The IMF's Comprehensive Surveillance Review: A bungled attempt at meeting the moment

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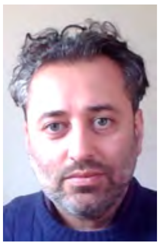
The IMF's Comprehensive Surveillance Review failed to deliver what was required of the institution at this critical moment of multiple unfolding crises: a fundamental rethink of its approach to macroeconomic policy advice in service of people and planet. As the IMF still has a chance to undo some of the damage, will it prove itself fit for purpose to tackle the central challenges of our time or continue business-as-usual?

IMF surveillance is one of the three pillars of the IMF's mandate. It entails continuous monitoring of almost every country's economy and emerging risks to global economic stability (see Inside the Institutions, *IMF Surveillance*). As set out in the IMF's Articles of Agreement, in Article IV, every IMF member's economy must be annually assessed in what are called Article IV consultations. The IMF's analysis and consequent policy advice shape a country's policy options and limits its choices, influencing their access to private finance by shifting market perceptions of economic prospects and affecting the terms on which countries attract investment and finance. These realities carry enormous consequences to people's lived realities, particularly to those at the intersections of marginalisation. Over the past decade, surveillance has also become the main way in which the IMF has put its new research on gender and economic inequality as well as climate change into practice, by 'piloting' initial research findings on these so-called 'macrostructural' issues into its country-level surveillance reports.

The Comprehensive Surveillance Review (CSR) is a 5-yearly review of the Fund's surveillance priorities and approaches, drawing on views from its own experts, the executive board and external stakeholders to ensure policy is adjusted to the changing global economic context and fulfils the Fund's mandate to preserve economic stability. The CSR is comprehensive in that it aims to establish the broad parameters under which staff should conduct surveillance work, which will then be detailed in subsequent staff guidance notes. The most recent CSR, comprising ten policy papers, was initiated in 2019 and concluded by the board in May 2021.

The IMF framed the 2021 CSR as a modernisation of its surveillance in the post-Covid-19 context, outlining four substantive priorities, which included "fostering economic sustainability". In a background paper, the Fund detailed that this entails embracing a broader understanding of economic sustainability to better account for the impact of economic and non-economic developments on stability, such as demographics, technological changes, inequality, socio-political and geopolitical factors, and climate change. In doing so, the IMF acknowledged that a good understanding of these concerns is "essential" to achieving the Fund's surveillance mandate, seemingly going a step further than the last review in 2014, where these issues were not mentioned at all, and the subsequent 2015 surveillance guidance note that simply listed these as "some structural issues that staff may wish to consider" – without offering further guidance. Yet, it then goes on to maintain the imprecise 'macro-criticality' standard – the term it uses to indicate what falls within the scope of its mandate – to guide IMF engagement on these issues. It does so explicitly because this standard is "sufficiently flexible and broad", allowing the Fund's work on these issues to be "selective and focused, with the choice of issues made on a case-by-case basis, considering country circumstances."



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Approach to macrostructural issues remains inadequate and inconsistent

In maintaining this *ad hoc*, unsystematic approach to gender, inequality and climate change that relies on the interest and expertise of individual staff members and the willingness of countries to engage, the IMF has failed to meet the standard needed at this critical juncture in history. The world faces an accelerating climate crisis and severe rising inequalities, which are exacerbated by the Covid-19 pandemic, but are rooted in the extractive, neoliberal economic model the Fund has promoted for decades, exacerbating the feminisation of poverty. The CSR was an important opportunity for the IMF to rethink whether its own policy approaches are fit for purpose and put forward a bold new proposition for maintaining global economic stability in a way that responds to these central challenges of our time.

Instead, the IMF has failed to set out a coherent framework for how Fund staff are supposed to – systematically – consider economic and gender inequalities and climate change in surveillance. The Fund has already been applying the same macro-criticality standard to address these issues for the past six years. This standard has led to inadequate analysis that is unevenly applied, which does not fulfil the Fund's mandate to identify the macroeconomic drivers of risks to global economic stability.

Despite claiming that addressing the interconnections between different policy goals is a priority, the CSR also fell short by not identifying the interlinkages between economic and gender inequality and climate change. For instance, by recognising that fuel subsidy cuts may make up a component of tackling climate change, but can have devastating impacts on vulnerable populations that need to be carefully balanced.

Perhaps most importantly, the IMF did not use this opportunity to examine the ways in which its own policy advice can exacerbate gender and economic inequality, as well as climate change, despite decades of the Fund's structural reforms having undermined members' capacity to address the topics the IMF now deems macro-critical. Instead of confronting the obvious contradictions between the Fund's continued fiscal consolidation prescriptions in the Global South amidst an incredibly constrained fiscal environment on the one hand, and supporting action on climate change, economic and gender inequality – which all require major public investment – on the other, the CSR only vaguely hints at this critical underlying context by referring to "difficult tradeoffs" policymakers will need to navigate in the recovery context.

Gender equality missing in action

The inadequacy of the CSR is perhaps most clear when considered from the perspective of gender equality. Since 2015, IMF staff have been providing gendered policy analysis and advice in an increasing number of bilateral surveillance reports, which included some work to recognise the significance of unpaid care work to the economy (see *Observer* Winter 2019). In 2018, the IMF pulled together the lessons of that work in a note to staff on how to operationalise gender issues at country level. Critically, that guidance recognised that some IMF policy advice, such as budget cuts on subsidies and the public sector wage bill, could exacerbate gender inequality. The Fund directed staff to consider an alternative policy mix in these instances, supported by gender impact assessment work (see *Observer* Summer 2021).

Instead of strengthening that advice in the CSR and requiring IMF staff to systematically consider how their policy advice could exacerbate gender inequality in surveillance, the IMF relegated gender equality to just "another form of inequality of opportunity" in the CSR's background paper on economic sustainability. While further details on gender issues may come out in the forthcoming guidance note to staff on implementing the CSR, the board has missed the opportunity to provide a mandate to staff that it should systematically consider gender inequality in surveillance. It also made it clear in a CSR paper on the modalities of surveillance that the Fund will not be significantly expanding its staff capacity to systematically strengthen its gender analysis. This represents a side-lining of the Fund's gender agenda, championed by recent Managing Directors, at a time when women are on the frontlines of climate change and the pandemic as the majority of healthcare workers, while picking up even more unpaid care and domestic work, threatening decades of progress on gender equality and women's rights.

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These failures are also discernible in the CSR's approach to economic inequality more broadly. As noted by Oxfam, "the Review misses a crucial opportunity to require staff to advise countries on policies to tackle inequality or systematically assess the impacts on inequality of its own recommendations. Conducting these assessments only under certain circumstances is simply not enough."

The Fund's overall approach towards these issues is that they may, under certain circumstances, be relevant to economic sustainability, but function as completely external developments to the Fund, rather than as the partial result of the Fund's own policy prescriptions. In doing so, the Fund will continue to neglect the macroeconomic drivers of macrostructural issues.

For instance, while the IMF laments that pandemics leave the poor even further behind, it ignores the impacts of its own policy advice of cutting or freezing public sector wage bills, which ActionAid found the IMF still prescribes in 78 per cent of cases. While these inequality impacts are particularly acute where governments lack the frontline healthcare staff to adequately respond to the pandemic, ActionAid and Public Services International established that every single low-income country that received IMF advice to cut or freeze public employment in the three years preceding the Covid-19 pandemic had already been identified by the World Health Organisation as facing a critical health worker shortage. The CSR should have seized this moment to reassess the IMF's approach to public services in general, acknowledging public services are a part of the solution in the face of Covid-19 and the climate crisis, and the multiplier effects of *investments* in gender responsive public services on women's unpaid care burden and labour force participation.

In contrast to recognising and addressing the harmful impacts of the Fund's own policy prescriptions, enhancing tax progressivity has been consistently identified as central to how the IMF can play a more positive role on macrostructural issues, because it is a crucial requirement to expanding fiscal space and enabling states to invest in economic and gender equality and climate action. Yet the IMF does not mention progressive taxation as a cross-cutting priority in the ten documents comprising the CSR, seemingly neglecting this issue.

Climate change policy: All bark and no bite?

As the Fund's climate analysis had lagged behind its inequality and gender work in recent years, the prominent treatment of climate in the IMF's 2021 CSR as a macro-critical issue is welcome. The CSR signals that the Fund now accepts its obligation to support all members to confront climate adaptation challenges and cope with the transition risks that are emerging from addressing those challenges, but how the Fund will operationalise this exactly remains unclear.

The CSR recommends that climate issues feature in Fund surveillance reports and has committed the Fund to address climate mitigation with the 20 largest carbon emitters at least every three years, but falls short of making these recommendations mandatory.

In contrast, following the 2008 global financial crisis, the IMF board decided that the 25 countries with financial sectors that have the greatest impact on global financial stability, or 'systematically important financial sectors', undergo mandatory regular in-depth reviews of their financial health. Rather than use that same standard for major emitters exporting the costs and consequences of climate change, the CSR ignored this precedent, meaning that the financial burdens of adapting to climate change will likely continue to fall on those least responsible and able to afford it.

The IMF's executive board, mostly led by these same 'biggest emitters', is hardly likely to empower Fund staff to meaningfully support the Paris Climate Agreement's objectives, nor its principle of common but differentiated responsibilities for climate change. This reveals the obstacles created by the Fund's own undemocratic governance structures. Its nature as a political institution makes it ill-suited to support a fair and just transition in all its member countries.

Photo: Kim Haugton/IMF.

IMF Managing Director Kristalina Georgieva prepares for a Washington Post Live interview to discuss how the Fund is responding to global crises.

The IMF notes that current international climate commitments, such as states' nationally determined contributions to achieve the Paris climate accord, are not enough to meet the goal of a 1.5C degree future. Absent is analysis of how its own suite of standard policy prescriptions inhibit countries' ability to move beyond their locked-in commitments to fossil fuel energy, such as with long-term investments in fossil fuel-based infrastructure (see *Dispatch*, Spring 2021). While climate reality obliges the Fund to consider how it should support countries to generate fiscal space and revenues while securing the investment necessary to combat climate change, the need to mobilise public investment to shift to sustainable energy production is not addressed by this update to IMF surveillance, nor is there sufficient consideration of the burden of transition amongst countries' different communities.

Ultimately, the strength of the Fund's new approach to climate change outlined in the CSR rests on implementation plans that are still to be developed, where board interests and – as the CSR itself notes – the Fund's internal capacity limitations may restrict its ability to support its country members in adaptation, transition risks or mitigation analyses.

CSR process emblematic of IMF "insularity"

The shortcomings of this CSR are perhaps unsurprising given the lack of consultation with critical external perspectives in developing it, emblematic of the Fund's culture of "insularity and a lack of awareness of the value of outside perspectives and analysis", as described by its Independent Evaluation Office in its 2020 evaluation on how well the Fund collaborates with other organisations on macrostructural issues. The external advisory group to the CSR appointed by the IMF did not have a single civil society representative on it and there was no public consultation on a draft of the CSR, in contrast to the 2014 review. Without input from civil society, trade unions, women's rights organisations and climate justice groups, or those most directly impacted by the Fund's policy advice and most often excluded from macroeconomic decision-making, it is no wonder that the IMF failed to produce a coherent, transformative vision of its approach to macrostructural issues.

This is particularly disappointing because, despite the challenges for civil society to engage with the process, a broad-based group of civil society organisations, including the African Women's Development and Communication Network (Femnet) and the Latin American Network for Economic and Social Justice (Latindadd), submitted a detailed, technical submission to the IMF that could have informed this approach.

The submission set out a proposed framework *when* and *how* the Fund should engage on inequality, gender and climate change in country-level surveillance in a way that is systemic and responds to the long-standing concerns of civil society organisations monitoring the IMF's surveillance work. It emphasises the Fund's first obligation to *do-no-harm* in that regard and lays out the role the IMF could play to support its members in developing an enabling macroeconomic environment to meet existing international commitments in these areas, including international human rights commitments and the Sustainable Development Goals.

Too late for transformative change?

Despite these shortcomings, the Fund can still improve its surveillance work as it now starts the process of developing detailed guidance to staff on how to implement the findings of the CSR, which – arguably – are broad enough to still apply in a transformative way.

Putting a do-no-harm approach first, the civil society submission proposed systematic and robust impact assessments become part of the conventional surveillance package, so that IMF policy impacts on economic and gender inequality and climate change are considered and addressed as a matter-of-course. The guidance must provide detailed support to staff on how to systematically conduct such impact assessments in a way that is still agile enough to fit the different needs of the IMF's members and makes much better use of the wealth of expertise within the UN system on macrostructural issues.

Perhaps most fundamentally of all, the new staff guidance should require greater stakeholder participation from national civil society communities during country-level surveillance missions and provide particular support to staff on reaching out to women's rights organisations and climate justice communities, who are still rarely involved in the IMF's country-level work. Ultimately, only when the voices of those most impacted by the Fund's policy advice are truly heard, does the IMF stand a chance at contributing to the "fairer and greener world" it boasts about.

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