Staff Response to the Independent Evaluation Office Report on The Role of the IMF as Trusted Advisor

Executive Board Meeting
February 1, 2013

We welcome the IEO's evaluation of this critical issue, which contains interesting analysis and information, and look forward to implementing recommendations that are endorsed by the Board. In particular, we welcome the finding that the Fund's image has improved markedly since the crisis, and we recognize the need for further work to build on this. However, we found that the tone of the report was unduly negative in places given that the balance of the evidence indicates that the large majority of authorities held positive views of the Fund and its work. Moreover, while some of the recommendations are helpful, certain are problematic: they are not clearly supported by the evidence or the analysis, would not necessarily solve the difficulties that have been identified, or would raise major implementation difficulties.

Analysis

The report rightly notes the potential tradeoffs between being a trusted advisor and ruthless truth teller. However, the recommendations are drawn up without a thorough analysis of the appropriate balance between developing good relations with a member and the Fund's obligations to the broader membership (and here it is important to remember that the Fund's role in bilateral surveillance is not purely advisory, as it also assesses a member country's compliance with its obligations under the Fund's Articles of Agreement). Without such an analysis there is no objective way of assessing whether more efforts in any one direction would be justified in light of any potential costs to the Fund's objectivity.

While the report notes some of the positive findings from the surveys, the negative tone in places is at odds with the favorable views of the authorities. As an example, one of the reports main identified issues is "the lack of relevance and genuine value added in some of the Fund's advice." However, this conclusion is not supported by the evidence in the paper. Specifically, survey respondents provided positive views of at least 70 percent for every question (for some over 90 percent) on the supply of advice during IMF missions. Furthermore, the survey results indicated that substantial majorities of respondents (65 to 85 percent) are willing to seek Fund advice on any given policy area. The proposed recommendations therefore need to be considered in light of these positive results.

Some of the analysis is based on outdated or incomplete evidence. For example, the report suggests a lack of evenhandedness in the implementation of the transparency policy by citing the 2009 review, which was based on earlier data and in fact led to a revision in the policy. The report then states that the greater use of deletions in emerging market and advanced economies suggests that the previously identified problems remain. We would note that, given the definition of highly market sensitive information, it is more likely to be an issue in advanced and emerging market countries, and it is thus not surprising that they are the heaviest users of "deletions."

Recommendations

We support the need to enhance the value-added of Article IV consultations for country authorities. It is currently best practice to consult early with the authorities on the key topics for upcoming consultations, and we welcome the suggestions for fostering a more substantive dialogue with the authorities, including drawing on relevant cross-country experiences.

However, we do not think that the recommendation that teams send the macro framework and key policy recommendations ahead of mission is either feasible or advisable. First, the most important elements in becoming a trusted advisor are to demonstrate the ability to listen, understand the authorities' views, and reflect those in the mission's outputs which should—for the most part—reflect a common understanding. Unilaterally transmitting forecasts, analysis, and conclusions before

even setting foot in the country could create the false impression that the Fund's views are cast in stone. Second, in many cases the data needed to produce a reliable framework is only obtained during the mission itself. Finally, the recommendation needs to consider the risk of going too far in the direction of enabling "negotiation" of documents ahead of missions and thereby compromising the independence of Fund surveillance, and the risk that surveillance could be reduced to a simple "exchange of letters."

We support the need to strengthen the continuity and improve the medium-term focus of the relationship between the Fund and member countries. As the report notes, moves are being implemented to lengthen country assignments. We also agree on the need to increase rewards for team work and to further measures to ensure a smooth transfer of knowledge when team members change. Enhancing the dialogue with country authorities and Executive Directors' offices would also be appropriate. Further steps to facilitate improving the relationship could be considered in the context of a broader review of surveillance.

However, the proposed country-specific medium-term strategic plans are very similar to the now-abandoned surveillance agendas. Both country authorities and staff found the surveillance agendas to be unwieldy, bureaucratic, often outdated soon after they were written, and of little practical use. It is unclear how the suggested plans would differ and why they would fare any better. Moreover, while an improved focus on medium-term objectives in Fund engagement could prove beneficial, it is not clear that medium-term strategic plans would address the failures identified in the report, which relate mostly to policies providing incentives for continuity, team work, and delivering advice.

The recommendation to assess staff as trusted advisors through performance-based monitoring in the APR process raises serious concerns of moral hazard. How will supervisors judge whether or not staff are trusted advisors to their respective countries? Putting such a recommendation in place (i.e. relating it to performance) may have the unintended side effect of watering down policy messages in an effort to get higher ratings.

The recommendation to "incorporate early and openly the views of all countries" in policy papers needs to be interpreted carefully. We concur that staff should seek to consult intensively with the entire membership during the production of key policy papers, particularly where the issues are contentious. However, Fund papers are not a survey of the opinions of all countries, and setting out the views of all members in Board documents would not be helpful or realistic, particularly in cases where views amongst authorities are split or evolving rapidly.

The recommendation to "reduce unnecessary disclosure concerns" is not supported by the evidence presented in the paper. While staff agrees that it is useful to have space in which to brainstorm over hypothetical policy scenarios, the evidence presented in the paper (e.g., paras 41 and 42 of the background paper on Transparency Policy) suggests that this is already happening and that staff and authorities are in fact completely candid in their policy dialog and advice.

We agree on the need for country-specific approaches to outreach. As with the "strategic plans," however, we believe that these are best developed as a result of ongoing dialogue between mission chiefs, resident representatives, and authorities rather than being formalized in a document that would quickly be outdated and may not be appropriate for rapidly-evolving situations.

Finally, we agree on the need to implement the Fund's transparency policy in a uniform and fair manner. As noted above, we did not, however, find evidence in the report that this is not being done at present. Moreover, a regular review of the transparency policy has just been launched, with Board discussion planned for May/June 2013.