharan African constituency in the Board.

[18] A list of all staff guidance notes related to strategy or policy papers can be found on www.imf.org/en/Publications/SPROLLs/List-of-Guidance-Notes-Policy-Papers.

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

Albeit delayed, in 2020, the Fund undertook an interim update, and in 2023, the Board discussed first informally, and later formally, the review of the implementation of the strategy (IMF, 2023b). While the Board indicated it looked forward to regular updates, for the Fund's social spending, climate, digital money, and gender strategies, the Board did not call for a full review within a specific time frame.

IV. RESOURCE CONSIDERATIONS IN THE APPLICATION OF THE IMF'S MANDATE

A. The Medium-Term Budget

36. **During the evaluation period, every year in the period March to May, the Executive Board discussed the Fund's annual net administrative budget, presented as a rolling three-year MTB.** The MTB was subject to Board approval and allocated the budgetary resources across all Fund activities, including to deliver the Board Work Program. Led by the Office of Budget and Planning (OBP), the MTB process was structured to incorporate input from the GPA, the Board Work Program, and policy-specific discussions, and was the result of extensive engagement between staff, management, and the Board. As the Board's endorsement of the Fund's strategies for governance, social spending, climate, digital money, and gender did not include a formal decision on the resource allocation for these workstreams, their resource impact still needed to be incorporated in subsequent MTB decisions.

37. **Throughout almost the entire evaluation period, decisions related to the MTB were guided by a zero real growth rule.** Between 2012–21, the Board put forth zero real budget growth on nine occasions.[20] Only on two occasions did the Board approve a structural increase in the budget. In April 2016, to allow for a small increase for cyber and physical security expenses; and in December 2021 to provide a targeted budget augmentation (see further) for the Fund's work on longer-term global challenges. In both instances, the Board stated its intention to return to a flat real budget trajectory thereafter (IMF, 2021f). Further, since 2021, the real budget is 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.

38. **As a result, until FY2023 work on newer policy areas was financed through a combination of reallocating budgetary and human resources within the existing budget envelope, internal savings, and staff overtime.** In addition to reallocating budgetary and human resources and targeting internal savings as part of the annual MTB process, OBP initiated two major streamlining exercises. The first one 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 and 2015b). The second streamlining exercise was discussed by the Board on

[20] In 2012, 2013, 2014, 2015, 2017, 2018, 2019, 2020, and 2021.

June 15, 2018, but did not require a formal Board decision as management's proposals for further streamlining and modernizing Fund operations were more limited in scope (IMF, 2018c). In the past decade, budget and streamlining and modernization exercises provided average savings of around 4 percent of the aggregate budget envelope a year for reprioritization (IMF, 2021f).

39. **Despite their high profile in Fund communication, the GPA, and the Board Work Program, data presented in the MTB suggest that resources allocated to newer policy areas remained relatively limited.** Estimating resource needs for newer policy areas can be challenging, as future needs are based on assumptions and available data may be limited. However, data presented in the MTB only estimated direct and departmental overhead costs (but not indirect costs) for the period FY2020–24 for governance and anti-corruption, climate, digital money, and inclusion and gender. There were no comparable data for earlier years and the data were subject to significant limitations (Box 3).

40. **After maintaining zero real budget growth for almost a decade, in early 2021, management requested an increase in the Fund's net administrative budget because of rising pressures to address the priorities and needs of the membership, reduced budget buffers, and unsustainable demands on staff.** The IMFC supported management's request for a budget augmentation. In its April 2021 communiqué, the IMFC noted that "*the IMF has an important role in responding to members' diverse needs for guidance on the macroeconomic and financial implications of climate change issues. We, therefore, support the IMF in stepping up work to help its members identify and manage the macrocritical implications of climate change, digitalization, inequality, and fragility, in close collaboration with partners, and to further integrate these issues into its surveillance, lending, and capacity development in line with its mandate*." The IMFC also agreed to explore the appropriate budget envelope to ensure that the Fund has the resources required to carry out its mandate.

41. **The initial budget augmentation proposal envisaged a 9.1 percent real increase and was discussed by the Board during an informal Board meeting on July 30, 2021, shortly after the discussion of the Fund's climate and digital money strategies.** The Board recognized that reprioritization and internal savings during the period under review had reached their limits and agreed that additional resources were required for the Fund to appropriately help the membership address longer-term global economic challenges and ensure that coverage of newer issues would not come at the expense of the Fund's existing core work. (IMF, 2021g) The initial proposal envisaged a real increase in the Fund's net administrative budget of 9.1 percent relative to FY2022, returning to a flat real budget trajectory thereafter. This real increase was targeted at five specific priority areas (Table 1), including three newer policy areas (climate, digital money, and inclusion and gender), and included a structural buffer to provide some budget flexibility.

Box 3. Measuring the Fund's Engagement in Newer Policy Areas

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

- **Time and cost tracking.** The Fund's Time Reporting Analytic Costing and Estimation System (TRACES) 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 semi-annual staff surveys to report how much time staff have been working on specific topics.
- **Funding source.** Data presented in MTB documents were based on Fund-financed spending (IMF01). Estimation techniques to systematically track both internally (IMF01) and externally (IMF02) financed spending were 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 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 macro-financial 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 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.

As a result, 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 Fund's climate and 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. 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).

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.

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

42. **The initial budget augmentation proposal envisaged a 9.1 percent real increase and was discussed by the Board during an informal Board meeting on July 30, 2021, shortly after the discussion of the Fund's climate and digital money strategies.** The Board recognized that reprioritization and internal savings during the period under review had reached their limits and agreed that additional resources were required for the Fund to appropriately help the membership address longer-term global economic challenges and ensure that coverage of newer issues would not come at the expense of the Fund's existing core work. (IMF, 2021g) The initial proposal envisaged a real increase in the Fund's net administrative budget of 9.1 percent relative to FY2022, returning to a flat real budget trajectory thereafter. This real increase was targeted at five specific priority areas (Table 1), including three newer policy areas (climate, digital money, and inclusion and gender), and included a structural buffer to provide some budget flexibility.

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%	27	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 State	31	28%	21	29%	5.3	7.4	8.5
Macro-Financial Surveillance	9	8%	9	12%	3.9	2.6	2.2
Buffer	12	11%	0	0%			
Synergies	-5	-5%	0	0%			

Source: IMF (2021e and 2021f).

43. **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.** Almost half of the Board (representing around 59 percent of voting power) deemed the proposed increase of 9.1 percent too high. They also expressed reservations about the proposed buffer and requested staff to develop alternative scenarios. During October 2021, management held three informal discussions with Executive Directors to find a way forward. First, staff developed alternative scenarios based on a 3 percent, 6.5 percent, and 9 percent increase. They argued that a 3 percent augmentation would not be in line with what was endorsed in the Fund's strategy process without impacting critical work in traditional core policy areas. The 6.5 percent scenario, while workable, would significantly curtail the scale and pace of deliverables relative to the climate and digital money strategies endorsed by the Board earlier in 2021. Later, staff developed further scenarios based on a 5.5 percent, 6.3 percent, and 6.5 percent increase to illustrate tradeoffs. Based on these alternative scenarios, half of the Board (representing around 62 percent of voting power) pushed for a real budget increase of 6 percent or less.

44. **The final approved Budget Augmentation Framework settled on a real increase of 6 percent in three phases—a foundational (FY2023), growth (FY2024), and stabilization (FY2025) phase.** The input from the Board resulted in a formal proposal 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, as the share of climate increased, while that of inclusion and gender fell significantly (Table 1). The Foundational phase would allow the Fund to develop core tools, guidance, and analytics, while piloting country engagements. In the growth phase, expanded recruitment and increased capacity would result in direct country engagement, and in the stabilization phase, Fund activities would stabilize and be maintained at that level (IMF, 2021f).[21] This significant reduction in additional funding necessitated a considerable scale-back in the scope of for example the Fund's climate strategy, endorsed and published externally a few months earlier, affecting both the number of countries that could be reviewed and the depth of the topics addressed. Overall, staff believed that the resources allocated under the approved Budget Augmentation Framework were inadequate to comprehensively cover all issues deemed macrocritical.

B. Alternative Ways to Measure Fund Engagement in Newer Policy Areas

45. **Overall, the resource decision-making process was not sufficiently transparent as the lack of more granular 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 and underestimated the real cost in terms of the time staff worked on newer policy areas and to what extent this work crowded out work on the Fund's four traditional core policies.** Staff interviewed for this evaluation argued that the use of semi-annual staff surveys in the absence of a way to systematically track what topics staff is working on, underestimated the real amount of time staff worked on newer policy areas, and by extension their real cost and share in the Fund's budget. Additionally, staff and almost half of Executive Directors believed that work on newer policy areas crowded out work on traditional core policies. In the staff survey conducted for this evaluation, approximately 73 percent of staff indicated that the Fund's engagement in newer policy areas in combination with the flat real budget framework either moderately (around 29 percent) or significantly (around 44 percent) negatively impacted the performance of Fund activities in the four traditional core policies. For senior-level staff (B1 to B3-level staff), around 90

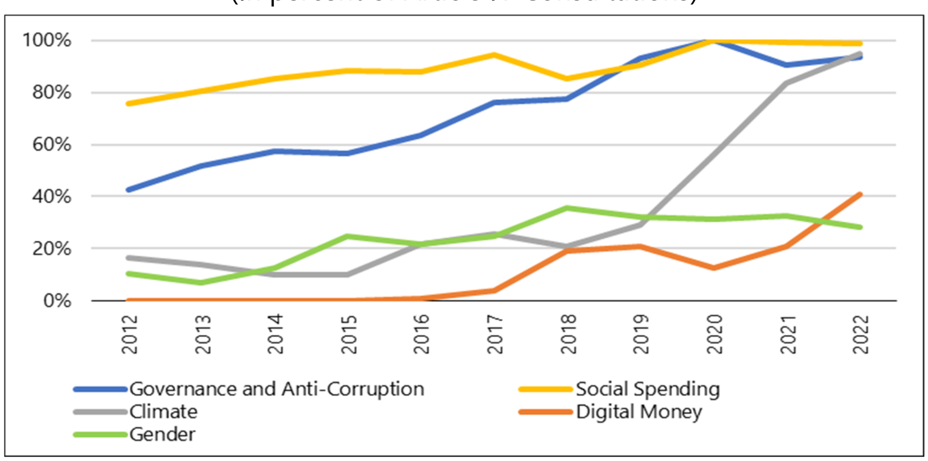
[21] While the Budget Augmentation Framework paper provided indicative FTE numbers, these numbers were based on average grade/salary levels and the binding constraint was the dollar amount. For example, with the additional USD 27 million USD reserved for the Fund's climate work (Table 1), the Budget 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 for example, climate or digital money or gender experts working at the Fund, the annual Staff Recruitment and Retention Experience Reports provided information on hiring in newer policy areas.

percent considered there was a negative impact.[22] Almost half of Executive Directors shared staff's view that newer policy areas crowded-out traditional core topics and therefore the Fund may have missed critical events in the application of its core mandate, including the inflationary impact of the COVID-19 pandemic. This problem was compounded by the approval of an insufficient budget augmentation.

46. **Mission chiefs raised concerns that coverage of newer policy areas impacted the quality of bilateral surveillance.** Mission chiefs interviewed for this evaluation argued that the expansion of the number of policy areas that were expected to be covered in bilateral surveillance, in combination with relatively small country teams and limited expertise on certain topics within country teams, impacted the quality of surveillance. The public focus of the Managing Director on topics like climate change and gender, as well as the lack of clear guidance,[23] put pressure on country teams to cover a wide array of policy areas during Article IV Consultations. This resulted in a checkbox approach, whereby if a topic was not included it would be flagged in the internal review process. Analysis of Article IV Consultation reports during the evaluation period confirmed that these reports increasingly covered newer policy areas (Figure 4), particularly in the last three years when the large majority of Article IV consultations covered governance and anti-corruption, social spending, and/or climate issues.

Figure 4. Coverage of Newer Policy Areas in Article IV Consultations, 2012–22

(In percent of Article IV Consultations)



Source: IEO staff calculations.

Note: Coverage was defined as at least three paragraphs in the main Article IV Consultation Paper (excluding Selected Issues Papers).

[22] The response rate to the IEO staff 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 findings of the survey were further corroborated by in-depth interviews with staff.

[23] For a more detailed discussion of the operationalization of the principles guiding Fund engagement in additional policies and the guidance provided to staff, see Jannils and Wojnilower (2024).

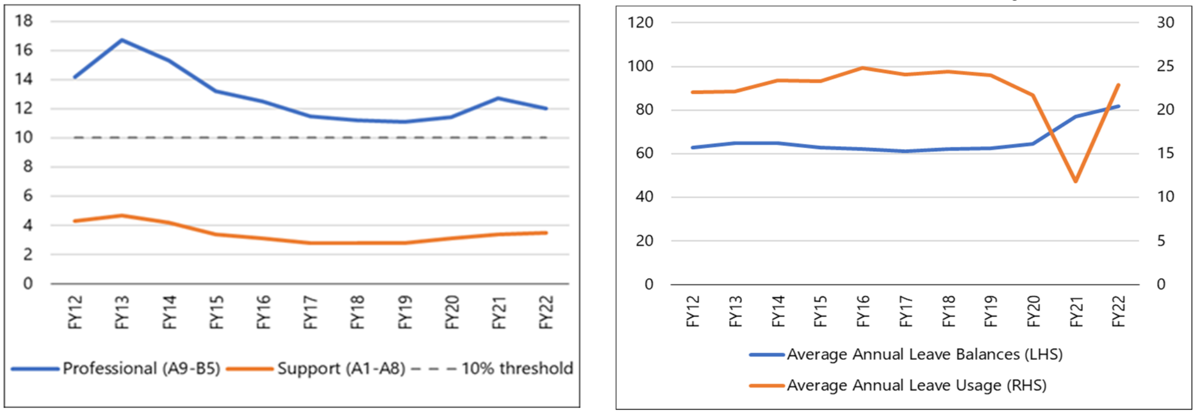
47. **More broadly, previous IEO evaluations have found that Fund-wide resource constraints have particularly impacted the quality of bilateral surveillance for small, fragile, and conflict-affected states.** The 2022 IEO evaluation on *IMF Engagement with Small Developing States* (SDS) found that resource constraints resulted in high turnover and short tenure of mission chiefs and country team members (IEO, 2022a). Two-thirds of SDS experienced gaps between a mission chief's end of service and the appointment of a successor. Reasons for the high turnover included the small country team size, the high workload, limited country level data, and, for some desk economists, lack of resources. This was confirmed by budgetary data, which clearly showed that surveillance resources per SDS were significantly lower than for other groups. These elements interrupted the continuity of the Fund's engagement with SDS, as relationships had to be regularly rebuilt; diminished the appreciation for country circumstances; and, overall, weakened the traction of Fund engagement. The 2018 IEO evaluation on the *IMF and Fragile States* (FCS) produced similar findings (IEO, 2018). Despite the labor-intensive nature of work on FCS, until the recent Budget Augmentation Framework, such work had not received significant additional staff resources, resulting in difficulties in attracting experienced staff to work on FCS, diminishing the quality of surveillance and support the Fund provided to these countries.

48. **In addition, within the constraints of a flat real budget, the increased workload resulted in unsustainable work pressures for staff.** Work pressures for staff, measured in terms of overtime and annual leave usage and unused annual leave balances, while declining, remained consistently high and above targets during the evaluation period (Figure 5). While the Fund had a targeted average overtime rate of 10 percent, for the Fund's professional staff (levels A9-B5), this threshold was exceeded in every year in the period FY2012–22 in all five area departments, as well as in SPR, the Monetary and Capital Markets Department (MCM), and the Institute for Capacity Development (ICD), and for all but one year in the Fiscal Affairs Department (FAD). Average annual leave usage remained under the 30 days per fiscal year allocated to full-time staff (26 days before May 1, 2021). Indeed, MTB documents and Risks Reports 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.

49. **Like bilateral surveillance reports, the Fund's flagship multilateral surveillance reports increasingly covered newer policy areas beyond the four traditional core policies.** The Fund's main multilateral surveillance reports, the World Economic Outlook (WEO), the Global Financial Stability Report (GFSR), and the Fiscal Monitor (FM), are published twice a year, usually in April and October. Since 2015, these reports increasingly covered newer policy areas like governance and anti-corruption, social spending, and climate, and to a lesser extent digital money and gender (Figure 6). The specific topic of digital money was only covered in the GFSR, but the FM did discuss other aspects of digitalization, like digital government (Spring 2018) and crypto assets and their tax implications (Spring 2022). Also, some FM covered newer policy areas extensively, like for example governance and anti-corruption (Spring 2019) and climate (Fall 2019).

Figure 5. Staff Overtime and Annual Leave, FY2012–22

Overtime (In percent) | **Average Annual Leave Usage and Unused Annual Leave Balances (In days)**



Note: 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.

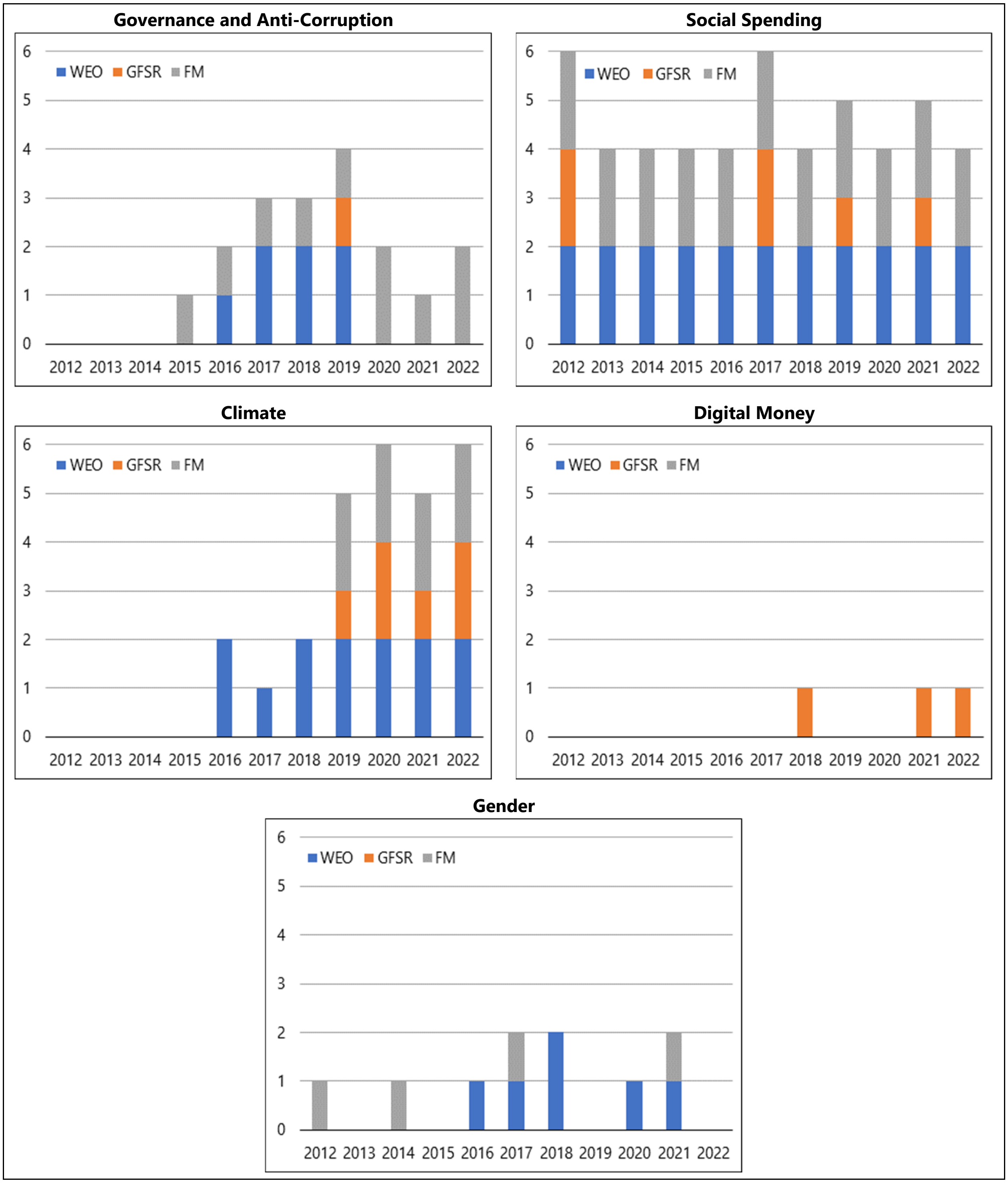
Note: Data includes all staff and shows average annual leave usage and unused annual leave balances, as of April 30 of each respective fiscal year.

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

50. **Related to newer policy areas, lending arrangements mainly featured conditionality linked to social spending and governance and anti-corruption.** The Fund's Monitoring of Fund Arrangements (MONA) Database contains data on 140 lending arrangements for the period 2012–22. Of all arrangements, 80 percent for the period 2020–22 featured conditionality related to social spending (Figure 7), for example, in the form of indicative targets on a floor on social spending or structural benchmarks related to reviews of social programs. Further, 58 percent (2020–22) included governance and anti-corruption conditionality, for example, in the form of prior actions or structural benchmarks to introduce or enhance anti-corruption legislation. Climate conditionality (for example, structural benchmarks to assess the risks and fiscal impact of climate change) and gender conditionality (for example, structural benchmarks to develop gender strategies or enhance labor market participation) featured significantly less and no arrangement included conditionality related to digital money. This excluded climate conditionality as part of arrangements under the Resilience and Sustainability Facility (RSF). The Resilience and Sustainability Trust (RST) was established in April 2022 to provide longer-term financing to support policy reforms that reduce macrocritical risks associated with climate change and pandemic preparedness. The RST became operational in October 2022 and the first arrangement under the RSF was approved in November 2022 with Costa Rica. Between October 2022 and end-2023, the Board approved 16 arrangements under the RSF, increasing the coverage of climate conditionality in lending arrangements.

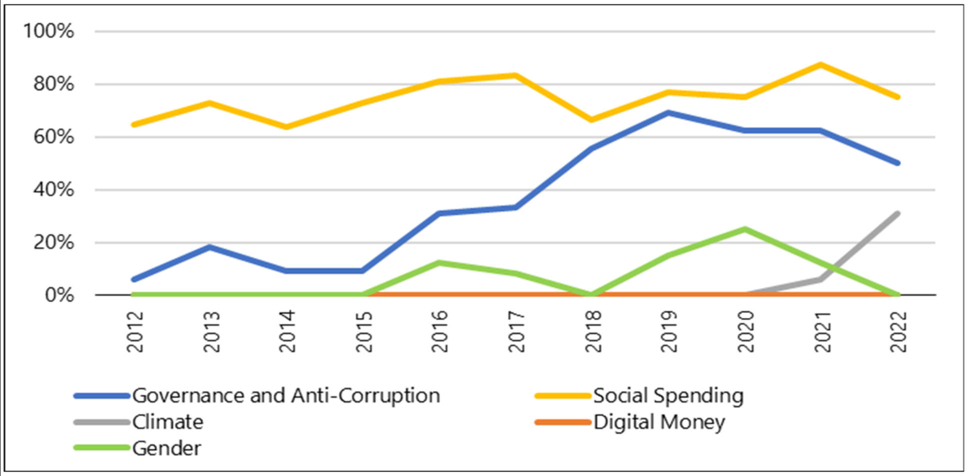
Figure 6. Coverage of Newer Policy Areas in the WEO, GFSR, and FM, 2012–22

(In number of reports)



Source: IEO staff calculations based on the WEO, GFSR, and FM Reports (2012–22).

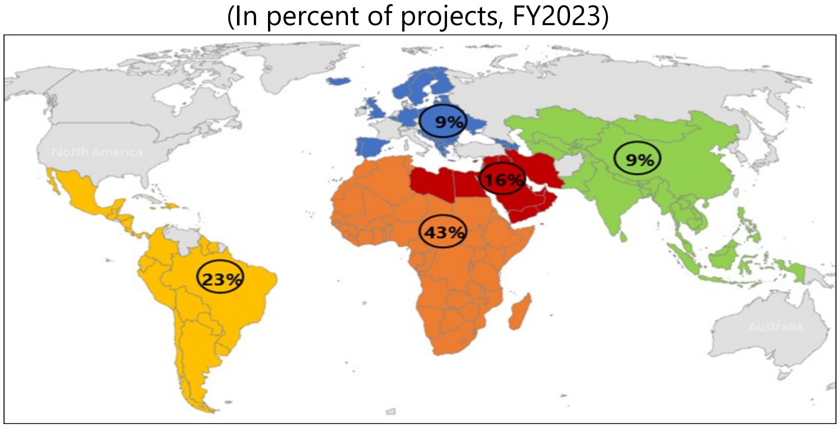
Figure 7. Coverage of Newer Policy Areas in Lending Conditionality, 2012–22
(In percent of lending arrangements)



Source: IEO staff calculations based on MONA data.

51. **As demand for Fund CD in newer policy areas grows, there is a risk of capacity constraints if resources do not follow suit.** With the introduction of the Fund's Capacity Development Management and Administration Program (CDMAP) in FY2022, the Fund started tracking CD operations in newer policy areas in a more systematic way. The 2022 IEO evaluation of *The IMF and Capacity Development* (IEO, 2022b) found that there was high demand for Fund CD, both in the four traditional core policies, as well as in newer policy areas such as climate (Figure 8) and digital money. It highlighted the challenges of ensuring sufficient resources to respond to CD needs in member countries in all these policies. For example, climate-related CD work received an increase in internally financed resources (IMF01), which in practice shrank available IMF01 resources for CD in other areas. In addition, travel budgets were not proportionately adjusted with travel needs related to CD in newer policy areas and the addition of new staff members hired as a result of the Budget Augmentation Framework.

Figure 8. Share of Climate Change-Related Fund CD by Regions
(In percent of projects, FY2023)



Source: IMF (2023d).

52. **Most Executive Directors and staff agreed that more granular data to better track and report work by policy area is needed.** While there were differences of views on how to address the increased workload (see further), interviews with Executive Directors and staff highlighted that more accurate reporting of staff work by policy area, and not just by output, was required. However, for OBP to start tracking and reporting time in a multidimensional way would require capital investments in a modern time management system, similar to those used in other public and private organizations.

C. Resource Gaps

53. **The fact that decisions on strategy and policy, resource allocations, and risk management (see further) were not taken together but at different moments in time, impeded a holistic approach to decision making and negatively impacted comprehensiveness and coherence.** 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 implement them. For example, the Fund's climate strategy was endorsed and published externally in July 2021, while its resource implications were only discussed as part of the Budget Augmentation Framework in December 2021. 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 (Table 2). For example, the resource requests by staff in the documents sent to the Board for the discussion on the Fund's climate strategy on July 16, 2021, were USD 36 million (or 95 full-time equivalent (FTE)).[24] While Executive Directors endorsed the Fund's climate strategy, they took note of the proposal for gradually adding 95 FTEs to implement it but decided to assess the resource needs later, together with other funding requests, during the discussion of the budget augmentation. The initial budget augmentation proposal proposed a budget allocation consistent with the climate strategy documents, but as explained in Section IV, in the end, the Board only approved a budget allocation of USD 27 million. This approach required previously endorsed strategies to be scaled down in scope after they were already formally discussed in the Board and published externally on the Fund's website.

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[24] This proposal by staff had already undergone an internal exercise to reduce internal unconstrained bottom-up staff resource demands. Following an informal Board meeting on December 7, 2020, on Integrating Climate Change into Article IVs and FSAPs, SPR, HRD, and OBP asked heads of departments on January 5, 2021, to provide input on resource needs based on two scenarios, a "core deliverables" and an "ambitious" scenario. The "core deliverables" scenario would allow the Fund to cover, in a selective manner, the most critical demands for climate-related work in the strategy, while still leaving significant gaps in coverage. In the "ambitious" scenario, the Fund would be able to address the membership's demand for climate-related work comprehensively, including by enabling all country teams to cover climate issues. Initial, unconstrained staff resource requests were very high and risked crowding out additional resources needed for other topical areas or resulting in a very high budget augmentation proposal. As a result, the initial, unconstrained resource requests were reduced to around USD36 million in the climate strategy documents shared with the Board (IMF, 2021a and 2021c).

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, 2021c, 2021d, and 2021f).

54. **While there are several ways to address misalignments between ambition and available resources, staff expressed concern about the Board's inability or unwillingness to decommission Fund activities.** Misalignments could be addressed by increasing resources, scaling down ambition, and/or finding internal resources through a reprioritization of existing activities or workstreams. Staff interviewed for this evaluation, however, argued that 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. When asked, more than half of Executive Directors agreed with staff that the Board was reluctant to deprioritize or abandon existing activities or workstreams, indicating that in practice, reprioritization options were very limited.

55. **At the same time, most Executive Directors favored continued budget discipline and a return to the zero real growth rule once the Budget Augmentation Framework is implemented.** Executive Directors favoring a return to the zero real growth rule represented around 80 percent of voting power and argued that by approving the Budget Augmentation Framework, the Board has given management and staff a clear signal on the tradeoff between ambition on the one hand, and the additional resources the membership is willing to commit on the other hand. As such, they understood that the augmented budget provides the Fund with the necessary resources to address the Board's priorities. If management and staff believed that there were still gaps, these would have to be addressed through reprioritization or internal savings, or management and staff would have to make a new case for additional resources if fundamental changes in the membership's needs in the future warrant a further expansion of the Fund's budget.

56. **Going forward, most Executive Directors believed that the Board should play a key role in prioritization and trade-off decisions.** While the approved Budget Augmentation Framework increased the Fund's budget, it only provided additional resources and set priorities for five select workstreams (Table 2). As they are being implemented or when new priorities arise, further trade-offs will have to be made. Most Executive Directors argued that, in addition to more granular data, a more integrated decision-making process is needed for the Board to take

resources and prioritization and trade-off decisions. 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.

V. Risk Management Considerations in the Application of the Fund's Mandate

A. Evolving Risk Management Practices

57. **The Fund's risk management practices evolved substantially over time, 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 2007, the Board approved the establishment of a Fund-wide Advisory Committee on Risk Management (ACRM) to identify the risks faced by the Fund and to propose mitigation measures. In 2011, an external panel of eminent persons argued that the Fund's approach to risk management had many strengths, but it also had gaps. For example, given its advisory nature, the ACRM had no real-time influence on major decisions affecting the Fund's risk profile. As a result, in March 2012, the Managing Director established a Working Group on the Fund's Risk Management Framework (WGRM), which recommended inter alia to establish an enhanced central risk management function. This led to the creation of the Risk Management Unit (RMU) in 2014 to replace the ACRM. Later, in 2018, RMU became ORM (IMF, 2021b).

58. **ORM was responsible for developing the Fund's Enterprise Risk Management (ERM) framework and played a second line independent view and challenge role.** ORM reports to management and was tasked with developing an ERM framework, including the methodologies, techniques, and tools to be used by the individual Fund departments and units, and producing reports on the Fund's risk profile and risk mitigation efforts (IMF, 2021b). While the 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 provided an independent view and challenge to ensure the quality and uniformity of the risk management process across the Fund. When ORM disagreed with staff's risk assessment, it notified management, flagging those issues ORM disagreed with.

59. **The Fund's recently approved ERM framework covers risks related to the Fund's mandate extensively.** In December 2022, the Board approved an ERM framework for the Fund, including an ERM Roadmap to guide the future work on the development and implementation of ERM (IMF, 2022c and 2022d). As part of the Fund's ERM framework, ORM developed an extensive ERM Risk Taxonomy which categorizes four hierarchical risk levels (from 1 to 4), based on six Level 1 risks: business; environmental, social, and governance (ESG); financial; operational; reputational; and strategic risks. The risks related to the application of the Fund's mandate are covered across all six Level 1 risks (Table 3).

Table 3. Coverage of Risks Related to the IMF's Mandate in the ERM Framework

Level 1 Risks	Coverage Includes
Business	Whether member engagement and Fund advice are consistent with the needs of the membership.
ESG	Governance issues, including whether the Fund's governing bodies adequately or accurately reflect its membership.
Financial	The liquidity and adequacy of the Fund's lending and CD resources to fulfil its mandate.
Operational	Several aspects relevant to the Fund's mandate, including human capital risks (for example, lack of expertise, resource constraints, and allocation to fulfil the Fund's mandate) and process risks (for example, budget allocation and execution and Executive Board and IMFC governance).
Reputational	Risks stemming from the membership's loss of trust in the Fund's credibility, integrity, and objectivity.
Strategic	Risks resulting from changes in the Fund's mandate, fragmentation, and Fund activities being taken over by regional financing arrangements.

Source: IMF (2023a).

B. Limited Discussion of Risk

60. **The discussion of risks related to Fund engagement in newer policy areas was limited and the Board did not have access to a comprehensive risk assessment when taking strategic decisions on the application of the Fund's mandate, raising transparency concerns.** While the documents for the governance, social spending, climate, digital money, and gender strategies contained some discussion of risks associated with the respective strategy, this discussion was very limited. The ERM framework was only approved in December 2022, so the discussion of risks related to these five strategies was not as extensive as it could have been and did not benefit from the guidance provided by the ERM Risk Taxonomy. The documents for these five strategies covered risks in a very limited and high-level way, focusing mainly on reputational, budget, and human capital risks. None of the strategy documents provided a systematic and comprehensive discussion of the risks, covering arguments both in favor and against engaging in newer policy areas, across all six Level 1 risks (Table 3).

61. **Annual risk reports did not discuss specific risks related to the governance, social spending, climate, digital money, and gender strategies, but focused mainly on the Fund's overall risk profile.** Once a year, ORM (and ACRM and RMU before it) prepared a risk report, which provided an assessment of the Fund's risk profile across the Fund's different business areas, proposed directions for risk mitigation, and reported on progress in advancing the Fund's risk management function. These annual Reports on Risk Management (2012–14) and Risk Reports (2015–present) were formally discussed by the Board but were not published. Since 2016, these formal Board meetings were complemented by an informal Board meeting providing a mid-year risk update. The Board discussion on the annual risk report, very much like the MTB discussions (Section IV), took place ex post, when individual strategies or policies were already endorsed by the Board. As such, annual risks reports were not an ideal instrument to discuss the risks related to

engaging in a specific policy area as the strategy or policy was already endorsed at that point. However, annual risk reports during the evaluation period did consistently emphasize budget and human capital risks, including the impact of the flat real budget constraint on workload pressures and the risk of work on newer policy areas crowding out work on traditional core policies.

62. **While the recently approved ERM framework provides a framework to discuss all relevant risks related to the application of the Fund's mandate, the Fund's institutional setup did not guarantee Board access to a comprehensive risk assessment.** The Board did not have a risk committee, the head of ORM was hired (and can be removed) by the Managing Director, and ORM did not report to the Board but to management. ORM's own risk assessments or comments on staff's risk assessments were subject to the Fund's internal review process for comments and requested modifications by other departments, and ultimately, management's decision on what parts of risk assessments featured in any documents sent to the Board. This setting runs the risk that in a discussion on engagement in a newer policy area, the Board may only be presented a partial, non-comprehensive risk assessment. As explained in Section II, the Board took the vast majority of the final decisions related to the Fund's policies and operations, which makes the Board the ultimate risk owner for these decisions. Best practice would entail that the Board informs its decisions with a comprehensive analysis of the implications of its decisions on the Fund's overall risk profile and whether its decisions were consistent with earlier Board decisions on risk management.[25]

63. **The absence of a strategic anchor impeded a discussion of strategic risks when engaging in newer policy areas.** One of the key strategic risks for the Fund is to be no longer relevant for its membership. In the mid-2000s, the role of the Fund, and whether the Fund was still relevant, was seriously questioned as a result of a sharp fall in lending operations. This led to an important downsizing in 2008, immediately prior to the GFC. Not engaging in macrocritical policy areas could entail a strategic risk for the Fund, as the membership could perceive the Fund as persistently lacking strategic foresight and being inadequately responsive to emerging challenges for the membership, and therefore less relevant for them. However, engaging in newer policy areas also entails risks. When deciding on engaging in newer policy areas, the Board should therefore make a decision based on these trade-offs. However, without an overarching Fund-wide, institutional strategy for engagement in newer policy areas (Section III.C), risk management was limited to analyzing risks of individual strategies or policies ad hoc, without the context of a broader institutional strategy and an analysis of the longer-term risks for the Fund as an institution.

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[25] In the case of private financial institutions, the Basel Committee on Banking Supervision (BCBS) principles for risk management and corporate governance for financial institutions updated after the GFC emphasize the importance of an independent risk function. Principle 6 of the Guidelines for Corporate Governance for Banks states that "*while formal reporting lines may vary across banks, the CRO [Chief Risk Officer] should report and have direct access to the board or its risk committee without impediment*," and that "*appointment, dismissal and other changes to the CRO position should be approved by the board or its risk committee*" (BCBS, 2015).

64. **The lack of a holistic approach to decision-making also presented inconsistencies in the follow-up of suggested risk mitigation measures in the implementation of newer policy areas.** For example, the Fund's climate strategy document argued that "*stepping up the IMF's engagement on climate change as proposed in this strategy will help mitigate reputational and strategic risks to the Fund*" (IMF, 2021c). However, the document also noted that "*not properly resourcing the new climate mandate 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 across the spectrum, in turn affecting its reputation*." To manage these risks, the paper suggested inter alia "*properly resourcing the new mandate and the acquisition of skills, including time for transition and training*." As explained in Section IV.C, 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, as public expectations raised following the external publication of the Fund's climate strategy in July 2021 are no longer fully aligned with the climate strategy that was funded and de facto scaled down in the subsequent budget process.

VI. ASSESSMENT AND LESSONS LEARNED

65. **This evaluation finds that the application and its scope fit in the legal framework of the Fund's mandate.** As explained in Section II, the Fund's mandate has not changed since the Second Amendment of the Articles of Agreement in 1978, but the built-in flexibility in the Articles allowed the Fund to engage in newer policy areas beyond the four traditional core policies in line with the membership's preferences. The inclusion of financial sector policies in the 2007 Bilateral Surveillance Decision showed that what specific policies the membership considers central to the Fund's bilateral surveillance can evolve over time. As a result, it is not excluded that in the future some of the newer policy areas will be considered "core" policies, just like exchange rate, monetary, fiscal, and financial sector policies were considered central to the Fund's bilateral surveillance in the 2007 Bilateral Surveillance Decision and the 2012 ISD.

66. **There was a broad consensus among all stakeholders interviewed in the course of the evaluation that both the traditional core policies, as well as the newer policy areas that resulted in five specific strategies for governance, social spending, climate, digital money, and gender, were relevant and reflected important needs and priorities for the Fund's membership.** However, opinions differed on the role of the Fund in a number of newer policy areas and whether the Fund should engage in these newer policy areas insofar they impact the traditional core policies or as policies on their own, on par with the traditional core policies. For instance, views on the Fund's engagement in climate and gender issues were mixed. While considered relevant topics for the membership, half of Executive Directors believed that other institutions would have been better placed to address the membership's needs and that Fund engagement went too far in these areas. The staff survey conducted for this evaluation garnered similar results. On climate, staff was broadly divided between those who believed that the Fund

engaged appropriately or should have engaged more and those who believed that the Fund should have engaged less or not at all. On gender, almost 59 percent of staff questioned Fund engagement in this area.

67. **For decisions on the application of the Fund's mandate, the way decisions are taken is of great importance, including for members' perception of legitimacy and support.** The rest of this section organizes the lessons learned around four key evaluation criteria emphasized by Executive Directors interviewed for this evaluation as central to the effectiveness of the decision-making process: comprehensiveness, coherence, inclusiveness, and transparency.

A. Comprehensiveness and Coherence

68. Was all relevant information considered and were possible alternatives explored, as well as their resource and risk management implications?

Finding 1: The Absence of a Strategic Anchor

69. **The GPA did not reflect a medium-term orientation and the role of the Board in the GPA was limited.** The frequency of the GPA 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 the Board to anchor discussions on newer policy areas in a broader strategic reflection of the role of the Fund and resulted in ad hoc decisions on specific strategies. This has prevented discussions about which macrocritical policy areas are 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. Fund engagement does not need to be binary. There are various incremental options between just signaling the macrocriticality of certain policy areas, leaving engagement in these policy areas to other institutions, and in-depth engagement at the level of the traditional core policies. The lack of a strategic anchor also impeded a discussion of strategic risks when engaging in newer policy areas. Without an overarching Fund-wide, institutional strategy for Fund engagement in newer policy areas, risk management was limited to analyzing risks of individual strategies or policies ad hoc, 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 Lack of a Holistic Approach to Decision-Making

70. **The decisions related to Fund engagement in newer policy areas and their resource and risk implications were taken in a piecemeal way and resulted in misalignments between the ambition expressed in the policy decisions and the resources committed to implement them.** For some additional 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 they were already formally discussed in the Board and published externally. A more holistic approach does not

preclude an iterative process in which the scope of a proposed strategy or policy is rightsized until its scope, allocated resources, and risk management implications are aligned, but it implies that the formal endorsement of a strategy or policy and its external publication only takes places when there is an agreement on all these elements. While the approved Budget Augmentation Framework increased the Fund's budget, it only provided additional resources and set priorities for five select workstreams. And while this was a step forward in providing better information and different options, it still fell short of a fully integrated decision-making process allowing for prioritization and trade-off decisions across all Fund activities. The lack of a holistic approach also presented inconsistencies in the follow-up of suggested risk mitigation measures in the implementation of Fund strategies for newer policy areas.

B. Inclusiveness

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

Finding 3: Involving All Fund Members in an Evenhanded Manner

72. **This paper finds that engagement with the Board as part of the decision-making process that resulted in the five specific strategies for governance, social spending, climate, digital money, and gender was not fully inclusive.** First, initiatives for engagement in newer policy areas were set in motion by the Managing Director through the GPA and the Board 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. Second, there was a perception among most Executive Directors that choices related to how to engage in newer policy areas and to what extent were largely driven by the Managing Director (because of lack of consensus in the Board) and the views of some key members (because of their voting power). Third, while the Board held 20 informal Board meetings and eight formal Board meetings to discuss the governance, social spending, climate, digital money, 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 to 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, and the weight given to views from Executive Directors often reflected their voting power. Changes made to proposals following these informal bilateral consultations therefore only reflected the views of or were known only by a select group of Executive Directors. Most Executive Directors believed that it is key for all options to remain on the table until they can be discussed in a Board meeting with all Executive Directors present.

C. Transparency

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

Finding 4: The Lack of More Granular Budget Data

74. **The resource decision-making process was not sufficiently transparent as the lack of more 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.** The Fund's time management system did not allow OBP to systematically track what policy areas staff worked on and therefore did not generate the granular budget data needed to correctly measure and monitor the real cost and the share of newer policy areas in the Fund's budget.

Finding 5: Missing a Comprehensive Risks Assessment

75. **The discussion of risks related to Fund engagement in newer policy areas was limited, ad hoc, and lacked a comprehensive risk assessment when taking strategic decisions on the application of the Fund's mandate.** The documents for the governance, social spending, climate, digital money, and gender strategies covered risks in a very limited and high-level way. 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 were already endorsed by the Board and published externally. By committing to engage in several newer policy areas, the Fund has raised expectations among various constituencies, which entails reputational risks 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.

VII. Suggestions for Next Steps

76. **Based on the assessment in the previous section, this paper offers four suggestions to enhance the comprehensiveness, coherence, inclusiveness, and transparency of the decision-making process to engage in newer policy areas:**

- **Fund-wide, institutional strategy for engagement in newer policy areas.** The Board and management could consider developing a Fund-wide, institutional strategy for engagement in newer policy areas. The goal is not to replicate a grand strategic exercise like the MTS, but to focus on three key questions, which would anchor decisions on individual strategies or policies. First, out of many macrocritical policy areas, which policy areas should the Fund focus on in the next three to five years? This also implies that the Fund will not engage in other areas beyond these. Second, how deep and how frequent should the Fund engage in the chosen policy areas, ranging from just signalling their macrocriticality all the way up to engagement on par with the traditional core policies? Third, what should be the overall size of the Fund? In the context of a flat real budget, incrementally engaging in additional newer policy areas is bound to impact the quality of Fund engagement. Either the overall size of the Fund is allowed to grow in line with engagement in newer policy areas, or existing activities need to be scaled down or even ended. Developing such a strategy, involving all Fund members in an evenhanded manner and considering the needs and priorities of all Fund members, would avoid taking ad hoc decisions and would enable discussion and making strategic choices by providing a framework to consider the different alternatives in terms of which policy areas to engage in and which not, the level of engagement, what this means for the size and risk profile of the Fund, and how this positions the Fund in the international financial system.

- **Holistic Decision-Making.** The Board and management could consider a more holistic approach when discussing individual strategies or policies related to newer policy areas by formally endorsing the strategy or policy's scope, and the resource and risk management implications at the same time. This does not preclude an iterative process in which a strategy or policy's scope, the resources required, and risk management implications, are discussed at different times, nor that the scope cannot be rightsized during the iterative process to reflect resource constraints. However, the final endorsement of a strategy or policy, as well as its external publication, should only take place when all elements were considered and are aligned. Clarifying up front the risks associated with a particular strategy or policy, what resources will be provided, as well as where they will come from, would help avoid unintentionally impacting other Fund activities or workstreams and putting unsustainable demands on staff or creating misalignments between the ambition expressed in the strategy or policy decisions published externally and the resources committed in the budget process to implement them.

- **Budget Data by Policy Area.** Management and staff could collect, track, and report 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 in a systematic way to estimate more precisely the costs and resource needs by policy area. 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, multi-dimensional 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 involve process planning, change management, and managing risks related to compliance and data quality. The Board should therefore carefully review what policy areas need to be tracked (for example those priority policy areas determined in a Fund-wide, institutional strategy) and the level of granularity required.

- **Risk Assessment.** When determining or reviewing a Fund-wide, institutional strategy or individual strategies or policies related to Fund engagement in newer policy areas, staff could present a comprehensive risk assessment to the Board. Such an assessment should cover the risks related to engaging, as well as not engaging, in newer policy areas across all six Level 1 risks of the ERM Framework.

ANNEX I. G7, G20, AND G24 MEMBER COUNTRIES/ORGANIZATIONS

Group of Seven (G7)	Group of 20 (G20)	Intergovernmental Group of 24 (G24)
Canada	Argentina	Algeria
France	Australia	Argentina
Germany	Brazil	Brazil
Italy	Canada	China
Japan	China	Colombia
United Kingdom	France	Cote d'Ivoire
United States	Germany	Democratic Republic of Congo
	India	Ecuador
	Indonesia	Egypt
	Italy	Ethiopia
	Japan	Gabon
	Mexico	Ghana
	Russia	Guatemala
	Saudi Arabia	Haiti
	South Africa	India
	South Korea	Iran
	Turkey	Kenya
	United Kingdom	Lebanon
	United States	Mexico
	European Union	Morocco
	African Union	Nigeria
		Pakistan
		Peru
		Philippines
		South Africa
		Sri Lanka
		Syria
		Trinidad and Tobago
		Venezuela

Sources: www.g7hiroshima.go.jp, www.g20.org, www.g24.org.

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