



Independent Evaluation Office
of the International Monetary Fund

The Role of the IMF As Trusted Advisor

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Abbreviations

AFR	African Department
APD	Asia & Pacific Department
BIS	Bank for International Settlements
BOP	Balance of Payments
EUR	European Department
EXR	External Relations Department
FSAP	Financial Sector Assessment Program
G-7	Canada, France, Germany, Italy, Japan, United Kingdom, and United States
G-20	A grouping composed of major industrial countries and systemically important developing and emerging market countries
<i>GFSR</i>	<i>Global Financial Stability Report</i>
IFI	International financial institution
IMF/Fund	Used interchangeably for International Monetary Fund
IMFC	International Monetary and Financial Committee
IMS	International monetary system
ISD	Integrated Surveillance Decision
LEG	Legal Department
LIC	Low-income country (Poverty Reduction and Growth Trust-eligible country)
Management	Managing Director, First Deputy Managing Director, and three Deputy Managing Directors
MAP	Mutual Assessment Process
MC	Mission chief
MCD	Middle East & Central Asia Department
MCM	Monetary and Capital Markets Department
NORC	National Opinion Research Center
OBP	Office of Budget and Planning
OECD	Organisation for Economic Co-operation and Development
PPP	Purchasing power parity
RR	Resident representative
TA	Technical assistance
TSR	Triennial Surveillance Review
UFR	Use of Fund resources
<i>WEO</i>	<i>World Economic Outlook</i>
WHD	Western Hemisphere Department

EXECUTIVE SUMMARY

The IMF carries out its mandate to foster macroeconomic stability and thereby facilitate prosperity by promoting the adoption of sound policies and international cooperation. Ultimately, the means to achieve these goals is to have Fund policy advice translated into concrete action. Key to achieving such traction is the relationship between Fund staff and member country authorities, together with the quality of the advice and members' confidence in it. That is, the Fund needs to be seen as a trusted advisor.

This evaluation examines in what circumstances the Fund is viewed as a trusted advisor to its member countries. It uses evidence gathered since 2005, but emphasizes the period since the onset of the global crisis in 2007–08. Because the concept of trusted advisor is “in the eyes of the beholder,” the evaluation derives the main attributes from country authorities themselves.

The degree to which the Fund is viewed as a trusted advisor is found to differ by region and country type, with authorities in Asia, Latin America, and large emerging markets the most skeptical, and those in large advanced countries the most indifferent. But in the aftermath of the global crisis, the Fund's image has improved markedly, and the Fund is now viewed as more flexible and responsive than in the past. The evaluation explores how the IMF can sustain this more positive image when the crisis abates, while recognizing that tensions will always exist between the Fund's roles as a watchdog of the global and individual economies and as a trusted advisor to member countries.

The evaluation's recommendations aim to address some longstanding problems that undermine trust in the Fund and other key challenges identified by this evaluation. Among these:

- To enhance the value and relevance of the Fund's advice, Article IV mission teams should consult early with country authorities on their key areas of interest; share with them the major policy issues, macroeconomic framework, and preliminary policy lines prior to the mission; and work closely with them on a country-specific outreach strategy. The Fund should reduce unwarranted disclosure concerns, so Fund staff can act as a sounding board for authorities.
- To strengthen the continuity of the relationship between Fund staff and members, the staff, in consultation with country authorities, should develop a country-specific medium-term strategic plan and promote an ongoing dialogue and close working relationship with Executive Directors. The Fund should develop incentives for staff that make their role as trusted advisors an important part of their performance.
- To help address concerns about lack of evenhandedness, the Fund should incorporate early and openly the views of all countries during the preparation of its major policy papers and implement its transparency policy in a consistent and fair manner.

The Fund's recent reform efforts and initiatives, spurred in part by the global crisis, provide an opportunity for the institution to address some of the findings identified by this evaluation. But to ensure that these reforms truly take root in the culture of the institution will require close monitoring and accountability by all IMF stakeholders over an extended period.

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

2012 Integrated Surveillance Decision, IMF, July 2012

I. INTRODUCTION

1. **Providing policy advice to its member countries is an integral part of operationalizing the Fund’s mandate to foster macroeconomic stability and thereby facilitate prosperity.** But the Fund’s policy advice is only effective if it gains traction at the bilateral level (with individual member countries) and at the multilateral level (with the membership at large). A necessary condition for traction is the receptivity of countries to advice, which depends not only on their confidence in the quality and relevance of the advice, but also on how fluid and convincing the ensuing dialogue is. Does the Fund facilitate an environment that encourages country authorities to test their own ideas, discuss sensitive policy areas, and seek out the Fund’s advice? Achieving traction at the multilateral level depends also on institutional features, such as whether the Fund is perceived as transparent and evenhanded. The Fund’s ability to establish a relationship of trust at both the bilateral and multilateral levels is, therefore, fundamental to achieving the institution’s goals.

2. **This evaluation examines in what circumstances the Fund is viewed as a trusted advisor to its member countries.** It focuses mainly on interactions with individual countries, since policy is implemented at the national level. It looks at how country authorities perceive the relevance and technical quality of IMF advice, as well as how features of the relationship between authorities and staff may influence the persuasiveness of advice and the desire to engage the Fund in a policy dialogue. It examines explicitly the demand for advice—that is, the extent to which countries approach the Fund for advice on their own accord—as an important test of being a trusted advisor. It also considers practices and incentives within the IMF that impair or enhance the trusted advisor role.¹

3. **The evaluation deepens the analysis of some areas that were covered in the IEO’s evaluation of *IMF Interactions with Member Countries* (IEO, 2009)—whose findings it confirms—and adds two new perspectives:**

- ***First, it considers the post-crisis environment.*** The global financial crisis presented the Fund with an opportunity to engage with its membership in a different, more intensive way—in terms of both financing and its approach to surveillance. Has this changed the perception of the Fund, for better or for worse, as a trusted advisor?

¹ The evaluation does not assess either the quality or impact of the Fund’s advice. Gaining traction partly depends on the political, social, and cultural environment for policy implementation, over which the Fund has little influence apart from its efforts through its communications policy.

- ***Second, it deepens the analysis of the possible trade-offs inherent to its institutional objectives.*** Thus, the evaluation examines the tensions and possible complementarities between the Fund being a trusted advisor versus a global watchdog. The latter role is anchored on countries' surveillance obligations (involving, for example, disclosure expectations). That role may reduce the attractiveness for individual countries to use the Fund as a source of advice on sensitive issues or as a sounding board. Yet there may be also some complementarities, as the Fund's effectiveness as a global watchdog depends in part on trust at the bilateral level and ultimately underpins the Fund's role as trusted advisor to the global community at large.

4. **The report is organized as follows:** Section II provides some background on the IMF's changing engagement and on why the institution needs to be a trusted advisor. Section III discusses the evaluation framework. Section IV examines how country authorities define a trusted advisor. Section V considers the evidence as to whether the IMF is a trusted advisor and where it might fall short; and the concluding section discusses what the IMF might do to strengthen its partnership with member countries.

II. BACKGROUND

Changing engagement

5. **Prior to the global crisis, the Fund was often portrayed as losing relevance to the global economy,** in view of its diminishing financing role and the widespread belief in the "Great Moderation."² During the immediate pre-crisis period, except for low-volume lending to low-income countries, the IMF was almost exclusively focused on surveillance. Many of the large advanced and emerging economies had lost interest in engaging with the Fund. Key stakeholders argued for downsizing the Fund, as they saw little likelihood that the global economy would again need an "emergency firefighter" for emerging market economies.³ Consequently, the institution was seen as struggling to redefine its strategic role.

6. **With the onset of the global crisis in 2007–08—and its origin in advanced economies—the Fund's engagement with its member countries changed dramatically,** as it was called upon to respond on an urgent and unprecedented basis. In many countries, it provided significant countercyclical financing and support for their budgets. In light of

² The term, "Great Moderation," is often used to refer to the period from the mid-1980s until the onset of the global crisis in 2007–08. This period was characterized by a substantial decline in macroeconomic volatility in the major advanced economies, attributed in large part to improved macroeconomic policies and structural changes in the economies.

³ At this time, it was almost inconceivable to most stakeholders that the Fund would be a lender to advanced economies, as such countries were seen as largely immune to balance of payment or financial crises.

lessons learned from the crisis, the Fund also adopted new initiatives aimed at strengthening its surveillance and its ability to provide member countries with more complete assessments of global risks, linkages, and spillovers.

7. **Did these changes influence the way the Fund is perceived?** If so, did this mostly reflect the Fund’s increased financing role or did it truly reflect a *changed view of the IMF as a trusted advisor*? And does more effective surveillance imply tipping the balance in favor of the Fund’s role as global watchdog at the expense of being a trusted advisor to its individual members? The Fund must inevitably grapple with achieving the right balance between these potentially conflicting roles, but is it also possible for the Fund to strengthen the latter without compromising the former? These are critical questions, as the answers are important determinants for how the Fund could maintain its relevance in a post-crisis world.

Why a “trusted advisor”?

8. **As noted above, the Fund’s ability to gain traction with its policy advice depends on the confidence and trust its advice inspires.** But does the IMF have a formal mandate to serve as a trusted advisor to its membership? Serving as a trusted advisor is not codified in the Articles of Agreement as an official role of the IMF, but it is widely acknowledged and referenced as fundamental to the IMF’s effectiveness, for instance, in the 2012 Integrated Surveillance Decision (ISD) (IMF, 2012b), Board papers, and numerous statements by Management, the Executive Board, and the International Monetary and Financial Committee (IMFC) (Box 1).⁴

9. **Much of the policy dialogue with member countries is initiated by the Fund in performing its surveillance or financing roles, but country authorities might also seek advice on their own accord.** As illustrated in Figure 1, the Fund provides advice and engages in policy dialogue (i) through its formal interactions (e.g., multilateral/bilateral surveillance; during discussions of programs supported by IMF financing (use of Fund resources (UFR)); and (ii) at the initiative of country authorities (i.e., *demand-driven* advice). In formal interactions, the interest of the authorities to engage the Fund and the ensuing depth of the policy dialogue are important indicators of whether countries consider the Fund a trusted advisor. In cases where advice is demand-driven,⁵ the authorities’ decision to seek the

⁴ The IMF’s Articles of Agreement explicitly note the importance of collaboration for the purposes of the Fund: “(i) to promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.” Indeed, “collaborate”, implying “more or less equal partners who work together” or “to work in partnership,” is used throughout the Articles of Agreement. Thus, the Articles of Agreement would seem to be implicitly noting the importance of being a trusted advisor.

⁵ Note that demand-driven advice and proactive policy dialogue could often take place during the course of the Fund’s formal interactions.

Fund's advice might also signal their trust in the Fund and could provide the opportunity for the Fund to influence policy formulation at an earlier stage.

Box 1. Is the IMF Expected to be a Trusted Advisor?

The Fund is required to oversee member countries' compliance with their obligations under its Articles of Agreement. It does this in part through policy advice provided to members. In formulating policies (through the 2011 Triennial Surveillance Review, 2012 Integrated Surveillance Decision (ISD), transparency policy reviews, etc.) that guide this policy advice, Executive Directors have made it clear that the Fund should be viewed by its membership as a *trusted advisor* to enhance acceptance of the Fund's advice. This is validated in practice, with multiple references being made in IMF policy documents (see, for example, this report's opening quotation from the ISD) and Management statements, to the IMF's role as a *trusted advisor* to member countries.

2007 (Deputy Managing Director):¹

"... Our primary goal is to be a trusted advisor to each of our member countries."

2010 (Managing Director):²

"Let me begin with IMF surveillance, and **our dual role as ruthless truth-teller and trusted policy advisor.** ..."

2011 (Deputy Managing Director):³

"Looking forward, we want to **strengthen the role of the Fund as a trusted advisor** ... becoming a trusted advisor depends on, first and foremost, that your advice is worth listening to. ...the challenges are first, one of competence, and second, of character. It requires staff to show intellectual incisiveness, independence, seriousness of purpose and trustworthiness."

2011 (IMFC):⁴

"The Fund must remain a trusted advisor and avoid public clashes about short-term market sensitive issues."

2009 (Transparency Policy Paper):⁶

"...The policy allows for deletions of sensitive material from published documents so as to protect the member and **the Fund's role as confidential and trusted advisor...**"

"... publication expectations can lead to less frank discussions between authorities and staff and less candid staff reports, undermining **the Fund's role as a confidential and trusted advisor.**"

2012 (Managing Director):⁵

"The crisis has changed us—new approaches, new tools, new relevance. The key contours of the future IMF are emerging ... So what should the Fund look like for the future?"

First off: the IMF must always be a trusted advisor."

2005 (Managing Director):⁷

"...we see our role as that of a trusted advisor, helping our members become less vulnerable to external shocks or changes in market sentiment."

¹ "Taking Advantage of the Benign Global Environment: A Time for Reforms," Remarks by Murilo Portugal, IMF Deputy Managing Director, at the Sixth Annual Regional Conference on Central America, Panama, and the Dominican Republic, 2007.

² "Crisis and Beyond—the Next Phase of IMF Reform," Dominique Strauss-Kahn, IMF Managing Director, at the Peterson Institute for International Economics, Washington DC, June 29, 2010.

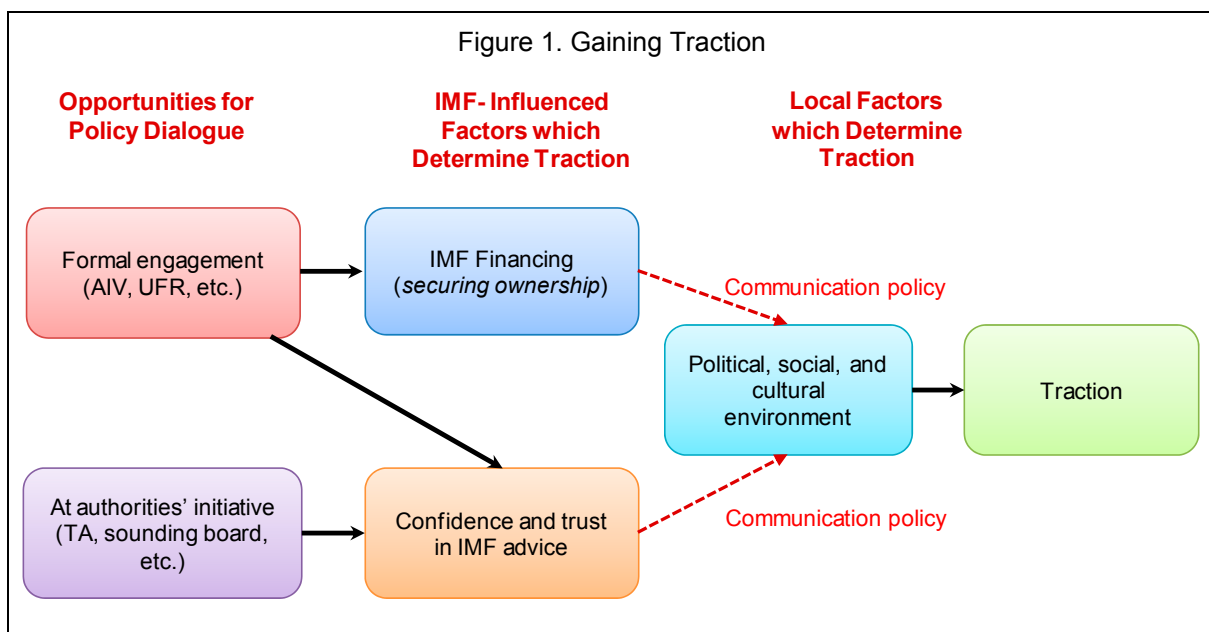
³ Farewell Speech to Staff, John Lipsky, IMF Deputy Managing Director, November 2011.

⁴ IMFC Statement by Didier Reynders, Deputy Prime Minister & Minister of Finance, Belgium, April 16, 2011.

⁵ The Managing Director's Annual Meeting Speech in Tokyo: "The Road Ahead: A Changing Global Economy," October 12, 2012.

⁶ "2009 Review of the Fund's Transparency Policy," IMF policy paper, October 26, 2009 (pp. 5, 14).

⁷ "The Role of the IMF in Safeguarding Global Financial Stability," Remarks by Rodrigo de Rato, IMF Managing Director, at the Institut International d'Etudes Bancaires (IIEB) Barcelona, Spain, October 21, 2005.



III. EVALUATION FRAMEWORK

10. **This evaluation considers the period from 2005 to the present, with an emphasis on the period since the onset of the global crisis in 2007–08.** This period allows an examination of whether the IMF’s provision of crisis-related financing and the many new initiatives may have changed country authorities’ perceptions of the Fund.

11. **The evaluation focuses on the following questions:**

- *In the view of country authorities, what does it mean for the Fund to be a trusted advisor?*
- *Do the Fund’s formal vehicles (surveillance, UFR, technical assistance, etc.) provide an environment conducive to the trusted advisor role? Do country authorities initiate requests for economic policy advice, and if so, in which policy areas?*
- *Has the Fund been effective as a trusted advisor? Have authorities’ perceptions of the Fund as a trusted advisor changed since the onset of the global crisis?*

12. **The main evidence for the evaluation comes from interviews and surveys:**

- Semi-structured interviews of current and former country authorities—almost 400 interviews from more than 50 countries representative of the Fund membership (as detailed in Annex 2).
- Semi-structured interviews of selected mission chiefs, resident representatives, senior staff, Management, and members of the Executive Board.

- A survey of country authorities, covering the entire Fund membership.⁶ Responses were received from 137 countries (72 percent of the membership).⁷
- Surveys of IMF mission chiefs (including for surveillance, UFR, technical assistance, and Financial Sector Assessment Program (FSAP) missions) and resident representatives during the period of study.

13. The evaluation also uses documentary evidence from supporting background studies and draws on the relevant findings of previous IEO evaluations (see Reichmann, 2012a), reviews by IMF staff—including recent Triennial Surveillance Reviews (TSRs) and Transparency Policy Reviews—and some opinion surveys by the External Relations Department, as detailed in Annex 1.

IV. IN THE EYES OF COUNTRY AUTHORITIES

14. **What does it mean for the Fund to be a trusted advisor?** And for whom? As noted earlier, this evaluation focuses primarily on the Fund as trusted advisor to its individual member countries (at the bilateral level), since policy is implemented at the national level. But the Fund’s surveillance mandate to underpin global economic and financial stability nevertheless suggests the importance of developing trust with the wider constituency of global stakeholders (at the multilateral level). Section V.B discusses some of the trade-offs and complementarities that arise from attempting to build trust at both the bilateral and multilateral levels.

15. **Because, ultimately, the concept of a trusted advisor is “in the eyes of the beholder,” this evaluation derived the main attributes of a trusted advisor from the opinions of country authorities themselves.** During the interviews, authorities were asked: How would you define a trusted advisor in the context of an institution like the Fund?⁸

⁶ For purposes of exposition, this report classifies countries by size and level of development as follows: large advanced country, other advanced country, large emerging market, other emerging market, and low-income countries. This classification is based on the September 2011 *World Economic Outlook*, but with advanced and emerging market economies split into “large” and “other” (large advanced economies are the G-7, and large emerging markets have a 2009 GDP above \$300 billion in PPP terms).

⁷ See Annex 3 for information on the survey response rates. The full findings from the surveys are reported in Prieur (2012).

⁸ Annex 4 provides the individual views, in their own words, of four representative IMF stakeholders (a country authority, an Executive Board member, a mission chief, and a resident representative) as to what they think constitutes a trusted advisor in the context of the IMF.

16. **Their responses show that a trusted advisor should:**

- Provide an environment for a candid policy dialogue that allows for a free exchange of views. This entails both an institutional and an individual perspective—the atmosphere created by (i) the context/institutional framework for interaction; and (ii) staff behavior.
- Offer advice that has value-added and relevance, but also provides a range of policy options and risk assessments when there are no simple answers.
- Practice evenhandedness and objectivity (i.e., be an unbiased “honest broker”).
- Achieve the right balance between confidentiality and transparency (i.e., straddling the fine line between trusted confidant and, in J.M. Keynes’ words, “ruthless truth-teller”).

17. **Clearly, the concept of trusted advisor is a multidimensional one, incorporating both institutional and individual features.** There is also a time dimension to gaining trust. Sometimes a trusted advisor may need to provide unwelcome advice that, in the short term, might appear to undermine trust, but over the longer term could pay dividends in increasing trust, if the advice turns out to be right.⁹

18. **Country authorities acknowledged the difference between being an expert and a trusted advisor, noting that the Fund needs to be both to be effective.** In their view, an expert is a knowledgeable individual who tells you what to do by providing answers and analysis, while a trusted advisor is all that plus a good listener who synthesizes information and asks useful questions. A trusted advisor’s relationship is more collaborative, providing both insights and expertise. And a trusted advisor has the best interest of the country in mind and can be a true confidant, when needed.

19. **Whether the Fund is perceived as a trusted advisor depends partly on exogenous factors,** including a country’s history with the Fund and such characteristics as a country’s level of development, region, political ideology, and culture. Authorities characterized some of these issues as the “legacy” of past dealings with the Fund and the political “stigma” of accepting IMF advice (or conditionality when borrowing from the Fund). Thus, the concept of trusted advisor may vary somewhat from country to country.

⁹ IEO (2011a) provides examples of where the Fund should have given tougher messages in its Article IV consultations. If the Article IV missions at the time had drawn clear attention to the troubles and dangers ahead, discussions might have been more difficult in 2007, but would likely have increased trust in the Fund’s advice in the longer term.

V. IS THE FUND A TRUSTED ADVISOR?

20. How well does the Fund perform with regard to the criteria outlined above?

Given the complexity of the issue, there is no simple answer. Based on evidence from both the interviews and surveys of country authorities, the Fund received high marks in many dimensions of the trusted advisor role. Moreover, the Fund can be rightfully proud of its achievements in improving its overall image in the aftermath of the global crisis. But the evaluation also identified areas where the Fund falls short, *some representing long-standing problem areas*.

21. Based on interviews of country authorities, the evaluation identified the following as the main issues to be addressed to strengthen the Fund's performance as a trusted advisor:

- *The challenge of sustaining the more positive perception of the Fund, gained during the global crisis, in a post-crisis environment;*
- *A tension between the roles of being a trusted confidant and a global watchdog;*
- *A lack of relevance and genuine value-added in some of the Fund's advice;*
- *Variability in the behavior of mission chiefs and resident representatives;*
- *A perceived lack of evenhandedness in the treatment of member countries; and*
- *Legacy and stigma issues from past interactions with the Fund.*

22. **This section discusses the evaluation evidence on these issues.** The last four have been underscored in previous studies, including some previous IEO evaluations and the Fund's Triennial Surveillance Reviews. The fact that they remain prominent in the eyes of many authorities suggests that efforts to date to address them have not been sufficiently effective and, therefore, merit revisiting.

A. In the Aftermath of the Global Crisis

The Fund's image has improved markedly...

23. **The global crisis was a watershed event for the Fund.** The Fund's response to the crisis led to a striking increase in country authorities' satisfaction with the Fund,¹⁰ with

¹⁰ For example: a comparison with interviews conducted for the 2008 TSR shows that even those interviewees who were previously highly critical of the relationship with the Fund were no longer so negative.

significant progress in some key aspects of the trusted advisor role. Authorities' interview and survey responses show that:

- ***The Fund staff is now seen as more open, listening more, and having a real dialogue.*** Indeed, this view was close to unanimous among the respondents to the country authorities' survey.¹¹
- ***The Fund is perceived as more flexible and responsive.*** Almost 90 percent of country respondents agreed that the Fund had become more flexible in its approach to programs. Interviewees cited, for example, IMF support of fiscal stimulus; the shift to being able to use IMF financing for fiscal deficits; a significant drop in the amount of conditionality in programs; the IMF's support of capital controls in some instances; and a less rigid approach on exchange rates.¹²
- ***Many authorities think that the Fund's new initiatives are moves in the right direction toward discussions in a more globalized context.*** Examples include the analysis of spillovers, mandatory financial sector assessments for systemic countries, new financing instruments, and the inclusion of advanced countries in the Vulnerability Exercise. A large majority of surveyed country respondents agreed that, since the onset of the crisis, the Fund had improved the quality of its advice on macro-financial linkages and international spillover effects, as well as its performance as an interlocutor regarding risks from the international economy—three areas of dialogue and advice with the Fund that they particularly valued.

24. **Can the Fund sustain the goodwill that has been generated by its rapid, wide-ranging response to the crisis?** Faced with the threat of widespread decline in economic activity, the IMF embraced the need for temporary fiscal stimulus in those economies that were in a position to undertake it (Box 2). This move was interpreted as a significant shift from the Fund's traditional preoccupation with fiscal consolidation. But as the crisis abates, the Fund's fiscal policy advice may need to focus again on fiscal sustainability, which policymakers may find less palatable.

¹¹ This perception was confirmed by the survey of mission chiefs, with more than 85 percent agreeing that the Fund had become more open.

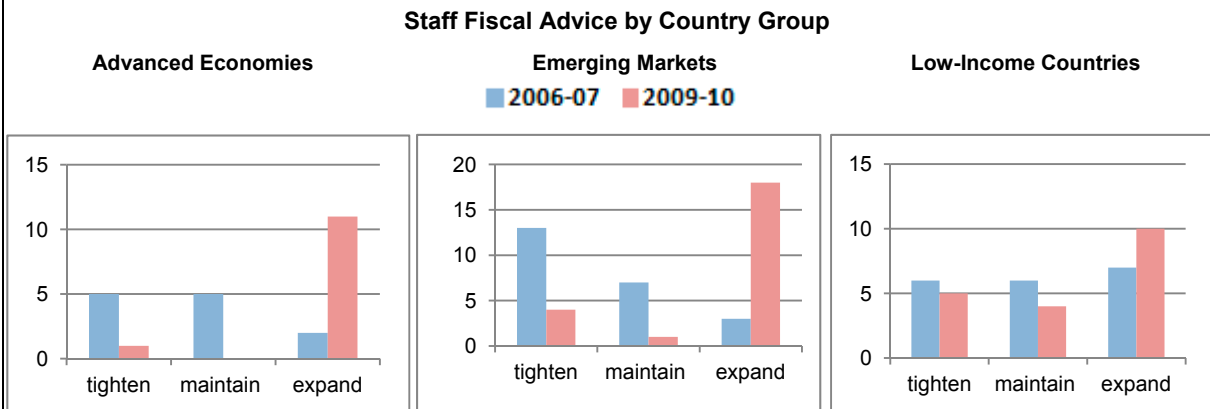
¹² More than 90 percent of mission chief respondents also agreed that the IMF had become more flexible in its application of conditionality in programs.

Box 2. The Impact of the Global Crisis on IMF Fiscal Policy Advice¹

The interviews and survey responses revealed a shift in perceptions regarding the IMF's advice on fiscal matters, particularly among emerging and developing economies. A common view held by interviewed authorities was that the IMF has abandoned its emphasis on fiscal adjustment and was now more attuned to the social and economic development needs of the country. Did the IMF really change or did the IMF adapt to changed structural circumstances?

The answer seems to be both. Already before the crisis the fiscal position in many countries had shown a marked improvement in cyclically-adjusted terms, thereby reducing the need for the IMF to emphasize fiscal consolidation as a means to restore balance in the economy. But also, in the wake of the global financial crisis, the IMF became a strong proponent of short-term fiscal stimulus, wherever fiscal space was available, further dampening its preoccupation with fiscal discipline.

The IEO examined Article IV and UFR staff reports for 54 countries whose authorities were interviewed for this evaluation. Comparing the reports issued in 2006-07 with those issued in 2009-10, it examined whether the Fund's advice involved fiscal tightening, maintaining the fiscal stance, or an expansionary fiscal stance. As shown in the figure below, for advanced economies and emerging markets, after the onset of the crisis, the advice clearly shifted toward an expansionary fiscal stance. The shift was less clear for the low-income countries, as the stance advocated by the Fund was already expansionary in a number of the countries in the pre-crisis period.



Source: IEO review of Article IV and UFR staff reports.

To the extent that the difficulty of implementing the advice exerts an adverse influence on the willingness to accept such advice, the seemingly softer stance on fiscal matters adopted by the Fund may have contributed to the authorities' improved perception of the IMF.

¹ Reichmann (2012b).

... but the downsizing of the Fund, which took place as the global crisis unfolded, may not be good news for the Fund's role as trusted advisor going forward.

25. **Resource constraints became a key focus in the wake of the downsizing of the Fund.**¹³ Though discussions on the Fund’s budget constraints began well before the onset of the crisis, the downsizing occurred in the midst of the crisis. Country authorities expressed concerns that elements essential to developing a trusted relationship—time for informal interactions, maintenance of resident representative positions, technical assistance and training—could be adversely affected. This is particularly notable at this juncture, given that more than three quarters of surveyed mission chiefs believed the crisis had increased the authorities’ willingness both for a deeper engagement with the Fund and to seek Fund advice on their own accord.

26. **Almost half of the responses to the mission chief survey acknowledged that the Fund’s downsizing had significantly decreased the amount of face-to-face time spent with country authorities.** Shortages of time or staff meant that missions had little

opportunity for

brainstorming/informal discussion sessions with

authorities. About two-thirds of the mission chief survey

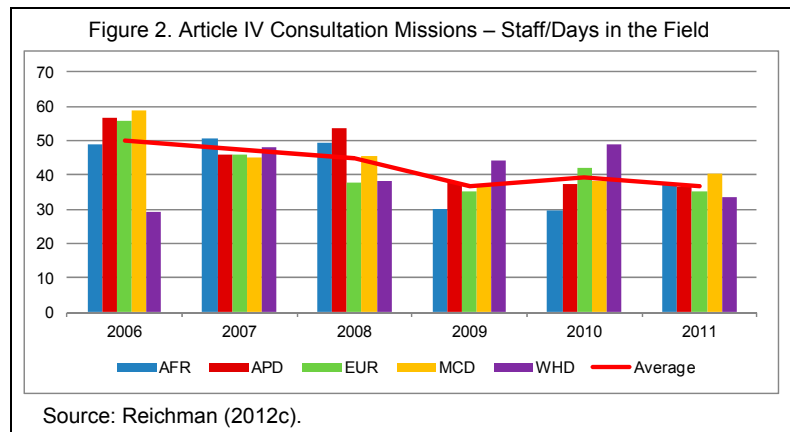
respondents believed that

pressures to reduce the duration and frequency of missions had

constrained the dialogue with authorities. Data combining

mission size with mission

length confirmed this view, indicating that the typical mission’s presence in the field (in terms of staff/days) had declined by 20–25 percent since 2006 (Figure 2).



B. Trusted Confidant versus Global Watchdog

*Being a trusted advisor at the multilateral level calls for the Fund to play a global watchdog role... but that role could create tension with being a trusted advisor at the bilateral level.*¹⁴

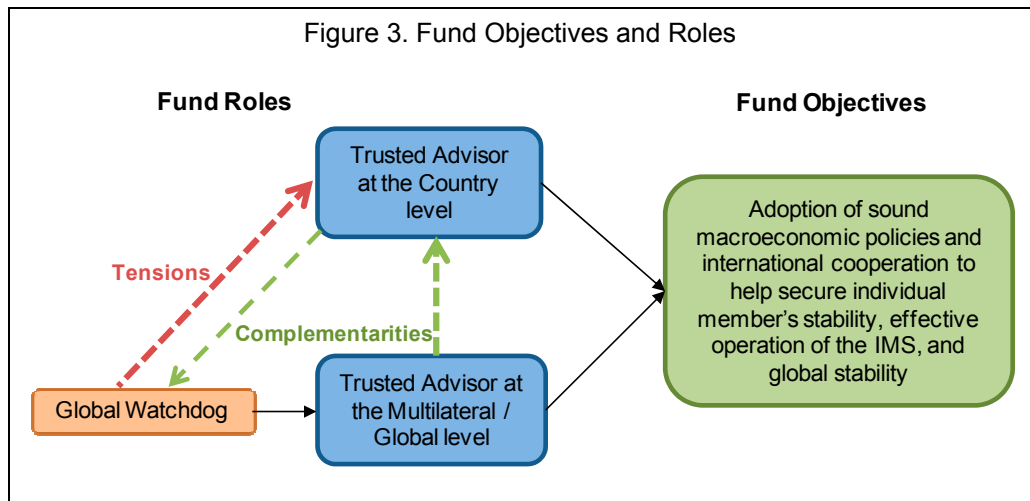
27. **To achieve its objectives, the Fund must play trusted advisor and watchdog roles at both the multilateral and bilateral levels (Figure 3).** The Fund is tasked with helping

¹³ Excluding the impact of new donor financing (largely for technical assistance), the FY2013 budget has reversed about half of the impact of the downsizing in terms of full-time staff equivalents (FTEs), but about three-fourths of the reversal is of a temporary or crisis-related nature.

¹⁴ This issue was recognized by the Managing Director in her first message to staff in July 2011, “there are tensions between helping one member and informing or warning others, and we need also to consider how we relate to a broader range of stakeholders, including the public and financial markets.”

member countries to maintain domestic stability, but its Articles of Agreement imply that the international monetary system (IMS) is the Fund’s “ultimate client.”

28. **Gaining traction implies striking the right balance between the roles of watchdog and confidant, and it may be impossible to navigate these waters perfectly.** At the bilateral level, trust is often influenced strongly by personal relationships. But trust in the Fund at the multilateral level depends critically on institutional characteristics such as governance and credibility; it also depends on transparency and accountability, including the ability to deliver tough messages and give early warning of pending problems, when needed.



29. **Some initiatives designed to increase the effectiveness of the watchdog role may have unintended adverse consequences for the trusted advisor role at the bilateral level.** For example, efforts to make the Article IV report more timely for the Board (i.e., allowing the Board to better perform its surveillance function) might take place at the expense of time spent with country authorities in an informal exchange of ideas, as missions try to prepare the report in the field. As another example, in IMF Board discussions on the Fund’s ISD,¹⁵ a number of Executive Directors expressed concerns that an increased focus on the external dimension of surveillance, such as outward spillovers (i.e., strengthening the global watchdog role) could be to the detriment of emphasizing a country’s domestic stability. Such initiatives could move the mix of Fund activities toward the watchdog role, but away from the trusted advisor role.

30. **While the tension between the watchdog and trusted advisor roles might seem clear, the Fund’s bilateral and multilateral roles also complement one another.** The Fund is better able to (i) be an effective watchdog if it has gained the trust of its individual members (e.g., through better information sharing) and (ii) develop a trusted relationship at

¹⁵ The ISD, which will take effect in early 2013, makes the Article IV consultation a vehicle for both bilateral and multilateral surveillance.

the country level if authorities know that the Fund is performing well its watchdog role (e.g., safeguarding the global economic community). The challenge is to exploit these complementarities, thereby making the role of trusted advisor more compatible with the Fund’s surveillance objectives. The following discussion is tilted toward the country authorities’ views on this trade-off, and the evaluation does not specifically assess whether the watchdog role has been strengthened due to the Fund’s recent initiatives.

The context for interaction matters ...

31. **The tension between the Fund’s roles is most clearly demonstrated in the difficulties of being seen as a “trusted confidant” versus an “auditor” in the context of surveillance.** Country authorities—particularly those in large emerging markets—often saw these roles as conflicting, preventing them from having a candid exchange of views and raising sensitive issues. Indeed, almost half of the surveyed authorities in large emerging markets said that the IMF had either performed “not well” or “poorly” in balancing its role of trusted advisor with that of fulfilling its surveillance mandate. In sharp contrast, only 2 percent of country authorities in low-income countries (LICs) thought the Fund had not done well or very well in balancing its role as trusted advisor versus fulfilling its surveillance mandate.

32. **Country authorities tended to see the Article IV mission as a vehicle poorly suited to gaining traction with member countries.** Many saw Article IV consultations as formalistic rituals not adapted to members’ evolving needs.¹⁶ They perceived such missions as driven too much by the Fund’s need to gather information for its reports, so that staff ignored the issues of interest to the authorities, making the process largely for the mission’s benefit. As one senior official commented, “*IMF missions don’t really engage in brainstorming with us, but rather on discussions on the status of measures that we have taken. ... Article IV missions are targeted missions with a specific agenda.*”¹⁷ About a fourth of the surveyed authorities believed that missions focused more on numbers and forecasting (and a checklist approach) than on substantive policy discussions,¹⁸ indicating that the surveillance role was given prominence at the expense of the trusted advisor role.

33. **The presence of a Fund program could also hamper the quality of the dialogue.** More than 40 percent of the respondents from LICs felt that the Fund’s UFR missions tended

¹⁶ Many authorities complained that the only information they received prior to the mission’s arrival was a questionnaire—little changed from previous years—or a set of sparse bullet points, merely listing issues for discussion.

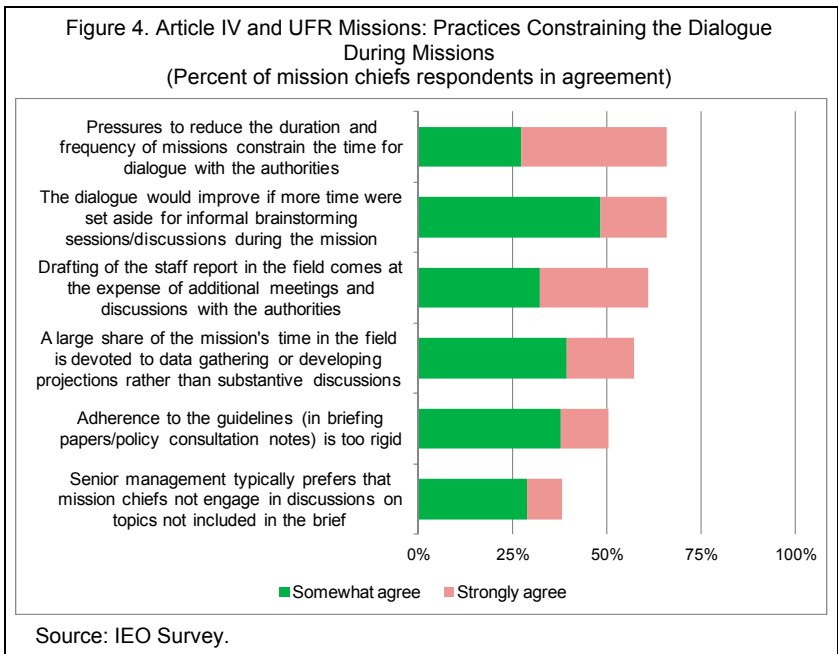
¹⁷ For exposition purposes, this report uses quotations from officials in member countries, as well as from IMF staff and Management. The quotations were chosen because they reflect views that were broadly shared.

¹⁸ The answers to this survey question varied widely based on country income level, with none of the large advanced country authorities, but almost 40 percent of the large emerging market and low-income country authorities, agreeing that missions focused too much on numbers at the expense of policy discussions.

to be driven by their own agenda and were not sufficiently flexible to discuss policy alternatives, thereby undermining program ownership by the authorities (thus, reducing sustained traction). Authorities also perceived a tension between being a trusted advisor and the conditionality inherent to programs.¹⁹ Regarding conditionality, some authorities felt that “any candor can be used against you” (i.e., the “Trojan horse” of candid discussions). This perception was confirmed by IMF mission chiefs, about 60 percent of whom believed that authorities were reluctant to raise topics for this reason.

34. Some practices regarding Article IV and UFR missions provided fertile ground for concerns about the trusted advisor relationship. Figure 4 shows the percentage of

mission chiefs who identified specific practices (e.g., reduced duration and frequency of missions, drafting the staff report in the field, large share of mission’s time devoted to data gathering, excessive adherence to guidelines) that, in their view, constrained the amount of time and the quality of the dialogue with the authorities while in the field. Many of their opinions coincided with those of the authorities.



35. Changes to the Fund’s reporting process may have strengthened some aspects of surveillance, but also contributed to a perceived rigidity (Reichmann, 2012c). After the 2006 streamlining exercise for Fund papers and procedures,²⁰ the time interval between the average mission and the ensuing Executive Board discussion was reduced by about 40 percent. As noted earlier, while the reduction has improved the timeliness of Executive Board discussions, staff are often forced to start preparing the staff report too early, typically before the mission even begins, and continue working on it while in the field, thus curtailing

¹⁹ Almost one-quarter of the authorities from LICs and more than 40 percent of those from large emerging markets felt that the Fund had not done well in balancing its role of trusted advisor with providing financial assistance.

²⁰ See IMF (2006a, b).

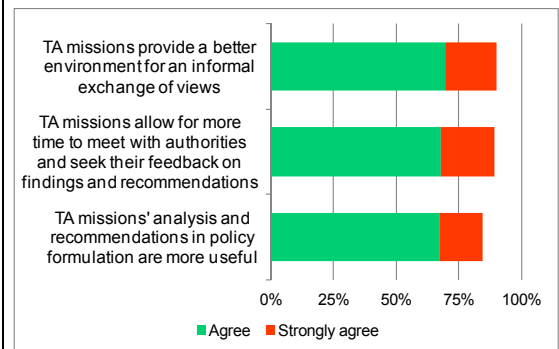
time for interacting with the authorities. This was clearly confirmed by the survey of mission chiefs.²¹

... with some contexts much more conducive to a trusted advisor role.

36. **Many country authorities noted that more frequent staff visits or informal contacts with Fund staff would help to promote a constructive dialogue.** The proportions expressing this view differed across country groups: they ranged from more than a third of the authorities from large advanced and emerging-market countries to almost three-fourths of those from LICs.²² In surveillance-only countries, almost half of the surveyed mission chiefs reported the frequency of contact with their counterparts in government, aside from the formal mission, as seldom or never.²³ With such infrequent contact, some authorities saw the Fund's surveillance as little more than just going through the motions. Nevertheless, despite a common complaint that the Fund has much less frequent interaction and/or smaller "on-the-ground" presence than other IFIs, survey respondents did not view the World Bank, the OECD, or regional development banks as better trusted advisors than the Fund.²⁴

37. **Compared with either Article IV or UFR missions, country authorities had a strong preference for the substance (and atmosphere) of the policy discussions associated with technical assistance missions (Figure 5).** In general, technical assistance was described as much more tailored and collaborative. This should not be surprising, given that the bulk of technical assistance

Figure 5. Comparison of Technical Assistance Missions with Article IV and UFR Missions (Percent of country authorities surveyed in agreement)



Source: IEO Survey.

²¹ Almost 60 percent of the surveyed mission chiefs complained that the time allowed for writing the staff report after the mission was too short; as a result, almost 70 percent (and 80 percent of those working on surveillance-only countries) indicated that the Policy Consultation Note was already being written with a view to becoming the staff report. Sixty percent of mission chiefs also felt that the restriction on staff report length was limiting the reporting of analytically important issues.

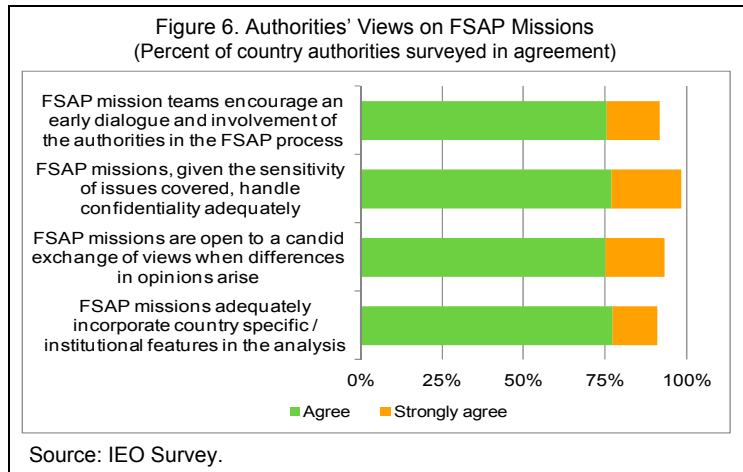
²² By contrast, among large advanced and emerging economies, about 65 percent of the authorities did not wish to have more frequent staff visits or informal contact. Some interviewees from these economies believed that Fund interactions already took up too much of their time. This underscores the importance of tailoring staff engagement to the needs of member countries.

²³ In contrast, for 90 percent of UFR countries, the frequency of contact was typically weekly or monthly.

²⁴ Overall, while a large majority believed these institutions performed the same as the Fund in this role, more than 20 percent of respondents felt that the Fund was a better trusted advisor, and only 8 percent preferred other IFIs. In contrast, for those African respondents who expressed a preference, about twice as many considered the other institutions better advisors than the IMF.

provided by the Fund is demand-driven.²⁵ Furthermore, technical assistance reports are not expected to be disclosed to the Executive Board nor to the public, so authorities are less concerned about sharing sensitive information.

38. **Similarly, FSAP missions were viewed very favorably by survey respondents** (although less so by interviewees, who said they saw the FSAPs as in the middle of a spectrum between surveillance and technical assistance). Despite the sensitivity of the issues with which FSAP missions deal, there was near unanimity that the IMF staff handled confidentiality adequately (Figure 6).



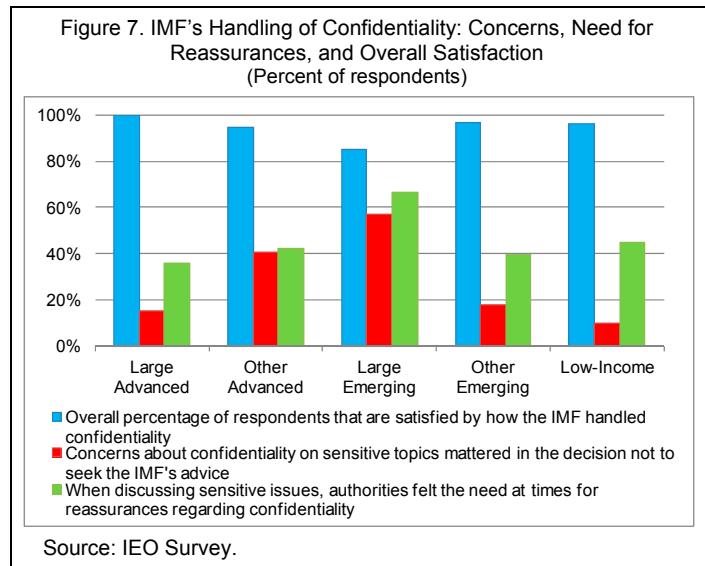
39. **Training and seminars generate an important externality**, according to many interviewees, in helping countries better understand the Fund, encouraging informal contacts and candid discussions, and thereby enhancing the overall trust in the institution. A frequent commentary by interviewed officials was that IMF training helped to bring countries on board with much of the Fund's economic thinking and generated a positive view of the Fund.

The Fund must walk a fine line between discretion and "ruthless truth-telling"...

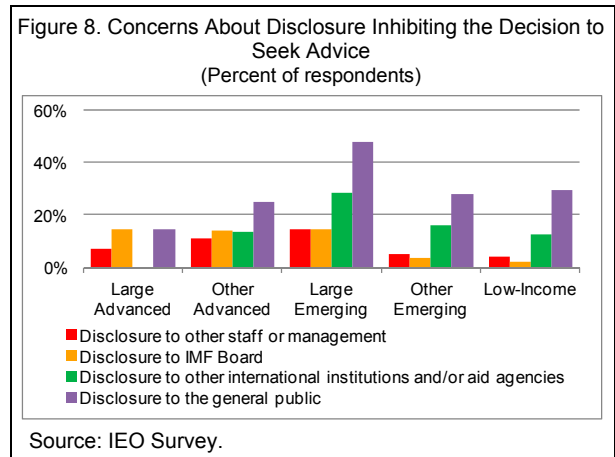
40. **Most country authorities wanted candor ("ruthless truth-telling") from IMF staff in their private discussions with them.** They wanted to be able to have an exchange of views without concerns about disclosure, particularly on sensitive issues. At the same time, they recognized that transparency contributed to increased effectiveness and accountability, for both the member country and the IMF. In this regard, most expressed satisfaction with the IMF's transparency policy and treatment of confidential issues. Many noted that they trusted Fund staff to use good judgment in not publicly disclosing issues in counterproductive ways.

²⁵ Approximately 80 percent of technical assistance is requested at the authorities' initiative, as opposed to strong urging by the IMF or as part of UFR conditionality.

41. **But while 95 percent of the respondents claimed to be satisfied with how the IMF handles confidentiality, deeper probing revealed some lingering concerns (Figure 7).** The same survey of authorities indicated a reluctance to raise truly sensitive issues with the Fund, particularly among large emerging markets and Asian countries. Almost 60 percent of the authorities from these countries (and a quarter of authorities overall) cited concerns about confidentiality on sensitive topics as a factor that inhibited them from seeking the Fund's advice.



42. **Concerns about confidentiality arose most often with regard to the Fund's transparency and publication policy (Mannathoko, 2012).** This came out clearly in the survey questions on disclosure, where concerns regarding disclosure to the general public (via the Fund's policy on publication) ranked highest, among the possible levels of disclosure, as a reason which limited authorities' willingness to discuss or seek advice on sensitive issues (Figure 8).²⁶ Authorities in large emerging markets and Asian countries expressed more concern than those in other country groups regarding all levels of disclosure, but particularly about disclosure to the general public. In contrast, the survey shows that, owing to concerns about disclosure to the IMF Board, G-20 countries (even more so the advanced members of the G-20) were much more likely than non-G-20 countries to limit their discussions of sensitive issues with the Fund.



43. **To the extent that *unwarranted* concerns about disclosure inhibit authorities from using the Fund as an informal sounding board, the Fund might be missing some opportunities to engage with country authorities at crucial formative stages of policy-making.** Authorities at times refrained from raising issues on which they might want the Fund's views as informal input into their own thinking (e.g., candid discussions on risks;

²⁶ The survey of mission chiefs confirmed these concerns about publication and transparency, with concerns appearing to be greater for surveillance-only countries than for UFR countries.

hypothetical courses of action). Some authorities, across all categories of countries, expressed fear that an informal exchange of ideas would end up in the staff report (see Box 3). While the Fund’s regular Transparency Reviews claim that the candor of staff reports has not suffered significantly,²⁷ the same cannot be said regarding the candor of the underlying discussions between the authorities and Fund staff, as sensitive issues of greatest concern to authorities are often specifically avoided.

Box 3. Lost Opportunities to Engage with Policymakers at an Early Stage

This evaluation found many instances where, during Article IV and/or UFR missions, country officials would like to have used the Fund as a sounding board to discuss hypothetical courses of action, risk assessments, or benefits and costs of policy options, and to share doubts. In fact, many interviewees felt that acting as a sounding board should be a primary role of a trusted advisor. However, they were often apprehensive about the extent to which informal discussions and exchanges of views might show up in the Fund’s staff report, and, to a lesser extent, be shared widely with Fund senior management or even the Board. The quotations below summarize some of these concerns:

“Generally we have no problems in seeking advice. However, there are certain topics we don’t dare to raise (the exchange rate system, for instance) for fear that it would either be included in the consultation report or in the letter of intent. We would love to have an analytical discussion on this topic but have no assurances as to how the mission would handle it.” (Head of Research, Central Bank, LIC)

“In the Article IV process, there is an inherent tension/conflict between the IMF as an ‘advisor’ and as an ‘evaluator.’ If the country informally raises an issue or dilemma, it will appear formally in the next Article IV.” (Senior official, Ministry of Finance, emerging market economy)

“But can we be fully open? If I disclose my doubts, will they be written?” (Senior official, Central Bank, G-20 country)

“Those Article IV missions are more useful when I can discuss informally some issues with a particular mission chief. I want a sounding board for difficult policy issues and want to be assured that it will not find its way into an Article IV staff report—sometimes the Department Director insists on getting all the info.” (Head of Research, Central Bank, advanced country).

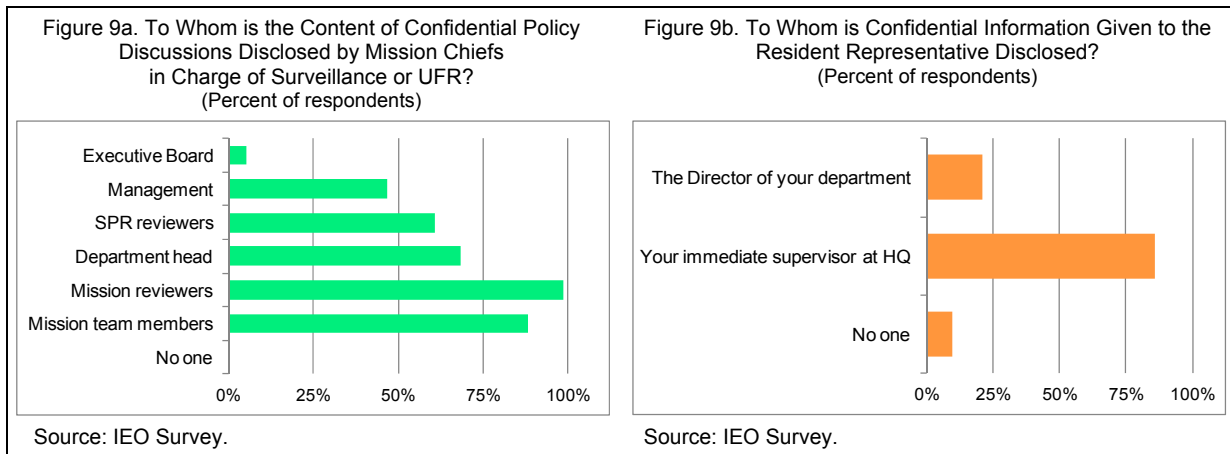
“Confidentiality is an issue. During Article IV discussions, authorities know in the back of their head that what they say can end up in the report. Authorities trust some mission chiefs to elicit/ share their views with them and keep them off the record. But there is a strong variability among mission chiefs.” (Senior official, Ministry of Finance, advanced country).

... yet there seems to be some lack of clarity about what must be disclosed.

44. Confidentiality and disclosure in the Fund are governed by two major principles. First, the IMF’s Duty to Safeguard Confidential Information: information that the authorities provide in confidence to staff must not be disclosed without authorization by the

²⁷ These findings from the Transparency Reviews were based on a review of documents and a survey of mission chiefs. However, they did not survey country authorities themselves.

authorities.²⁸ Second, what one could call a “Critical Disclosure Principle”:²⁹ the Executive Board must have access to key economic data and policy positions and intentions that are critical for it to fulfill its bilateral surveillance function and make decisions on the use of Fund resources.³⁰ The latter principle is the one on which there seems to be little clarity. Indeed, significant variability on disclosure practices among Fund staff might signal ambiguity on how to deal with confidential discussions (Figures 9a and b).



45. **Informal discussions that are helpful to the authorities may not be critical to disclose.** The intent of a Critical Disclosure Principle is to clearly distinguish when the content of discussions are critical for disclosure. Discussions on a country’s policy decisions and plans are fundamental for the Board to perform its surveillance role and to make decisions on IMF-financed programs. In contrast, discussions that are simply inputs into probable or hypothetical courses of action (e.g., pros and cons of adopting various policy options, discussion of possible risks and scenarios) are largely intended to support the decision-making process of the authorities. These inputs into a country’s “policy production function” would not seem critical to disclose. Clarity regarding disclosure would help the institution be able to engage more fully at an early stage of the policy formulation process of member countries.

Outreach can either help or hinder the development of trust in the Fund.

46. **The Fund’s communications strategy in member countries can have important implications for its role as trusted advisor.** Some authorities asked whom the IMF’s

²⁸ The rules that guide the treatment of confidential information by staff are found in the N-rules and the IMF Code of Conduct for staff.

²⁹ This is not a term formally used in the Fund, but is used by this evaluation to describe the second principle.

³⁰ The formal obligations for the furnishing of information by member countries are described in Article VIII, Section 5 of the Articles of Agreement.

communications strategy—particularly that associated with surveillance and program missions—was intended to serve. Was this strategy driven by demand from the member country or by the Fund’s own agenda, such as the need to demonstrate the institution’s transparency and accountability? Was it well-tailored to best gain traction for the Fund’s advice?

- ***In many cases, authorities wanted the Fund to do more outreach.*** In countries with IMF resident representatives (RRs), more than 60 percent of the authorities who responded to the survey said they would like the RRs to do more outreach with stakeholders outside the government, both to help politicians and policymakers understand the implications of policy reforms and to build public support for reforms. This view was even more prevalent in LICs, where more than three-fourths of the survey respondents stated a preference for more outreach.
- ***In other cases, political stigma would call for a much more cautious and better calibrated approach to outreach if the Fund’s advice is to gain traction.*** Survey respondents criticized the Fund for not recognizing that views on the appropriateness of outreach and public candor can differ widely across countries. Interviewees noted the importance of understanding a country’s policy-making process, so that outreach is appropriately suited for local conditions. For example, in some countries, the Fund might achieve the greatest traction if it reaches out to Parliament or even the Head of State. In other countries, the best way to get traction might be to promote public debate or to influence a small number of key economic commentators outside government. And in yet others, limiting outreach, while spending more time on confidential discussions, might be most effective.

C. Relevance and Value-Added of Fund Advice

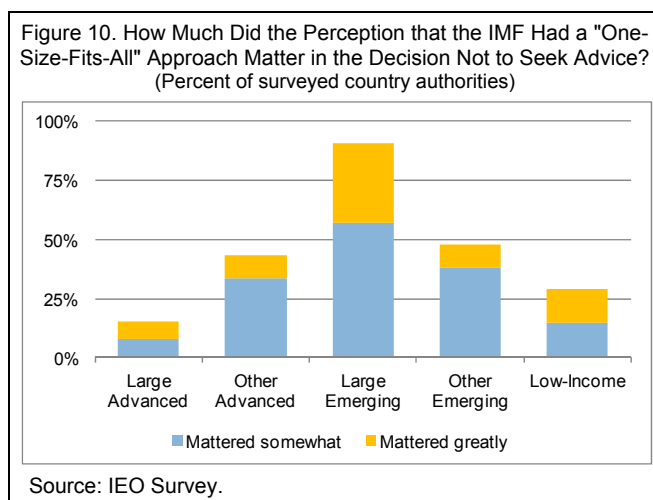
Does the Fund’s advice add value?

47. **Country authorities were broadly satisfied with (and often highly appreciative of) the professional competence of Fund staff.** Moreover, in many interviews, authorities noted that the Fund was uniquely placed to pull together a unified macro-framework for the economy as a whole (“*the IMF has a bird’s-eye view of everything, which allows us to see the big picture*”), helping countries to overcome a tendency for their economic agencies to work in silos.

48. **Nevertheless, an important share of the membership found that the Fund’s advice—especially that provided in the context of bilateral surveillance—had little**

value-added.³¹ The reasons varied—depending on context and a country’s level of development, among other aspects.

- Authorities often perceived the IMF’s advice as following a **“one-size-fits-all” approach** that was not appropriate for their country. As shown in Figure 10, this was often a determining factor in authorities not seeking the Fund’s advice. This view was particularly strong in large emerging markets.



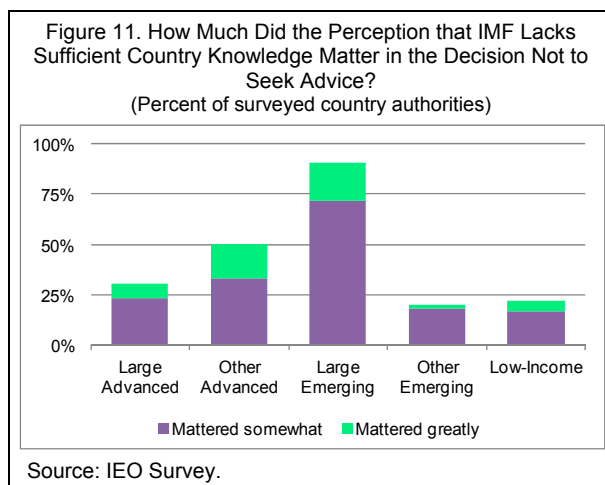
- Advice was often seen as **overly generic**. About half of the survey respondents in the large emerging markets felt that missions just repeated the IMF’s standard prescriptions.
- A sizable number of authorities believed that Fund advice was guided by the **“Washington Consensus.”**³² Indeed, almost half the mission chiefs who responded to the survey confirmed that this persistent perception had adversely influenced their dialogue with authorities. Furthermore, about 40 percent of the resident representatives working in LICs believed that this perception had adversely affected their capacity to act as trusted advisors.
- Advice sometimes amounted to **telling the authorities what they already knew**, especially on the domestic economy. In fact, about 50 percent of the surveyed authorities in large emerging markets and 25 percent of those in other emerging markets and LICs felt that Article IV and UFR missions did not contribute anything new.³³

³¹ Interviewed country authorities tended to express more negative views on the value-added of Fund advice than indicated by the results of the survey.

³² These findings are consistent with those from the Fund’s interviews of authorities conducted for the 2011 Triennial Surveillance Review.

³³ The IEO’s evaluation of *IMF Interactions with Member Countries* (IEO, 2009) yielded similar findings. It found that the large emerging economies, in particular, viewed the surveillance process as routine and uninteresting.

- A significant number of country authorities believed that the IMF *lacked sufficient knowledge of country-specifics* for its advice to be useful (Figure 11). Yet the surveyed mission chiefs and resident representatives recognized in principle the importance of offering “feasible-best” advice (i.e., advice that could actually be implemented, given the political, institutional, and social realities) rather than theoretically “first-best” advice.³⁴ Indeed, more than 70 percent and 80 percent of mission chiefs and resident representatives, respectively, acknowledged that giving pragmatic advice based on country knowledge could pay dividends in strengthening the role of the Fund as a trusted advisor.



Analytical weaknesses undermined the usefulness of advice ...

49. **Though the majority of survey respondents believed that the Fund had strengthened its analysis since the 2008 global financial crisis, many authorities stressed that the analysis still suffered from weaknesses in some key subject areas.** Most members had appreciated the Fund’s rapid response to the crisis, but had been disappointed by the Fund’s failure to give effective advance warning. Many also said that in an increasingly complex, global economy, the Fund staff should take a more modest view of the power of modeling and temper their reliance on some of the Fund’s standard workhorse models.

50. **In interviews, country authorities highlighted the importance of:**³⁵

- **Deepening the understanding of macro-financial linkages.** Lack of a unified macro-financial framework has hampered the relevance of the Fund’s policy advice. The crisis had highlighted the urgency of pushing forward with research in this area

³⁴ The importance of experience was emphasized by the former IMF Deputy Managing Director (Murilo Portugal) in his farewell speech: “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 is feasible best. 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 authorities to become their trusted advisors and to negotiate a program or to influence policy making.”

³⁵ Most of these analytical weaknesses have been the subject of recurrent complaints from the membership, as confirmed by the findings of the TSR and previous IEO evaluations.

and upgrading the Fund’s knowledge and expertise on the financial sector more generally.

- **Assessing external risks, contagion, and spillovers from the international economy.** Country authorities appreciated the Fund’s recent efforts to focus more on these issues, but some complained that the analysis has been superficial and/or heavily influenced by the largest shareholders. Furthermore, they wanted advice that was more specific to their countries and operationally relevant.
- **Addressing how to achieve sustainable growth.** Many country authorities, particularly in emerging markets and LICs, felt that the Fund paid too little attention to the promotion of growth and employment.³⁶

51. **Many authorities believed that the IMF was still not sufficiently using its unique comparative advantage—deriving from its almost universal membership—to bring cross-country experiences to the table.**³⁷ The increase in local expertise within member countries put a higher premium on the IMF’s comparative advantage in cross-country experiences. Authorities were most interested in case studies and examples of best practices in countries that faced similar challenges to their own, rather than in cross-sectional regressions or graphical analyses, which they believed to be of little practical value for policymaking at the national level.

... and some practices and incentives could adversely impact value-added.

52. **Country authorities repeatedly mentioned the high turnover of IMF mission teams as a critical factor for the perceived lack of value-added in IMF advice.** While broad knowledge of global developments was seen as particularly important by authorities in systemic countries (which have ample human capital studying the domestic economy), more in-depth country knowledge was called for by authorities in smaller countries, particularly given their interest in advice on institutional changes. But many staff members, for their part, preferred to spend more years working on systemic countries, seeing work on these countries as more career-enhancing. And outgoing staff members acknowledged that there are few incentives to spend time with their team replacements to ensure a smooth transfer of information.

53. **Silo behavior within the IMF was also cited as a factor undermining value-added.** Interviewees provided evidence of weaknesses in integrating multilateral with

³⁶ The Fund has recognized this problem and now has a Working Group on Jobs and Inclusive Growth.

³⁷ Mission chiefs and resident representatives also recognized the importance of this issue, with about 80 percent agreeing that incorporating other country experiences in the advice more often would have an important payoff in improving the policy dialogue.

bilateral surveillance, resulting at times in differences between the advice given during Article IV missions and that provided in the G-20 MAP, spillover reports, and the *WEO* and *GFSR*.³⁸ They felt that such silo behavior helped explain what they saw as the Fund's inability to fully exploit the synergies between surveillance, technical assistance, and training.

Is there, nevertheless, a “demand” for Fund advice?

54. **Despite some of the shortfalls noted above, authorities in most countries had sought IMF advice on their own initiative, and such instances could provide among the best opportunities to develop a trusted advisor relationship.** Seeking advice from the Fund was most prevalent for LICs, given IMF consultation requirements in the context of UFR programs and LICs' higher demand for technical assistance. But even the authorities in large advanced countries and large emerging markets, particularly in the aftermath of the crisis, had sought advice on their own accord from the Fund. Remarkably, of the 137 countries which responded to the survey, only nine (one of them a large advanced country) claimed to have never sought advice from the Fund.³⁹

55. **Across all income levels, survey evidence suggests at least 70 percent of the requests by countries included advice of a policy or strategic nature, rather than purely technical or informational in content.** The reasons for seeking advice varied by country group, with large advanced economies more interested in international spillovers and risks to the country; large emerging market economies wanting to hear about other countries' experiences when tackling similar economic challenges; and LICs planning significant changes in policies, and along with the other country categories, needing expertise in certain institutional areas.

56. **While the evidence suggests authorities were not shy about requesting advice, these requests tended to avoid some of the core areas of the Fund's mandate, such as exchange rates and monetary policy.** Across an array of topics, G-20 countries were consistently less willing to seek advice from the IMF than non-G-20 countries, but the gap was especially wide with respect to those two topics. According to the survey of authorities, while 30 percent of the membership were not willing to seek advice on exchange rate and

³⁸ The Fund is making an effort to deal with this coordination problem, in part, with its Integrated Surveillance Decision.

³⁹ Authorities in about half of all countries (and two-thirds of LICs) had contacted their mission chiefs three or more times a year to seek their views or advice, and authorities in almost three-fourths of LICs would have welcomed more frequent staff visits and informal contact with the Fund. According to surveyed resident representatives, more than half had been contacted by authorities at least twice a month for advice on policy or strategic issues.

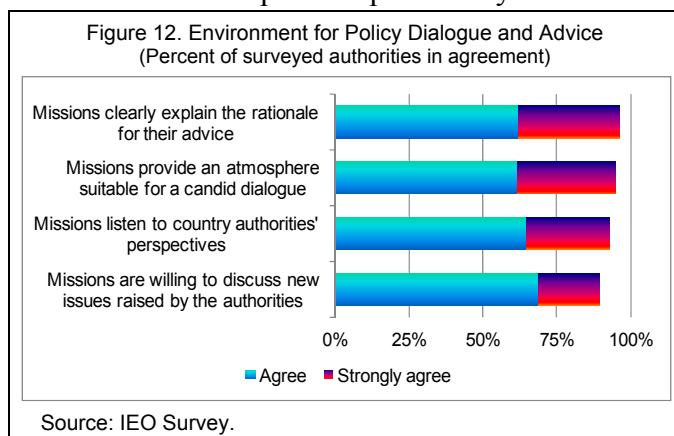
monetary policy issues, the percentage more than doubled for G-20 countries (both advanced and emerging economies).

57. **On monetary and banking issues, advice from the Bank for International Settlements (BIS) or other central banks was typically valued more than that from the Fund.** Two reasons given by interviewees were (i) a greater sense that confidentiality would be maintained and (ii) higher value-added due to more policy-making experience or expertise. G-20 countries (both advanced and emerging), in particular, clearly indicated that the BIS and central banks or ministries from other countries were seen as better trusted advisors than the IMF. Among the authorities of large advanced countries and large emerging markets, the BIS was viewed as a better trusted advisor than the Fund by 60 percent and 45 percent,⁴⁰ and other central banks were preferred by 44 percent and 41 percent, respectively.

D. Fund Staff Behavior and Incentives

The Fund fares well with respect to the environment that staff creates ...

58. **Survey evidence, as shown in Figure 12, highlighted some aspects conducive to having a real dialogue.** Country authorities also noted some positive personality traits of a trusted advisor. Among these was self-confidence on the part of the mission chief, which generates respect; one senior official explained the significance of self-confidence by noting that such mission chiefs “*don’t have to call headquarters every five minutes to check on what they should say.*” At the same time, authorities appreciated that a mission’s advice draws on the broad knowledge and central tenets of the Fund. Empathy is also important, as suggested by a senior government official, who stressed, “*I don’t care how much you know until I know how much you care.*”



... but variability in behavior can imply substantial “tail risks” for trust.

59. **A few bad experiences with the behavior of Fund staff can be very costly.** Countries remember such experiences vividly and for a long time.⁴¹ Negative characteristics

⁴⁰ Most of the responses from other country groups suggested no difference between the BIS and the Fund.

⁴¹ A senior official had worked with two 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

(continued)

of Fund staff/missions cited on occasion by country authorities included: a failure to listen to the authorities' perspectives; lack of openness to alternative approaches; and a style and content of discussions that was stilted and pre-determined. There was also a perception at times of arrogance in some IMF staff.⁴²

60. Despite the importance of this issue, some country authorities felt that the Fund had put insufficient effort into the selection and training of mission chiefs and resident representatives, who were seen as the face of the Fund. For their part, interviewed mission chiefs and resident representatives often noted that a substantive terms-of-reference would have been helpful in clarifying the roles and expectations for these key positions.

61. The Fund's incentive system may not be sufficiently supportive of a trusted advisor role. For example:

- Combined with persuasive analysis, challenging, candid discussions are what most authorities want from a trusted advisor. Yet many Fund staff members are reluctant to “speak truth to power.” They need to be willing to challenge the authorities (provide a “wake-up call” on issues of which the authorities might not even be aware).⁴³
- Based on interviews with IMF staff, high visibility—as derived from contributing to research, policy papers, or “bringing home a new UFR program”—was seen as being rewarded more than behind-the-scenes, time-consuming activity (such as brainstorming with authorities) to create trust. IMF staff were often not proactive in encouraging authorities to make use of the Fund's potential advisory role, perhaps reflecting the low rewards to spending more time in discussions with authorities.⁴⁴
- “Group think” and “intellectual capture” were mentioned in numerous interviews with country authorities as undermining the credibility of the Fund's advice. This

speculate on topics beyond the brief.” The official would never discuss sensitive areas with the first person for fear that what he said would be disclosed, but would willingly discuss such topics with the second. He added that “it was like dealing with two different IMFs!”

⁴² While the perception of arrogance was more common in smaller developing economies, even advanced country interactions were not immune. As one authority from an advanced economy stressed, “Why would we ever use IMF research? The IMF staff are very arrogant in not taking on board our comments on their research on our country.”

⁴³ The evaluation of *IMF Interactions with Member Countries* (IEO, 2009) also reported a view prevalent among staff indicating that they exercise less candor in their assessments of advanced economies, in part because they fear that Management will, in the end, not support them.

⁴⁴ These findings confirm those in IEO (2009), where surveyed staff complained that performance evaluations gave insufficient weight to effective interactions with country authorities.

type of cognitive behavior stems in part from an environment in the Fund that tends to inhibit intellectual risk-taking and challenging received wisdom.⁴⁵

Ultimately, trust is a two-way relationship.

62. **Sometimes the failure to build a trusted advisor relationship with authorities cannot be attributed solely to the IMF and its staff.** The receptivity of counterparts also matters. Mission chiefs and resident representatives often noted that in some countries they had developed strong relationships with certain counterparts, but found it more difficult to do so with others. In such circumstances, interviewees noted that a country’s Executive Director’s office could play an important role as a bridge for communication between the IMF and the government (Box 4).

Resident representatives—“on the ground” trusted advisors?

63. **Resident representatives were viewed positively by a majority of interviewees, owing in part to the more informal nature of the interaction.** They were often viewed as “on the ground” trusted advisors providing real-time support and one of the most important components for building a trusted relationship with member countries. Indeed, of the 56 percent of countries surveyed that had had a resident representative at some time since 2005, 85 percent viewed them as trusted advisors. This view was even stronger in LICs, almost 98 percent of whose authorities cited them as trusted advisors. Even in those countries typically viewed as averse to the Fund, many authorities expressed a desire to have a resident representative (even if they did not have an active Fund program).

64. **Notwithstanding these overall high marks, some authorities expressed reservations about the role of resident representatives.** An important share of surveyed country authorities felt that resident representatives saw their role as ambassadors (that is, somewhat removed from the authorities) rather than trusted advisors. Many authorities rarely or never included them in confidential policy discussions, nor regarded them as good counterparts for discussing policy ideas.⁴⁶ Particularly in countries with active IMF programs, some interviewees noted a definite tension between the role of the resident representative as a

⁴⁵ This was a finding in two 2011 IEO evaluations (on the crisis and IMF research) and the 2010 IMF staff survey.

⁴⁶ Almost half of the country authorities (and three-fourths in large emerging markets) rarely or never included their resident representative in confidential policy discussions, and about 20 percent did not see them as good counterparts for discussing policy ideas. Surveyed resident representatives largely confirmed these findings, but noted that, since the crisis, the authorities were inviting them more frequently to participate in confidential policy discussions. The responses depended heavily on the seniority of the resident representative: positive answers were received in 30 percent, 50 percent, and 65 percent of cases from staff at the A13/14, A15, and B level, respectively.

trusted advisor on the ground and as an “informant” and enforcer of conditionality for IMF headquarters.

Box 4. Executive Directors—A Bridge for Communication and Understanding

The IMF’s Executive Directors have a dual role: (i) as Fund officials, upholding the institution’s interests so the Fund can perform its mandate; and (ii) as representatives of their constituencies, advocating the interests of their country authorities. How might these dual roles help the Fund become a better trusted advisor?

While there might seem to be some tensions between these roles, there are also complementarities. As officers of the Fund, Executive Directors and their staff can be instrumental in helping their authorities better understand the inner workings of the Fund and the constraints facing Fund staff, as well as the reasoning underlying the Fund’s policy frameworks and advice. At the same time, as representatives of their authorities, Executive Directors are well-placed to help Fund staff better understand a country’s political and cultural environment in support of “feasible-best” policy advice with greater relevance and value-added. When tensions arise between Fund staff and the authorities, this intermediary function can help maintain the continuity of a relationship with the Fund, and thus be a significant contributor to a trusted advisor role for the institution.

Interviews with Executive Directors’ offices revealed differences in how they saw their roles in this regard. Some Directors clearly acknowledged the importance of their bridging role between their constituencies and IMF staff, while others saw themselves primarily as representing their authorities. The differences depended on a number of factors, including whether the office represented a multi-country or single-country constituency and their personal views as to whether the Fund served as trusted advisor to their constituency.

Offices with multi-country constituencies were much more likely to view the Fund as lacking in evenhandedness, often based on their experiences representing smaller countries within their constituency, and felt the need to put extra effort into leveling the playing field for their authorities. Furthermore, those offices with large constituencies found themselves stretched in their ability to perform their role in facilitating being a trusted advisor, particularly since they often lacked staff from some of the countries in their constituencies and, in such cases, the Directors needed to establish trust with the authorities as well. A lack of time to develop personal relationships gets magnified for surveillance-only countries, for which there is typically only one visit per year.¹ As one Director commented “ it takes three to four missions for people on both sides to get to know each other sufficiently well.”

Interviewees expressed their frustration at times of not being able to facilitate a genuine exchange of views owing to a variety of factors, including variability in the quality and experience of mission chiefs, the failure of many Fund teams to share more than a set of bullet points for discussion prior to missions, the use by the Fund of “guidelines” for key policy areas (putting a “straitjacket” on the ability to do country-specific analysis),² and the lack of early, substantive discussion with Fund staff on important new policy frameworks.

By contrast, in those instances where Fund staff actively engaged in an ongoing dialogue with Executive Directors’ offices, this helped to leverage the power of these offices to facilitate trust in the Fund and, ultimately, to develop effective country strategies and gain traction for Fund policy advice. Such close working relationships fully exploited the Board’s dual roles and allowed Executive Directors to be a bridge between Fund staff and country authorities for communication, understanding, and collaboration—all key building blocks for the Fund to be seen as a trusted advisor.

¹ At times, Directors accompanying IMF mission teams had to explain to the authorities that they were not part of the IMF team, but rather were there to facilitate understanding on both sides.

² Other Board members, however, felt that the use of policy guidelines helped support evenhandedness.

65. **Authorities felt strongly that a key attribute for a resident representative to be a trusted advisor was his/her intellectual independence and ability to mediate and use his/her knowledge to guide (and often disagree with) IMF headquarters.** Three-fourths of the surveyed resident representatives agreed, noting that having more autonomy would help them become trusted advisors. However, half of the surveyed resident representatives believed that, despite their greater knowledge of local conditions, they had limited influence in changing IMF headquarter opinions on “their” countries’ policies.

E. Lack of Evenhandedness

A perception that the Fund is not evenhanded remains a barrier to building trust.

66. **A perception among some country authorities that the Fund is dominated by the interests of its largest shareholders undermined the view of the Fund as a trusted advisor.** This notion was particularly prevalent among authorities in large emerging markets,⁴⁷ almost half of whom noted that this perception, together with a sense of unequal treatment of countries by the IMF, influenced their decisions not to seek the IMF’s advice. These results were mirrored by those from both the mission chief and resident representative surveys, more than 40 percent of whose respondents believed that the perception that IMF advice reflects the interests of the larger shareholders adversely affected their own capacity to be trusted advisors.

67. **Importantly, surveys show that about a third of the country authorities and half of the mission chiefs did not believe that the IMF has become more evenhanded since the onset of the global crisis,** despite efforts by Fund staff and Management to be appropriately critical of policies in large advanced countries. Interviewed country authorities cited various recent examples of lack of evenhandedness:

- ***Recent programs in the advanced countries of the European Union*** were seen by a number of interviewees as soft relative to past Fund programs.⁴⁸ They explained that the IMF was providing much larger financing packages relative to quotas than in the past and raised questions about the associated debt sustainability analyses. A Minister of Finance explained, *“the way the IMF behaves in Europe today will be critical as to how the Fund will be judged in the future.”*

⁴⁷ There was also a regional dimension, with countries in Asia and Latin America most likely to be dissuaded from seeking Fund advice due to a view that the Fund was not evenhanded.

⁴⁸ Interviewees recognized that it is difficult to determine what role the IMF has played in the program design relative to that of the other Troika members. But many European interviewees were appreciative of what they saw as the more objective input of the IMF within the Troika context.

- *Some recent Fund policy papers*⁴⁹ were viewed as prematurely prescriptive—with no dialogue or input from the most affected country authorities—on key issues such as capital flows and international reserves. On capital flows, for instance, authorities felt that the emphasis was solely on “pull factors” and not on “push factors,” thus focusing on the policies of emerging markets and not on those of the advanced economies.⁵⁰
- *IMF input to the G-20 Mutual Assessment Process* was sometimes interpreted as reflecting the large shareholders’ interests and subverting the role of the rest of the membership. And there were intra-G-20 tensions, with the G-20 emerging market members holding particularly negative views regarding evenhandedness and one-size-fits-all input from the Fund.
- The *2007 Bilateral Surveillance Decision*⁵¹ was heavily criticized by many country authorities as having damaged the perception of the Fund as a trusted advisor. Many believed that the Decision had been politically motivated and had excessively narrowed the focus of surveillance towards the exchange rate at the expense of other, perhaps more important, macroeconomic issues and assessment of risks.
- IMF staff and Management were often seen as *afraid to “speak truth to power,”* where large, systemic countries are involved, even though these are the countries most critical for the stability of the international monetary system, given the power of their policy actions to threaten or preserve the global good.

But is lack of evenhandedness just a perception?

68. Clearly, a lack of evenhandedness can impair the Fund’s ability to perform both its global watchdog and trusted advisor roles.

- Regarding “speaking truth to power,” almost 60 percent of the mission chief survey respondents who worked on advanced countries felt pressure to dilute the candor of staff reports in order to avoid upsetting the country authorities.⁵² Fully half of the

⁴⁹ IMF (2010a, c); IMF (2011a, b).

⁵⁰ Subsequently, the Fund issued a Board paper (IMF, 2011f) that explicitly addressed the “push” factors behind capital flows.

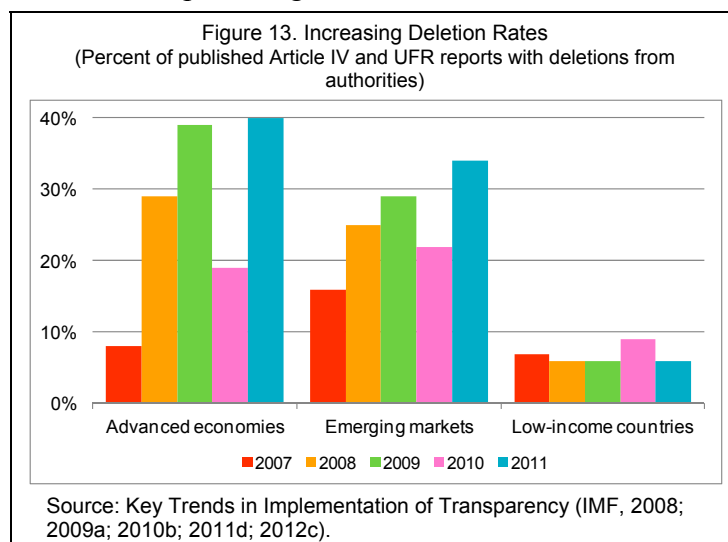
⁵¹ See IMF (2007). The 2007 Decision has since been replaced by the 2012 Integrated Surveillance Decision (see IMF, 2012b, c).

⁵² Earlier, IEO (2009) reported that “More than half of the surveyed staff working on advanced economies said that a desire to preserve the relationship had caused them to make assessments that were too cautious.” And according to IEO (2011a), “Many [staff] felt that there were strong disincentives to ‘speak truth to power,’ particularly in large countries, as there was a perception that staff might not be supported by Management if they disagreed with these authorities.”

surveyed mission chiefs on systemically-important advanced economies admitted that the *systemic importance had influenced the degree of candor* of the dialogue.⁵³ A senior official in a G-7 country confirmed the political difficulty of “ruthless truth-telling” and the implicit pressure on Fund staff to refrain from clashing with powerful authorities: “*There has not been a disagreement with IMF staff in the last four or five years. In any event, the mission chief knows that if he doesn’t listen to us, there will be a call to IMF Management.*”

- On *global imbalances and the G-20 MAP*, an influential senior IMF staff member acknowledged pressures from some of the G-20 countries, noting that “*the Fund negotiated around its analysis with some compromises. We put some [analytical] structure on the exercise within these very tight political constraints.*”⁵⁴

69. **Strong differences among country types in the application of IMF transparency policy suggest unequal treatment.** For systemic countries, while authorities support transparency, “deletions and corrections” in staff reports might lead to less candid versions of the staff’s thinking about a given country. As a senior official from a large emerging market noted, “*deletions are the most important part of the Article IV process.*” And the heaviest users of such modifications are the advanced economies and emerging markets, whose deletion rates have risen conspicuously since the start of the evaluation period (Figure 13). A remarkable 93 percent of the staff reports for advanced countries were corrected during a recent 3½-year period. The Fund’s 2009 review of its transparency policy (IMF, 2009b) found that a sizeable minority of “corrections” did not conform to the policy, some even including a softening of the staff assessment.⁵⁵ Moreover, the criteria for permissible deletions had at times been



⁵³ This compared with 20 percent and 8 percent of those working, respectively, on emerging markets and LICs.

⁵⁴ Political constraints on this analysis were confirmed in interviews with mission chiefs and Executive Directors.

⁵⁵ For example, IMF staff found that 26 percent of the deletions in 2008 were not clearly within the policy guidelines. Furthermore, “advanced and emerging market countries—in particular ‘influential’ countries as proxied by quota shares and/or having a dedicated Executive Director at the Board—accounted for a disproportionately large share of corrections that were in the ‘gray zone’” (IMF, 2009b).

stretched, for example to allow the removal of text on exchange-rate assessments on the grounds of market sensitivity. Notwithstanding the revisions to transparency policy (following the 2009 review),⁵⁶ the data through 2011 (as shown in Figure 13) would suggest that the differences among country types in the application of IMF transparency policy remain little changed.

F. “Legacy” and Stigma

The IMF has yet to refurbish its reputation with some member countries.

70. **The historical relationship between member countries and the Fund is also an important factor influencing the trusted advisor role.** Legacy and stigma issues, based on past experiences with the Fund, presented a barrier for some countries—particularly large emerging economies—in their current engagement with the Fund. The survey of country authorities revealed that the memory of past negative experiences constrained the demand for IMF advice in about 40 percent of the large emerging markets. Concerns about the political stigma associated with working with the IMF mattered even more, adversely affecting the demand for advice in more than half of the large emerging markets.

71. **Legacy and stigma displayed a strong regional dimension as well.** For example, some authorities noted that strong negative sentiment against the Fund, particularly on the part of the public, implied that outreach by the Fund would make it almost impossible for policymakers to follow Fund advice, because being seen to do so would be the political “kiss of death.” Survey evidence showed that these concerns were important for about a third of both Asian and Latin American respondents.⁵⁷ Interviews confirmed the survey results, with the experiences from the Asian and Latin American crises still firmly entrenched in the thinking of senior policymakers today.

VI. TOWARDS A STRONGER PARTNERSHIP WITH MEMBER COUNTRIES: RECOMMENDATIONS

72. **The present time offers a unique window of opportunity to lay the groundwork to make the upswing in trust sustainable in a post-crisis environment.** To do so, the Fund needs to have an institutional and incentive structure suited not only to dealing with member

⁵⁶ The IMF made some revisions to its transparency policy and issued a revised guidance note in 2010 (see IMF, 2010a). The next Review of Transparency Policy is expected to be completed in 2013.

⁵⁷ In contrast, 5 percent or fewer of European and Middle Eastern survey respondents expressed concerns about past negative experiences, although political stigma mattered more, adversely affecting relationships with almost one-fifth and one-fourth of European and Middle Eastern members, respectively. For Africa, results were mixed with respect to legacy and stigma, with non-program countries much more adversely affected than those currently engaged in Fund programs; for example, almost a third of African non-program countries expressed concerns about political stigma compared to only 5 percent of program countries.

countries during crises, but also for periods of relative calm. The true test for the Fund will be in periods of calm, when a trusted advisor role is even more critical for traction and is likely best supported by an intellectually diverse culture and a flexible, open-minded approach to engaging with countries.

73. **The Fund has taken important steps since the onset of the global crisis which have had a positive impact on its role as a trusted advisor.** The Fund must now build on this increased trust, as it is expected to play an unprecedented role—acting as a global risk advisor—in helping secure collective action to identify and respond to risks and vulnerabilities that may threaten the stability of the international monetary system, including those emanating from advanced countries. But, as suggested in this report, additional steps could be taken to strengthen the Fund’s trusted advisor role without undermining its other institutional objectives.

74. **The following recommendations address some of the key shortfalls/issues identified in this evaluation.** Some of them draw on the many examples of Fund best practices that were seen in the course of the evaluation, with the aim of having the Fund emulate these more consistently and broadly in its work. While “trusted advisor” can have somewhat different meanings for different countries, the recommendations should nevertheless move the Fund closer to what most authorities agree should be a trusted advisor role for the institution. Some of the recommendations are aimed at the institution as a whole, requiring action by member countries and Management. Others are aimed more at individual behavior, but might still entail institutional action as regards incentives. These are not intended to be exhaustive, and the IMF Executive Board, Management, and staff may choose other avenues to respond to these challenges. However, the important thing is for the Fund to be aware of these issues and keep them at the fore in efforts to reform the institution.

- ***Enhance the value-added of Article IV consultations for country authorities.*** Consult at an early stage with country authorities on their key areas of interest for upcoming consultations. Share the major policy issues, the preliminary macroeconomic framework, medium-term projections, and preliminary policy lines⁵⁸ with the authorities well before the mission to help facilitate more in-depth discussions.⁵⁹ Foster a more substantive dialogue with country authorities by better explaining the rationale for advice and its relevance to the country. Draw on relevant cross-country experiences to provide examples of best practices for addressing policy challenges faced by the authorities. Engage with local analysts and researchers.

⁵⁸ These are all elements of the mission’s Management-approved Policy Note.

⁵⁹ The often-minimalist approach to providing information to authorities before a mission affords little basis for stimulating in-depth discussions of policy issues during the mission. Sharing more information could help to dispel the perception that missions are primarily aimed at fulfilling only the IMF’s watchdog role.

- ***Strengthen the continuity of the relationship between the Fund and member countries.***⁶⁰ In close consultation with the country authorities, develop a medium-term strategic plan for each country, with a starting point of *asking how the Fund can help*. This strategic plan would be expected to be *actively* used as guidance for subsequent mission teams and would allow Management to monitor continuity as well as progress with key medium-term objectives.⁶¹ Develop incentives for mission chiefs and resident representatives that make their role as trusted advisors an important part of their performance.⁶² Increase the rewards for team work,⁶³ rather than solely at the individual level,⁶⁴ to help ensure a smooth transfer of knowledge when team members change. Enhance the role of the Fund as a sounding board if the authorities so desire, providing more time and modalities for informal discussions. Promote an ongoing dialogue and a close working relationship between mission teams and the respective Executive Directors’ offices, so these offices can be a true bridge for communication and understanding between country authorities and Fund staff.
- ***Incorporate early and openly the views of all countries—particularly those that stand to be most affected by changes in the Fund’s policy stance—during the preparation of major policy papers on which analytical debate is still ongoing.*** Consult early with Executive Directors’ offices on emerging policy frameworks to exchange views and keep them in the loop, so as to facilitate their communication with their authorities.
- ***Reduce unnecessary disclosure concerns*** that may inhibit authorities from using the Fund as a true sounding board for informal advice at an early stage when formulating their policies. To reduce these concerns would require clarifying the intent of what one may call the Fund’s Critical Disclosure Principle. Ensure that both staff and country authorities understand what must be reported (and to whom)—such as a country’s

⁶⁰ The IMF has recently announced reforms that imply that country assignments would be expected to last three years on average.

⁶¹ The plan would be expected to evolve flexibly as domestic or external conditions changed.

⁶² For resident representatives, move forward with the recommendations of the Working Group on Increasing the Effectiveness of Staff in the Field, particularly on better advance planning, raising the bar of qualifications, and strengthening training and preparation. Adopt similar approaches for mission chiefs.

⁶³ Effective team work would include forward-looking planning and ensuring sufficient overlap between outgoing and incoming team members.

⁶⁴ This might imply rethinking the “zero-sum game” approach embedded in the current performance rating system, which puts strict limits on top ratings. The practical implication is that one teammate rated as “outstanding” makes it far less likely that other teammates could also receive high ratings, even if the overall teamwork was of top quality. This undermines teamwork.

policy plans and decisions—and what can be kept off-the-record (e.g., discussions on hypothetical courses of action).

- ***Work closely with country authorities to design a customized outreach strategy*** for mission chiefs and resident representatives that is most suited to gaining traction, given country specifics.
- ***Implement the Fund’s transparency policy in a uniform and fair manner.*** Strictly adhere to the guidelines on transparency for all countries—large and small, systemic and non-systemic—and have a clear line of accountability for deletions and corrections in staff reports and other documents.

75. **Reversing the lingering adverse effects of legacy and stigma in an important share of member countries is, undoubtedly, a challenge for the Fund, with no quick or easy solution.** It can only be achieved over time through appropriately addressing the Fund’s governance deficiencies and through consistent, rigorous efforts by the Fund to be evenhanded, open-minded, proactive in tailoring advice to countries’ needs, and clear on the role of transparency versus confidentiality.

76. **Admittedly, the global crisis was a wake-up call for the Fund.** The crisis provided the basis for some critical lessons learned and a wide-ranging set of early initiatives aimed at strengthening surveillance and risk assessments. The Fund is now pursuing further reforms, largely in response to findings from its 2010 Staff Survey, the IEO’s evaluation on *IMF Performance in the Run-Up to the Financial and Economic Crisis* (IEO, 2011a), and the 2011 TSR (IMF, 2011g). Many of these most recent reform efforts explicitly recognize some of the key findings in this evaluation and, therefore, provide an opportunity for the Fund to address these issues and strengthen the Fund’s role as a trusted advisor.⁶⁵

77. **But it is still too early to judge whether these initiatives will change the institution’s incentives and culture.** Genuine strategic reform is very challenging and requires the full ownership of the membership, Management, and staff. Lasting change will require continuous, close monitoring and accountability over a lengthy period to ensure that it has taken root in the culture of the institution.

⁶⁵ Annex 5 provides an overview of the most relevant initiatives. See also *Fifth Periodic Monitoring Report on the Status of Implementation Plans in Response to Board-Endorsed IEO Recommendations* (SM/12/248, 9/25/12), which discusses progress on implementing the Board-endorsed recommendations from the *IMC*.

Annex 1. 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

¹ The 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.

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, 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 2. 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 1 presents the geographical distribution (based on area department) of countries for which authorities were interviewed.¹ Table 2 presents the same sample organized by country income group. Finally, Table 3 presents the sample classified by program status.

Table 1. Country Authorities Interviewed by Area Department

	Number of countries	Number of interviews
AFR	20	83
APD	9	102
EUR	15	128
MCD	3	13
WHD	10	56
Total	57	382

Table 2. Country Authorities Interviewed by Income Group

	Number of countries	Number of interviews
Advanced Economies	14	100
Emerging Market Economies	24	198
Low-Income Countries	19	84
Total	57	382

Table 3. Country Authorities Interviewed by Program Status²

	Number of countries	Number of interviews
Program	23	152
Surveillance	34	230
Total	57	382

¹ 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.

² As per OBP's time reporting system classification (as of February 1, 2012). Regional entities are considered to be in the surveillance group.

Annex 3. Summary of IEO Survey Response Rates¹

The IEO sought the views of three separate sets of stakeholders with regards 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 (MCs) and resident representatives (RRs). Three separate surveys were prepared by the IEO team and administered by NORC at the University of Chicago.

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 1 provides a breakdown of the responses based on country classification.

Table 1. Number of Economies Submitting At Least One Answer to the Authorities' Survey

Group	Countries surveyed	Number of countries with at least one response	Response rate
Large advanced	7	7	100%
Other advanced	27	24	89%
Large emerging	19	16	84%
Other emerging	66	48	73%
Low income	71	42	59%
Total	190	137	72%

¹ For a more detailed description of the surveys and survey methodology, together with the full set of data from the three surveys, see Jerome Prieur, "Survey Evidence," Chapter V in *Background Studies for the Role of the IMF as Trusted Advisor* (2012).

² Somalia 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: Aruba, 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).

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 2).

Table 2. Number of Economies Submitting At Least One Answer to the Authorities' Survey, by Area Department

Group	Countries surveyed	Number of countries with at least one response	Response rate
AFR	44	27	61%
APD	35	24	69%
EUR	46	40	87%
MCD	31	22	71%
WHD	34	24	71%
Total	190	137	72%

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.

Annex 4. What Constitutes a Trusted Advisor? Perceptions from Key Stakeholders

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 policy-making, 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 tradeoffs 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, TA, 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 team 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 (non-disclosure 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 evenhandedness 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 RRs 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 RR 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 (HQ). The RR 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 RR also needs to be kept abreast of the current thinking at HQ 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 RR 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 HQ. In developing the relationship with the authorities it must be clear that the RR's allegiance is to the Fund. At the same time, the RR 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 RR should also assist the authorities by bringing to the attention of the country team and technical assistant advisors considerations that are not easily grasped from reading the press or analysts' reports. On the other hand, the RR 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 RR to present and explain the Fund's stance on policy issues.

Annex 5. New IMF Initiatives That Could Strengthen the Fund’s Trusted Advisor Role

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: see below
- Leadership development: develops 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.

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.”

¹ This 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.

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, and
- 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.

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