

**IEO**

Independent Evaluation Office  
*of the International Monetary Fund*



**THE ROLE OF THE IMF AS TRUSTED ADVISOR**

**DRAFT ISSUES PAPER FOR AN EVALUATION BY THE  
INDEPENDENT EVALUATION OFFICE (IEO)**

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## I. INTRODUCTION

1. This evaluation will examine the Fund’s role as a trusted advisor during the period 2005–10, including the period since the onset of the global financial and economic crisis (2008–10) to assess whether this role has strengthened relative to the past. Providing policy advice to its member countries is an essential part of the Fund’s mandate of fostering macroeconomic stability and prosperity. How well the Fund’s advice helps shape member countries’ policy choices depends heavily on their confidence in the quality and relevance of the advice and on the depth of the ensuing dialogue. Does the Fund staff create an environment that encourages the authorities to deepen the policy dialogue, test their own ideas, press for alternative options, discuss sensitive policy areas without disclosure concerns, and even seek out the Fund—on their own initiative—for policy advice? The Fund’s ability to create such an environment may be a key feature which distinguishes a “trusted advisor” from its routine surveillance role.<sup>1</sup>

2. Previous IEO evaluations—most notably, *IMF Interactions with Member Countries* (hereafter referred to as *IMC*)—examined several aspects of the Fund’s interactions with countries that could contribute to or inhibit a trusted advisor environment. This evaluation will build upon the relevant findings from the *IMC* and other IEO evaluations, but will extend the analysis to explore areas such as the demand for advice, including “latent demand,” where a country may be interested in policy advice but decides not to approach the Fund for any of a number of reasons; the importance of informal channels for policy dialogue; and the impact on the policy dialogue and demand for advice of different contexts (e.g., Article IV versus use-of-Fund-resources mission), circumstances (e.g., crisis versus calm, external versus domestic shocks), and policy issues (e.g., capital controls, fiscal stimulus). It will also explore the possible tensions between the IMF’s surveillance obligations, which carry with them enhanced disclosure requirements, and the attractiveness of the IMF as a source of advice on sensitive issues, which depends on confidentiality. The evaluation will draw lessons from its findings to help strengthen the IMF’s role as a partner to its member countries.

## II. BACKGROUND AND MOTIVATION

3. With the onset of the global crisis in 2007–08, the Fund’s engagement with its member countries evolved, as the Fund was called to respond urgently with both financing and policy advice. In light of its experience with the crisis, the Fund also adopted a number of initiatives aimed at strengthening its surveillance (with a greater multilateral focus) and providing member countries with more complete assessments of global risks, linkages, and

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<sup>1</sup> The 2007 Decision on Bilateral Surveillance, for example, explicitly recognized the importance of this environment: “Dialogue and persuasion are key pillars of effective surveillance... the Fund will foster an environment of frank and open dialogue and mutual trust with each member ....”

spillovers. Whether and how these initiatives have influenced the perception of the Fund as a trusted advisor is an area this evaluation will explore.

### **Unsolicited versus demand-driven policy advice**

4. Much of the Fund’s policy dialogue is initiated by the Fund through its multilateral and bilateral surveillance roles or in the context of discussions of programs supported by the use of Fund resources (UFR). However, there may also be circumstances in which country authorities, on their own accord, seek Fund policy advice and views, availing themselves of the Fund’s broad-based experience on economic policy and its cross-country perspective. In the former (referred to here as *unsolicited* advice from the Fund), an environment conducive to a substantive and open dialogue may be crucial to prevent countries from being largely passive recipients of such advice. In the latter (*solicited* or *demand-driven* advice), the environment may be even more critical in supporting a country’s choice to approach the Fund for advice.

5. The richness and depth of the policy dialogue during the Fund’s regular interactions are important indicators of the degree to which countries might consider the Fund as a trusted advisor. But an even stronger signal of the perception of Fund as partner may be the decision by authorities to seek the Fund’s advice on their own initiative. This evaluation will examine both modalities of interactions, with a greater focus on the latter.

6. But there may also be situations where countries would have liked to approach the Fund for advice but decided not to do so, a so-called “latent demand” that is not actually observed. This evaluation will try to ascertain the extent of this latent demand and the factors that inhibited the authorities from approaching the Fund.

### **Influencing factors**

7. Member countries’ desire for a deeper engagement along the lines described above could be influenced by a number of factors external to the Fund, for example, the complexity and sensitivity of the issue; the availability of other sources of advice; a country’s level of development; the international linkages or spillovers involved; and political economy considerations. But there are also more particular factors, such as the level of trust the authorities may have built with specific Fund advisors;<sup>2</sup> the perception they have of the knowledge and expertise available at the Fund; the context in which the advice is sought;

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<sup>2</sup> For example, an ex-Minister of Finance noted that, during his tenure, he worked with two different IMF mission chiefs, both of equal technical and analytical ability, but with very different approaches. One was “bureaucratic, followed the books, and was careful not to deviate from the brief nor take any risks.” The other was empathetic and “deeply interested in [the country], willing to have a dialogue and speculate on topics beyond the brief.” The ex-Minister stressed that he would never discuss sensitive areas with the first person for fear of disclosure, but would willingly discuss such topics with the second. He added “it was like dealing with two different IMFs!”

concerns about disclosure practices and the institution's transparency policy; and the history of the country's relationship with the Fund.

8. In turn, the Fund's ability to respond to countries' requests for advice may be constrained by factors internal to the Fund: the set of skills prevailing in the institution, rapid turnover of staff working on a country, inexperienced mission chiefs,<sup>3</sup> or lack of incentives for staff to provide such advice. The recent trend toward more rapid production of consultation reports may be cutting short the time in the field and the incentive for staff to engage in "brainstorming" activities with the authorities.

9. Many of these factors have been considered in previous evaluations, and this evaluation will build upon these findings and examine whether such factors have become more or less important since the advent of the global crisis.

### **Previous findings**

10. The findings of previous IEO evaluations—in particular, the *IMC*—provide important input for this evaluation, as they touch on relevant issues. A number of evaluations found overall strong interest and satisfaction among authorities in objective, independent assessments from the Fund. At the same time, these evaluations found a wariness of deeper engagement among some member countries and identified recurring concerns that may affect the Fund's ability to engage with authorities as a trusted advisor. Among these issues are inadequate knowledge of country-specific circumstances, frequent changes of mission chiefs and teams, a perceived lack of evenhandedness, insufficient informal consultation with authorities, concerns about confidentiality, and insufficient use of cross-country perspectives or cross-cutting analysis. The IMF's 2008 Triennial Surveillance Review (TSR) also provides some relevant evidence for this evaluation. In a TSR survey of authorities in which they were asked how well surveillance had contributed to their understanding of various policy areas, less than half felt that the Fund had made a major contribution in any single area. 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.

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<sup>3</sup> The importance of having experienced mission chiefs to create a trusted advisor relationship was emphasized by Mr. Portugal, Deputy Managing Director, in his recent farewell speech to staff: "Our founder, Keynes, once said that the secret of persuasion is to stay within the boundaries of feasibility. And our most experienced mission chiefs, with their detailed knowledge of the circumstances and realities of the country concerned, their experience of past crises, and their wise judgment are able to determine what the feasible best is. The feasible best sometimes will be the second best, or the third best. And with their interpersonal and diplomatic skills our experienced mission chiefs are able to gain the confidence of the authorities to become their trusted advisors and to negotiate a program or to influence policy making."

### III. ENVIRONMENT FOR POLICY ADVICE

11. The various channels of interaction between the Fund and member countries, the circumstances, and the relevant policy issues may imply different environments and incentives for countries to seek Fund advice or engage in a candid, rich policy discussion.

#### Context

12. The annual *Article IV consultation* provides a natural venue for authorities to engage the Fund. However, the obligatory and formal nature of these consultations (described by some as “economic policing”), together with the presumption of transparency and disclosure, could inhibit the authorities’ engagement. The environment for a deep dialogue could also be constrained by the process (e.g., if staff believes it must strictly adhere to the brief’s policy line; pressure on staff to rapidly produce staff reports).

13. Conditionality under a *UFR program* might change the tenor of the policy advice and the associated discussions. The freewheeling search for policy alternatives and the candor with which these might be discussed could be constrained by concerns that such discussions could become a “Trojan horse”—part of the program’s conditionality.

14. Advice provided via *technical assistance* (TA) or the *Financial Sector Assessment Program* (FSAP) is typically demand-driven, as TA and FSAPs are typically provided on a voluntary basis.<sup>4</sup> This voluntary nature would seem to provide a natural construct for assessing the degree to which the Fund is viewed as a trusted advisor. Furthermore, authorities may have fewer confidentiality concerns in this context, since the associated reports cannot be disclosed without the authorities’ authorization.<sup>5</sup>

15. *Staff visits* are sometimes requested by authorities to examine a particular policy issue. The advice given during a staff visit is in a less formal setting and is much less subject to disclosure requirements than an Article IV or UFR mission. It may therefore be seen as providing a better opportunity for the authorities to engage in candid and frank policy discussions and to receive advice that is demand-driven.

16. The role of trusted advisor is perhaps most evident when country authorities *directly approach the Fund* to obtain advice. The authorities may direct their request to Management, the Executive Director’s office, senior staff in the area departments, the

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<sup>4</sup> A recent Board decision has made the FSAP mandatory for the 25 most important financial centers, but for the vast majority of the membership, the FSAP will remain a voluntary exercise.

<sup>5</sup> The Financial Sector Stability Assessment (FSSA) is, however, derived from the FSAP report and is presented to the Board, typically with an Article IV staff report. However, the FSSA should not include highly sensitive or confidential material that might be contained in the FSAP report.

mission chief or senior country desk, specific experts or technical departments, or the resident representative, where available.

17. A *resident representative*, with the proximity to allow for close and ongoing contact, could have particular potential to become a trusted advisor. But this potential may depend on how specific individuals interpret their terms of reference. Is the resident representative to act largely as an “ambassador” or should he/she be a resource for assisting the authorities to obtain information/advice?

18. *Multilateral (and regional) surveillance* provides another opportunity for the Fund to play a trusted advisor role, particularly to the extent that it helps the Fund better analyze the risks and vulnerabilities that can affect its member countries. Specific exercises—such as the analyses in the *WEO*, *GFSR*, *REOs*, and *Fiscal Monitor*; the Multilateral Consultation of 2006–07; providing input to the G-20 Multilateral Assessment Process (MAP); and preparing cross-country and spillover reports—could create even greater potential for the Fund to generate interest in its policy advice, provided the institution is viewed as a trusted advisor in the process.

### **Policy issues**

19. The global crisis contributed to a sharp rise in requests for Fund financial support. Given the challenges faced, it might be expected that there would be a significant increase in members actively seeking Fund advice, independently of the need for financing or the regular surveillance exercise. Moreover, many of the policy challenges were in highly sensitive areas (e.g., bank restructuring, exchange regime modifications, capital controls), where a relationship of trust would be most critical. In the view of the authorities, how well did the Fund rise to the challenges posed by this new environment? This evaluation will explore whether there was, indeed, a shift in the Fund’s role as trusted advisor during this tumultuous period, including whether countries’ perception of this role varied by type of policy challenge (e.g., banking distress versus commodity price rises).

### **Confidentiality**

20. Often the issues authorities wish to discuss are of a nature that requires confidentiality. In this regard, the Fund’s initiatives during the last decade to increase transparency and promote disclosure to the general public may have adversely affected the willingness of country authorities to seek out the Fund on sensitive matters.<sup>6</sup> The consequences of publication have been analyzed in several reviews of the Fund’s transparency policy, and Fund staff have concluded that, by and large, the provisions to safeguard confidential information have worked well. However, these reviews do not

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<sup>6</sup> Indeed, there is some evidence that disclosure concerns may have increased during the recent crisis, given the sensitivity of the issues involved.

examine whether there is a chilling effect on the authorities' demand for advice in sensitive areas, and thus a possible "negative externality" stemming from disclosure. This evaluation will therefore assess whether the evolving transparency policy has had an impact on this trusted advisor role.

21. The evaluation will also consider the impact of earlier stages of information sharing within the Fund, such as disclosure among staff, to Management, and, in the end, to the Executive Board. The formal and informal practices that guide these different levels of disclosure in the Fund, the extent to which these are understood by the authorities, and how they apply in practice could be important determinants of the demand for the Fund's advice on sensitive matters.

22. In particular, the requirement to provide the Executive Board with the information critical to its functioning requires staff to make judgment calls regarding the disclosure of specific confidential discussions with the authorities. A corollary of this reliance on the staff's judgment is the need to ensure that staff remains accountable for advice it provides while representing the institution. The evaluation will examine the practices currently in place in this regard and elicit views on how well current practices serve member country authorities and the Fund itself.

#### IV. SCOPE AND EVALUATION QUESTIONS

23. The evaluation will examine whether and in what circumstances the Fund is perceived as a trusted advisor by its member countries. It will not, however, assess the actual impact or the quality of this advice, as that is beyond this evaluation's scope. The primary period of interest will be 2005–10. Nevertheless, selected experiences from earlier periods will be used, as relevant.

24. The evaluation will focus on the following questions:

- ***To what extent did country authorities engage in a substantive policy dialogue during discussions initiated by the Fund*** (e.g., during Article IV consultations, UFR missions)? Did the Fund provide an environment conducive for deep engagement? How did the presence of a UFR program, if applicable, affect the dynamics of engagement?<sup>7</sup>

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<sup>7</sup> For example, the *IMC* found that "in PRGF-eligible countries, the Fund's suite of concessional lending instruments, debt relief, and donor signaling made for an abundance of traction." At the same time, however, the *IMC* also found that "the Fund paid little attention to diplomatic skills that may have engendered collegiality and trust in those countries." Such seemingly contradictory conclusions might suggest that the traction was largely due to the financing, rather than ownership of the policies.

- ***Did country authorities initiate requests for economic policy advice***, and if so, how frequently? In what contexts? Regarding what specific policy areas? What was the level of satisfaction by the authorities?
- ***On advice across differing policy areas, in which areas did the Fund perform best as a trusted advisor?*** Did countries approach the Fund for advice on the most sensitive topics? Has the Fund strengthened its performance in advising on the international dimensions of surveillance (e.g., linkages, spillovers, the impact of global economic developments)?<sup>8</sup>
- ***Did concerns about confidentiality influence countries' engagement/demand for advice?*** If yes, did such concerns differ across context, circumstances, and policy issue? Were concerns largely related to the Fund's transparency policy or were there also concerns about earlier stages of disclosure (to other Fund staff, to Management, to the Board)? Were authorities satisfied with how such concerns were handled by Fund staff?
- ***Were there instances in which authorities were interested in advice but refrained from seeking it from the Fund?*** What were the main constraining factors? Was there a preference for other sources of advice, local or external? If so, why? How does the Fund compare as a trusted advisor with other sources of external advice (other multilaterals (e.g., OECD, World Bank, BIS), think tanks, consultants)?
- ***Were there instances in which the ability of the Fund to respond to requests for advice was impaired***, and, if so, what factors were at play? Did the IMF have the necessary technical expertise? Do missions have sufficient time for brainstorming sessions? Do missions strike the right balance between adhering to their briefs/agenda and being responsive to new information or developments once they are in country?
- ***Have the Fund's recent initiatives, aimed at strengthening surveillance and assessing risks, changed the perception of its ability to serve as trusted advisor?*** Such initiatives, partly in response to weaknesses revealed by the crisis, include inputs into the G-20 MAP, extending the vulnerability exercise to advanced economies, preparing spillover and cross-country reports, and mandatory financial stability assessments for systemic countries. Have these reforms enhanced the demand for advice and a sense of trust by member countries?
- ***What lessons can be drawn*** for improving the Fund's capacity and reliability as a trusted advisor, consistent with the Fund's mission and comparative advantage?

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<sup>8</sup> This was an area in which the *IMC* found the Fund to fall short during the 2001–08 period.



## V. WORK PLAN

25. The evaluation will build on the findings of previous IEO evaluations. In particular, it will draw on the rich source material (surveys, interviews, and documentary evidence) which supported the *IMC* to examine some of the behavioral and procedural aspects during the period 2001–08. The evaluation will also be based on information gathered from the following sources:

- Interviews with country authorities—in 30–40 countries representative of the Fund membership.
- Survey of country authorities—broad-based covering the entire Fund membership.
- Interviews of mission chiefs (of those countries for which the authorities were interviewed), senior staff, and Executive Directors.
- Survey of mission chiefs.
- Survey and interviews of resident representatives.
- Desk studies.