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A Comparative Study on Relationship Management

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Abstract

This study contributes to the evaluation of IMF Interactions with Member Countries by examining aspects of relationship management across a sample of other institutions: central banks, which devote considerable time and effort to information gathering and external communication; private service providers that may face tradeoffs between their regulatory and advisory roles; and multilateral institutions. It describes policies and operational procedures that contribute to effective relationship management, including consultation, outreach, strategic thinking, and feedback mechanisms.

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I. Scope of the Study

1. **This study contributes to the evaluation of IMF Interactions with Member Countries by providing a discussion of aspects of relationship management across a sample of other institutions.** The comparator institutions were selected on the basis of features they share with the Fund, but mindful of their differences in mandates and operations. By broadening the sample to include organizations in the private and public sectors and placing the focus on activities rather than objectives, a better picture of the variety of experience in managing interaction emerges. The study thus starts by looking at examples of central banks which devote considerable time and effort to information gathering and external communication and subsequently turns to private service providers that may face tradeoffs between their regulatory and advisory roles. The final section is devoted to multilateral institutions, the more natural peer group for the IMF, focusing on policies and operational procedures which contribute to effective relationship management, including consultation, outreach, strategic thinking, and feedback mechanisms.

II. Public Sector

2. **The comparative study draws some lessons in relationship management in the public sector from the experience of two central banks.** The key aspects of relations management by central banks include their interaction with members of the public in the formulation and implementation of policy, and the administration of counterparty relations in their conduct of market operations. While an analysis of the Bank of England's agency network provides valuable insight into the first, the discussion of the foreign exchange counterparty relations of the Federal Reserve Bank of New York (FRBNY) is of relevance to the second.

3. **The first is the Bank of England and its interaction with the public.** Interactions through its regional agency network are relevant to the IMF insofar as they can be analyzed from a strategic angle in which consultation and outreach activities are ultimately of greatest benefit to the organization itself. In gathering intelligence on inflation expectations from the public and disseminating information on the Bank's outlook, regional agencies are instrumental in maintaining an open line of two-way communication between the Bank and the economy at large. The dynamic outcome of this repeated interaction with members of the public contributes over time to greater effectiveness in monetary policy. To the extent that the Bank's reputation and credibility increase in line with public knowledge and understanding of the policy process, this relationship will eventually help anchor household expectations around the inflation target.

4. **The second is the interaction of the FRBNY with market participants.** This is also relevant to the IMF experience insofar as it can be characterized as a mutually beneficial relationship: market participants provide information about market developments as part of their role as counterparty for FRBNY transactions. In view of the voluntary nature of

participation (albeit subject to strict eligibility criteria) and the informality of the operating framework (the OTC market guidelines and best practices rather than formal regulations), FRBNY counterparts remain engaged through firm-level incentives. In sponsoring the Foreign Exchange Committee, an independent body composed of representatives of major financial institutions engaged in foreign currency trading in the United States, the FRBNY also provides a setting conducive to the development of best practices and procedures, a vehicle for consulting and updating markets on developments, and a contact point for similar committees and industry associations worldwide.

Bank of England

5. **One of the principal channels through which the Bank of England interacts with the general public and local businesses is its regional agency network.** Twelve offices across the country are entrusted with the dual responsibility of compiling information on local economic conditions as well as conveying information on the role of the Bank, its policies and its outlook for the economy. The discussions may focus on firm turnover, output, costs and pricing, as well as forward looking issues such as expected investment, employment or capacity constraints. Local insight is fairly balanced by virtue of its cross-section in terms of operating sector, location and company size and it is complemented by discussions of a broader nature with counterparts such as chambers of commerce, employers' federations, regional development agencies, trade unions and universities. The regional agencies also play a key role within the broader initiatives of the Bank and the Monetary Policy Committee (MPC) to engage with professional economists, educate the public and communicate with financial markets.[1]

6. **Agents' information gathering activities are extensive; they absorb an important part of financial resources devoted to the formulation of monetary policy.** In a recent Parliamentary committee hearing, the Chair of the Bank's Remuneration Committee reported that 25 percent of the resources supporting monetary policy are devoted to the compilation of regional information, compared with 7 and 12 percent, respectively, at the Bank of Canada and the Reserve Bank of Australia.[2] The Governor, members of the MPC and the Court of Directors also visit the regions on a regular basis. Before taking a decision on interest rates, the MPC will process intelligence drawn from the agencies' meetings with the business community (around 700 per month, or 60 per agency, drawn from a pool of 8,000 contacts)

[1] In her April 2007 testimony to the Treasury Committee, Kate Barker (an external MPC member) explains that responses from Bank surveys on public understanding are disappointing because there was little improvement since the MPC was established but she nonetheless acknowledges the value of outreach by regional agents stating they "are good speakers on [behalf of the MPC] and they are very good about helping to spread the message more widely." See Section 6 of the main report in House of Commons Treasury (2007) for a discussion of communication and transparency for the purpose of anchoring inflationary expectations.

[2] See House of Commons Treasury (2007) for a transcript of David Potter's testimony of May 8, 2007.

and invite agents to make a presentation on the regional outlook and any other topic of special interest. The information compiled by the agents is provided back to the public in aggregate terms through the monthly *Agents' Summary of Business Conditions* (distilled from the regions' *Monthly Economic Reports*). The *Summary* is customarily referred to in the MPC minutes, and both sets of documents are publicly available shortly after the meetings.[3]

7. **Apart from providing access to timely data on local conditions, interactions through regional agencies support the Bank's overall institutional accountability.** In discussing the Agents' Scores, or quantitative judgments published as an annex to the *Monthly Economic Reports*, Ellis and Pike (2005) highlight three main advantages: the ability to quantify information gathered by agencies in a systematic way; the coverage of gaps in existing official statistics provided by the Office for National Statistics (ONS); and their timeliness. Indeed, the Scores are available to the MPC before most official figures and business surveys are issued, and their validity is upheld by high correlations with subsequently published ONS data. The Bank's adoption of the current structure of decision-making, with data from the regional agencies feeding into the decision making process, coincides with its independence from the Treasury in setting interest rates. Its outreach to business representatives in the regions strengthens the policy deliberations of a committee framework that relies on regular contributions of outside advisors and includes external experts in its membership. Moreover, the presence of the Bank at a regional level serves to offset criticisms of a 'democratic deficit' commonly directed towards autonomous central banks, and the feedback from the public,[4] and from industry and trade union representatives represents a strong endorsement of the contribution of regional agents and MPC members.[5]

8. **The Bank's interactions through its agencies are subject to ongoing quality control within the framework of checks and balances over monetary policy.** The governance structure is such that the 16 non-executive members of the Bank's Court of Directors are grouped within an oversight body (referred to as NedCo) entrusted with the supervision of procedures followed by the MPC. NedCo determines whether the MPC has collected all the information that is necessary for the formulation of monetary policy,

[3] The minutes are available on the Wednesday of the second week after the MPC meetings take place and may be accessed online at http://www.bankofengland.co.uk/publications/minutes/mpc/pdf/2008/index.htm . Agents' summaries of business conditions can be downloaded from http://www.bankofengland.co.uk/publications/agentssummary/index.htm#scores

[4] See for instance Reed, Miller, and Fairlamb (2004).

[5] In his May 2007 testimony to the Treasury Committee the Director General of the Confederation of British Industry argues against the suggestion that the MPC should be a representative body by referring to the work of the regional agents. This is also acknowledged by the General Secretary of the Trades Union Congress, who adds, referring to the members of the MPC: "They certainly would not want to be thought of as sitting in an ivory tower, simply looking at the numbers every month and reaching their decisions. I think there is a sense that they want to be closely in touch with a lot of people around the economy and bring that feel into their deliberations too." See Richard Lambert and Brendan Garber in House of Commons Treasury (2007).

including regional and sectoral data.[6] Members of the Court are invited to attend the pre-MPC meetings where regional agents deliver their reports, and have regular opportunities throughout the year to discuss whether the resources available to the Committee are commensurate with its policy-making requirements. Every year, the Court's Audit Committee also calls upon the MPC members, soliciting their views on the agencies and on regional and country information. The Bank is also held accountable for the work of the regional agencies through public scrutiny (since the *Summary of Business Conditions* is disclosed with the MPC minutes) and parliamentary oversight (principally through the hearings of the Treasury Select Committee on the workings of the MPC and the Governor's presentation of the *Inflation Report*).

Federal Reserve Bank of New York

9. **The FRBNY deliberately maintains contacts with counterparties in order to effect transactions and also relies on these contacts to collect information about the foreign exchange market and financial markets more broadly.** Central bank activities in the foreign exchange markets fall within two broad categories: conduct of exchange operations on behalf of U.S. monetary authorities[7] and execution of transactions on behalf of foreign central banks, U.S. agencies, and multilateral development organizations. Since the early 1990s, direct official intervention in the US has largely been of modest amounts. These transactions are disclosed ex post and usually accompanied by high-level statements by Treasury officials on exchange rate trends. Foreign exchange business transactions for government agencies only represent a fraction of the total, since they are largely carried out directly with commercial banks. Yet, the foreign exchange desk of the FRBNY continues to interact with market participants on a regular basis, maintaining a presence in the market which enables it to remain fully informed of foreign exchange developments.

10. **FRBNY relationships with counterparties are based on specific business criteria for counterparts' eligibility.** The operating practices for the administration of foreign exchange counterparty relationships (last updated in 2003) are set out in the FRBNY website for all interested parties to examine. The FRBNY demands strict application of the eligibility and performance criteria it has set out, and reserves its discretion over the number of counterparties needed at any one time, depending on its business constraints. For a financial institution to become a foreign exchange counterparty, it must provide information that

[6] This duty is established in Section 16 of the Bank of England Act 1998, available online at http://www.bankofengland.co.uk/about/legislation/1998act.pdf. Although the composition of the Court suggests that it is well placed to have access to sectoral and regional data of its own, the division of responsibilities is one where the Court will not second guess MPC decisions, but simply oversee the procedures it follows. In this way, the independence of decision-making is preserved, with an additional layer of accountability.

[7] The relative effectiveness of different types of intervention, and the importance of the FRBNY's informational advantage over private market participants are discussed further in Baillie, Humpage and Osterberg (2000).

allows the FRBNY to determine that it complies with the established minimum creditworthiness standards. Counterparties are to make markets, efficiently and professionally execute trades at competitive prices, and maintain best practice settlement procedures with accurate and timely confirmation, matching and settlement. Regarding the provision of information, foreign exchange counterparties are expected to "provide the trading desk with market information and analysis that is useful to the U.S. monetary authorities and is based upon a meaningful presence in the markets in which the FRBNY has an interest."[8] In addition, "counterparties are expected to maintain a dialogue with the trading desk and to provide access to the expertise within their firms."

11. **The value of engaging foreign exchange counterparties in a regular dialogue goes beyond data gathering.** The information gained through these relationships helps keep monetary authorities informed of developments in the markets and thus the context for their operations. This may include the opportunity to gauge the effect of intervention based on reactions from counterparties and their assessment of the market's reaction.

12. **Maintaining the relationship with counterparties may be assisted by reputational incentives.** Although lists of counterparties are not published, some have observed that the perception of this relationship with the FRBNY, suggested in part by membership on the Foreign Exchange Committee, may have positive reputational effects.[9] Similarly, there could be reputational costs incurred by financial institutions if their counterparty relationship were to be suspended or discontinued by the FRBNY. Indeed, the FRBNY keeps these relationships under regular review, including assessing firms' market-making performance and evaluating the availability and quality of individual dealers' commentary, research and access to in-house expertise. This feedback can be formally communicated to the management of the financial institution, with a further evaluation carried out within six months if the FRBNY judges the dealer's performance to be unsatisfactory.

13. **More broadly, the FRBNY maintains relationships with market participants through mechanisms including the Foreign Exchange Committee.** This body provides a setting for the FRBNY to interact with financial institutions developing and disseminating trading guidelines and best practices, and supporting internal guidelines and procedures for risk management. In addition to reputational advantage a financial institution derives from its membership of the Foreign Exchange Committee,[10] the market as a whole thus benefits from

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[8] Operating Policy—Administration of Relationships with Foreign Exchange Counterparties, February 11, 2003, http://www.newyorkfed.org/markets/fxop_policies.html

[9] Baillie, Humpage and Osterberg (2000)

[10] The prestige associated with participation is prominently discussed in the Committee's homepage, both in general terms, "the Foreign Exchange Committee [...] has been providing guidance and leadership to the global FX market since its founding in 1978" and in the specific membership "the Foreign Exchange Committee is a

(continued…)

focused efforts to improve efficiency, reduce settlement risk, and increase legal certainty of foreign exchange contracts.

III. Private Sector

14. **The experience of the private sector offers general insights into effective relations management, (for example, by underscoring the importance of addressing data requirements), as well as insights of particular relevance to IMF interactions.** A client-centric business strategy in the private sector is one that maximizes profit as well as customer satisfaction to ensure that the level of engagement (or customer loyalty) is maintained at its potential. Although a cursory review of the literature on the private sector does not reveal any academic consensus on what constitutes best practice, experience in areas ranging from business strategy, change management, strategic account management and conflict management help to draw out examples of good practices.[11] For the purposes of this study, some interesting insights may be derived from the application of customer relationship management and business strategy techniques. The manner in which private corporations have sought to design information systems for Customer Relationship Management (CRM) suggests that there are certain data requirements for effective relations management.[12] This is likely to apply to any organization dealing with clients, regardless of its focus or sector of activity. A key issue that may be retained from a quick reading of the CRM literature for the purpose of this study is how technology supports improved continuity and responsiveness. Three types of data requirements are entailed, the first of which is backward looking (e.g., a log of individual requests for information, an accessible history of complaints and how they are handled). Forward looking data would then aggregate the information collected and attempt to translate it into workable plans for ensuring continuity and responsiveness, based on strategic thinking on the main counterparts and delivery channels. Ongoing data is then required to support this strategic thinking, drawing lessons from practice and providing metrics for quality monitoring. Public information on whether, and how, data on customer interactions are maintained, as well as regular mechanisms for obtaining, and acting upon feedback, are advantageous for the effectiveness of interactions since customer satisfaction is both fact and perception driven. To be of direct relevance to the purpose and operations of IMF interactions with member countries, rather than offer more general insights into customer relationship matters, the next section turns to the experience of auditors and

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select group of individuals who have achieved stature within both their own institutions and the marketplace”.. For more details on ongoing projects and publications see http://www.newyorkfed.org/FXC/

[11] One such attempt was carried out by K. Watson in “Five Good Practices in Managing Client Relationships,” a background study for this evaluation (BP/09/11). The five good practices are the following: (1) develop a clear understanding of the relationships to be managed; (2) have a clear and effective strategy for managing each important relationship; (3) assign clear responsibility, authority and accountability for managing the relationship; (4) involve the client/partner (trust, alignment, ownership); (5) invest in the relationship.

[12] See for instance Gordon (2002), or Rigby and Ledingham (2004) on CRM practices.

management consultants. In particular, it examines how they deal with tensions that arise from the combination of regulatory and advisory roles, how and when they obtain feedback from their clients and what impact staff incentives may have on their engagement with clients.

The case of an audit firm

15. **Audit work aims to provide an evenhanded, independent and candid assessment within a relationship based on trust and integrity.** A number of parallels may be drawn between the mandatory aspects of IMF interactions with member countries in the context of surveillance and the scope of work carried out by an audit firm. One of these is the requirement for an evenhanded, independent and candid assessment, within a relationship based on trust, integrity and the absence of conflict of interest. Standard setters have engaged in extensive work on safeguards against external auditor self-interest and self-review, providing a framework for identifying the extent of auditor independence.[13] Various codes of conduct and guidelines for external audit best practice are available, with good practice also extending across emerging markets, although the material is more widely documented in advanced economies.[14] In an external review of external audit in the UK, due to the existence of equally high standards for internal audit of government departments or agencies, it was suggested that to make the most of external audit, the 'watchdog' role should be combined with that of an adviser, provided independence is not undermined.[15] The information in this section is partly drawn from a discussion with a senior partner in a leading provider of audit, tax and advisory services. Although the clients of this audit firm are drawn from the corporate, government and not-for-profit sectors, the conversation centered on the provision of audit and advisory services for federal agencies and government clients. Some of the activities of relevance to Fund operations are knowledge sharing initiatives, both across borders and across professional disciplines, whereby the firm endeavors to add value to its interactions with clients by compiling and disseminating industry, market and regulatory information to keep them abreast of developments. Client surveys also provide a valuable instrument for conveying to their clients feedback on how their peers are dealing with a broad range of issues that are also relevant to them.

16. **A source of tension in the interactions of audit firms with their clients stems from their dual role as confidential advisor and ruthless truth teller.** The output of an external audit is an audit opinion attached to the financial statements and a management

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[13] See for instance IOSCO (2002).

[14] The U.S. SEC rules on auditor independence adopted further to the enactment of Sarbanes-Oxley are available at http://www.sec.gov/rules/final/33-7919.htm.

[15] See the 2002 Lord Sharman report entitled "Holding to Account" and the U.K. government's response available at http://www.hm-treasury.gov.uk/d/CM5456_Sharmans1.pdf.

letter. Since the external auditor is acting both for the company's owners and management, it engages in a dual role as confidential advisor and ruthless truth teller. The way in which the audit firm reported that it limited tensions arising from this duality, is, as a rule, to ensure that when an audit team engages with a non-audit client, it will share its findings stopping short of giving precise recommendations on how to address a specific issue. Considering that the firm may subsequently be called upon to assess the integrity of the internal control environment in the audit function,[16] the main concern is that of maintaining objectivity in the audit exercise. As a result of various corporate scandals implicating audit firms, this firm reported that it operated more as a ruthless truth teller than before, limiting the role of confidential advisor to their non-audit client base.

17. **Specific guidelines are designed to ensure that the audit firm minimizes trade-offs between its role as watchdog and its service provider activities.** The way in which the firm determines its scope of work, in relation to the audit of federal departments and agencies in the US, is based on the procurement process and ongoing supervision by the Inspector General. If the scope of the work is broadened to include non-audit work such as advisory services, the prior agreement of the Treasury department is required. This is subject to three main limitations, namely that the work does not entail any management decisions; nor indirectly result in the auditing of the firm's own work; nor provide any assistance in the compilation of financial statements. If the firm audits a client and learns of non-audit work that could be performed, the Inspector General is also involved in the process to ensure that there is no conflict of interest with the current work assignment. This is backed by data mechanisms within the firm that enable client teams to keep track of all the work that is under engagement across the client base and obtain an independence sign off before formulating a proposal for a new assignment.

18. **A key element of private sector entities that engage in strategic thinking on customer engagement is a formal feedback mechanism.** The audit firm reported using such mechanisms, moving away from a paper based questionnaires sent to auditees once every two or three years, to a web-based set of questions which can be completed in five to ten minutes, including both radio buttons and space for narrative. In both cases, the firm will seek feedback on how well it did, how it could do better, whether the work was timely, and whether the auditee was receptive to the team's thoughts. The survey is, in line with best practice, administered by an independent third party. Moreover, the presentation of the audit results and the discussion of feedback on how well the audit was performed are held on separate occasions to ensure objectivity in the process. In response to feedback thus obtained, the firm makes it clear that it is rare for the contents of a report to change, although the final

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[16] For example, in reviewing internal controls over procurement, the team would document, analyze and test the internal procedures without coming to any precise conclusion on how many additional staff resources are required in this area.

meeting with the client will go over the findings and provide the client a chance to correct any factual errors.

19. **Quality control and regular post audit reviews place interactions in a multi-year perspective and allow the firm to learn from its mistakes.** In terms of style of interactions, the audit firm reports that every auditee wants to be fairly treated, and both parties wish to avoid a situation where a rogue auditor would require an unforeseen rotation in the audit team, as this would severely undermine the trust on which the relationship is based. Although clients may seek the replacement of a partner that is perceived as being too tough, the audit firm would rarely accommodate such a request, while acknowledging that junior partners are more likely to be aggressive than their more seasoned colleagues. There is a natural incentive for junior partners to find and report problems to their management (in spite of the requirement of fair treatment for clients) which is offset by the conduct of post audit reviews a year or two later. This combines quality control with the placement of the interactions with clients in a dynamic multiyear perspective enabling the audit firm to draw lessons from its experience with the auditee.

The case of a management consultancy

20. **Management consultancies are attentive to issues of style, communication and the tone of their dialogue in interactions with client firms.** The information in this section is partly drawn from a discussion with a senior partner in a leading management consultancy. Some of the questions that were raised included the impact of organizational structure and incentives, the dissemination of best practice across the firm and feedback mechanisms to assess the extent to which the interaction met or exceeded the client's expectations. One of the key issues that arose in the discussion was the importance of establishing a strategy for building multi-year relationships with clients for a variety of projects within the overall objective of achieving substantial and sustained improvement in performance. In the conduct of interactions it may be tempting to soften the message conveyed to clients in an attempt to secure their goodwill for future engagement, at the risk of underperforming in the current project. From this tension stems an important challenge of style and communication with particular attention being devoted to the tone of the dialogue. In the firm’s own terminology, the approach is to convey a message of opportunity at all times, and a tendency to accentuate positive aspects, building on the foundation of the clients’ own work and achievements.

21. **Mechanisms for disseminating best practice across teams and staff incentives aligned with teamwork are key elements of their organizational structure.**
Client teams are backed by functional practices and industry sector groups whose primary purpose is to ensure that all the professionals in the firm are up to speed with the latest thinking on specific areas of expertise and that they understand how to apply this knowledge to their interactions with clients. Knowledge management initiatives include the distillation and dissemination of lessons learned from client engagement as soon as a project is completed. The spirit of team work and the value of interpersonal skills are extolled in

publicly available material of most management consultancy firms, one of which also includes specific incentives to encourage cooperative behavior, such as regional or global competitions. The organizational culture and mission of the firm are instilled together in new recruits, and backed by incentives for sharing and cooperation drawn from performance evaluation and knowledge management techniques.

22. **The consultancy firm relies heavily on direct feedback from so-called 'client impact reviews' as well as ongoing evaluations of their interaction with clients.** Beyond the obvious way of evaluating performance, namely continued client engagement, since the relationship would not be maintained if it did not add value, the firm also obtains direct feedback from client impact reviews. These are carried out by an independent partner who interviews the client's senior management to evaluate interactions, and subsequently provides feedback to the client team within the firm. Reviews are typically carried out once every two years, or whenever it is perceived that an issue has arisen and needs to be addressed, but none of them is directly related to the performance review cycle. It is also standard practice for the teams and partners to have an evaluation conversation with their clients on a regular basis and considerable attention is devoted to the metrics used to identify a robust research or survey tool that does not alter the nature of relations with clients. Although additional quantitative metrics may be applied in consultation with the client on a purely voluntary basis, most of the insight that feeds into the evaluation of interactions is based on the qualitative probing approach of the client impact reviews. Measures such as shareholder value or outcomes are unreliable in this respect, partly because of uncertain correlation, and partly because they could create perverse incentives to focus on the short term rather than the longer term impact. The firm reports that it relies extensively on the input of partners who are able to gauge first hand whether interactions are going well or not, acknowledging the subjective nature of such an assessment by implicitly rewarding individuals who come forward with information on their diminishing client relationship. Various training programs, such as the counseling master class, are designed to help build relations with senior clients and the firm relies heavily on a mentorship approach to strengthen skills in this area.

IV. MULTILATERAL INSTITUTIONS

23. **Multilateral institutions are comparators in that they face similar challenges managing interactions with countries that are both shareholders and clients.** At face value it would seem that the simplest way to devise a peer group for a comparative analysis of how organizations similar to the IMF manage their relations with members would be a sample of multilateral institutions such as the BIS, the OECD and World Bank. These organizations face similar challenges in managing interactions with countries that are both members of their governing bodies and clients of the services they provide. In spite of their apparent similarity, this peer group still presents significant differences in objectives, structure and instruments. This section highlights aspects of multilateral institutions' policies and operational procedures which contribute to effective relationship management, including

regional representation, outreach and consultation, strategic thinking, feedback mechanisms and quality control.

Bank for International Settlements

24. **Interactions between the BIS and it members benefit from regular consultation with members and representation in several regions to establish relationships based on trust.** In the conduct of its dual purpose to foster international monetary and financial cooperation and serve as a bank for central banks,[17] the BIS appears to value similar modalities and channels as the IMF including regular consultation of its members and representation in several regions. The main difference lies in the nature of its mandate, membership structure and operating procedures. According to Borio and Toniolo (2006), relationships based on trust allow the organization to capitalize on its comparative advantage of speedy execution.[18] Kahler (2006) adds the dual notion of resilience and adaptability in characterizing the experience of the BIS engagement with members. He stresses the importance of a combination of expertise and networking, backed by institutional features such as "informality, an ability to reach self-enforcing bargains efficiently, an absence of bureaucratic inertia, confidentiality, and reliance on soft law."[19]

25. **The BIS Secretariat is a forum for frank, open and confidential discussions between central banks, with a stated preference for discretion and informality.** The incidence of tensions in its relationship with members is therefore likely to be less than in the conduct of IMF mandatory or multilateral activities. The like-mindedness of BIS members also contributes to smoother interactions and its technical identity shields it from political pressure.[20] The deliberations of the BIS also fall short of providing the more controversial

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[17] Annual reports of the BIS, in the section entitled "organization and governance of the Bank" offer a glimpse of the activities pursued over the course of the year and the manner in which they fulfill its mandate. For instance, BIS (2008) explains that: "The BIS fulfils its mandate by acting as: a forum to promote discussion and facilitate decision-making among central banks and to support dialogue with other authorities that have responsibility for promoting financial stability; a centre for research on policy issues confronting central banks and financial system supervisory authorities; a prime counterparty for central banks in their financial transactions; and an agent or trustee in connection with international financial operations." The BIS also hosts the secretariats of a number of committees and organizations that seek to promote financial stability.

[18] "Through regular meetings at all levels in a familiar setting, it creates an environment particularly well suited to the development of a mutual understanding, to learning from each other's experience, to building consensus and to breeding close and long-lasting personal relationships." Borio and Toniolo (2006), p. 26.

[19] These comments are included in the proceedings of the 4th Annual Research Conference on the occasion of the 75th anniversary of the BIS. See Borio and Toniolo (2006).

[20] The election of three additional members to the Board of Directors (representing the central banks of China and Mexico and the ECB) in 2007 was reportedly a smooth and swift process. It was intended to better align the diversity in BIS shareholders with diversity in its governance. This was followed by a review of the structure, mandate and composition of existing BIS Board committees and the establishment of additional bodies to ensure a broader participation of members in the preparation of decisions. A few months later, the Consultative

(continued…)

policy advice at a national level, representing the Bank's views on the global economy rather than a particular constituency. Its size may explain an approach based on serving members by leveraging, rather than replicating, their expertise. Indeed, only one-third of the professional staff are engaged in the Monetary and Economic Department, and their tasks include the coordination of the committee work carried out by representatives of the central banks apart from their own research activities.

26. **The BIS is a small institution, in terms of representation,[21] but a very active convening body, including beyond its membership.** Small institutions may face trade-offs between inclusiveness and effectiveness in an attempt to reach out to more countries while remaining a small enough place to be nimble in discussions and decision-making. A reading of the BIS governance structure and operating procedures suggests that such trade-offs are addressed by the intensity of interactions hosted by the BIS and extensive outreach activities. While the General Meeting is limited to the 55 members, over a hundred central banks take part in the Annual General Meeting together with a number of delegates from international institutions. Member governors also convene for a series of bi-monthly meetings to discuss current developments and outlook, exchanging views and experiences on issues of common relevance. This also provides them with an opportunity to review and provide feedback on the work of Basel-based committees in which they may not be directly involved. Their revealed preferences can be taken as a proxy for the value they place on interacting with the BIS,[22] although this is partly due to strong incentives for engagement stemming from networking opportunities, most notably in the deliberations of the technical working groups, and access to relevant information sources. For instance, the BIS convenes informal discussions on a regular basis with representatives of supervisory agencies, financial authorities and the private financial sector in the knowledge that governors rely on such a dialogue in the analysis of financial stability issues (BIS, 2008).

27. **Through extensive outreach activities, the BIS disseminates information on its activities, enhancing its regional relevance and drawing direct feedback from members.** Bi-monthly meetings are held outside headquarters on a regular basis,[23] facilitating outreach

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Council for the Americas was created, mirroring the Asian Consultative Council created in 2001. See BIS (2007).

[21] With a head office in Basel, and two representative offices, in Hong Kong SAR and Mexico, the Bank represents 55 member countries and employs 570 staff (from 53 countries).

[22] "For 75 years they made time in their busy schedules for regular and frequent visits to Basel; they also placed their senior staff in the various committees based at the BIS and insisted on assiduous participation. So convinced were the central bankers of the usefulness of their international institution that they went a long way towards preserving its viability and very existence, at times against the indifference or even the opposition of their own governments." Borio and Toniolo (2006), p. 26.

[23] The African Governors meeting is a regular occurrence although it was initially set up on an ad hoc basis. For instance in the context of the November 2007 meetings hosted by the RBSA in Cape Town, a roundtable

(continued…)

to non-member central banks and interested parties such as supervisory authorities, financial institutions and academia. Apart from providing a platform for disseminating information on its activities and reaching out to non-members, the presence of the BIS outside of Basel enables it to interact with regional groupings, within which an increasing proportion of its members' discussions are taking place.[24] The American and Asian Consultative Councils, acting as advisory committees to the Board, also support outreach by providing a voice for direct communication on matters of interest to the central bank community in their respective region. The BIS regularly extends the invitation to participate in its regional meetings to non-member central banks, creating an opportunity for seeking feedback on how it can be of relevance. The 2006 initiatives to deepen relationships with strategic partners in Asia, for instance, stemmed from an intensive consultation process with central banks in the region, both members of the Asian Consultative Council (ACC) and non-members convened to the informal annual Special Governors' Meeting.[25] Another example where proximity and two-way dialogue played a crucial role in BIS interactions with its members is the 2003 launch of the EMEAP ABF1 initiative, with the BIS providing support for public offering of bond funds, acting as its portfolio manager and executing the bulk of purchases through the dealing room of its regional office.

Organisation for Economic Cooperation and Development

28. **Although IMF and OECD surveillance have similarities, interactions with members differ on account of the peer review process.** The Economic Surveys are carried out by the OECD's Economics Department and discussed in a peer review process within the Economic and Development Review Committee.[26] Thygesen in OECD (2008) describes the background to peer reviews and the OECD's evolution from its original members' motivation to better understand spill-over effects from trade, financial and migration linkages to their desire to learn from other countries' experience in the area of structural policies. This comparative framework is the final stage in the OECD process of consensus-building. The

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meeting of African Governors was organized to discuss the region's macroeconomic performance and challenges of financial market development.

[24] For instance, the regional offices entertain close links with CEMLA (the Centre for Latin American Monetary Studies) and EMEAP (the Executives' Meeting of East Asia-Pacific Central Banks and Monetary Authorities).

[25] "The ACC gave Asian shareholding central banks the opportunity to guide the BIS Board and Management in their efforts to strengthen the Bank's relationship with them. These efforts include the widening of banking services, enhancement of the work of the Financial Stability Institute, and a three-year Asian research programme directed at improving monetary policy and operations, developing money and capital markets, and promoting financial stability and prudential policy". BIS (2007). The BIS web-site states that the dual objective of the multi-year research program is to "enhance BIS understanding of policy issues important to central banks and supervisors in the Asia-Pacific region" and "to deepen the Bank's understanding of key monetary and financial issues in the region." See http://www.bis.org/publ/arpdf/ar2007e9.htm

[26] For a description of the Economic Surveys and the EDRC see http://www.oecd.org/document/51/0,3343,en_2649_34111_34627763_1_1_1_1,00.html

first stage is "a shared analysis of the issues and mutual understanding of other countries' positions," the second is "formulating a common market-based response to the issues, often in the form of guidelines, principles or recommendations," and the third is "monitoring the follow-up given by each country in a 'peer review' process." OECD (2008) compares OECD peer reviews with IMF Board discussions and describes differences in focus, in methods of analysis and consequently, in the nature of interactions. The IMF process is characterized as a higher frequency exercise with a shorter-term focus and notes that the country is not necessarily expected to endorse the policy recommendations of a surveillance report, nor does it have much latitude to change or remove topics from a Staff Report. The OECD, on the other hand, engages in a much more intensive exchange with country authorities, both in missions and at headquarters when finalizing its Economic Surveys. It engages in a full day of discussions with the authorities joined by officials from other countries who contribute to the debate with their policy experience, after which the Secretariat works with the country subject to peer review over the course of a full day to finalize the document for publication. Thygesen acknowledges that this buy-in may result in a reduction of clarity in issues or key messages in the report. He also suggests that the peer review process only works well if there is a high and matched level of expertise brought by country representatives around the table so that the authorities undergoing the peer review can truly benefit from the discussion. OECD (2007) discusses the prerequisites of value sharing, mutual trust and credibility in the process adding that the peer review is as effective as the "peer pressure" stemming from the reviewer countries, and the willingness of the reviewed country to accept it.[27]

29. **A strategic framework for interactions with member countries of the OECD is based on results-based budgeting and feedback mechanisms.** Among the catalysts for change in multilateral organizations, Bourgon (2009) singles out "clear and present problems such as financial pressures or political indifference or declining influence." In the case of the OECD, a decade of financial pressures from the mid-1990s onwards seems to have encouraged strategic thinking on how best to address members' interests and deliver value for money. Bourgon (2009) explains how this led to the adoption of the Integrated Management Cycle, "a biennial framework that allows member countries to identify medium-term priorities, incorporates results-based budgeting and enables the Secretariat's work to be monitored and evaluated." In the same way as the BIS practiced what it preached by adopting a strategic risk management framework similar to that it recommended for financial institutions, the OECD reflecting the practice of its member countries in terms of results-based budgeting and feedback mechanisms. While acknowledging methodological

[27] There is also an emphasis on collegiality. "The peer review is a discussion among equals, not a hearing by a superior body that will hand down a judgement or punishment. This makes them a more flexible tool; a state may be more willing to accept criticism, and its neighbours to give it, if both sides know it does not commit them to a rigid position or obligatory course of action. Peer reviews are not intended to resolve differences among states, but they may play some of the role of a dispute settlement mechanism, by encouraging open dialogue that can help clarify positions in a non-adversarial setting."

and political weaknesses, Bourgon (2009) highlights the merits of the Program of Work and Budget and the Program Implementation Report in terms of facilitating multi-year planning and resource allocation; holding the Secretariat to account for results; and enabling members to assess the quality and impact of OECD work.

30. **OECD outreach supports its interactions with members by disseminating good practice, drawing implementation lessons and anticipating new and relevant issues.** The OECD derives its strength and effectiveness from three aspects of its operating features: namely, the conduct of evidence-based policy analysis, motivation of change through peer group pressure or soft law, and a convening ability. This section starts by considering the first two strengths in a discussion of the peer review process and turns to the modalities and strategies for outreach in consideration of the third. It then highlights some interesting reforms in terms of institutional effectiveness and accountability. In its relations with non-members, the OECD reports that it has progressively evolved from a traditional concept of "outreach" to a two-way flow of information providing access to its work and processes.[28] The strategic thinking underlying such outreach is partly driven by the desire to disseminate good practice and learn from implementation across diverse settings, and partly by a need to be ahead of the game and anticipate upcoming issues of relevance to its mission.[29] Beyond interactions with non-members, significant emphasis is also placed on a dialogue with key stakeholders such as international organizations, businesses, labor and civil society. Global relations are managed by the Secretary General within the context of the Strategic Framework adopted by the Council in 2005. The Global Relations Programme consists of Global Forums, Regional Approaches and Country Programmes. Global Forums were the first of such initiatives to enhance the relevance of OECD work by providing a platform for discussing issues of a multilateral nature with non-members.[30] A specific Directorate, the Centre for Co-operation with Non-Members (CCNM), advises the Secretary General in this task and acts as the contact point for non-members. The OECD's Global Relations Programme for 2007–08 refers to interactions with non-members as being "mainstreamed" or integrated into the committees' regular work program. The committees are entrusted with the design of a strategy for integration into their mandate and work program and within the

[28] Interestingly, the voluntary segment of the OECD funding sources is becoming increasingly important relative to members' annual contributions, and accounted for 30 percent of the total budget in 2007–08. The proportion of such contributions within the global relations program, which include fees charged for reports requested by non-members, is much higher, at 72 percent, reflecting the growing demand for OECD services by non-members. See OECD Global Relations Programme 2007–08 online at www.oecd.org/dataoecd/57/5/39109041.pdf

[29] See role of global forum in helping committees identify next generation issues, in a presentation on relations with non-members, online at http://www.oecd.org/dataoecd/14/38/42254202.pdf

[30] Bourgon (2009) explains the role of the Global Forums in discussing issues that "defy solution in individual countries or regions and where the relevance of OECD work is dependent on or can be enhanced by interaction and policy dialogue with a wide range of relevant actors from various regions of the world."

broader global relations strategy of the organization. Non-members are not only invited as observers or participants in the work of the committees, they are also included in the annual Ministerial Council Meeting.[31]

World Bank

31. **The World Bank's approach to interactions with the authorities and other stakeholders has evolved over time.** Vis-à-vis the authorities, the Bank has long dealt with sectoral ministries as well as the Ministry of Finance—with generally the Bank's sectoral operations staff interacting with their sectoral counterparts and the Bank's country operations staff interacting with the Finance team. What has changed over time that is relevant to interactions is the clarity with respect to (i) the Bank's processes for selecting the sectoral and thematic interventions that the Bank will support and (ii) who within the Bank is responsible and accountable for the country relationship, including the management of the processes for the programming of Bank-supported activities. The Bank's country assistance strategy (CAS)[32] was introduced in the early 1990s, and—intervening innovations notwithstanding—remains the prime vehicle for setting out, discussing, and agreeing with the authorities the nature and content of the Bank's program of support. Developed under the leadership of the Bank country director, the CAS plays an important interactions role with the authorities and partners, but also internally with other Bank staff, in disciplining the process whereby the Bank's program is articulated and managed across sectoral units.

32. **Vis-à-vis country stakeholders beyond the authorities, the Bank—like the Fund—was much more closed through the mid-1990s than it is today**. Except for interactions directly related to project development and supervision—including occasional participatory consultation processes for projects in some sectors—and the gathering of data for economic and sectoral analysis, the Bank's confidentiality rules loomed large, preventing the disclosure of most Board documents, including CASs. Indeed, the Bank's first CASs were seen by the country authorities for the first time through their Executive Directors sent prior to Board discussion; Bank policy and practice at the time was that staff did not share drafts with the authorities. Nor were staff—or the authorities—allowed to share them after the Board meeting. These policies were changed in the late 1990s with the adoption of the Bank's new disclosure policy.

[31] The Ministerial Council also invited five countries to start the process of accession negotiations in 2007 (Chile, Estonia, Israel, Russia and Slovenia) and established closer ties with Brazil, China, India, Indonesia, and South Africa through enhanced engagement programs that could lead to membership. Selected countries from regions of strategic interest, including South East Asia, are also under review for possible membership.

[32] The Country Assistance Strategy (CAS) is increasingly referred to as the "Country Partnership Strategy," especially for middle-income countries, classified as emerging economies in the evaluation report.

33. **Other operational policy reforms and organizational changes in the late-1990s also had important implications for the Bank's interactions with member countries.** Key reforms related to the "Strategic Compact" produced greater country focus, renewal of technical skills, and an improvement in operational quality. The increased country focus involved increases in: (i) the number and strategic importance of country directors, who now focused intensively on one country or on a small number of countries; (ii) the centrality of the CAS, process for prioritizing the Bank's program of support for member countries (in consultation with the authorities and partners); and (iii) the resources devoted to decentralization and the Bank's country offices (and their rebranding from resident missions), headed by the country director where possible. The renewal of World Bank technical skills was grounded in new organizational arrangements—Networks—that linked professional staff across the institution (into a "Knowledge Bank"), and were designed to ensure better cross-country learning for embodying in Bank-supported programs and sharing with the authorities and other stakeholders. The improvement in operational quality came from a shift in staff incentives, with the newly created Quality Assurance Group carrying out high-profile, real-time quality assessments that commanded the attention of Bank management, and the Bank's incentive landscape changing virtually overnight. The Bank's results agenda, subsequently developed in 2002–03, built on this approach.

34. **These changes were designed to improve interactions with the authorities by improving both the quality and discipline of the Bank's relationship management and by improving the quality and content of the products and services the Bank provided.** Supporting and complementing these changes, the Bank increasingly differentiated its approach to working with middle-income countries and low-income countries reflecting the different challenges that countries in the different country groups faced. For middle income countries that were then (pre-crisis) able to access financing from private sector sources, the Bank began offering them a broader array of services going beyond its traditional lending and analytic products, covering issues such as sub-national lending, and support for pension reform, health system reform, with CASs evolving into more flexible Country Partnership Strategies, especially for well-performing countries. Low-income countries, eligible for the Bank's IDA concessional funding window, continued to draw on the Bank's full range of products and services—including debt relief and debt-sustainability analysis carried out jointly with the IMF—as well as more traditional investment policy-based operations.

35. **In both middle-income and low-income countries, the Bank—especially through its country offices—has devoted major efforts to outreach with CSOs, the media, and legislators.** Many of the Bank's outreach activities are directly related to its operations. For example, the design of health projects for maternal/child care must take account of the context and prospective users of the facilities to get them right, with an emphasis on participatory approaches. But these approaches also have important spillover effects, as engagement with prospective project beneficiaries gives the Bank a window into their views and also gives them a window into the Bank's, thereby enhancing understanding for both sides. So too in other sectors, whether for infrastructure, small- and medium-scale

enterprises, education, customs reform, or other activities. But the Bank also has gone beyond these project-related efforts to converse with wider segments of the public, including through concerted interactions with the media and legislators.

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