I. Taking Stock of Previous IEO Evaluations

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I. INTRODUCTION

1. **The different activities of the IMF complement each other and there is bound to be a degree of overlap between evaluations aimed at different aspects of the institution's operations.** Because advice, and the trust in it, is an integral part of many of the IMF's activities, it can be expected that past evaluations of these activities would uncover issues and provide information relevant for the evaluation of the "Role of the IMF as Trusted Advisor" (***RITA***). In particular, the 2009 IEO evaluation of "IMF Interactions with Member Countries" (***IMC***), given its wide panoramic scope, is bound to provide valuable insights in this regard. This paper examines that and other pertinent previous IEO evaluations and seeks to identify findings and conclusions that have a bearing on the ***RITA*** evaluation, to which this study serves as background note.

2. **Often the "advice" aspects of IMF activities, and more so "trusted advice" aspects, appear just as a side issue in these other evaluations** or in a context not directly focused on the reasons why, and the circumstances in which, such advice is sought or provided. Even if these references were not directly aimed at the advice role of the IMF, they do provide material useful for ***RITA*.**

3. **Moreover, the global financial crisis starting in 2007–08 is thought to have changed member countries' attitude to and need for Fund advice.** Also around the time of the crisis, the IMF was adopting a number of initiatives and revising existing practices with a view to strengthen surveillance and tighten its analysis of global economic developments. In addition, it developed more flexible lending instruments and provided several countries with countercyclical financing. These changes may have affected both the environment in which advice takes place as well as the receptiveness of countries to it. It is of interest therefore to examine the findings of previous evaluations in order to establish whether the IMF's role in this area, and the perceptions of it, has changed in the years since the other evaluations were conducted, and particularly since the onset of the crisis.

4. **It is also of interest to determine the extent to which previous findings referring to the trusted advisor role, and in particular recommendations of previous evaluations in this area, are still present and relevant.** This provides an indication of the extent to which previous IEO recommendations have been implemented or of the effectiveness of such implementation.

5. **In addition to *IMC*, the prior IEO evaluations examined here are:** "IMF Performance in the Run-Up to the Financial and Economic Crisis" (***Crisis*—**2011); "IMF Exchange Rate Policy Advice" (***Exchange Rate*—**2007); "Research at the IMF" (***Research***—2011); "Multilateral Surveillance" (***MLS***—2006); and "IMF Involvement in International Trade Policy Issues" (***Trade***—2009). The examination is organized around the following five themes, which mirror those that inform ***RITA***:

- Quality and relevance of the advice.
- Environment: the dialogue with authorities and organizational aspects.
- Evenhandedness and legacy issues affecting trust and the desire to seek advice.
- Advice involved in technical assistance, FSAP, and training.
- Role of resident representatives.

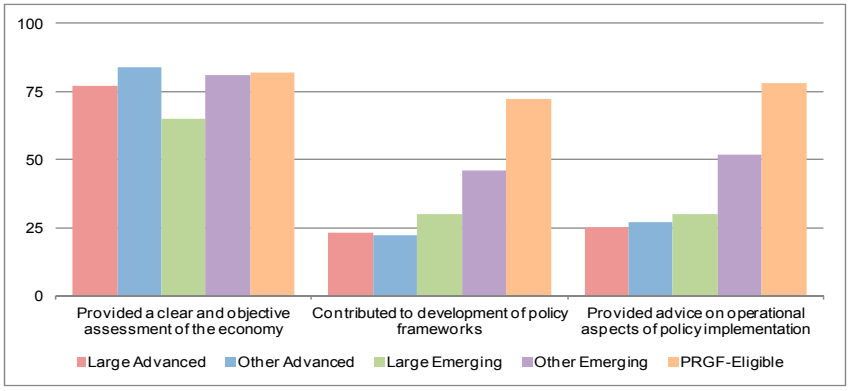
II. Relevance and Quality of the Advice

6. **A key element of the *RITA* evaluation has to do with how country authorities perceive the relevance and quality of the advice provided by the IMF.** Do authorities believe this advice adds value and helps shape their own thinking? Do they view staff as knowledgeable, including of the particular circumstances of the country, and with the requisite analytical and technical skills that would make it worth listening to them? Is the IMF able to take a broad approach that incorporates a long-term strategic view, the analysis of alternative scenarios, and the experience of other countries, including possible linkages and spillovers?

A. Value-Added of the Advice

7. **The evaluations coincide in highlighting the inverse relation between the level of economic development and the usefulness country authorities assign to the IMF's advice.** In a survey of authorities' views, ***IMC*** asked whether staff "provided a clear and objective assessment of countries' policies and prospects... whether they contributed to the development of policy frameworks... and whether they provided advice on the operational aspects of implementing policies." It found that the IMF scored high on the assessment of policies and prospects but, with the exception of PRGF-eligible countries, it was not much regarded on policy development or advice on their implementation (Figure 1).

Figure 1. IMC: Authorities' Views on Value Added by IMF Staff
(Percent in agreement)



Source: IEO evaluation of IMF Interactions with Member Countries (2009).

8. ***IMC* also uncovered marked differences across different country groups in regard to perceptions of value added.** Authorities in advanced economies seem to have looked to the IMF primarily as a sounding board; they "had little interest in what the Fund could provide beyond an objective assessment of policies and prospects and a good exchange of views." This concern was echoed in ***Crisis*** where staff is reported to believe that "the main problem is how to bring value added to large economies, which have large staffs of highly trained economists." For the emerging economies, ***IMC*** mentions that "authorities of large emerging economies found the surveillance process provided little value added," furthermore that "officials from several large emerging economies saw the surveillance exercise as routine and uninteresting...they were looking for new angles on their own policies, but did not get them from the Fund. They were attracted to formats where more interesting discussions took place, increasingly through regional and other broader fora involving interactions with peers." These views, however, were not fully shared by the other emerging economies and, in the case of PRGF-eligible economies, ***IMC*** found that the value added by the Fund through financial and monitoring programs, debt relief, and donor signaling had resulted in "an abundance of traction in Fund interactions."

9. ***Exchange Rate* reports similar findings:** "In the context of their own countries, about two-thirds of the authorities' respondents felt that the IMF had appropriately played roles as a *confidential advisor* to the authorities.... About half considered that a role for the IMF as a *consensus builder among domestic policy makers* was played as much as it should have been." This notwithstanding, ***Exchange Rate*** reports more tempered views regarding the impact of the IMF's advice: "Of those country authorities who reported having taken major policy decisions on exchange rate issues, ...43 percent regarded IMF advice as instrumental, while 38 percent saw it as marginal, and the remainder saw no impact or no discussion at all ...the underlying problem seems to be one of lack of traction: a failure to be seen to add much value in discussions with some parts of the membership."

10. ***Exchange Rate* further elaborates saying: "...survey results showed authorities seeking more specific analysis and pointing to other sources of policy advice as useful**. **These are warning signs that the IMF is seen by some as providing limited value added..."** Moreover, "In all country groups, the authorities reported that they sought advice from sources other than the IMF. Some countries hire consultants and seek help from other governments, while several senior officials spoke favorably, for example, of their contacts with the Bank for International Settlements (BIS) and the Organisation for Economic Co-operation and Development (OECD), where they appreciated the discussions with peers." As part of its main findings, ***Exchange Rate*** mentions "The reduced traction with advanced economies is in danger of being extended to large emerging market economies, and beyond. Such an evolution is corrosive, breeds cynicism among the staff as well as the members, and builds on perceptions of a lack of evenhandedness."

11. **To the extent that the research conducted at the IMF contributes to shape country authorities' thinking, and thus influences policymaking, it can also be considered part of the IMF's advice.** In this context, the ***Research*** evaluation notes that "Most country authorities reported a high degree of familiarity with IMF research and considered that it was relevant for their needs and interests. They valued the unique cross-country comparative features of IMF research, particularly when research provided case-study lessons and best practices on policies and programs in other countries..." moreover that "IMF research had been helpful in policy discussions in their countries..." and also that "The influence of IMF research on policymaking was greatest in the ECF-eligible countries and least in advanced economies."

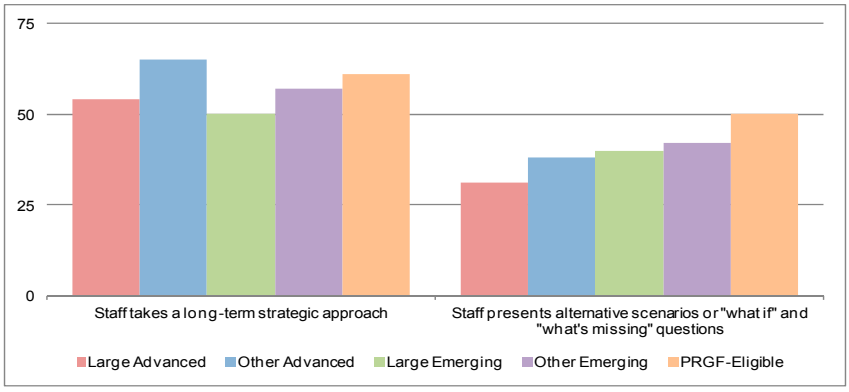
12. **However, Research also reports important gaps, including macro-financial linkages and aspects of monetary policy,[1] and that the authorities believed that IMF research's relevance would be enhanced by "better consultation on research topics, more country and institutional context, and more exposure to alternative perspectives."** On these latter points, authorities mentioned that "the analytical framework was not suited to the realities of the country" or that it lacked "understanding of country context and institutions" and also that it did not allow for alternative perspectives (i.e., that it was too aligned with IMF views). In a similar vein, ***Trade*** notes that "The IMF's expertise on trade policy issues was not as strong as on other macroeconomic issues and therefore its advice lacked credibility."

13. **As regards suitability to country circumstances, *IMC* found only lukewarm approval for this aspect of the IMF's advice.** Less than half of the authorities in large advanced economies and about two-thirds of those in other countries described the Fund's advice as suited to the specific circumstances of their country. Finally, in regard to the breadth of the staff's approach to discussions, slightly more than half of the authorities surveyed in ***IMC*** indicated that staff does take a long-term strategic approach, while only some 40 percent of these authorities reported that staff present alternative scenarios or addresses "what if" or "what's missing" questions (Figure 2).[2]

[1] The failure to adequately integrate the IMF's work on the financial sector into the surveillance process had already been highlighted in the IEO evaluation of the ***Financial Sector Assessment Program*** **(2006)**. ***MLS*** and ***Crisis*** also make reference to this failing.

[2] This is a long standing issue. Already the 1999 "External Evaluation of Fund Surveillance" recommended that surveillance should devote more time to identification and analysis of alternative policy options.

Figure 2. IMC: Authorities' Views on IMF Staff's Approach
(Percent in agreement)

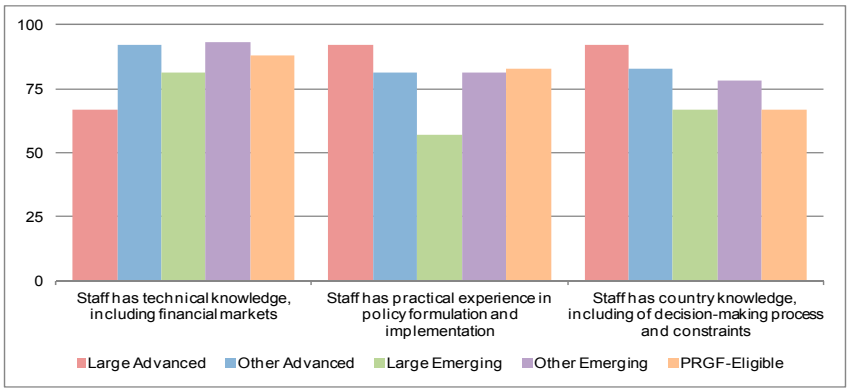


Source: IEO evaluation of IMF Interactions with Member Countries (2009).

B. Staff's Skills

14. **Staff skills, by and large, receive high marks across the evaluations.** ***Crisis*** found that "Despite the Fund's failure to warn of the impending crisis, country authorities, in most cases, had… a high general regard for Fund staff competency and analysis." This view is confirmed in ***IMC*** where it is said that "large majorities of respondents to the authorities' survey portrayed IMF staff as analytic, respectful, and responsive." In general, about 80 percent of ***IMC*** respondents, with the exception of those from large emerging economies which registered a somewhat lower percentage, viewed staff as having relevant technical knowledge (including financial market expertise), having practical experience in policy formulation and implementation, and having sufficient country knowledge, including of the decision-making process and constraints (Figure 3). The above notwithstanding, ***IMC*** concludes that "the Fund paid too little attention to the diplomatic skills that might have engendered collegiality and trust [in PRGF-eligible countries]... and to the technical expertise and other skills that might have added value in surveillance-only countries."

Figure 3. IMC: Authorities' Views on IMF Staff's Skills
(Percent in agreement)



Source: IEO evaluation of IMF Interactions with Member Countries (2009).

15. ***Crisis* took a more nuanced approach in this area.** Without implying that the IMF staff lacked skills or expertise, it found fault with "groupthink," the tendency among homogeneous, cohesive groups to consider issues only within a certain paradigm without challenging its premises, and with "intellectual capture," the tendency to be overly influenced by powerful authorities' reputation and expertise. In addition, ***Crisis*** indicated that staff was using analytical approaches inadequate to identify risks and vulnerabilities, such as models unsuited to analyze macro-financial linkages.

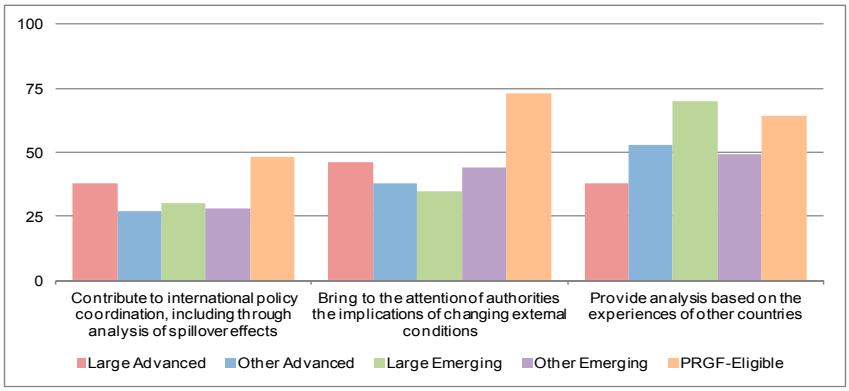
16. ***Exchange Rate* on its part states** "...while there were few obviously negative experiences... possible shortcomings on the staff side [include]...inadequate knowledge of country-specific background and context, and less technical knowledge of the operational aspects of foreign exchange markets than enjoyed by the authorities themselves... Officials would have welcomed staff having greater familiarity with the experience of other countries, an aspect in which IMF staff should have been expected to have a comparative advantage."

C. Cross-Border Dimensions of IMF Advice

17. **This is the aspect of the relevance and quality of the advice where prior evaluations come closest to detecting a generalized problem.** Both ***IMC*** and ***Crisis*** found a relatively low degree of satisfaction with regard to the international dimensions of the IMF's advice; especially given that the global financial crisis of 2007–08 had made evident serious weaknesses in the Fund's actions in this area prior to the crisis. This clearly undermined confidence in the institution and trust in its advice. As officials from advanced economies quoted in ***IMC*** indicated: "...the institution was not playing to what should be its comparative strengths in being able to analyze crosscutting global themes and identifying risks."

18. ***IMC* reports that "...authorities were decidedly less enthusiastic about Fund performance on ...contributing to international policy coordination ...alerting authorities about imminent external risks, and providing cross-country analysis."** Indeed, across all country groups, ***IMC*** found approval only from about 40 percent of the authorities (with some higher ratings in PRGF-eligible countries) on all three categories (Figure 4). ***Exchange Rate*** also indicates that the IMF's role as "broker for international policy coordination" could be improved. These weaknesses had already been picked up earlier by the ***MLS*** evaluation, which noted that "IMF's surveillance has a strong bilateral (or country) orientation, so that policy advice and economic forecasts predominantly reflect the views of IMF area departments... as a result, multilateral surveillance has not sufficiently explored options to deal with policy spillovers in a global context... [The IMF must] draw upon the global system's collective output to strengthen its own policy advice." Finally, ***Trade*** mentions that "...the IMF's scaling back on trade policy advice [following the general streamlining after 2000] came at the cost of constructive roles in trade issues central to financial and systemic stability..."

Figure 4. IMC: International Dimensions of IMF Surveillance: Authorities' Views on Quality/Effectiveness
(Percent in agreement)



Source: IEO evaluation of IMF Interactions with Member Countries (2009).

19. **The weakness in identifying external risks was clearly relevant for *Crisis*,** which found that "During the period 2004 through the start of the crisis in mid-2007, the IMF did not warn the countries at the center of the crisis, nor the membership at large, of the vulnerabilities and risks that eventually brought about the crisis." that "...the IMF paid too little attention to potential spillovers or contagion from advanced economies..." or that "Multilateral surveillance did not sound the alarm in advance of the crisis, even though the IMF identified the relevant risks." ***Exchange Rate*** on its part notes that "Global and regional spillovers were an area that, despite recent improvements, remained infrequently covered... some 45 percent of the respondents to the IEO's survey of country authorities found that IMF staff had rarely identified, or sufficiently integrated into their analysis, spillovers affecting their countries." ***Exchange Rate*** recommends that "Incentives should be given to develop and implement guidance for the integration of spillovers into bilateral and regional surveillance..." and that "Opportunities for potential multilateral concerted action deserve to be a key strategic management focus."

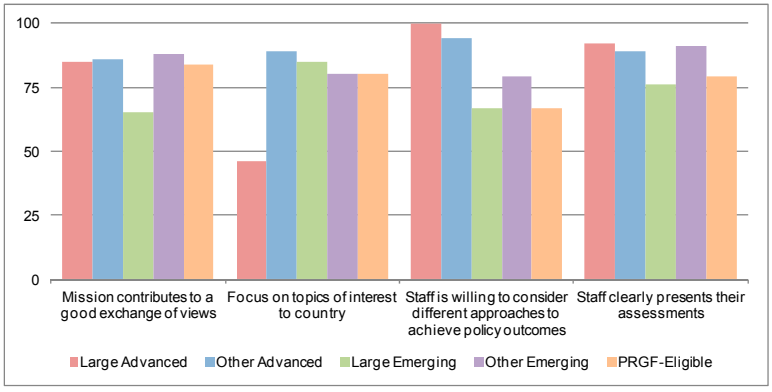
III. The Advice Environment

20. **The environment in which advice is provided, i.e., the circumstances surrounding the dialogue between member countries and the IMF, may have as much importance in engendering trust and providing traction to the advice as the quality of the advice as such.** How fluid is the exchange of views between staff and authorities? How candid is the staff in expressing their views? Are there concerns about confidentiality hampering the dialogue? And finally, are there organizational or institutional restrictions in the IMF itself that affect the quality of the advice or the opportunities for building a relationship of trust?

A. Characteristics of the Dialogue

21. **By and large, previous evaluations strike a positive note on this topic.** ***Crisis*** reports that "The authorities felt that discussions with mission teams were usually candid, constructive, and of high quality, bringing useful and independent third party views to the policy debate." ***Exchange Rate*** indicates that "...the large majority of the authorities generally perceived ...staff as both respectful and willing to approach discussions with candor" and reports that authorities believe IMF staff can serve as a "sounding board" for policy views, helping them to clarify their own thinking. These findings are corroborated by ***IMC***, which reports that authorities give high scores to substantive aspects of the discussions such as the mission's contribution to a good exchange of views, its ability to focus on topics of interest to the country (other than to the large advanced economies) or present their assessments in a clear and convincing manner. The staff's willingness to consider different approaches to achieve desired policy outcomes also received high marks, but with somewhat less enthusiasm from large emerging economies and PRGF-eligible countries (Figure 5).

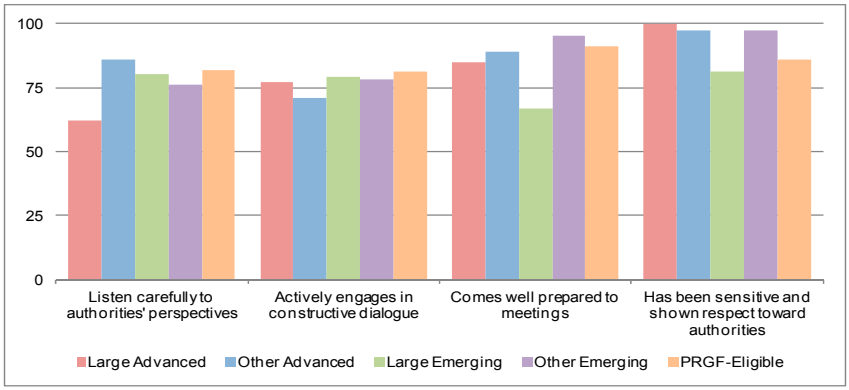
Figure 5. IMC: Authorities' Views on Dialogue
(Percent in agreement)



Source: IEO evaluation of IMF Interactions with Member Countries (2009).

22. ***IMC*** **asked about a number of personal attributes of staff that have a bearing on the atmosphere surrounding the dialogue.** The replies were generally positive, especially with a very high percentage of respondents expressing appreciation for the staff's respectfulness and sensitivity. The degree of preparation with which staff comes to meetings also received high marks, while the staff's ability to listen to the authorities' perspectives or to engage in a constructive dialogue met with a somewhat lower degree of approval (around the 80 percent mark). In spite of these ratings, ***IMC*** includes among its recommendations to "Provide guidance and training on professional conduct for staff interactions with the authorities … [including] guidance for staff on how to be both appropriately forthright, and respectful" (Figure 6).

Figure 6. IMC: Authorities' Views on Staff Attributes
(Percent in agreement)



Source: IEO evaluation of IMF Interactions with Member Countries (2009).

23. ***IMC* also discusses the degree to which the authorities' expectations about the purpose of interactions match those of staff about those same aspects.** It finds that, in between 75 percent and 80 percent of advanced and emerging economies, rising to over 90 percent in PRGF-eligible countries, there is a meeting of minds in this regard. This kind of "strategic alignment" between authorities and staff is regarded in ***IMC*** as an important indicator of the effectiveness of interactions.

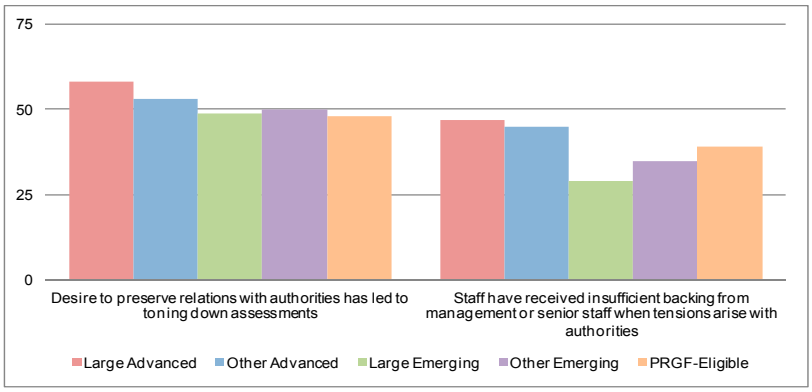
B. Candor

24. **Views on the degree of candor demonstrated by staff when interacting with authorities were obtained, in both *Crisis* and *IMC*, from self-assessments by staff.** These refer mostly to the staff's tendency to self-censorship, particularly when dealing with advanced economies. ***IMC*** reports 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." In turn, ***Crisis*** indicates that in some large advanced economies "staff noted that authorities took a heavy-handed approach, exerting explicit pressure to tone down critical messages…In contrast, teams seemed more comfortable in presenting hard-hitting analysis to smaller advanced economies and emerging markets, confirming some authorities' belief that there was a lack of evenhandedness."

25. **It is not only diffidence that lies at the root of staff's self-censorship.** Both ***Crisis*** and ***IMC*** report that staff held back on its views for fear that Management would, in the end, not support them. As indicated in ***Crisis*****: "**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." On its part, ***Exchange Rate*** states "...in a number of cases, substantive discussions with the IMF did not cover important exchange rate topics that were live issues for the country...Staff interviewed by IEO explained that the reasons for not being more forthright on such issues included not only judgments on the relative importance of issues, but also the desire to preserve the IMF's relationship with the country in question, and

insufficient support from Management or the Executive Board...” Figure 7, from the ***IMC*** report, shows that about half of the staff surveyed shared the views just described.

Figure 7. IMC: Staff's Views on Candor
(Percent in agreement)



Source: IEO evaluation of IMF Interactions with Member Countries (2009).

C. Transparency Initiatives and Confidentiality Concerns

26. ***Exchange Rate*** **is the evaluation in which, as could be expected given the sensitivity of the topic, issues of confidentiality appear the most.** It reports that “...policy constraints and market or political sensitivities meant that the authorities were either hesitant or unwilling to discuss certain issues...”[3] However, “in several countries...the exchange rate discussions were much more intense than suggested by Article IV staff reports...detailed discussions on regime choice took place, with little or no documentation in staff reports...Staff activities in these cases ranged from informal workshops to confidential staff notes and meetings, extending over several years in some cases, with the authorities and staff exploring a variety of alternative policy options in the process. The staff received praise for this work, but it could only have been accomplished on the understanding that it not be divulged to the Executive Board. While it is reassuring that this work was carried out in some countries and was highly appreciated, the lack of reporting to the Executive Board of substantive issues in the context of Article IV consultations...does raise issues of accountability as well as the appropriate bounds of confidentiality.”

27. **Moreover,** ***Exchange Rate*** **mentions that when the authorities excluded certain topics from the discussion, this issue was rarely flagged in staff reports, or taken up with Management.** Staff appeared reluctant to antagonize the authorities, while the latter preferred to avoid certain issues in order to prevent disclosure either to the Executive Board or through publication. Relatedly, some authorities mentioned cases of senior staff members leaving the IMF and taking jobs in the private sector—something that reduced the trust in the

[3] ***Exchange Rate*** reports that in 34 out of 87 cases examined, authorities either fully or partially excluded certain policy issues from discussions with the staff.

IMF as confidential advisor. Finally, ***Exchange Rate*** mentions that countries where the exchange rate is a highly sensitive political issue often make use of their right not to publish the Article IV consultation report or exercise the option of deleting sensitive information.

28. ***Exchange Rate's*** **recommendation on this issue** is "An understanding is needed on what are the expectations for inclusion in the Article IV staff reports, what may be mentioned orally at Board meetings, and what may be understood to have been discussed between staff and authorities on the clear understanding that it would not be revealed to the Executive Board."

29. **Other evaluations address only tangentially, if at all, the question of whether concerns about the dissemination of sensitive information could affect the demand for the IMF's advice.** ***Crisis*** indicates that risks of precipitating a crisis leads to situations where "more sensitive messages would sometimes be communicated privately and orally to the authorities," but proceeds to bemoan that, without a written record, such messages may be forgotten. ***IMC*** in turn makes reference to the IMF's transparency initiatives and the effect that outreach to the press and civil society has on interactions with the authorities, reporting that many authorities "are weary of outreach to the media on issues relating to their country."

30. **In contrast, *IMC* also reports that authorities in general seemed less concerned about disclosures at the interior of the Fund.** Less than one-fifth of authorities indicated that concerns about possible dissemination of information, including to the Executive Board, had led them to withhold topics or data from discussions.

D. Organizational Factors

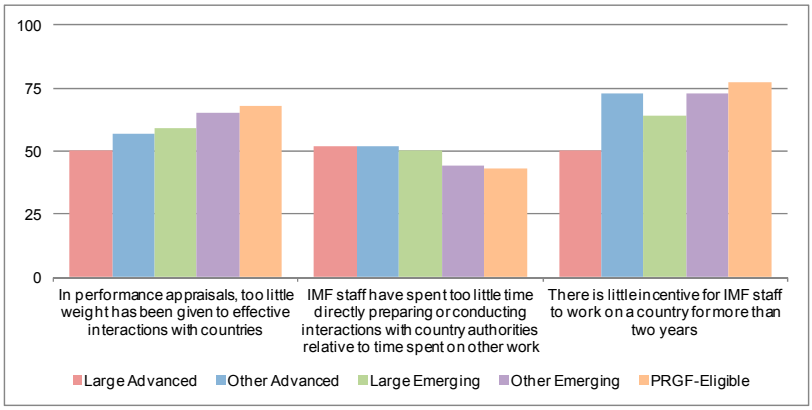
31. **Institutional practices and organizational aspects of the IMF have an effect on its ability to provide advice.** These factors may include the incentives confronting staff in their interactions with country authorities, the amount of time each staff member spends working on or in a country, or organizational characteristics that have a bearing on how knowledge is gathered and advice is shaped.

32. **In addition to the disincentives to candor in dealing with large countries identified above by *Crisis* and *Exchange Rate*, the former found that "incentives were not well aligned to foster the candid exchange of ideas that is needed for good surveillance,"** with staff reporting that "incentives were geared toward conforming with prevailing IMF views," while ***Exchange Rate*** adds "Unless staff feel they will be fully backed up by senior staff and Management, and the Board, when taking a respectful but firm stand as needed in discussions, it is not surprising that opportunities for good surveillance are sometimes missed."

33. **These findings complement those of *IMC*** that reports a majority of the surveyed staff complaining that not enough weight is given to effective interactions with countries in their performance evaluations, that too little time is left for preparing or conducting interactions with country authorities, and that there is little incentive to work on a country for more than two years (Figure 8). In particular, ***IMC*** indicates that "While continuity of

relationships was clearly valued by authorities and IMF staff alike, the review found that insufficient continuity was a significant concern, particularly for a number of small states and more generally of PRGF-eligible countries and other emerging economies."

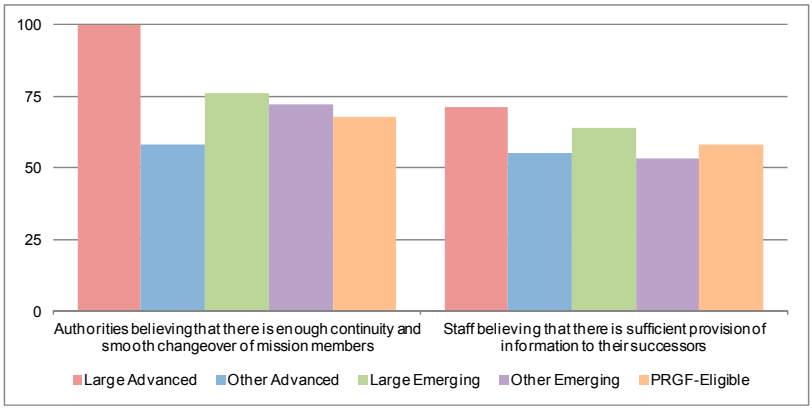
Figure 8. IMC: Staff Disincentives for Effective Interactions
(Percent in agreement)



Source: IEO evaluation of IMF Interactions with Member Countries (2009).

34. **This latter point is also picked up by *Exchange Rate* and by *Crisis*,** with the latter reporting that high staff turnover has been a frequent complaint of country authorities and that it has "implied a considerable loss of country knowledge and a constant training of new mission members to understand country specifics, history, and culture, all of which are very important for providing relevant policy advice and gaining traction." The adverse consequences of high turnover appear in a significant number of cases to have been aggravated by deficiencies in the changeover of mission members, which frequently is associated with insufficient transmission of knowledge from the outgoing to the incoming staff. ***IMC*** reports this as a problem in the view of about a third of the authorities and close to half of staff (Figure 9).

Figure 9. IMC: Changeover of Mission Members
(In percent)



Source: IEO evaluation of IMF Interactions with Member Countries (2009).

35. ***Exchange Rate*** **further mentions another relevant organizational aspect:** "Incentives were to manage various established processes for completing consultations quickly and with little risk, and these may or may not be consistent.... with fulfilling exchange rate surveillance responsibilities in a best practice way. Adverse incentives ranged from concerns that taking much space (especially with strict limits on Article IV staff report length) to justify and discuss a well established regime was unwarranted, to concerns not to ruffle feathers, and possibly markets, when there was a genuine issue."

36. **With regard to organizational issues,** ***Exchange Rate*** **recommends that "Management and the Executive Board need to adjust the incentives to raise controversial issues.** They need to send staff a clear signal that they will be supported when they take time to understand the authorities' views, when they have difficult messages to deliver both to the authorities and back to the Board, and when there are difficulties with the provision of information by the authorities."

37. **Finally,** ***Crisis*** **points to "An important organizational impediment that hindered IMF performance was its operating in silos,** that is, staff tend not to share information nor to seek advice outside their units," and that "The silo behavior made it difficult to integrate multilateral with bilateral surveillance, to link macroeconomic and financial developments, and to draw lessons from cross-country experience." To overcome silo behavior and mentality, ***Crisis*** recommends that "Management should hold the corresponding units and senior staff responsible for integrating multilateral and bilateral surveillance, taking account of alternative views, bringing cross-country experience to bear, and having policy consistency across countries/regions on cross-cutting issues." ***Exchange Rate*** echoes these findings and recommends: "The structure of staff teams could be reconsidered. Better integration of financial market and foreign exchange market expertise at headquarters would be a start..." a point that was also made by ***MLS.*** And ***Research*** reports staff as saying that there was "little incentive to collaborate across the institution. In particular, there was little collaboration between RES and MCM..."

IV. Evenhandedness and Legacy Issues

38. **The belief that the Fund's advice has a country's best interest in mind is crucial for the trust this advice can inspire.** This belief can be compromised by a perception that the IMF has different standards for different member countries, particularly if the perception is that large shareholders receive a more favorable treatment or that they use the institution to serve their own purposes. In a similar and related vein, negative experiences with the institution tend to leave their imprint on a country's collective memory for a long time and detract from the trust that the IMF advice could garner in the future. This legacy problem is often compounded by the bad reputation these negative experiences have given the IMF across countries with similar characteristics. Even without having had a bad experience with the IMF themselves, the stigma of working with the IMF can be a deterrent for requesting advice from it.

A. Evenhandedness[4]

39. ***Crisis*** **reports that "A repeated theme was the apparent *lack of evenhandedness* in how the Fund treats its largest shareholders versus all others.** Many country authorities believed that the Fund offered much more hard-hitting critiques of the policies of emerging markets and smaller advanced countries. Meanwhile, even when there were obvious commonalities in vulnerabilities with smaller countries, the large advanced countries were given the benefit of the doubt that their policymakers, supervisors, and regulators would be able to steer their economies through any rough patches." ***IMC*** in turn "highlights large emerging economies' concerns about the IMF's evenhandedness of treatment of different countries ...Most telling, some large emerging economy survey respondents saw the Fund's surveillance work to be conducted predominantly in the interest of major shareholders, more than in their interests." In view of this, ***IMC*** concludes that "the resolution of the larger governance issue is essential...the distrust felt by some large emerging economies corrodes the institution's effectiveness in these countries and elsewhere as well."

40. ***IMC*** also reports on concerns about a different facet of evenhandedness expressed by other emerging economies: "...whether small countries received the same treatment as large. Interviews revealed the view that large country issues dominated the Fund's agenda, along with concerns about international stability, which crowded out time for and attention to issues of concern about domestic economies." ***Trade*** notes that "...Messages from Article IV reports were at times tough both on advanced countries ...and on developing countries... Still, the record of IMF involvement was uneven across countries and over time."

41. ***Exchange Rate*** on its part indicates that "...consistency—or evenhandedness—of IMF advice is another important aspect of quality: no clear-cut cases of uneven treatment were identified in the sample of 30 economies, but more could have been done to counter the perception of inconsistency, which remains strong..." that "...providing better explanations for particular policy advice would reduce the risk of inconsistency, as well as the risk of being accused of it..." and that "...lack of evenhandedness can arise from an unwillingness to raise sensitive issues with advanced economies, while having less compunction in doing so with other countries."

[4] The IEO evaluation on ***Governance of the IMF*** **(2008)** touches on the issue of evenhandedness from the perspective of the Executive Board, indicating that the size of the multi-country constituencies at the Board is in some cases too large to ensure countries a proper voice, and also that there is a "chilling effect" that "deters Directors and their authorities—especially from low-income countries—from challenging Management and staff views for fear of negative repercussions."

B. Legacy Issues

42. Referring to emerging countries undergoing the transition from a program to a surveillance-only relationship, ***IMC*** notes that most officials from such countries "viewed the less prescriptive relationship under surveillance more favorably...Yet bad memories of past programs (and program discussions) tended to dominate the views of some interviewed country officials whose authorities would be reluctant to enter into any relationship with the IMF that would involve (or be perceived to involve) a loss of policy autonomy."

43. From a different perspective, ***IMC*** alludes to legacy issues in the context of the IMF's capacity-building activities. It mentions that PRGF-eligible countries "are looking to Fund staff to help educate the public on economic and financial issues, as part of the Fund's capacity-building role—to the extent that its adverse reputational legacy does not get in the way or that its efforts to inform and facilitate debate are not misconstrued as efforts to interfere."

V. TECHNICAL ASSISTANCE, FSAP, AND TRAINING[5]

44. **Technical assistance, the Financial Sector Assessment Program (FSAP), and training provided by the IMF Institute constitute some of the most effective and appreciated channels for the provision of Fund advice.** The synergy between technical assistance and advice is highlighted by ***IMC***, which mentions that "some mission chiefs tried to deepen the surveillance dialogue ...by dovetailing technical assistance with surveillance in a way that both sides considered useful." It further reports that "several authorities expressed the view that they received less valuable input from Article IV consultations than from technical interactions with the IMF, notably those that took place in the context of FSAP." In general, ***IMC*** found that member countries value technical assistance highly, with other emerging and PRGF-eligible economies in particular giving high marks to this assistance and the specific expertise on which it draws. Officials from PRGF-eligible economies "saw technical assistance as in their country's interest, and most officials said they wanted more. They rated the staff delivering technical assistance as second only to resident representatives in effectiveness." In a similar vein, ***Exchange Rate*** reports that "Technical assistance, to the extent it was provided, was in general valued by both staff and the authorities as being important components of IMF advice."

45. ***IMC*** also makes reference to two relevant Board discussions on technical assistance: the 2005 discussion that—echoing a recommendation of the IEO evaluation on the topic—"emphasized a strategic approach to the programming of technical assistance, including the

[5] Technical Assistance and FSAP had each been evaluated earlier by the IEO. But the focus of these evaluations had been on the specific workings of these activities and their effectiveness, with only scant references to their links to the surveillance process, let alone the advice activities there involved. See IEO: ***IMF Technical Assistance*** **(2005)** and ***Financial Sector Assessment Program*** **(2006).**

involvement and ownership of the authorities, and sufficient flexibility to respond to shifts in priorities" and the 2008 discussion, which "underlined the need to advance the integration of technical assistance with surveillance and lending operations..."

46. ***Crisis*** devotes most of its attention in this area to FSAP and its failure to help prevent the global financial crisis. In particular, it highlights the failure to conduct an FSAP in the United States prior to the crisis, the mixed experience with FSAP in the other advanced economies, and analytical weaknesses such as the inability of stress tests to capture second-round effects or liquidity shocks. ***Crisis*** welcomes the post-crisis decision to make the financial stability assessment component of the FSAP mandatory for the 25 most systemic financial sectors, but highlights the importance of regularly updating the coverage, periodicity, and participation in these mandatory exercises, and of continuing to improve their methods.

VI. Resident Representatives

47. **In reference to resident representatives, *IMC* indicates that "the contribution of this cadre of staff is clearly valued by the authorities..."** and that a consistent reaction of authorities was "...their appreciation of low profile people with strong technical skills, who were knowledgeable about the Fund itself and what it might provide; none called for a more powerful resident representative or visible IMF presence on the ground."

48. All in all, ***IMC*** reports different perspectives as regards the role and value of the resident representatives. In PRGF-eligible countries "authorities rated their interactions with IMF resident representatives as the most effective of all Fund interlocutors, ...But many resident representatives interviewed for the evaluation felt undervalued and neglected by IMF headquarters." Moreover, for this group of countries staff attitudes as regards relations between resident representatives and mission chiefs appeared more complicated, with mission chiefs highlighting the importance of the resident representative function, while some resident representatives pointing to potential tensions with mission chiefs depending on personalities. On the other hand, for emerging economies, "...mission chiefs argued that resident representatives could play a more strategic role in building relations and maintaining traction with authorities. Their general view was that resident representatives had the potential to greatly improve interactions with the authorities and enhance the quality of Fund surveillance. ...However, resident representatives themselves, particularly those in large emerging economies, were of the view that the potential benefits from resident representatives in these countries were not being fully realized. Many noted that they had quite limited relations with the authorities and were not in a position to participate in an ongoing policy dialogue that they viewed as essential to fulfill their role. ...They argued that in the absence of a re-establishment of trust, and well-defined rules of the game, surveillance in the large emerging economies would remain unsatisfactory."

49. On this subject, ***IMC*** recommends that "The links (interrelationships and overall management responsibilities) between the mission chief and the resident representative in the countries with such arrangements need to be clarified and systematized, with a view to improving the quality of interactions with the authorities and other stakeholders."

VII. TAKING STOCK

50. What is the situation ***RITA*** finds at the outset? What can ***RITA*** learn from previous evaluations, and what aspects of IMF advice found in these evaluations continue to be present and need to be confirmed or disproved? The following section pulls together the findings of the evaluations that were examined.

Relevance and quality of the advice

- The evaluations coincide in that, generally, the staff was well regarded for its contribution to the assessment of the economic policies and prospects of member countries, and for acting as a useful sounding board for the views and concerns of the authorities. However, the evaluations also coincide in that discussions with the IMF were thought to add little value to advanced and large emerging economies, which could rely on their own expertise and were more attracted to discussions with their peers. Fund advice seemed to exert influence mainly in the smaller emerging and in low-income countries.

- Most authorities saw the IMF staff as having the requisite technical knowledge and experience in policy formulation/implementation. Authorities recognized that staff showed sufficient knowledge of the country together with awareness of the country's decision-making process and constraints. Nevertheless, they expressed concerns about the suitability of the IMF's advice to the specific country circumstances. Also, there was criticism, raised in the ***Crisis*** evaluation, that IMF staff may have been prone to "group think" and "intellectual capture."

- The poorest marks for relevance and quality were given, remarkably, to the international dimension of the Fund's advice. A finding cutting across several of the examined evaluations is that significant segments of authorities believed that the IMF's contribution to international economic policy coordination and assessment of risks was well below what could be expected, and that too little attention was being paid to spillover effects in the international sphere. The ability of Fund missions to provide analysis based on the experiences of other countries also received middling reviews.

The advice environment

- The quality of the dialogue with IMF staff was generally seen as good. Discussions with mission teams were considered to be of high quality, constructive and candid,

with staff showing respect and willingness to consider different approaches to obtain desired policy outcomes.

- The authorities' positive views on the staff's candor were somewhat tempered by the staff's own assessment that they sometimes indulge in self-censorship, especially vis-à-vis authorities of advanced economies. This reluctance to "speak truth to power" stemmed in part from the staff's desire to preserve the relationship with the authorities, but also from the perception that they might not receive adequate support from Management.

- Previous evaluations barely touched on issues of confidentiality and the transparency initiatives of the IMF. Only ***Exchange Rate*** made this a significant element of the evaluation, doing so in the context of the extreme market sensitivity attached to exchange rate policy.

- Two organizational features of the IMF having a bearing on the advice process were mentioned in the evaluations. The first refers to the high turnover of staff interacting with authorities and the adverse effects this has on continuity of relationships and the maintenance of country knowledge. The other impediment, noticed by a couple of evaluations, was the tendency of the institution to operate in silos, behavior that prevented the adequate integration of multilateral with bilateral surveillance, to link macroeconomic with financial developments and to draw lessons from cross-country experience.

Evenhandedness and legacy issues

- Lack of evenhandedness in the treatment of large advanced economies compared with all others was noted in past evaluations mostly in terms of reporting the perception of a number of country authorities that the Fund was more willing to criticize smaller than larger countries, or the suspicion by some other authorities that the IMF was mostly serving the interests of its major shareholders.

- There were only few references in the evaluations to issues of legacy; these were mostly along the lines that negative memories of past programs created an adverse reputational legacy that impeded the build-up of a relationship of trust or attached a political stigma to interactions with the Fund.

Capacity building and the resident representatives

- Both these activities were rated as the most effective of all interactions with the IMF. Authorities valued highly technical assistance and had high regard for the experts delivering it. The FSAP was mostly mentioned in the same context as technical assistance, with the exception of ***Crisis*** that draws attention to FSAP's poor contribution to preventing the global financial crisis.

- The few references to resident representatives that appear in the evaluations are highly positive when coming from the authorities, but show some reservations when originating with the resident representatives themselves. Resident representatives believe that they could make a more important contribution—particularly in emerging economies.

Annex. Recommendations in Past IEO Evaluations of Relevance for *RITA*

Relevance and quality of the advice

- Staff should consult country authorities on topics for SIPs and other research to be conducted as background for bilateral and regional surveillance... (***Research***)

- To improve assessments of the exchange rate level, the IMF should be at the forefront of developing the needed analytical framework, while more successfully translating existing methodologies into advice that is relevant to discussion of individual country cases. (***Exchange Rate***)

- Develop strategic agendas for interaction with member countries including, *inter alia*, the linkages across surveillance, programs, and technical assistance, the outreach plan, the associated budget and staffing requirements, and consultations with authorities to help generate buy-in. (***IMC***)

- As part of new ways of engaging and to underpin the Fund's strategic shift, bring more experts on country visits, especially when country interest and traction are waning. (***IMC***)

- Management and the Board could consider ...focusing surveillance notes on policy spillovers and options for addressing them. (***MLS***)

- The IMF needs to strengthen the multilateral dimension of surveillance, particularly for "systemically important" countries ...At a minimum, benchmarks need to be established to measure progress on the integration of financial sector and capital markets work with macroeconomic work, and on the integration of multilateral and bilateral surveillance. (***MLS***)

- ...the work of [what is today the Monetary and Capital Markets Department] should be reoriented toward informing IMF economists of the macroeconomic implications of market developments and unfolding risks. (***MLS***)

- Incentives should be given to develop and implement guidance for the integration of spillovers into bilateral and regional surveillance ...a panel of senior officials in member countries could be asked to give advice on policy feedbacks ...that they would find useful to explore ...greater financial market expertise may be required to inform staff advice and contribute to discussions with authorities. (***Exchange Rate***)

- To promote openness to alternative perspectives ...foster an environment that encourages innovative research and ...establish incentives for staff to pursue such research ...even when the results of their analysis are not well aligned with messages in surveillance documents. (***Research***)

- Improve the quality and relevance of the international dimension of the Fund's work ... [including] on policy coordination ... [and] on cross-country analysis. (***IMC***)

- Better integrate financial sector issues into macroeconomic assessments ...The IMF should strengthen its ability to regularly monitor, assess, and warn about stability in global and systemic financial markets and institutions ... [also] build up its own capacity to independently assess risks and vulnerabilities in financial sectors as part of bilateral surveillance ... [update] the staff's knowledge through training and by hiring experienced market participants... (***Crisis***)

The advice environment

- Management should develop a strategic approach to identify opportunities to improve the effectiveness of the dialogue ... In the performance appraisal process [of staff], the success in ensuring effective dialogue would be defined and rewarded ...send staff a clear signal that they will be supported when they take time to understand the authorities' views, when they have difficult messages to deliver, both to the authorities and back to the Board... (***Exchange Rate***)

- Provide guidance and training on professional conduct for staff interactions with the authorities ...on matters of country assessments ...To this end, [Management should consider] guidance for staff on how to be both appropriately forthright and respectful. (***IMC***)

- Strengthen incentives to "speak truth to power" ...Management should encourage staff to ask probing questions and challenge Management's views and those of country authorities ... [and ensure] that staff is not unduly constrained by political considerations when conducting surveillance. (***Crisis***)

- Confidential policy discussions about possible policy actions in the case of contingencies should be a regular feature of the dialogue with member countries ... While the staff report for a country might not discuss such scenarios, the Board would need to be assured that such exercises had been discussed. (***Exchange Rate***)

- Increase mission chief and staff tenure on country assignments, as well as training and incentives for interactions ...staff effectiveness on interactions needs to be reflected in staff performance appraisals... (***IMC***)

- To enhance the country and institutional context of country studies ...preliminary results should be discussed with authorities and other in-country experts. Longer country assignments would also contribute ...as would collaboration with country authorities on research projects. (***Research***)

- The structure of staff teams could be reconsidered. Better integration of financial market and foreign exchange market expertise at headquarters would be a start...on limited occasions, consultants or senior officials from a pool of foreign exchange market practitioners could join Article IV mission teams ... to provide relevant expertise and cross-country experience that would directly add value to the discussions with the authorities. (***Exchange Rate***)

- Overcome silo behavior and mentality. Management should ...hold the corresponding units and senior staff responsible for integrating multilateral and bilateral surveillance, taking account of alternative views, bringing cross-country experience to bear, and having policy consistency across countries/regions on cross-cutting issues. (***Crisis***)

Evenhandedness and legacy issues

- Decide how to handle the Fund's negative reputational legacy and tell staff so that they can act upon it. (***IMC***)

Technical assistance

- The Fund should continue to strengthen implementation of its vision for country-specific technical assistance strategies. (***IMC***)

Resident Representatives

- The links (interrelationships and overall management responsibility) between the mission chief and the resident representative in the countries with such arrangements need to be clarified and systematized. (***IMC***)

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