Evidence from the Triennial Surveillance Reviews and Other IMF Studies

2008 Triennial Surveillance Review

In a survey of authorities in which they were asked how well surveillance had contributed to their understanding of various policy areas, fewer than half felt that the Fund had made a major contribution in any single area. The fiscal and financial vulnerability areas received relatively higher marks (about 45 percent of respondents were satisfied), while its advice on exchange rate regimes and policies was rated somewhat lower (about 30 percent of respondents were satisfied). Interviewed authorities believed that data modeling was given too much weight in exchange rate analyses. More generally, some authorities noted that Fund advice would have more value-added if it included more country-specific institutional dimensions. Nevertheless, in TSR interviews with authorities, “almost all those interviewed said IMF surveillance added significant value.” Such conflicting results suggest the need for a deeper examination of the issues.

2011 Triennial Surveillance Review

The 2011 TSR also relied on a survey and interviews with authorities.1 Survey respondents agreed that, in the aftermath of the global crisis, Fund advice had been timely and had taken into account changing conditions. The majority of respondents felt that the discussion of risks and the degree of candor in their latest Article IV consultation were appropriate. Regarding changes in the policy advice in specific areas, authorities felt that Fund advice had improved in the area of financial sector issues and risk assessments. However, they did not perceive an improvement in the areas of exchange rate analysis and the management of capital flows. Consistent with the results found in 2008, “tailoring policy advice to country circumstances” was the main area of bilateral surveillance where respondents felt the IMF needed to improve.

Interviewees gave IMF staff good marks for their interactions before consultation missions, efforts to respond to requests for background material, efforts to increase outreach to the general public, and help in bringing different government agencies into a collective process of assessing policy challenges. Nearly all the interviewed authorities welcomed the Fund’s increased transparency, yet most still believed that tensions had not been resolved between the dual roles of the Fund as confidential advisor and ruthless truth-teller.

Views varied on the value-added of bilateral surveillance. Many authorities thought the main value-added was the provision of an integrated view, that enabled policymakers to focus on policy interconnections. Some of the larger shareholders, however, felt that Article IV discussions seldom provided new insight and policy options. Some felt that the advice given during bilateral surveillance was too generic (technical assistance and FSAP missions were viewed as doing a better job in this regard). Fund advice was also sometimes seen as “too reflective of the traditional Washington Consensus approach based on intellectual and institutional models prevailing in the US and UK.” Authorities would have liked to see more attention given to the implications of regional and international developments for their countries; in their view, Article IV missions demonstrated only limited knowledge of such possible developments. Others would have liked to see more focus on structural and social issues and their link to the budgetary challenges their countries faced.

A number of authorities from emerging markets and low-income countries felt that Fund staff needed to be more aware and sensitive to institutional and social conditions specific to their countries. Some interviewees,

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1The survey response rates for both the 2008 and 2011 TSRs were only about a third, with the responses for the 2011 TSR heavily weighted toward European countries (e.g., the response rate for Africa was only 15 percent). The interviews were conducted during the Spring Meetings and included a few officials from 20 countries, almost half of which were advanced economies; only 2 were LICs.
especially from smaller countries, believed that mission chiefs arrived in the country with strong pre-formed views, reluctant to change even in the face of new evidence. Such mission chiefs seemed fearful of deviating from the approved brief. Several authorities also noted that Fund advice would more likely be accepted if there was a perception of evenhandedness in surveillance, adding that the Fund remained too uncritical of the policies of major shareholders.

EXR Survey of Selected Countries

Between 2009 and 2011, the IMF External Relations Department undertook qualitative opinion research in a small sample of countries in Latin America, Asia, and Europe to assess key stakeholders’ perceptions of the Fund.2 The research—based on interviews with a random sample of opinion makers—focused on the IMF’s overall image, strengths and weaknesses; effectiveness during the financial crisis; and potential role in the future at the country and global level. Where the Fund had contributed with programs during the crisis period, stakeholders felt the Fund had moved speedily and flexibly, combining well its technical expertise with financing. The Fund was perceived as collaborative and adaptable to the circumstances. They acknowledged the Fund’s increased openness and its contribution in terms of cross-country knowledge and training. In Asia and Latin America, however, the responses were more mixed. In Asia, there were lingering perceptions that the Fund is “Western-centric” and needs to re-establish its relevance as a key voice in the region. In Latin America—where attitudes varied widely among countries—there was still a view that Fund advice was overly rigid and influenced by a US/Euro/Western-centric tradition, that the Fund’s monitoring/watchdog function was limited to developing and emerging countries, and that it lacked the influence on advanced industrial economies needed to reform. In both regions, the perception of an equal playing field was seen as critical for the future.

2 The interviews were conducted by phone.
ANNEX

Interviews of Country Authorities

For the purposes of this evaluation, the IEO team interviewed the authorities of 54 countries and 3 regional organizations, for a total of 382 interviews. Interviews were held during country visits, at the IMF headquarters during the 2011 Spring and Annual Meetings, and by telephone. The team also conducted interviews of IMF Management and staff and of members in most of the Executive Directors’ offices. Table A2.1 presents the geographical distribution (based on area department) of countries for which authorities were interviewed. Table A2.2 presents the same sample organized by country income group. Finally, Table A2.3 presents the sample classified by program status.

Table A2.1. Country Authorities Interviewed by Area Department

<table>
<thead>
<tr>
<th>Area Department</th>
<th>Number of Countries</th>
<th>Number of Interviews</th>
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</thead>
<tbody>
<tr>
<td>AFR</td>
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<td>83</td>
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<tr>
<td>APD</td>
<td>9</td>
<td>102</td>
</tr>
<tr>
<td>EUR</td>
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<td>128</td>
</tr>
<tr>
<td>MCD</td>
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<td>13</td>
</tr>
<tr>
<td>WHD</td>
<td>10</td>
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</tr>
<tr>
<td>Total</td>
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<td>382</td>
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</table>

Table A2.2. Country Authorities Interviewed by Income Group

<table>
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<tr>
<th>Income Group</th>
<th>Number of Countries</th>
<th>Number of Interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advanced economies</td>
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</tr>
<tr>
<td>Emerging market economies</td>
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<td>198</td>
</tr>
<tr>
<td>Low-income countries</td>
<td>19</td>
<td>84</td>
</tr>
<tr>
<td>Total</td>
<td>57</td>
<td>382</td>
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</tbody>
</table>

Table A2.3. Country Authorities Interviewed by Program Status

<table>
<thead>
<tr>
<th>Program</th>
<th>Number of Countries</th>
<th>Number of Interviews</th>
</tr>
</thead>
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<tr>
<td>Program</td>
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<tr>
<td>Surveillance</td>
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<td>230</td>
</tr>
<tr>
<td>Total</td>
<td>57</td>
<td>382</td>
</tr>
</tbody>
</table>

1As per OBP’s time reporting system classification (as of February 1, 2012). Regional entities are considered to be in the surveillance group.

The small number of interviews and country visits for the Middle East and Central Asia Department (MCD) was influenced by the Arab Spring events in the region during 2011. However, countries from that region were well represented in the survey of authorities; about 70 percent of countries submitted at least one response—the second highest among all regions.
The IEO sought the views of three separate sets of stakeholders with regard to the role of the Fund as a trusted advisor. The surveys were addressed to country authorities (the Governors of Central Banks and Ministers of Finance) of the entire membership, IMF mission chiefs and resident representatives. Three separate surveys were prepared by the IEO team and administered by NORC at the University of Chicago.¹

Survey of Country Authorities

The country authorities’ survey was sent in September 2011 to representatives in 186 member countries, four selected territorial entities that are not states as understood by international law but that maintain regular interactions with the IMF, and three regional central banks that regularly interact with the Fund.²

NORC received answers from 187 institutions—a response rate of 52 percent. The response rate was higher for monetary authorities (66 percent) than for ministries of finance (40 percent). However, the number of countries/economies submitting at least one answer was much higher. Thus, the IEO received at least one completed questionnaire from 137 economies out of a total of 190—a response rate of 72 percent. Table A3.1 provides a breakdown of the responses based on country classification.

The participation rate also varied across area departments, with the highest rate of country response registered for the European Department (EUR) (87 percent) and the lowest in the African Department (AFR) (61 percent) (Table A3.2).

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¹For a more detailed description of the surveys and survey methodology, together with the full set of data from the three surveys, see Jérôme Prieur, “Survey Evidence,” No. V in background studies for The Role of the IMF as Trusted Advisor (2012). Available at www.ieo-imf.org.

²Somalia was not included, even though a member country, because it had not had an Article IV consultation in the time span of our evaluation (2005–11). Three selected territorial entities participated in Article IV missions: Anuab, Curacao-St. Maarten, and Hong Kong SAR. The IMF does not conduct Article IV discussions with the West Bank and Gaza but staffs a resident representative office there and maintains regular interactions. The three regional central banks are the Eastern Caribbean Currency Union (ECCU), the Banque Centrale des Etats de l’Afrique de l’Ouest (BCEAO), and the Banque des Etats de l’Afrique Centrale (BEAC).
Surveys of IMF Staff

The IEO team also surveyed two categories of staff: mission chiefs and resident representatives, with NORC sending out the surveys in November 2011. NORC received responses from 257 mission chiefs and from 95 resident representatives, translating into response rates of, respectively, 52 percent and 58 percent. Among mission chiefs, 144 respondents had a majority of their assignments on surveillance or UFR countries (respectively, 80 and 64 respondents), and 113 were mission chiefs for TA or FSAP missions.
A Country Authority’s View

The effectiveness of the IMF as a trusted advisor to governments depends critically on its credibility, relevance, and legitimacy. As an international organization providing advice to sovereign states, the IMF cannot rely solely on formal rules to ensure that its advice is listened to and acted upon. Governments face domestic political, legal, and economic constraints, and will be more willing to accept the IMF’s advice if it is viewed as credible and relevant to their needs, and if the advice is viewed as carrying the weight of the international community.

Credibility—Among authorities, it is not uncommon to hear the view that the IMF’s advice is theoretically sound, but does not always take into account country-specific circumstances or the political or economic constraints faced by the authorities. To address this, mission teams should comprise not only well-qualified technical experts as they do now, but also staff who have experience in policymaking, who are able to appreciate the trade-offs that authorities have to make. This will enable the IMF to provide practical advice to help authorities make trade-offs in a way that is sound and sustainable. Importantly, to be a trusted advisor to governments, the IMF should consider how to enhance its credibility as a confidential sounding board to authorities. This may mean placing greater emphasis on the confidentiality of the discussions between the IMF and authorities when balancing between the need for transparency and confidentiality.

Relevance—For the IMF to be a trusted advisor, it has to provide advice that “adds value” and is relevant to the authorities. A key asset that the IMF has in this regard is its ability to look across its near-universal membership to understand spillover effects and linkages between countries and regions. Its ability to provide early warning of potential spillovers from outside the country will be of relevance and value to authorities. The IMF’s advice, however, must continue to be rooted in the bilateral Article IV process. It is these bilateral discussions that enable the IMF to understand the potential outward spillovers from a country’s policies as well as the impact of inward spillovers. The bilateral Article IV process allows the IMF to bring its understanding of cross-border linkages to bear on a country’s policies and economic situation.

Legitimacy—To be a trusted advisor, the IMF’s advice has to be seen as the product of an impartial assessment of the country. The advice must be the outcome of a process that is evenhanded and representative of the views of the international community. At its core, the legitimacy of the IMF’s advice is tied to the legitimacy of the IMF itself. For its advice to carry the weight of the international community, the IMF has to be viewed as an organization in which decision-making on policy and surveillance is taken by organs of the IMF in accordance with rules that allow for decisions to be made based on internationally-agreed norms, not simply reflecting the views of only the biggest economies.

An Executive Board Member’s View

To assess the risks and rewards of uncertain scenarios, or the pros and cons of policy decisions, a country authority might seek the advice of a trusted member of staff or Management. In this setting, trust implies intimate acquaintance with the circumstances, history, and background of the authority and the country. The result of this dialogue and exchange of views can help build up a new consciousness about the trade-offs involved and help with decision-making, by discovering new angles and unveiling associations that were not apparent beforehand. This often implies a high degree of confidentiality—the discussion will need to be kept private.

Alternatively, the authority seeking advice might look for professional expertise, so as to resolve appropriately a well-defined and narrow issue. In this environment, trust is more precisely defined than in the previous case, yet has similarities. Trust will exist if
the advisor is perceived by the individual to have the required expertise and knowledge. The advice should be clear of the suspicion of conflicts of interest, and confidentiality remains critical.

The core work of the Fund is surveillance, technical assistance, and lending. In the context of technical assistance and lending, the provision of advice by the Fund is more akin to the second setting, e.g., professional advice on specific matters. Trust in the Fund’s advice relies, therefore, on its technical expertise and the perception of independence and absence of conflict of interest. The latter also implies evenhanded lending policies by the Fund, including an unbiased approach and lack of discrimination, through the application of ad hoc exceptions to Fund policies. In this case, the trust is basically in the institution.

Surveillance is somewhat different and more complex. The voluntary act of engaging in a collective endeavor, such as the Fund’s various surveillance processes, can be understood as having the purpose of achieving a greater good through collective action. Given that bilateral surveillance has a bearing on the obligations of the members, to view it as trusted advice members have to trust that the degree to which they are asked to exercise these obligations is firmly rooted in the principle that the greater good is the objective. Thus, legitimacy in the Fund’s governance is at the cornerstone of the trust in surveillance advice, and trust is more in the institution than the individual.

But what about the first type of advice, where authorities may be interested in opinions on more sensitive and complex issues, such as the impact and trade-offs of various prospective policy options? These discussions entail a higher level of individual trust (rather than institutional trust) and confidentiality, which will be heavily influenced by the relationship between the authorities and specific IMF staff. More intimate acquaintance with the circumstances of the country is paramount. This type of trusted advice will be completely demand-driven and highly dependent on personalities—on both sides. It can take place in the context of any interaction with the Fund: lending, technical assistance, surveillance, or other channels. These are the “unofficial channels of advice,” which might be among the most highly valued by the authorities, but the most difficult to institutionalize.

A Mission Chief’s View

Direct experience in the field points to three requirements that Fund staff must fulfill to build a trusted advisor role. These are: to demonstrate a nuanced interpretation of confidentiality; to find ways of triggering discussions that are creative in terms of “thinking outside the box;” and to bring to the table reliable insights. The challenge, in other words, is to be discreet, to be stimulating, and (reasonably often) to be right. Clearly, the credibility of such a role for the mission is indissoluble from the entire relationship with the Fund.

A nuanced interpretation of confidentiality is indispensable, and there are more layers to this than sometimes perceived. There are some discussions that work well—and work only—under the Chatham House Rule (nondisclosure of specific institutions and officials). There are other occasions, indeed, when authorities may be thinking out loud, and care should be taken not to present as “official views” ideas floated in this way. There is also an issue of what might be termed “internal confidentiality:” officials will think outside the box more readily if they are not quoted to other parts of the authorities (or their own hierarchy) in a damaging manner. This said, some realism is needed about the limits of trust, especially in a program relationship: authorities are not about to serve up armor-piercing ammunition that can be used against their own negotiating positions.

Country authorities value mission teams playing the role of catalyst in triggering discussions that are creative in terms of “thinking outside the box.” There are various ways of seeking to achieve this, including “seminar” sessions during a mission. Overly directive questionnaires are seen as inadvertently closing down areas for discussion; and teams can easily be perceived as adopting a forensic style of investigation that prompts formalistic or defensive responses.

It is obvious perhaps, but a crucial ingredient of a trusted role—perhaps the most crucial—is simply to be right, and to be right in ways that make new connections or draw on relevant experience in other countries or regions. One of the most telling criticisms of IMF work is that quite frequently the authorities did not feel that the IMF had connected the dots in more imaginative and forward-looking ways than they had achieved themselves—especially as regards cross-border spillovers and domestic macro-financial linkages. At times in the past, a trusted surveillance role could be built on conservative fiscal assessments: in today’s more complex macro-financial world, that is no longer enough.

This critique immediately highlights the basic truth that the trusted advisor role of the mission team is not viable in abstraction from trust in the surveillance approach of the Fund as an institution, on which the mission team can draw. The trusted advisor role requires a high degree of trust in the value and even-handedness of policy assessments across regions and
countries, including in spillover analysis. This remains an area in need of strengthening.

A Resident Representative’s View

Resident representatives are in a privileged position to establish a trust-based relationship with country authorities. The presence in the field and the more frequent interactions with the authorities provide the basis for resident representatives to work on the emotional elements that underpin a trusted advisor relationship. They can dedicate more time to listening to the authorities’ views, even acting as a sounding board for ideas being developed, and to explaining the Fund’s policy recommendations and their rationale. At the same time, the sense of “informality” that develops over time with regular contacts provides the resident representative with the opportunity to show some intellectual independence and develop empathy towards the authorities’ concerns.

Taking advantage of this privileged position requires support from headquarters. The resident representative needs to be empowered by the mission chief to be a legitimate and respected interlocutor with the authorities and other stakeholders in the country, including the press. The resident representative also needs to be kept abreast of the current thinking at headquarters on the country-specific issues as well as of Fund policies relevant for the country. Support on technical issues is also key, since even the best qualified resident representative is unlikely to have deep expertise in all fields.

Success in becoming a trusted advisor is a balancing act between being perceived as a helpful fair broker by the authorities while being perceived as team player by headquarters. In developing the relationship with the authorities it must be clear that the resident representative’s allegiance is to the Fund. At the same time, the resident representative should strive to be helpful to the authorities in their relation with the Fund by assisting them to identify policies and areas of cooperation that are not evident to them. The resident representative should also assist the authorities by bringing to the attention of the country team and technical assistance advisors considerations that are not easily grasped from reading the press or analysts’ reports. On the other hand, the resident representative should coordinate closely with the mission chief his/her interactions with the authorities. There must be a clear understanding on what are the policy recommendations, the official messages, and the ultimate objective of the interactions with the authorities (especially in program cases).

Participation in public forums represents one of the main challenges to the balancing act, especially when the authorities’ policies are at odds with Fund policy recommendations. The relation with the authorities can be irreparably damaged if the “trusted advisor” is perceived as adding his/her voices to the authorities’ critics. At the same time, one of the main objectives of outreach activities is for the resident representative to present and explain the Fund’s stance on policy issues.
The Fund’s frameworks for surveillance and management are evolving. The following briefly reviews some of the institution’s newest initiatives most closely related to strengthening its role as a trusted advisor.1 Some aspects of these initiatives directly address several of the key problematic issues identified by this evaluation.

**Response to the 2010 Staff Survey**

Fifteen areas were identified for action, and nine working groups were launched to tackle the “first wave” of issues. Among the proposed changes are:

- **Accountability framework**: aims to publish departmental scorecards Fund-wide to increase transparency and support alignment with corporate objectives.
- **Managing performance**: includes strengthening the support for supervisors in performance management to achieve sustainable behavioral change.
- **Internal mobility**: includes lengthening the minimum tenure of economists on a country assignment to three-year average.
- **Statement of workplace values**: developed a framework for managerial and leadership skills to support a more open work environment that encourages and makes use of the creativity of staff at all levels across the organization.

In 2013, additional working groups are to be set up to deal with “second wave” measures, which include, among others, a 360-degree assessment of managers and developing a learning strategy.

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1This is not intended to be an exhaustive list of reform efforts, but rather highlights those aspects most closely related to enhancing the trusted advisor role.

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**Statement of Workplace Values**

Launched by the Managing Director in July 2012, this statement is intended to summarize the values that should guide the Fund’s work, many of which are clearly related to the Fund’s prospective role as a trusted advisor. In particular, the statement notes that Fund staff “are guided by the core values of integrity, respect, impartiality, and honesty.” Among the goals are “an intellectually open atmosphere that seeks diverse views to develop the best solutions,” “the highest quality policy advice, tailored to national circumstances and to global needs, delivered in an evenhanded manner,” and “a committed, responsive, and candid partner in making and implementing economic policy.”

**Working Group on Increasing the Effectiveness of Staff in the Field**

The group looked at eight past reviews of operational effectiveness overseas and followed up on the recommendations that had not been implemented. It identified areas in which improvements had not been made, such as selection, training, and management of resident representatives. Among the recommendations were: strengthening training and preparation, focusing on effective outreach; better advance planning, having whenever possible at least six months to prepare; raising the bar on qualifications; selection of resident representatives with the right balance of skills and experience, focusing more on relevant skills such as strong outreach, interpersonal, language, and diplomatic skills; and strengthening departmental management of resident representatives, including by applying substantive and specific terms of references as well as job standards.
Statement by the Managing Director on the Management Implementation Plan for the IEO Evaluation of the IMF’s Performance in the Run-Up to the Crisis

The statement focused on two aspects of the Fund’s institutional culture:

- **Breaking down silos**: the statement recognized scope for more departmental collaboration and accountability around a set of institutional priorities.

- **Promoting diverse views and candor**: the statement noted that (i) there is a need to access alternative perspectives outside and inside the institution to avoid “groupthink”; (ii) the staff is expected to be candid with country authorities, while staying tactful in public. Errors will be corrected and the management team would stand behind staff in all other cases; and (iii) staff surveys on two-year cycles will be conducted to understand if these efforts are working and to detect problem areas.

The Integrated Surveillance Decision (ISD)

The ISD defines the scope of surveillance and makes Article IV consultations a vehicle for both bilateral and multilateral surveillance. It confirms the key pillars of effective surveillance: the importance of dialogue and persuasion; clarity and candor in the assessment and advice of relevant economic developments, prospects, and policies of members; an environment of frank and open dialogue and mutual trust with each member; and evenhandedness by affording similar treatment to members in similar relevant circumstances. Analyses of global risks and policy spillovers from the Fund’s multilateral surveillance products, along with the internal review process, would play a key role in selecting topics for Article IV consultations. Under the ISD, the staff is also encouraged to exchange views on such topics with the authorities at an early stage of a consultation cycle, ensuring that Article IV discussions are not overburdened.

2012 Guidance Note for Article IV Consultations

The guidance note highlights the following five operational priorities for surveillance:

- Interconnections
- Risk assessment
- Financial stability
- Balance of payments stability
- Traction

It enumerates qualities essential for effective surveillance:

- **Collaboration**: surveillance is a collaborative process, based primarily on dialogue with country authorities and other stakeholders, and persuasion.

- **Candor**: effective dialogue requires candor, both in discussions with the authorities and in staff reports, including about risks.

- **Evenhandedness and regard to country circumstances**: surveillance must be evenhanded, whether economies are large or small, advanced or developing, and should pay due regard to countries’ specific circumstances.

- **Practicality**: the staff’s advice should be practical. It should be specific and take into account the authorities’ implementation capacity.

- **Forward-looking**: staff reports and discussions should take a medium-term view, including a discussion of medium-term objectives and planned policies, especially possible policy responses to the most relevant contingencies.

- **Multilateral perspective**: Article IV consultations should discuss spillovers, as provided by the ISD and draw from experience in other countries.

- **Selectivity**: staff should not view this guidance as a prescriptive list—reports should be focused and selective, except for certain issues that must routinely be covered.

- **Timeliness**: to ensure that Article IV staff reports are up-to-date when discussed at the Board and subsequently published, staff should strive to
minimize the time from the end of the discussions with the authorities to the Board discussion.

- **Follow-up:** to promote the candor and effectiveness of surveillance, country papers should follow up on past advice given in Article IV consultations and key FSAP recommendations and report on their implementation.

**Macroprudential Policy (MaPP) Work Program**

The Fund’s Monetary and Capital Markets Department (MCM) has been developing a work program to help the Fund become the leading authority in the area of macroprudential policy. The objective is to establish operational principles for consistent advice to member countries. The program will attempt to leverage expertise and support the cross-fertilization of work within this rapidly evolving area of research. Among the mechanisms to promote knowledge management and collaboration are an Interdepartmental Working Group on Macroprudential Policy, a Macroprudential Policy Database, and an external Advisory Group on the Development of the Macroprudential Policy Framework.

**Financial Surveillance Strategy**

The financial surveillance strategy, broadly endorsed by the Board, proposes an ambitious and comprehensive three-pronged strategy to strengthen the Fund’s financial surveillance:

- Strengthen the analytical underpinnings of macro-financial risk assessments and policy advice;
- Upgrade the instruments and products of financial surveillance to foster an integrated policy response to risks; and
- Engage more actively with stakeholders in order to improve the traction and impact of financial surveillance.