

# IMF Interactions with Advanced Economies

## I. Introduction and Overview

1. This paper focuses on IMF interactions in advanced economies. Like the other country papers prepared for the evaluation, it looks at the evidence on whether interactions were effective and whether they were well managed in the group of countries under study. It focuses on interactions with the authorities of 30 advanced economies in a surveillance-only context—in as much as surveillance was the primary vehicle through which the Fund interacted with the authorities of these economies during 2001–08.<sup>1</sup> It also considers the Fund’s interactions with other in-country stakeholders, especially as they affected interactions with the authorities.

2. The paper finds that IMF interactions with advanced economies had limited effectiveness. Many authorities had little interest in what the Fund could provide beyond an objective assessment of policies and prospects and a good exchange of views. Staff working on these economies saw their role as considerably broader in some areas than did their counterparts, for example in contributing to the international coordination of policies and/or the development of policy frameworks, and they expended much effort in these (and related) areas. But only minorities of authorities found the work compelling and the interactions engaging. More generally, the Fund lacked a convincing strategy for bridging differences between the authorities and staff on the scope of the Fund’s engagement and for increasing the authorities’ interest in the analysis it could provide. Nor was it successful in using the new transparency policy to enhance leverage, as many authorities discouraged media outreach when the messages were likely to be critical. Meanwhile, a desire (reinforced by management) to avoid displeasing the authorities, was a fact of life for staff working on the advanced economies, and a challenge to the independence of their analysis; the consequences for the identification and management of global risks were

<sup>1</sup>Aspects of interactions in the context of Financial Sector Assessment Programs (FSAPs) and multilateral surveillance were covered by earlier IEO evaluations. See IEO (2006a and 2006b).

especially troubling in respect to the large advanced economies, given their systemic importance. The paper identifies missed opportunities for strengthening country relationships, underpinned by weak staff incentives for interactions and uneven management attention.

3. The paper is organized as follows. The remainder of this chapter profiles the advanced economies and the evidence on which the chapter is based, and summarizes the policy guidance governing interactions during the evaluation period. Chapter II discusses interactions with the authorities of advanced economies. Chapter III discusses interactions with other in-country stakeholders. Chapter IV discusses the management of interactions with advanced economies. Chapter V concludes.

### A. Country coverage

4. The evaluation covers IMF interactions with 30 economies corresponding to the *World Economic Outlook (WEO)* definition of advanced economies.<sup>2</sup> Taken together, the 30 economies are large and systemically important by any measure: they had a combined GDP of close to \$41 trillion in 2008, amounting to 68 percent of global GDP measured with current exchange rates, or 54 percent of global GDP using purchasing-power-parity exchange rates; and, they accounted for more than 80 percent of worldwide stock market capitalization in 2008.

5. Within the group of advanced economies, the main report and this paper present the evidence for “large advanced economies” and “other advanced economies” as distinct subgroups; the G-7 economies constitute the large advanced economies and remaining 23 economies the other advanced economies. This is because the survey and interview data reveal important differences between the two groups of countries

<sup>2</sup>The evaluation used the October 2008 *WEO* to construct its country groups. The 30 advanced economies are: Australia, Austria, Belgium, Canada, Cyprus, Denmark, Finland, France, Germany, Greece, Hong Kong SAR, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Malta, Netherlands New Zealand, Norway, Portugal, Singapore, Slovenia, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

in their perceptions about interactions with the Fund. The 30 advanced economies are managed by three IMF area departments: 22 of the 30 advanced economies are covered by the European Department (EUR); 6 are covered by the Asia and Pacific Department (APD); and 2 by the Western Hemisphere Department (WHD).

6. The evaluation uses a sample of ten advanced economies for more in-depth analysis. This subset comprises four large advanced economies—Germany, Japan, the United Kingdom, and the United States—and six smaller advanced countries—Australia, Austria, Korea, New Zealand, Sweden, and Switzerland.

## B. Evidence base

7. Sources of evidence for the paper include survey, documentary, and interview data developed specifically for the evaluation, as well as data drawn from previous evaluations.<sup>3</sup> The evaluation's extensive survey evidence covers the authorities and civil society organizations (CSOs) in the 30 advanced economies, and IMF staff working on these countries. The evaluation survey of country authorities was answered by 50 respondents from 28 advanced economies, for an overall country response rate of 83 percent.<sup>4</sup> Responses to the staff survey totaled 71, covering work on 29 advanced economies. The civil society survey received 155 responses from civil society representatives in 29 of the 30 advanced economies.

- The evaluation team reviewed the Fund's internal documentary record for the ten countries in the evaluation sample. The material included confidential briefing memoranda to management, mission back-to-office reports, and interdepartmental correspondence on related country issues. This material gave the IEO a window into internal debates about staff positions on particular issues, whether and how IMF management may have contributed to an issue, and how

<sup>3</sup>The evaluation managed risks of interpretation by applying judgment grounded in triangulation across different sources of evidence, which—as in all such endeavors—may contain measurement and/or interpretation errors. The evaluation survey was quite complex, with many questions and many respondents from a large number of countries; this raises the risk that some questions may have been interpreted differently by different recipients. Interview bias is a common feature of such evidence, subject to potential biases by both interviewers and interviewees. Finally, the use of the documentary evidence is, of course, also subject to bias, not the least of which is its having been written for another time and for another audience, one quite familiar with the Fund's culture and issues.

<sup>4</sup>For the authorities' survey in each economy, one questionnaire was sent to the ministry of finance and one to the central bank, with each requesting an institutional rather than a personal response.

country views influenced the internal debate and decisions.

- Country visits by the evaluation team to Australia, Germany, Japan, Switzerland, and the United Kingdom provided opportunities for in-depth interviews with a representative spectrum of authorities and others in those countries. The team also interviewed the U.S. authorities. In addition, taking advantage of the IMF Spring and Annual Meetings in Washington, plus teleconferences, the evaluation team interviewed at headquarters many representatives of the authorities and Fund staff who worked on the evaluation sample countries, and met with representatives from think tanks, market participants (including bankers), and the media. IEO staff also took advantage of travel related to other activities to interview authorities and stakeholders in nonsample countries. Broadly speaking, the interviews focused on what aspects of the Fund's interactions were most successful, what aspects were least successful, how far innovations in surveillance had been carried through at the country level and whether they had worked, suggestions for how the surveillance process could be better managed, and, in the case of nongovernment interviewees, what had been the nature of interactions with Fund staff.
- Other evidence includes material drawn from earlier IEO evaluations and several external analyses conducted in the context of this evaluation. In particular, the team examined previous evaluations of the Financial Sector Assessment Program (FSAP), multilateral surveillance, and the Fund's exchange rate advice (IEO 2006a, 2006b, and 2007)—and also several studies that were specially commissioned by IEO for this evaluation.

## C. Policies and guiding principles

8. The Fund's interactions with the advanced countries are, in the main, governed by its policies on bilateral surveillance, particularly exchange rates, and on financial sector surveillance. In turn, this guidance flows directly from the Articles of Agreement, in particular Article IV that states that “the Fund shall exercise firm surveillance over the exchange rate policies of members, and shall adopt specific principles for the guidance of all members with respect to those policies.” The guidance to Fund staff on the conduct of surveillance, and recent conclusions of the Executive Board.<sup>5</sup> They are briefly summarized below.

<sup>5</sup>Guidance to staff on the conduct of bilateral surveillance is set out in “The 2007 Surveillance Decision: Revised Operational Guidance,” June 2009, and the “Statement of

9. The guidance for interactions with advanced countries covers:

- *Policy dialogue.* Staff are expected to foster a frank policy dialogue to support members' receptiveness to Fund advice. The dialogue should include cross-country comparative studies to add value to policy discussions and, more generally, consultations should attempt to bring to bear other countries' experiences in addressing similar problems, drawing out policy implications. Spillover effects to and from others should be discussed where relevant.
- *Scope and selectivity.* Priority is for macro-economic issues related to external sustainability, vulnerability to balance of payments or currency crises, sustainable growth with price stability, and the systemic or regional impact of policies in large economies. Financial sector issues should receive thorough coverage. Bilateral surveillance should be informed by multilateral and regional surveillance.
- *Communication of policy messages.* To strengthen communication of the Fund's messages on policy, staff are encouraged to develop outreach programs and enhance contacts beyond authorities. Press conferences should be held after Article IV missions and/or Board meetings, unless departments see reasons not to hold them, notably if authorities object. Similar guidance is embodied in the conclusions of reviews of the Fund's policies on transparency and communications.<sup>6</sup> The Fund's 2008 Triennial Surveillance Review (TSR), for example, emphasized that "improvements in brevity, timeliness, and clarity, and a strategic delivery of a few key messages are also needed."

Surveillance Priorities," October 2008. This updates the "Guidance on Operational Aspects of the 2007 Surveillance Decision" which in turn replaced the May 2005 Surveillance Guidance Note, as well as two notes in December 2006 and February 2007 on implementing the Fund's Medium-Term Strategy, especially with respect to surveillance agendas. The 2005 Guidance Note replaced the Operational Guidance Note for Staff following the 2002 Biennial Surveillance Review; it consolidated guidance on issues bearing on surveillance contained in various notes and memoranda. Issued after the evaluation period, but relevant here, is new guidance for financial sector surveillance ("Financial Sector Guidance Note," April 24, 2009) that sets out: (i) how to identify risks to macro-financial stability; (ii) policy and regulatory considerations; and (iii) operational issues. There is also separate guidance for FSAPs and FSAP updates. See <http://www-int.imf.org/depts/pdr/Surveillance/Financial-Sector/FSAP/fsap-procedures-guide.pdf>; <http://www-int.imf.org/depts/pdr/Operational-Guidance/Surveillance-GNMay2005.doc>; <http://www.imf.org/external/np/pp/eng/2008/080408.pdf>; and <http://www-int.imf.org/depts/pdr/Operational-Guidance/SM02292.pdf>.

<sup>6</sup>See, for example, <http://www-int.imf.org/depts/pdr/Transparency-Publication/Guidance-Notes/Guidance-Note-April06.pdf>.

## II. IMF Interactions with the Authorities

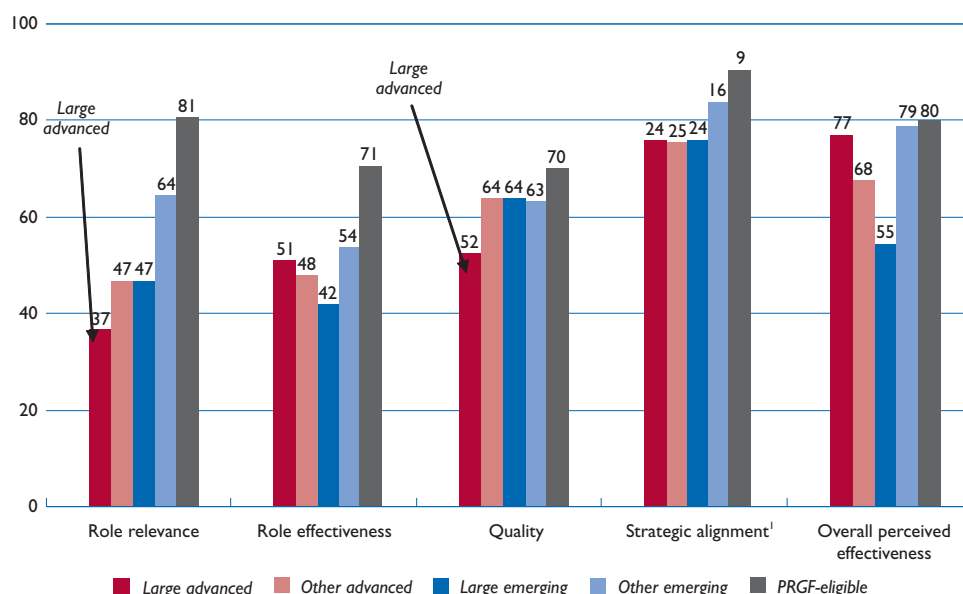
10. This chapter considers the evidence on the effectiveness of IMF interactions with the authorities of the advanced economies. It begins with the survey-based indicators of interactions developed in the main report, looking within their component parts for further insights about interactions with the authorities of advanced economies. It then turns to interactions on three specific themes of particular interest in the context of advanced economies, namely: (i) international policy coordination, including spillover analysis; (ii) cross-country analysis and sharing of the lessons of experience; and (iii) financial-sector/macro linkages.

11. The weight of the evidence considered in the chapter suggests that the Fund faced major challenges in its interactions with advanced economies over the evaluation period. The authorities of large advanced economies in particular were not enthusiastic about the relevance or effectiveness of Fund interactions with them in many roles that the staff thought quite important. And they rated the quality of many IMF activities as "average." Meanwhile staff in large majorities felt they expended much effort on what they saw as relevant and high-quality activities in their work on large advanced economies, although only a minority felt their interactions were actually effective. In respect to the individual themes considered in the chapter, the evidence suggests that staff produced many papers for the authorities, for the IMF Executive Board, and for external publication—but important exceptions notwithstanding, their official counterparts did not find the work compelling. For the other advanced economies, the conclusions are similar to these but generally less pronounced.

### A. Indicators of interactions

12. The main report uses survey-based indicators to compare the country groups' perceptions about different aspects of interactions. This section analyzes some of those indicators for the advanced economies in more depth, to see what insights they may provide about interactions with those countries.

13. Figure 1 reproduces the composite indicators of interactions from Box 2 of the main report. As shown, the large advanced economies' indicators are the lowest of all country groups for role relevance and quality. They are similar to other advanced and large emerging economies on strategic alignment (the difference between what the authorities wanted and what staff aim to do). And on the two measures of effectiveness shown in the chart, they provide a mixed picture, as they reflect different weights attached to various

**Figure 1. Composite Indicators of Interactions (Authorities' Results)**

<sup>1</sup>Inverted scale. The average absolute percentage point difference across the ten purposes between how much the authorities wanted the IMF to fulfill each purpose and how much staff aimed to do so ("a fair amount" or "very much").

roles.<sup>7</sup> The other advanced economies' indicators for relevance and quality were generally higher than those for the large advanced economies by some 20–25 percent, and somewhat lower for the role effectiveness and overall perceived effectiveness.

### Large advanced economies

14. How are these indicators to be understood? The indicators are composite scores, driven by micro-data derived from the underlying survey answers. For relevance, the underlying data is illustrated in Box 1, which shows that there are only two roles—(i) providing an independent assessment of policies and prospects and (ii) contributing to a good exchange of views whether or not there was an agreement—for which most large advanced economies wanted interactions with the Fund. And as illustrated in Box 2, these two roles are rated highly by the authorities; staff also rate both highly for relevance and

<sup>7</sup>Taken together, one would expect low relevance and low quality to add up to low effectiveness. But as Figure 1 shows, they do not—at least not for overall perceived effectiveness. Among the survey respondents from the large advanced economies, 77 percent said that interactions were effective or very effective over 2007–08. The reconciliation of this relatively high score with the much lower scores for role relevance and quality (37 percent and 52 percent, respectively) lies in the fact that the authorities (implicitly) attach little value to the aspects they consider unimportant and low quality and much more weight to activities that matter to the large advanced economies and that the Fund does well. This can be seen by constructing an index including only the two most highly rated roles—which yields a score of 81 percent, compared with 51 percent for the broader measure of role effectiveness.

effectiveness. Meanwhile, at the other end of the spectrum, there is a similar convergence, in which the authorities and staff agree that activities are low priority—such as monitoring support and capacity building.

15. But in between, it is more complicated—as large majorities of staff working on these countries think certain activities are priorities and the authorities do not. Indeed, as shown in the lower panel of Box 1, several of these activities go to the heart of how staff see their job, such as to contribute to the development of policy frameworks, public debate about policies, and—of heightened importance following the recent decision by the membership—the coordination of international policies. Yet only minorities of the authorities, as shown in the upper panel of Box 1, think these are important roles for the Fund. This “strategic dissonance,” coupled with the lack of support staff feel they get from management and senior staff when tensions arise with the authorities explains much of why staff working on the large advanced economies feel as they do about their effectiveness (Figure 2).<sup>8,9</sup>

<sup>8</sup>The staff ratings show the usual pattern of much more positive quality and relevance scores by staff than the authorities. The twist here is on overall perceived effectiveness, for which the staff rating is extremely low—only 22 percent for 2001–08 (not shown), and 45 percent for 2007–08—notwithstanding much higher scores for role relevance and quality (61 percent and 75 percent, respectively). In turn, this reflects the high implicit weights the staff attach to individual roles with very low effectiveness scores, such as the Fund's contribution to the development of policy frameworks, international policy coordination, and the development of policy consensus outside government.

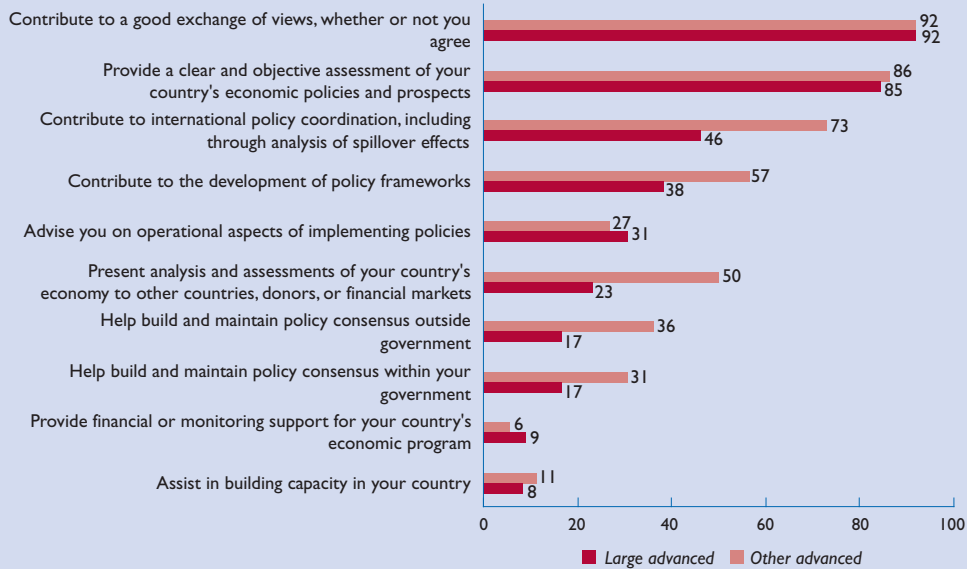
<sup>9</sup>Figure 9 later in the paper discusses the issue of management backing for staff in cases of disagreement.

**Box I. Relevance Indicator: Ten Roles**

**Authorities.** The underlying survey data for the authorities' views on the ten roles and purposes is shown below. It shows the share of survey respondents of the large

advanced economies and the other advanced economies who said they had wanted the Fund to engage in a role "a fair amount" or "a great deal" over the past two years.

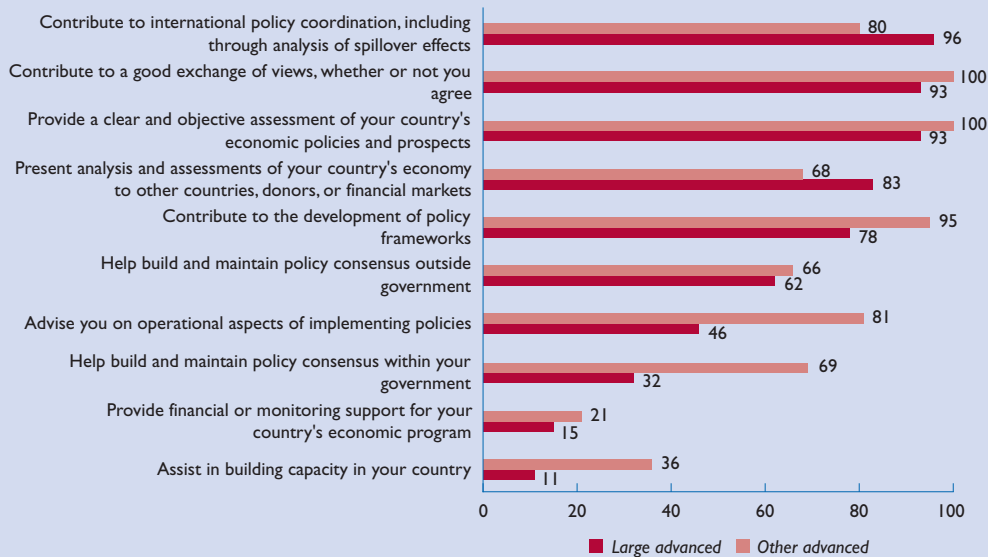
(Percent of respondents)



**Staff.** The underlying survey data for the staff views on the ten roles and purposes is shown below. It shows the share of staff survey respondents working on the large

advanced and other advanced economies who said they had aimed to carry out the particular role "a fair amount" or "a great deal" over the past two years.

(Percent of respondents)





### Box 2. Role Effectiveness: Authorities' and Staff Views

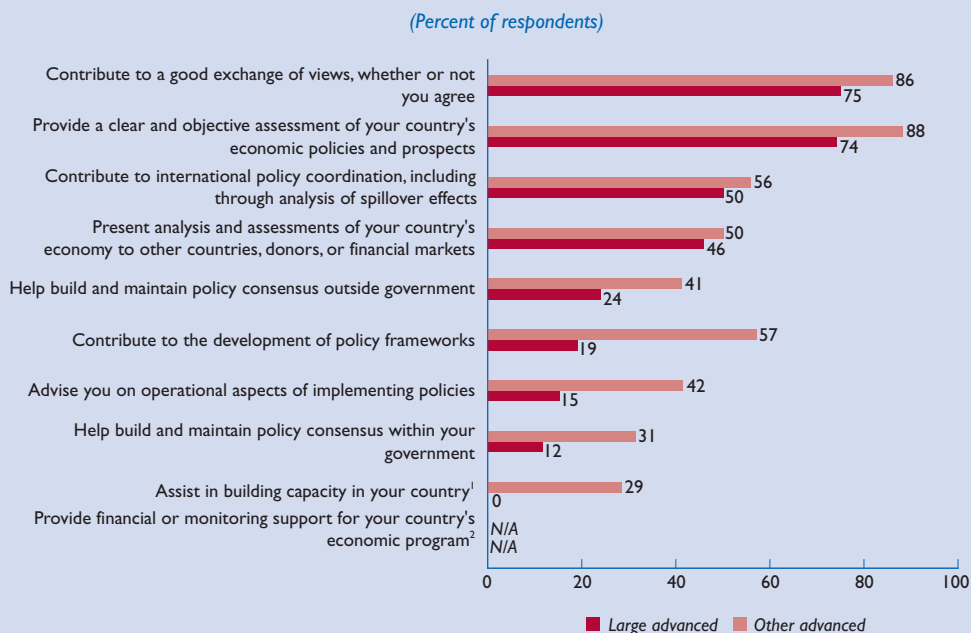
**Authorities.** Shown below is the share of authorities' survey respondents of the large and the other advanced economies who said that interactions in each of the

respective roles had been "effective" or "very effective" over the past two years.



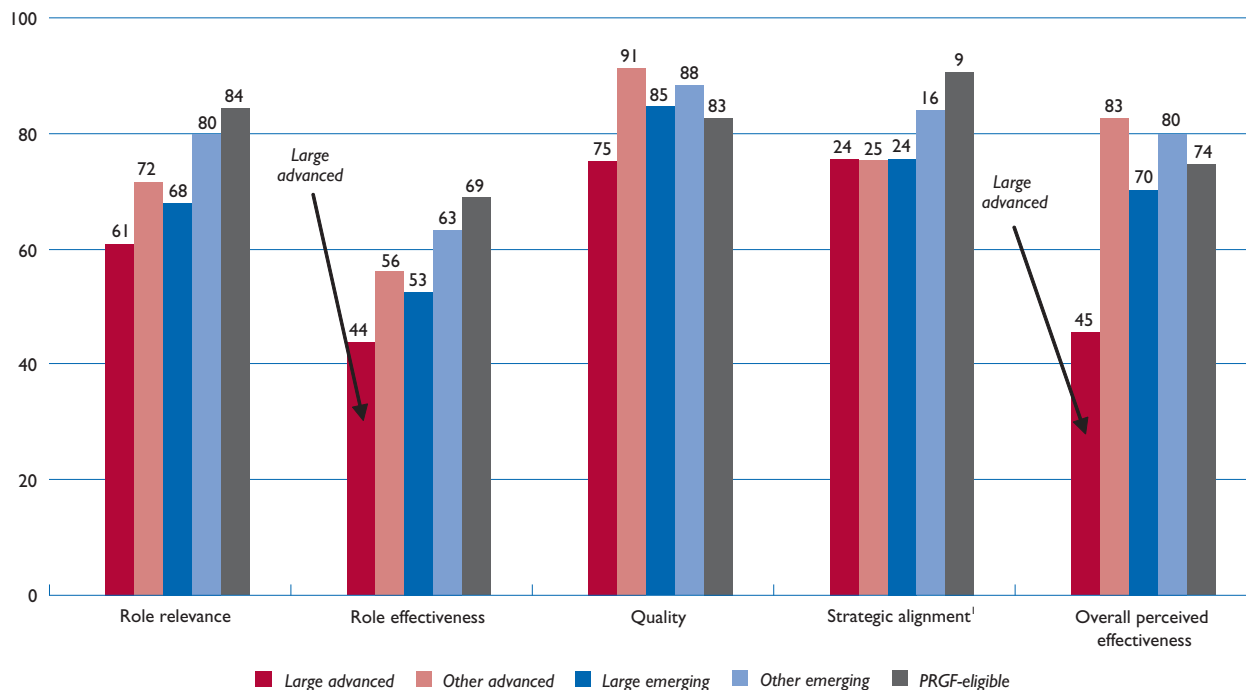
**Staff.** Shown below is the share of staff survey respondents working on the large and other advanced economies

who said interactions in each of the respective roles had been "effective" or "very effective" over the past two years.



<sup>1</sup>Includes only those who responded that their country received IMF technical assistance or training.

<sup>2</sup>Includes only those who responded that their country had an IMF financial or monitoring program.

**Figure 2. Composite Indicators of Interactions (Staff Results)**

<sup>1</sup>Inverted scale. The average absolute percentage point difference across the ten purposes between how much the authorities wanted the IMF to fulfill each purpose and how much staff aimed to do so (“a fair amount” or “very much”).

16. There are two views about what drives the low interest of the authorities of the large advanced economies in some of these functions that staff see as key—a debate that is highly relevant to the challenge the institution now faces as it implements its new responsibilities on the coordination of policies. On one view, the authorities simply do not want staff (or other outsiders) at the policy table, especially on issues related to possible actions that they might be encouraged to take to avoid adverse spillovers to other countries. The other view focuses on quality, which is seen as not good enough to warrant a seat at the policy table. The evaluation took the view that an in-depth review of the quality of Fund products was beyond its scope, but it did ask authorities and staff about their perceptions of different dimensions of quality, as summarized in the quality indicators of Figures 1 and 2 and detailed in Box 3. In this context it is noteworthy that the large advanced economies rated quality lower than did any other country group, as shown in Figure 1.

17. Boxes 1–3 suggest strong differences between the authorities of the large advanced economies and staff views on virtually all polled issues. On quality and relevance, staff rate interactions 25 percentage points higher than the authorities. While on perceived overall effectiveness, they are more than 25 percentage points

below. These are wide variations by any measure, suggesting major disconnects between the authorities and staff on the fundamental purposes and results of interactions.

#### Other advanced economies

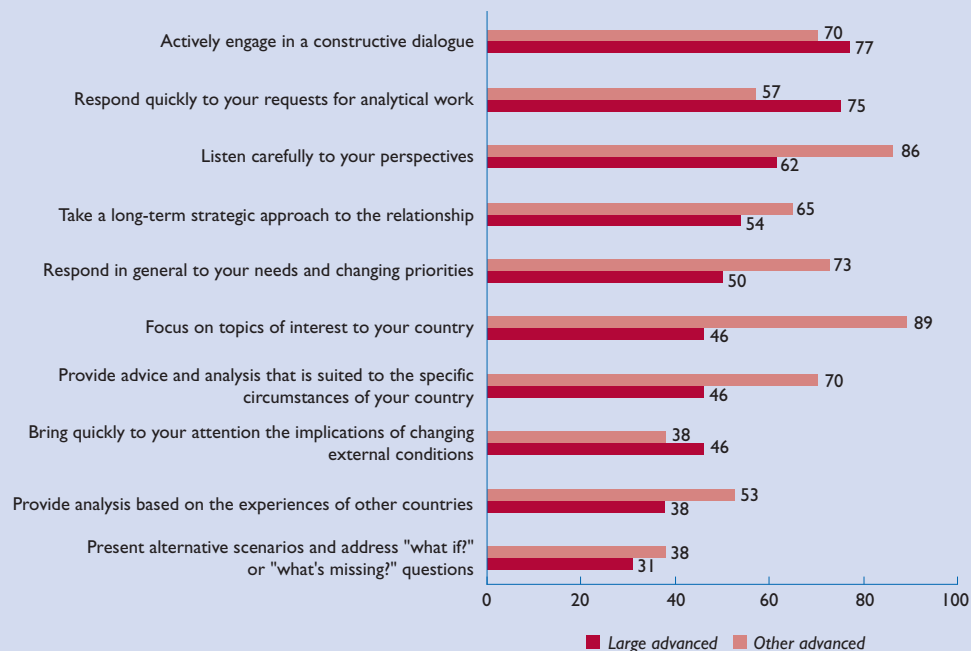
18. For the other advanced economies, the underlying relevance and quality indicators numbers are more favorable to the Fund than are those for the large advanced economies, but even these are not that high (47 percent and 64 percent, respectively). Conversely, staff have a much more positive view of interactions with them than with the large advanced economies. Large majorities of other advanced economies wanted Fund involvement on two additional roles beyond the two indicated by the large advanced economies, viz., contributing to the development of policy frameworks and to international policy coordination, including spillover analysis—two roles that are among the staff’s top priorities as well. In terms of quality, majorities of the other advanced economies rated eight of the ten polled attributes as good or excellent. The other advanced economies’ ratings for overall perceived effectiveness are lower than those of the large advanced economies (57 percent for 2001–08), but improving (68 percent for 2007–08).

### Box 3. Quality Indicator: Ten Attributes

**Authorities.** Shown below is the share of authorities' survey respondents of the large and the other advanced economies who said the Fund had done a "good" or an

"excellent" job on the following ten attributes over the past two years.

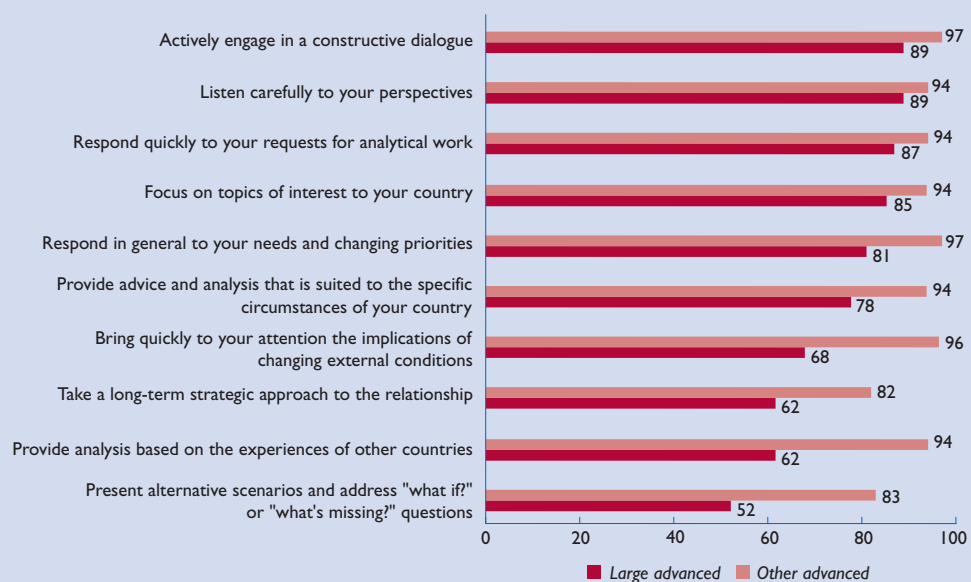
(Percent of respondents)



**Staff.** Shown below is the share of staff survey respondents working on the large and the other advanced economies who said the Fund had done a "good" or an

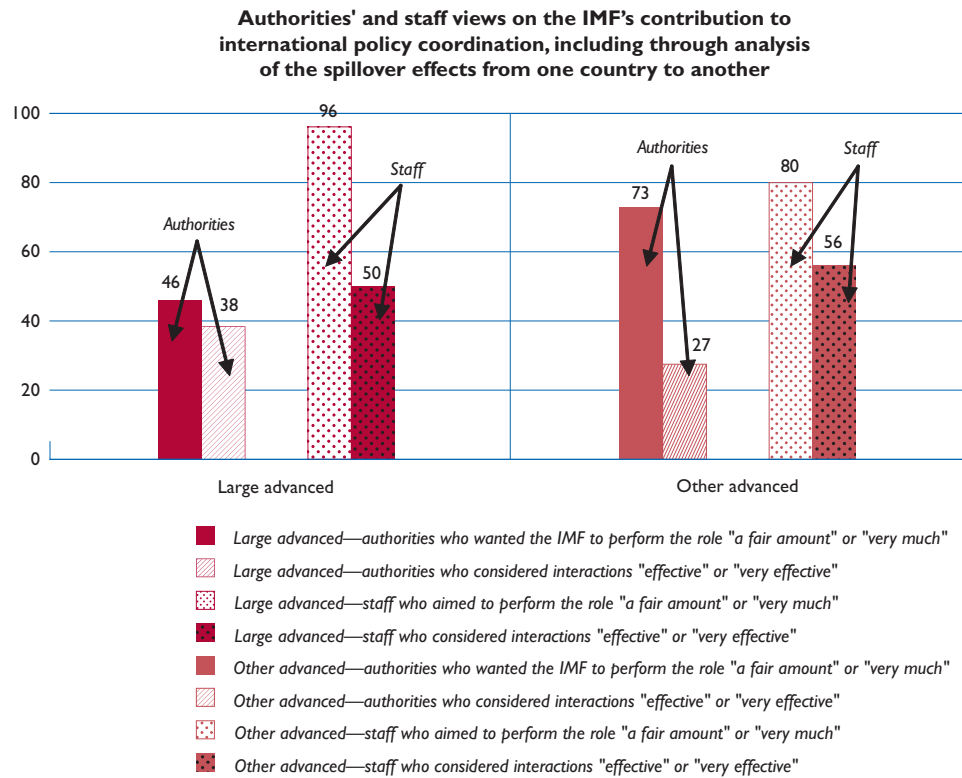
"excellent" job on the following ten attributes over the past two years.

(Percent of respondents)





**Figure 3. Views on International Policy Coordination, Including Analysis of Economic and Financial Spillovers**  
(Percent of respondents)



## B. Key themes

19. This section examines interactions in the context of three themes: (i) the Fund's contribution to international policy coordination, including the analysis of spillovers—a topic of increased interest going forward; (ii) cross-country analysis; and (iii) macro-financial sector linkages, drawing on the evaluation's more detailed survey, interview, and documentary evidence. It explores what lies behind the findings from the indicator analysis that the authorities of many advanced economies had serious doubts about the relevance, quality, and effectiveness of many Fund activities involving interactions with them, while staff felt they do high-quality and relevant work, albeit also of limited effectiveness.

### **International policy coordination, including spillover analysis**

20. Given the preponderance of systemically important countries among the advanced economies, a natural question concerns the Fund's role in and interactions on international policy coordination and the analysis of

economic and financial spillovers. This question was asked in the evaluation survey, and received decidedly different answers from different groups of respondents—including the large advanced economies, the other advanced economies, and the staff, as shown in Figure 3.

21. Most striking is the limited apparent interest of the large advanced economies in such activities. Among such survey respondents, fewer than half (46 percent) said they wanted the Fund to contribute to international policy coordination including the analysis of spillovers, while among the other advanced economy respondents 73 percent wanted the Fund to do it. Almost all staff (96 percent) working on large advanced economies, and 80 percent of those working on the other advanced countries, said they aimed to do it. On the effectiveness of this work, there is a greater meeting of minds between large advanced authorities and staff—40–50 percent said the Fund's analysis was effective or very effective. Among the other advanced economies, by contrast, only 27 percent of the authorities felt that the analysis was effective or very effective, while twice as many staff felt this way.

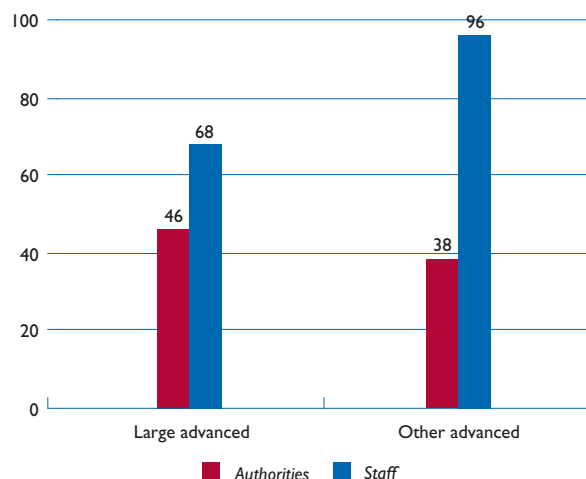
22. Article IV documents for the advanced economies are replete with examples of analytical work

on policy coordination, including the analysis of spillovers.<sup>10</sup> The internal documentary evidence reviewed by the evaluation team—including management feedback on mission briefs and back-to-office reports—suggests that senior staff and management continuously pushed staff to add to and sharpen the analysis of spillovers. With respect to the United States, for example, this work covered: the contribution of net trade with the United States to growth in its trading partners; the contribution of the U.S. current account deficit to Japanese and euro area surpluses; influences of the United States on the world economy through trade, stock markets, interest rates, and exchange rates; cross-country productivity growth and the U.S. current account deficit; and wealth spillovers from foreign holdings of U.S. assets. Non-U.S. examples include: the impact of yen depreciation on Asian economies and the impact of structural and fiscal reforms in Japan on global growth and external imbalances; the impact of growth in China on patterns of world trade; trade and investment linkages between China and Korea; interrelationships between U.S. and European growth and German economic growth, and the impact of growth spillovers from Germany elsewhere in Europe; the risks for New Zealand of its banks' dependence on international capital markets for funding; and the macroeconomic impact of immigration to the United Kingdom from central Europe.

23. Interviewees from large advanced economies were not impressed by all this material on policy coordination and spillover analysis, with doubts about Fund relevance and effectiveness recurring themes of the conversations. Rather, interviewees expressed a range of views, from dissatisfaction with what the Fund had done in this area to a lack of interest in the Fund's doing any more. In general, there was a lack of interest in discussions of spillovers and global imbalances, which some saw as the Fund's cue for going on about China's exchange rate, the U.S. fiscal deficit, and Europe's structural rigidities. One official observed that the Fund had failed to bring an international perspective to the Article IV consultation with his country. While a former official from a large advanced economy said that he and his colleagues had been struck by the view that the country had been given an easy time in its Article IV discussion. Echoing these views, a senior staff member working on a large advanced economy said that the ministry of finance has made it clear that there is little interest in Fund views other than spillovers to the country from the rest of the world. Another

<sup>10</sup>For example, see the Fund's 2008 Triennial Surveillance Review, Thematic Findings, page 9, which cite multiple instances of spillover analysis for advanced economies in 2007: Austria, euro area (2), Hong Kong SAR, Iceland (3), Ireland, Japan (2), Korea (2), Malta, New Zealand, Portugal (2), United Kingdom (3), and United States (3).

**Figure 4. Changing External Conditions: How Well Has the Fund Done in Alerting the Authorities? Authorities' and Staff Views**  
(Percent of respondents who answered that the IMF did a "good" or an "excellent" job)



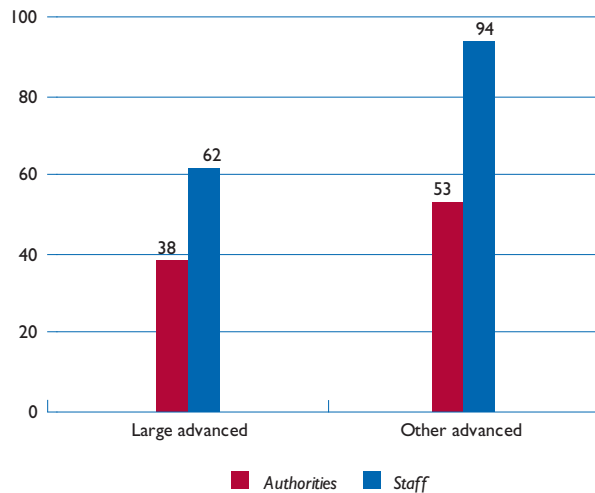
observer in a large advanced economy questioned whether and how the Fund was tying together its work and advice on major global financial centers.

24. Officials from the other advanced economies saw things differently, but in the survey rated the effectiveness of interactions on international coordination even lower than did the large advanced economies. (See the right-hand panel of Figure 3.) They looked to the Fund for an analysis of spillovers emanating from the large advanced economies and other sources, and saw this function as central to the Fund's job. In light of the (then) unfolding financial crisis, some questioned why the Fund had not taken a more forthright stance delving into monetary and financial sector policies of large advanced economies that affected others (in particular pointing to the lack of U.S. participation in the FSAP). Others expressed their appreciation for the work the Fund had done on spillovers. One such interviewee said that work done on global approaches to various problems had been quite valuable.

25. In both the large and the other advanced economies, many of the authorities felt that the Fund had not effectively alerted them to the implications of changing external conditions (Figure 4). Only 46 percent of the survey respondents from large advanced economies said the Fund did a good or an excellent job in this role, and even fewer (38 percent) of those from other advanced economies said so. The staff, meanwhile, rated their own performance almost twice as highly: 68 percent of those working on large advanced economies, and 96 percent of those working on other advanced economies, said that staff did a good or an excellent job.

### Figure 5. Cross-Country Analysis: How Did the Fund Do? Authorities' and Staff Views

(Percent of respondents who answered that the IMF did a "good" or an "excellent" job)



#### Cross-country analysis

26. The provision of analysis based on the experiences of comparator countries and lessons learned is one aspect in which the IMF work should be excellent. Is it? The survey and interview evidence provided by the authorities suggest that in the evaluation period it was not, although Fund staff did much relevant work towards this end.

27. Here too the evaluation survey results show wide differences between the authorities' and staff views on the Fund's work. As illustrated in Figure 5, only 38 percent of the surveyed authorities from large advanced economies and 53 percent of those in other advanced economies thought that in areas of its expertise and mandate the Fund did a good or excellent job of providing analysis based on the experience of other countries. Most of the remainder rated the Fund's performance "average," with 10–15 percent rating it "poor." Among staff, by contrast, more than 60 percent of those working on large advanced economies, and 94 percent of those working on other advanced countries, thought that the Fund had done a good job.

28. The evidence suggests that staff did a great deal of work in areas involving comparator and cross-country analysis. Much of this work was incorporated into the multilateral surveillance documents the *World Economic Outlook (WEO)* and the *Global Financial Stability Report (GFSR)*, and into the *Regional Economic Outlooks (REOs)*, all of which were meant to inform bilateral surveillance as well. During the evaluation period, the Fund also brokered country-to-country cross fertilization, as in presentations to the Austrian authorities on Canada's experience with

a large, front-end-loaded, expenditure-based fiscal adjustment. Cross-country analysis also took place through country team work on multiple countries, as in Australia and New Zealand, exploring methodological issues related to the estimation of equilibrium exchange rates, analyzing housing price developments, and understanding the impact of commodity prices on structural fiscal balances, including through comparisons with other OECD countries. Meanwhile, much cross-country research was done on topics such as inflation targeting, and sometimes the findings of that work provided the basis for advice to individual countries, such as Switzerland. Other examples from the evaluation sample countries include the pulling together of extensive cross-country evidence and analysis on taxes, government spending, and other variables and focusing it on the size and role of government in an individual country, such as Sweden.

29. Notwithstanding the staff effort on cross-country issues, the evaluation interviews suggest a failure to convert that effort into a systematic—and valued—feature of Fund interactions with advanced economies. Interviewed officials from advanced economies said that IMF missions' knowledge of relevant experience in other countries often seemed more a matter of happenstance, depending on which countries the team members had recently engaged with. But, as in other areas and on other topics, interviewees expressed a full range of views.

30. The authorities from large advanced economies expressed limited interest, at best, in the kind of cross-country analysis the Fund was providing. Published evidence suggests that even a country such as Canada, whose authorities were generally receptive to the Fund's advice, found that in the course of its Article IV consultation the Fund contributed too little that was new (Box 4). During the evaluation interviews with officials from large advanced economies, one interviewee did not see a need for any work on cross-fertilization from the Fund, while another wanted more, and a third said there was very little at present. Among staff working on large advanced economies, one said that he would be surprised to hear that the authorities were interested in the experiences of others, as they saw themselves as far ahead of their peers. Another said the Fund could and should do better on this. And a third stressed the importance of the Fund's functional departments in providing the essential cross-country perspective.

31. Interviewed officials from other advanced economies expressed much greater interest in cross-country analysis than those in the large advanced economies—but also, for the most part, greater dissatisfaction with the Fund's performance. Authorities generally complained that the Fund provided too little cross-country analysis. Some cited the erratic nature of the Fund's ability to advise on cross-country issues, and wished that the Fund had more to say about relevant

#### Box 4. Canada's Article IV Consultations: What's New?

A research paper by a Canadian academic examined Canada's experience with the Article IV process over the period 1999–2005.<sup>1</sup> The author interviewed Department of Finance officials and reviewed staff reports and selected issues papers. The paper found that Department of Finance officials:

- ✓ liked the mix of Fund staff and were not concerned with mission turnover;
- ✓ found staff to be competent, knowledgeable about Canada, and technically skilled;
- ✓ expected Fund staff to bring something to bear from their own or other countries;
- ✓ felt that Fund staff rarely contributed cross-country analysis and that the OECD performed better on structural issues and on providing “relevant policy advice that was usable;”
- ✓ welcomed the check on the robustness of the department's own analysis provided by the consultations—if anything, it was the best external review the department received;
- ✗ but in the end, thought that Fund staff did not really bring anything new to the table.

<sup>1</sup>See Momani (2006).

practices/experience in other countries. One interviewee put it more positively, saying that through interactions he hoped to receive recommendations based on international experiences.

#### Macro-financial linkages

32. The global financial crisis has shown yet again the importance of integrating macroeconomic and financial sector surveillance. This was a key recommendation from the IEO's 2006 *Evaluation of the Financial Sector Assessment Program*, which called for the links between the FSAP and surveillance to be strengthened, and suggested that in countries with important financial sectors the Article IV consultation should be fully integrated with an annual FSAP update, with a single integrated mission covering both.<sup>11</sup> That evaluation also suggested using a name-and-shame approach to encourage systemically important countries that had not yet volunteered for the FSAP, to do so. Today, among the advanced economies, the United States stands alone without an FSAP, although one has now been scheduled and the staff preparation is under way.

<sup>11</sup>See IEO (2006a).

33. The evaluation interviews with advanced economy officials pointed to progress in coordinating macroeconomic and financial sector surveillance, albeit with a long way still to go. Representative of the authorities' positive views, one official noted that the FSAP was a useful part of interactions, as indeed was the overall work on financial sector issues. Still another noted that the most successful staff visits had been in 2007 when IMF staff influenced the authorities and convinced them to act promptly on problem banks. Some authorities called for annual FSAP updates to be integrated into the Article IV process and most stressed the importance of close Fund involvement through the FSAP process. Authorities in smaller advanced countries were particularly in favor of an integrated approach, as several noted their desire to see annual FSAP updates integrated with Article IV. There was, however, a clear sense that more needed to be done. As one official from a large advanced economy put it: although the financial stability analysis had been combined better with the macro analysis over time, the two were still not well integrated; it was basically a question of two wings, and not a single bird. There was some positive commentary by banking sector interviewees, with one comment to the effect that the IMF is very valuable and influential on financial services issues, and another praising the FSAP. An interviewed journalist said that the IMF had covered the financial crisis well.

34. Several of the authorities commented that limitations in the Fund's financial sector skills constrained its ability to do financial sector surveillance. One official found the Fund's macro and financial sector knowledge to be broadly comparable to that of his authorities, noting that in both cases the specialist knowledge of the financial sector was lacking. Another felt that the IMF delegation is not capable enough to handle financial sector issues, and that there needs to be greater integration between traditional macro surveillance and financial sector surveillance. The financial sector, generally, was cited as a problem area for the Fund, with one authority of the view that the Fund needs to stay on top of financial sector issues and another suggesting that the IMF had done extensive work on financial sector issues in the past, but the main problem now was macro-prudential linkages. One interviewee gave a specific example of the Fund's financial sector deficiency, observing that for part of the evaluation period the mission team did not have the requisite nonbanking financial sector experience to be able to conduct a rigorous financial sector assessment. On balance, authorities in the smaller advanced economies were generally more content with staff technical skills, including on the financial sector. (The question of staff skills is examined further in Chapter IV below.) For example, one official from one of the other advanced economies said that an event had occurred during a staff visit, in which an important weakness in the regulatory



system surfaced. IMF staff convinced the authorities of the need to act promptly; they also provided concrete recommendations for legislation.

35. Staff who were interviewed stressed the challenges of integrating financial and macro surveillance—highlighting the specialized skills needed for financial sector analysis. In the words of one staff member, macro-financial analysis is difficult because there is no received wisdom and governments are reluctant to talk about it. Financial analysis must often be very detailed, requiring complex assessments of the quality of portfolios, risks to the fiscal sector, and linkages to the private sector, as well as implications for exchange rate policy and for the conduct of monetary policy. Corresponding to the views expressed by some authorities, several staff members see this type of expertise as lacking. One staff member said the Fund has not kept up with financial markets as it should have, while another said that Fund preparation on financial sector issues never got the staff onto the same page as the financial sector regulators. The structure of surveillance missions themselves was also cited by staff as having limited the effectiveness of the Fund’s interactions concerning the financial sector. According to one staff member, good interactions require having the right person from MCM on the mission team, but since financial sector expertise is very micro, it is hard to get someone who knows every area. Similarly, another said that the team would have benefited from more in-depth analysis, but there is a limit as to what you can do with two to three MCM representatives on a team for two weeks, compared to the thirty staff members who work on an FSAP for two to three months. One staff member noted that Fund staff were in favor of combining Article IV and FSAP updates, but that the institution was not there yet.

36. Meanwhile, the internal documents that were provided for the evaluation point to increasing attention to financial sector issues in recent years.<sup>12</sup> Each of the 2007–08 surveillance assessments for the ten evaluation sample countries gave some prominence to financial topics, with some being quite specific and others simply stating that more work was to be done

<sup>12</sup>The Fund’s 2008 Triennial Surveillance Review (TSR) noted that financial sector surveillance now figured more prominently in area department business plans than hitherto and that more than 80 percent of mission chiefs felt they paid more attention to it than in the past. Stakeholder surveys carried out by SPR for the TSR suggest that staff reports added significant value in identifying vulnerabilities and macro-financial linkages across the three country groups, including the advanced economies. This said, the TSR’s review of staff reports indicated that the IMF is generally better at identifying vulnerabilities than at analyzing the transmission of real economy-financial risks. It indicated that difficulties in identifying key risks and risk transmission hindered assessments of financial sector stability, while limitations in economic theory and in the empirical work on how the financial sector affects the real economy were arguably the biggest challenge for the economics profession.

on macro-financial linkages. In the large advanced economies, the work program included, in one case, an examination of options for strengthening deposit insurance and banking supervision; in another, an analysis of the efficiency of financial sector institutions; in a third, an analysis of, and planned input into, planned financial sector reforms; and an evaluation of financial sector stress and risks, building on the recent FSAP. Similar work program items were included in the surveillance agendas for the other advanced economies, such as an assessment of risks identified in a recent FSAP; monitoring the implementation of FSAP recommendations; the monitoring of bank exposure to foreign currency lending; and the development of recommendations to improve financial sector supervision. For one other advanced economy, the work included getting a better understanding of the linkages from financial sector development to potential growth.

### III. IMF Interactions with Other Stakeholders in Advanced Economies

37. Looking at IMF interactions with stakeholders beyond the monetary and fiscal authorities, this chapter examines recent developments in such interactions, and constraints on their effectiveness. It finds that an increasing amount of outreach took place to parliamentarians, civil society, the media, think tanks, and market participants over the evaluation period. It also finds very limited interest among the authorities of advanced economies in having the Fund engage in public discussions about their policies, especially through the media, which blocked a potential avenue for the staff to gain traction for its work on the advanced economies—a topic taken up in Chapter IV.

#### A. Recent developments

38. The Fund’s transparency policy took effect at the beginning of the evaluation period, putting a premium on the publication of Article IV reports and related papers. Companion efforts to enhance Fund staff communications emphasized outreach to in-country stakeholders beyond the authorities—to parliamentarians as the countries’ elected officials, to representatives of civil society as key constituencies, including the media as vehicles for getting messages out to the wider public, and market participants, with whom Fund staff had long interacted as part of its fact-finding work. Staff interactions with many of these stakeholders intensified during the evaluation period. For example:

- *Parliamentarians.* Staff interactions took place through seminars, meetings with visiting groups of parliamentarians at IMF headquarters and in the field, and management speeches to members

of parliaments, often under the aegis of the Parliamentary Network of the World Bank. Documentary evidence for the evaluation sample countries shows that staff reached out to parliamentarians, including members of the National Diet of Japan, members of parliaments in Austria, Germany, Switzerland, and, since 2008, the United Kingdom and the United States.<sup>13</sup>

- *Civil society.* As noted in Chapter I of this paper, the evaluation survey of civil society received 155 responses from representatives of civil society in 29 advanced economies.<sup>14</sup> The large majority of responses were from private sector associations, think tanks, and academics, but also from many NGOs; relatively few were from the media and labor unions. Ninety-four respondents said that they had had interactions with Fund staff between 2001 and 2008. Their responses portray staff as respectful, listening, and aware of host-country cultures, though with lower scores on cultural sensitivities from the NGO representatives. Over half of the survey respondents who had met with staff did not answer the questions<sup>15</sup> on whether (i) their views were taken into account in IMF discussions with the government and (ii) their discussions with the IMF generally contributed to building national support and initiative towards “IMF-backed policies.” Of those who did answer, about 80 percent said their views had been reflected and about half said that their discussions had contributed to building national support for policies.
- *Trade unions.* According to the responses to an EXR survey of country teams carried out in 2007, staff had met with trade union representatives in the previous two years in 80 percent of the advanced economies; exceptions included Japan, the Netherlands, Switzerland, and the United States. The surveyed staff said they found the meetings to be useful in all cases, with almost half reporting that the meetings influenced the IMF’s policy advice, although those reporting such influence made very general observations on the nature of that influence, such as that “Labor market rigidities [were] one of the most important economic issues facing the country, as reflected in the country’s persistently high unemployment rate.”

<sup>13</sup>See Hammer and Warren (2009).

<sup>14</sup>Scholte (2009) covered Canada, France, and the United Kingdom among the advanced economies, although its focus was on PRGF-eligible countries and to a lesser extent the emerging economies. The report noted that the “largest number and the greatest depth of IMF interactions with civil society have so far always involved associations based in North America and Western Europe.”

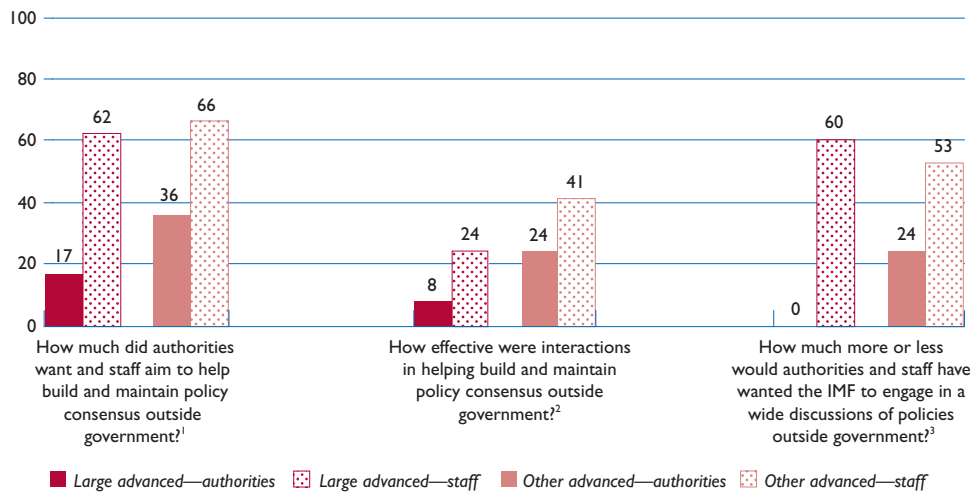
<sup>15</sup>“No response,” “not applicable,” or “don’t know.”

- *Market participants, think tanks, and academia:* In mid-2005, RES and area departments, especially the European Department, began conducting more outreach events associated with the *World Economic Outlook*. During the evaluation period, MCM and EXR worked to intensify outreach on the *GFSR* to financial markets and to the private sector, and greater efforts began to be made to use senior staff in outreach to key European financial centers. In October 2008, for the first time, the *WEO* and the *GFSR* were covered together during an international conference call in which analysts and academics from all over the world took part.
- *Media and other stakeholders.* IMF area departments also used *Regional Economic Outlooks (REOs)* to engage with the authorities and other stakeholders in member countries. EUR’s first *REO* was launched in London in 2007; the second in Frankfurt; and the third in Brussels. Along with country seminars and presentations, they provided opportunities for IMF senior staff to engage with technical staff, academics, and policymakers from a number of countries in the region, including in Austria, Belgium, France, Germany, Italy, and the Netherlands, and the United Kingdom. They also provided occasions for press briefings, conferences, and interviews, as well as meetings with other stakeholders. The presentations of APD’s many *REOs* were accompanied by outreach activities in major cities in the region, and at meetings of ASEAN and APEC. APD recently expanded its non-*REO*-related activities, both through media events and high-level regional seminars and conferences hosted by the Fund and also in collaboration with regional entities such as the Japan Bank for International Cooperation and the Hong Kong Monetary Authority. WHD’s *REOs* largely targeted the region’s emerging-market audience, with no events in Canada or in the United States.

## B. Constraints on more—and more effective—outreach

39. Fund staff faced considerable challenges in translating these outreach efforts into influence on policy debates within advanced economies during the evaluation period. In these countries, interactions with other stakeholders, especially the media, can in principle provide a source of traction which is otherwise in short supply. In underlining this point, one senior staff member stated that the overwhelming factor in the 2001–08 period was the transparency initiative, which led to a situation where the authorities



**Figure 6. Do the Authorities of Advanced Economies Want Outreach?**

<sup>1</sup>Share of respondents answering “a fair amount” or “very much!”

<sup>2</sup>Share of respondents answering “effective” or “very effective.”

<sup>3</sup>Share of respondents answering “somewhat more” or “much more.”

had a greater incentive to be interested in the work of the Fund because the media dimension became more important.

40. However, the survey evidence suggests that IMF outreach in their countries is not high on the advanced economies’ agenda, although staff see things differently. Indeed, as shown in Figure 6, only 17 percent of the respondents from large advanced economies and 36 percent of the respondents from the other advanced economies said they wanted the IMF to be involved at least to some extent in helping to build/maintain policy consensus through contacts outside government.<sup>16</sup> Asked whether the IMF was effective or not in this role, only 8 percent of the respondents from large advanced economies, and 24 percent of those from the other advanced economies, said the Fund was effective or very effective. The numbers for staff are much higher.

41. The evaluation survey also asked the authorities whether they wanted more, less, or about the same amount of outreach with a variety of groups going forward (Figure 7). The authorities from large advanced economies generally said they wanted “about the same” amount for parliamentarians, media, and CSOs, including think tanks, both before and after policy decisions were made. The only departure was with respect to market participants, for which 36 percent of the authorities from large advanced economies said they would like more outreach. The authorities

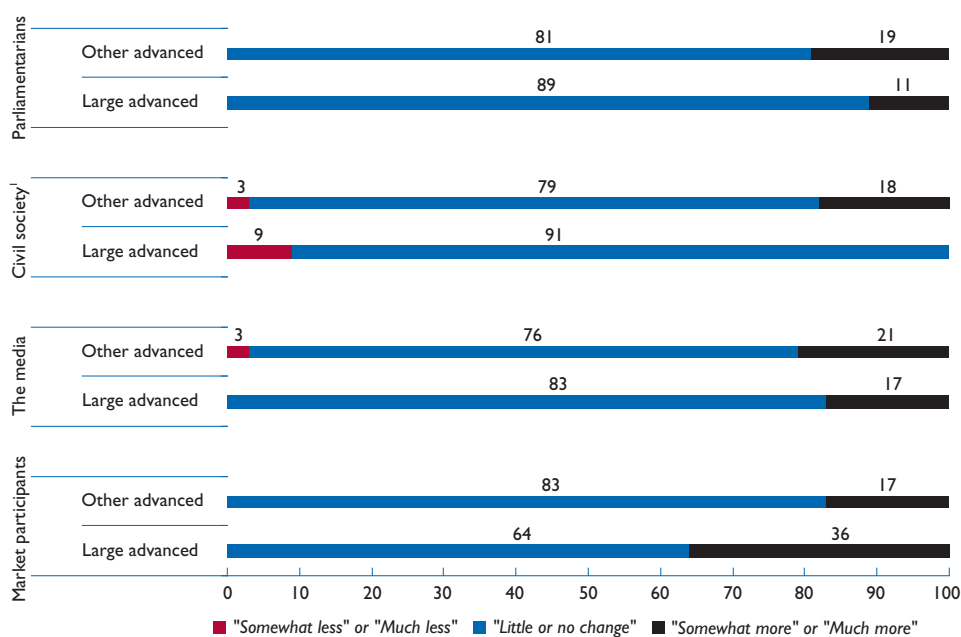
of other advanced economies wanted a little more outreach than the authorities from large advanced economies in most categories, but they did not highlight a need for extra outreach to market participants. The survey results also suggest that the authorities in the other advanced economies are more open to IMF engagement with civil society—80 percent of the civil society respondents in other advanced economies said that the authorities had encouraged their interactions with the Fund, compared with only 58 percent in the large advanced group.

42. Notwithstanding the limited enthusiasm for staff outreach indicated in the authorities’ survey responses, interviewed officials expressed an interest in the Fund doing more to communicate its views. One recurring suggestion was for greater use of end-of-mission roundtables with outsiders as well as officials, at which the conclusions could be presented and discussed. Another suggestion was to hold more seminars on particular country-specific issues—a move that would be strongly welcomed by think tanks, CSOs, and others. Interviewed officials generally supported the holding of end-of-mission press conferences, whose timing would be set in advance, even in countries where this is not yet the practice.

43. But internal documents and other interviews show that IMF staff pushed the authorities of several countries to do just this, to no avail. And the survey painted a different picture of the authorities’ views on such approaches. As shown in the right-hand panel of Figure 6, none of the respondents from the large advanced economies supported the idea

<sup>16</sup>The other response choices were framed in terms of “not very much” or “not at all.”

**Figure 7. Surveyed Authorities' Views on IMF Outreach: Do They Want More, Less, or About the Same?**  
(Percent of respondents)



<sup>1</sup>At an early stage of policy discussions.

of wider discussion through more public seminars and the like, and only 24 percent of the respondents from the other advanced economies wanted more.

44. The Fund website suggests that end-of-mission press conferences were held in only half the advanced economies during the evaluation period. Press conferences/calls associated with the publication of the Public Information Notice and the Staff Report took place in the remaining countries, with the exceptions of Australia and New Zealand. End-of-mission press conferences became more common over the course of the evaluation period, and the U.S. mission held a press conference for the first time in 2007. Among the large advanced economies, Canada (until recently), Japan, and the United States were the only countries that allowed this practice, with Switzerland among the other advanced economies. Among the evaluation sample countries, by 2008, all except New Zealand allowed for the publication of the concluding statement of the Article IV consultation mission.

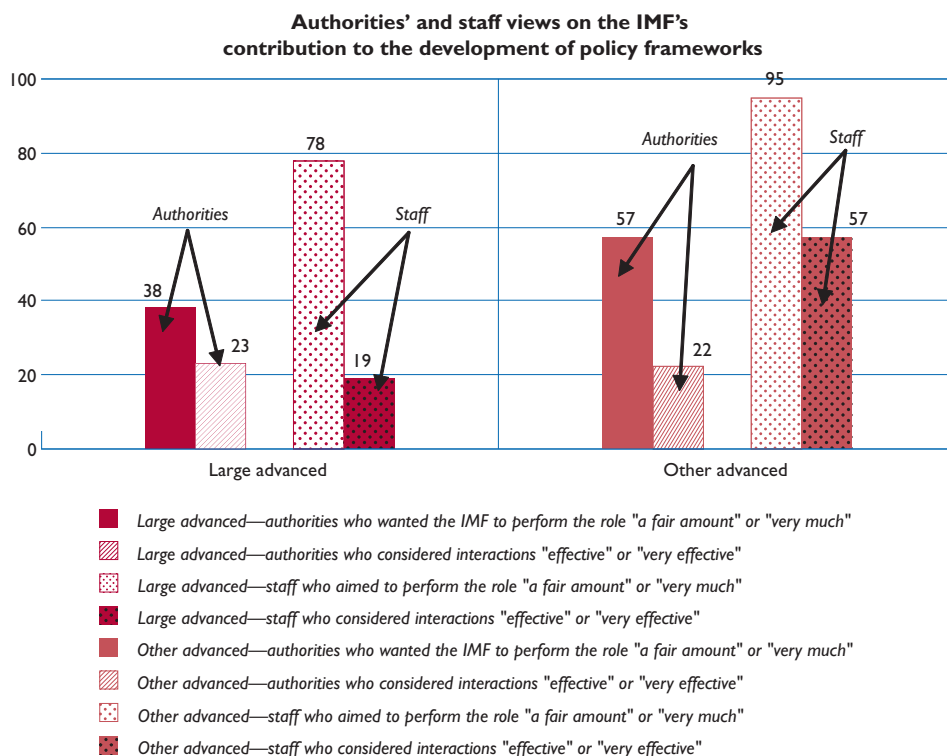
#### IV. Management of Interactions

45. Were interactions with the advanced economies well managed? This chapter addresses three dimensions

of this question—strategy, staffing, and relationship management. It draws the following conclusions:

- First, and important also for the other findings, the Fund did not have an effective strategy for increasing the interest of advanced economies in interactions with it beyond a good exchange of views, especially in view of the limitations on outreach discussed above.
- Second, the management of staffing helped with the large advanced economies, as mission chief tenures were longer than elsewhere. But rapid turnover was a major complaint of the other advanced economies, both in the survey and in the interviews. Across the advanced economies, staff sometimes sacrificed candor for harmony in the relationship—an approach that reduced tensions with important shareholders but did not enhance effectiveness. Meanwhile, staff skills, while good, did not have the cutting-edge power needed to get/sustain the attention of some authorities.
- Third, and more broadly, the Fund's approach to relationship management was not systematic: it fell short on staff incentives; Fund management's own interactions with authorities was uneven; and there were missed opportunities to the relationship with country authorities as circumstances changed.

**Figure 8. Views on the Fund’s Contribution to the Development of Policy Frameworks**  
(Percent of respondents)



## A. Strategy

46. As set out in Chapter I above, the Articles of Agreement require the Fund to exercise firm surveillance over members’ exchange rate policies. Article IV staff guidance covers the provision of information on (i) the country’s economic situation and outlook, (ii) confidential policy advice, and (iii) crucially for systemically important countries, the risk of international spillovers with adverse implications for external stability. Also, the guidance urges staff to “foster a frank policy dialogue that supports members’ receptiveness to Fund advice.”

47. Figure 8 captures the central strategic challenge that staff face in supporting the advanced countries’ “receptiveness to Fund advice.” While almost 80 percent of the surveyed staff working on the large advanced economies countries aimed to contribute to country policy frameworks, fewer than 40 percent of the surveyed officials from the large advanced economies said they wanted such contributions. For the other advanced economies, both numbers are slightly higher, but the disconnect between the authorities and staff is broadly the same. And in both cases, low effectiveness ratings followed.

48. But the scale of the disconnect between the authorities’ and staff views on priorities for interactions went much further. As touched on in Chapter II and summarized in Box 5, there were very large differences between what the authorities thought were worthwhile activities for interactions and what staff thought. For the large advanced economies there were four roles for which the staff and the authorities had differences of view of between 40 and 60 percentage points. For the other advanced economies, there were similarly large differences between the authorities and staff on the purposes of interactions, but also several areas of agreement on high priority items (independent assessment and good exchange of views) and low priority items (programs and capacity building). These large differences raise questions about how such large differences in perspectives have persisted and their implications managed.

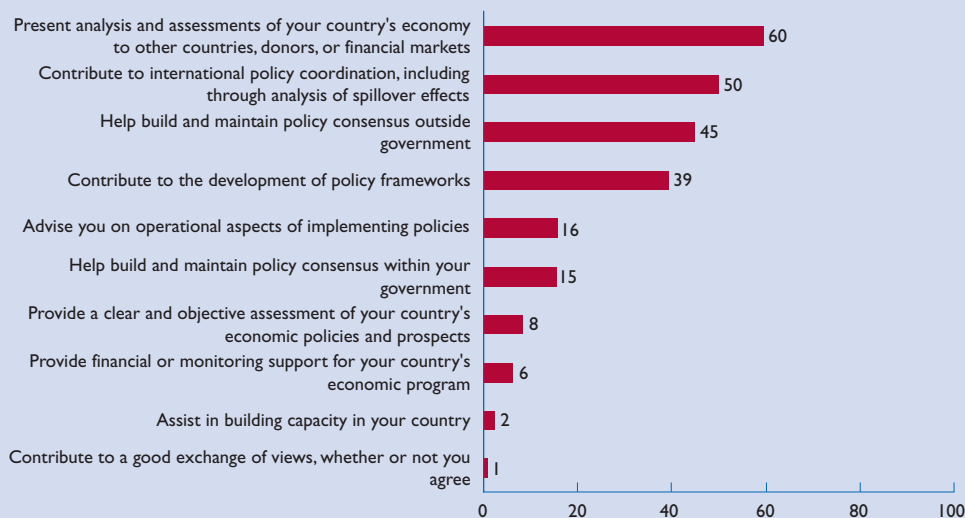
49. In this context, the evaluation evidence suggests the Fund lacked an effective strategy for bridging such large differences in perspective about the role of the Fund in the advanced economies. The picture that emerges from the interviews and internal documentary evidence, including the surveillance agendas—suggests a three-pronged strategy for the Fund’s

### Box 5. Strategic Dissonance Between the Authorities of Advanced Economies and Staff

**Large advanced economies.** The figure below shows the underlying survey data on the relevance of ten queried purposes. For each of the ten items, it shows the proportion of staff working on the large advanced economies who responded that they had aimed to carry out the role

“a fair amount” or “a great deal” minus the proportions of the authorities of the large advanced economies who said they wanted the fund to engage in that role “a fair amount” or “a great deal.”

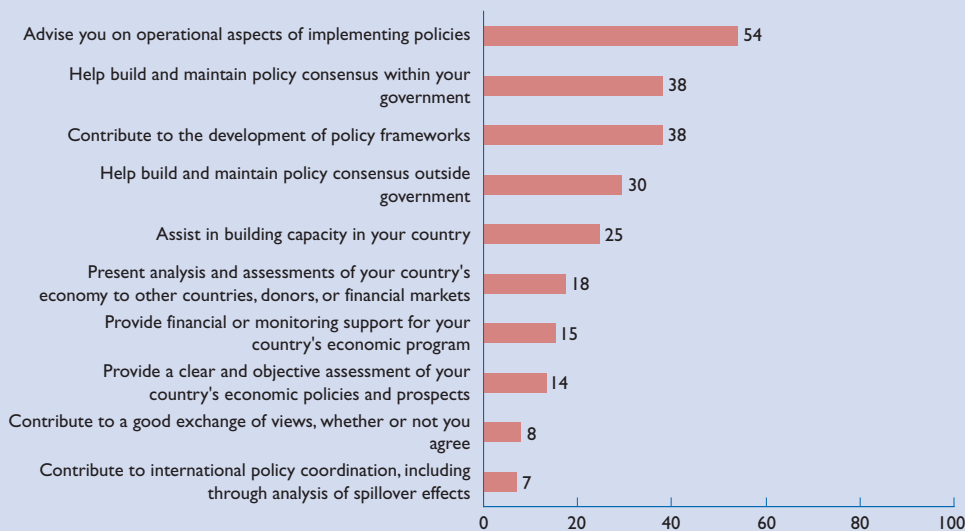
*(Percent of staff who thought IMF "aimed" to perform each role minus percent of authorities who "wanted" the IMF to do so)*



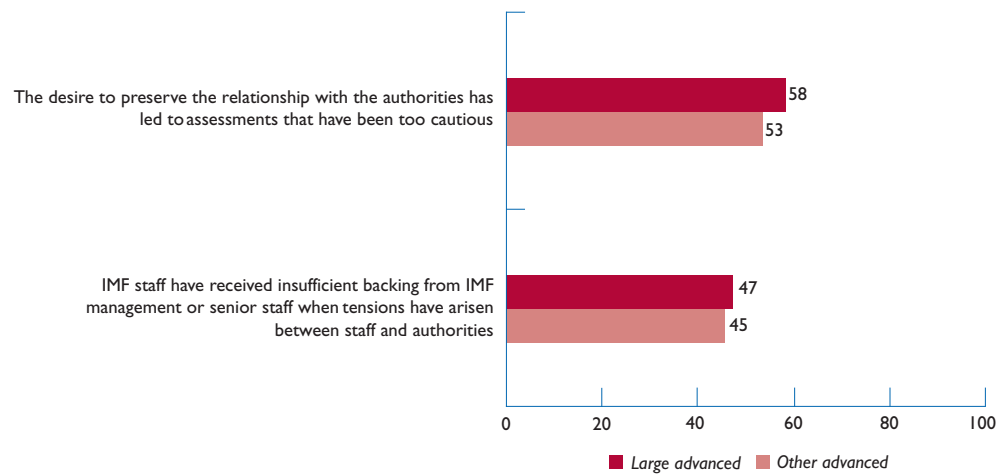
**Other advanced economies.** The figure below shows the underlying survey data on the relevance of ten queried purposes. For each of the ten items, it shows the proportion of staff working on the other advanced economies who responded that they had aimed to carry out the role

“a fair amount” or “a great deal” minus the proportions of the authorities of the other advanced economies who said they wanted the fund to engage in that role “a fair amount” or “a great deal.”

*(Percent of staff who thought IMF "aimed" to perform each role minus percent of authorities who "wanted" the IMF to do so)*



**Figure 9. Staff Views on Cautious Assessments and Management Support**  
(Percent of staff answering "strongly agree" or "agree")



approach to interactions with the advanced economies at the country-level, consisting of: (i) writing reports; (ii) avoiding conflict with the authorities; and (iii) to enhance traction, pursuing as much in-country outreach as the authorities felt comfortable with. But these efforts amounted to little more than swimming against the tide. Meanwhile, other evaluation evidence—from the surveys (see Figure 7, for example) and the authorities' interview evidence discussed in Chapter II—shows that the strategy failed to achieve effective interactions, especially in the large advanced economies.

50. Staff are clearly aware of the problem. As illustrated earlier in the chapter (in Figure 2), staff working on the large advanced economies rated the effectiveness of interactions much lower than did staff working on any other country group/subgroup, and lower than did the authorities of any country group/subgroup. Only 22 percent of staff survey respondents working on large advanced economies said they thought interactions were effective/very effective for the evaluation period as a whole and only 45 percent thought so for 2007–08, compared with 70–83 percent for the other four country groups. In other words: staff working on large advanced economies do not feel that they are getting through.

## B. Staffing

51. Discussed below are three staff-related issues highly relevant to strategy: staff independence and candor, skills, and continuity. On independence and candor, the evidence raises questions about staff independence in preparing and presenting professional assessments to the authorities; it also highlights the lack of institutional guidance and training to staff on managing trade-offs between candor on the one hand and

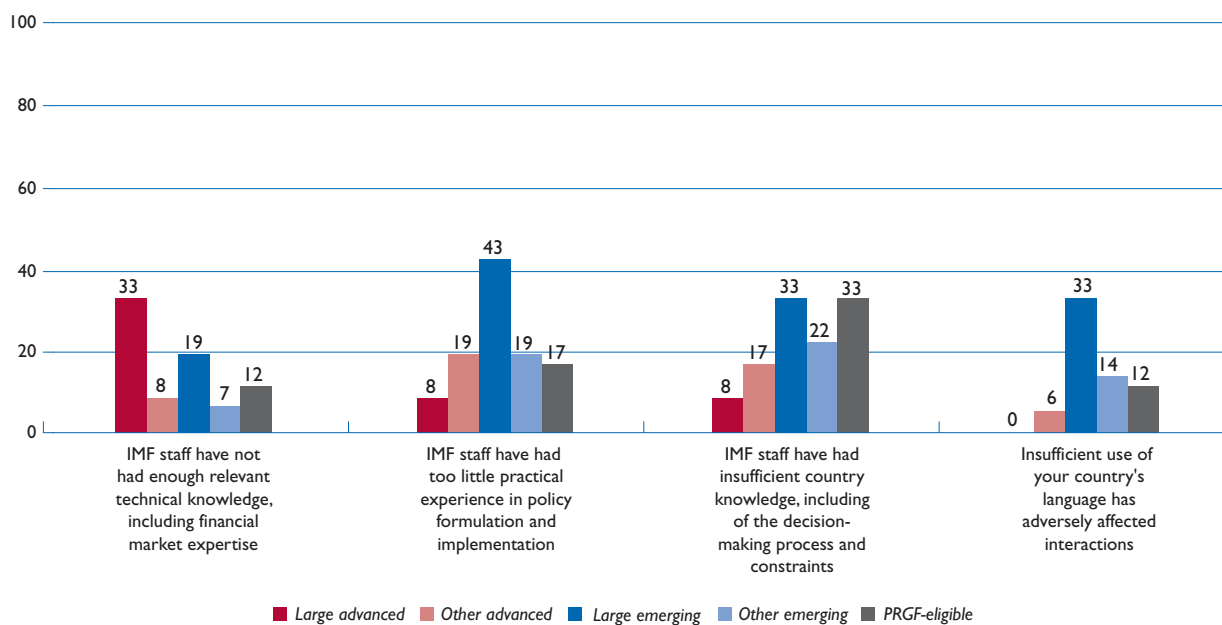
diplomacy on the other. On skills, the survey results for the large advanced economies and the interviews with officials from both the large and other advanced economies point to the importance of professional excellence for obtaining traction, and also communications skills for delivering tough messages. Finally, for the other advanced economies albeit not for the large advanced economies, limited staff continuity deterred the building of relationships of trust between the staff and the authorities.

## Professional independence and candor

52. The evaluation evidence suggests that management and staff strove to avoid disagreements with the authorities as far as possible, with very difficult implications for institutional integrity and staff morale. 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,” as shown in Figure 9.<sup>17</sup> Asked whether they had received insufficient management support when tensions arose, 46 percent agreed or strongly agreed (47 percent of the staff working on large advanced economies and 45 percent of the staff working on other advanced economies).

53. Evaluation interviews generally corroborated the survey finding that staff had toned down their conclusions. One staff member said that their strategy was to try not to antagonize the authorities because of the risk that they would pick up the phone to management and complain. Another said management was

<sup>17</sup>These ratings suggest that staff are somewhat more cautious with advanced countries than with countries in other groups. See Figure 14 of the main report.

**Figure 10. Authorities' Views on IMF Staff Skills***(Percent of authorities who responded "agree" or "strongly agree")*

not inclined to push hard on sensitive issues such as banking reform. And yet another said management effectively told the team that they did not want the mission to say anything that the finance minister did not like. And from the authorities, one official of a large advanced economy was of the view that the staff message is generally not given firmly enough. And another said that there might be occasions where they would welcome stronger pressure from the Fund, either put confidentially to the minister or even in the concluding statement. Yet another confided that much effort is put into influencing the staff's final press statement to ensure that it is supportive of the authorities' policy. He also said that in his experience, mission chiefs have been too ready to tone down their conclusions at the last minute after discussion with officials.

54. But several of the interviews provided nuances. One staff member who had worked on large advanced economy said that when staff disagreed with the authorities' analysis, it was often professionally difficult to push back: given the depth of the analytic capability underpinning the authorities' position, it often seemed prudent to accept that position. In the view of one mission chief it is hard to add value when the other side has 30–40 Fund-level economists. Another wondered what five or six economists could bring to bear; the tendency was to give the authorities the benefit of doubt. Though several interviewees portrayed staff as cautious, and sometimes overly so, some saw the staff approach as

diplomatic and helpful for getting results. Indeed, as one government official said, it was helpful that the tone of exchanges and advice was not confrontational and that helps get things done.

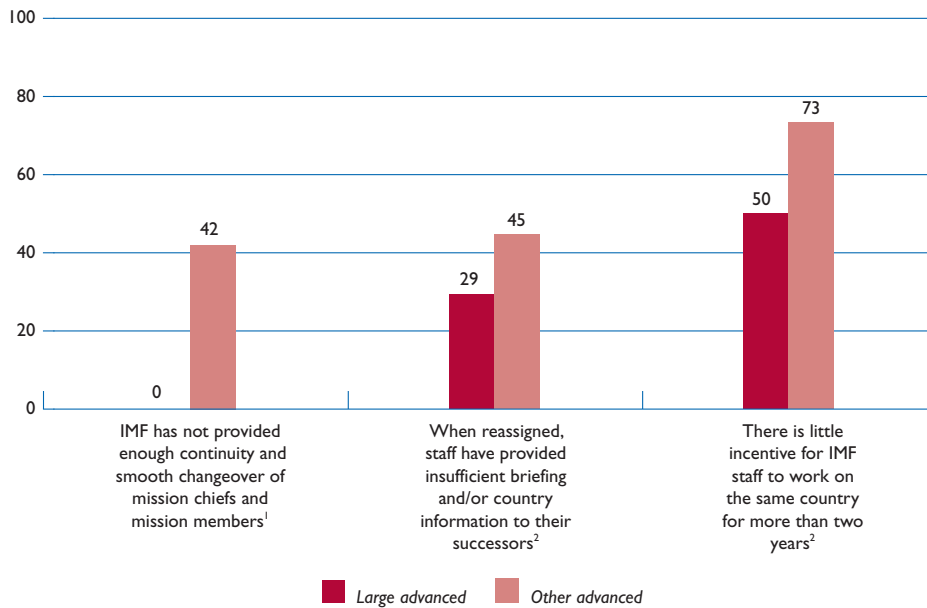
### Skills

55. Advanced economy authorities' responses to the evaluation survey generally portrayed staff as respectful, well prepared, and well educated. Figure 10 shows that survey respondents from the large advanced economies thought that Fund staff had adequate country knowledge and practical experience, but too little relevant technical knowledge, including financial sector expertise. Some of the authorities (fewer than 20 percent) from the other advanced economies voiced concern about the staff's country knowledge and practical experience in policy formulation. Figure 10 also suggests that IMF staff language skills were not a major issue in the advanced economies—either for the authorities from large and other advanced economies. This said, in interviews both national officials and staff noted that language skills were of course important, if mission chiefs were to interact with ministers in non-English-speaking countries and to help get a sense of the politics of a country.

56. The evaluation interviews also supported these generally favorable views about staff skills, albeit with a few concerns—again mostly on the financial sector. On the positive side, interviewees from one evalua-



**Figure 11. Staff Turnover and Continuity**  
(Percent of respondents)



<sup>1</sup>Percent of authority respondents who answered "agree" or "strongly agree."

<sup>2</sup>Percent of staff respondents who answered "agree" or "strongly agree."

tion sample country praised the strong professionalism of staff on macroeconomic issues; interviewees from another highlighted the staff's knowledgeable engagement on inflation targeting; and, from yet another, the quality of staff work on consumer debt levels and housing market valuations. On the negative side, interviewees from one country observed, as noted earlier, that for part of the evaluation period the mission team lacked enough experience of the nonbanking financial sector to be able to conduct a rigorous financial sector assessment.

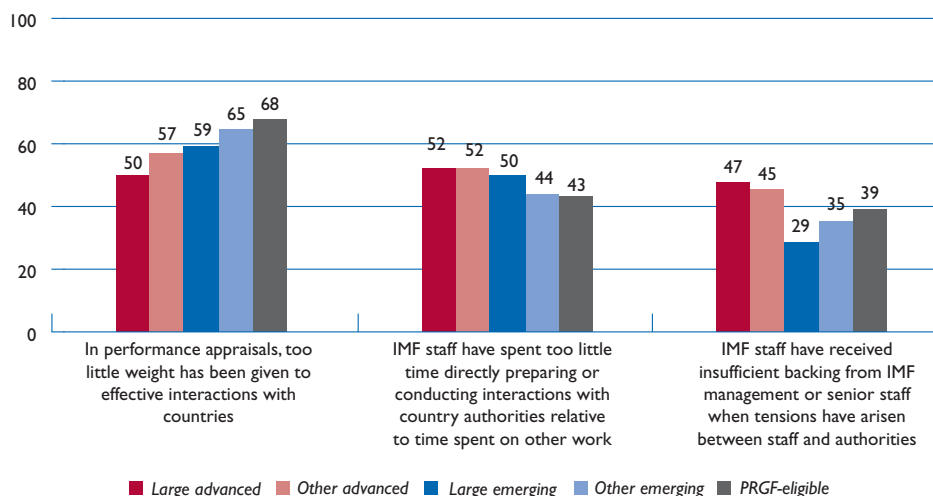
### Turnover

57. Staff continuity clearly affects the institutional relationship. In this context, IMF staff turnover was a concern for the authorities of many of the other advanced economies, though not for the authorities of the large advanced economies countries. As shown in Figure 11, more than 40 percent of the survey respondents from the other advanced economies said that the Fund had not provided enough continuity or a relatively smooth changeover of mission chiefs and mission members. None of the survey respondents from the large advanced economies shared this view.

58. This difference among the advanced country groups is also reflected in the staff survey responses. Half of the staff working on large advanced economies

and 73 percent of those working on other advanced economies said that staff had little or no incentive to work on a country for more than two years. The latter proportion is similar to those for the PRGF-eligible and emerging market country groups. In turn, these responses are consistent with the finding that the tenure of mission chiefs working on large advanced economies was roughly twice that for the other advanced economies. Also, 29 percent of the staff working on large advanced economies, and 45 percent of the staff working on other advanced economies, said that they had received too little briefing/handover from their predecessors.

59. Interviewed authorities expressed a range of views on the turnover issue. Some country officials were quite relaxed about staff turnover. Other officials—mostly from other advanced economies—saw staff turnover as a problem, echoing concerns raised by officials of some emerging economies and PRGF-eligible countries. Some highlighted the costs to the authorities of educating new mission chiefs about country conditions and institutions, while others said they thought that turnover had worsened, with many changes to the Article IV team and new members not as knowledgeable as those they replaced. But others thought things had improved, indicating that continuity in the discussions required that IMF staff turnover not be too rapid: this had been the case some years

**Figure 12. Staff Incentives for Interactions***(Percent of staff who responded “agree” or “strongly agree”)*

back and the situation is now better. These differences of view were also reflected in the survey results, and in the evaluation interviews with banking association members, one of whom said that turnover did not matter one way or the other, as there were no discernable differences between mission chiefs; all were experts with a clear view, while recognizing that differences in personal style reflected the variety of cultures of the different mission chiefs' home countries. However, another observer remarked that the costs of staff rotation should not be underestimated.

60. Interviewed staff spoke more generally about Fund turnover policies than about the specifics pertaining to the advanced economies. One mission chief said that excessive turnover of country teams was a major problem, and reflected the fact that management had sided with “staff vested interests” in frequent turnover. He deplored the fact that mistakes were made because the staff did not know about country-specific factors. Another noted that the institution does not nurture country specialists as did the OECD, for example.

### C. Relationship management

61. The authorities' responses to the survey gave mixed signals about how the Fund managed its relationship with them. As shown in Box 4 of the main report, all of the large advanced economies and 89 percent of the other advanced economy survey respondents said the Fund's relationship management was conducive to effective interactions. But far fewer of them rated highly the Fund's performance on long-term strategic approach to the relationship. Only 54 percent of the responding authorities from

large advanced economies (and 65 percent of those from other advanced economies) thought the Fund did a good or excellent job here, with about 38 percent of large advanced economy respondents (and 24 percent for other advanced economies) rating the Fund's performance as “average.”<sup>18</sup> Meanwhile, the BIS and ECB scored better in the survey questions on relationship management.

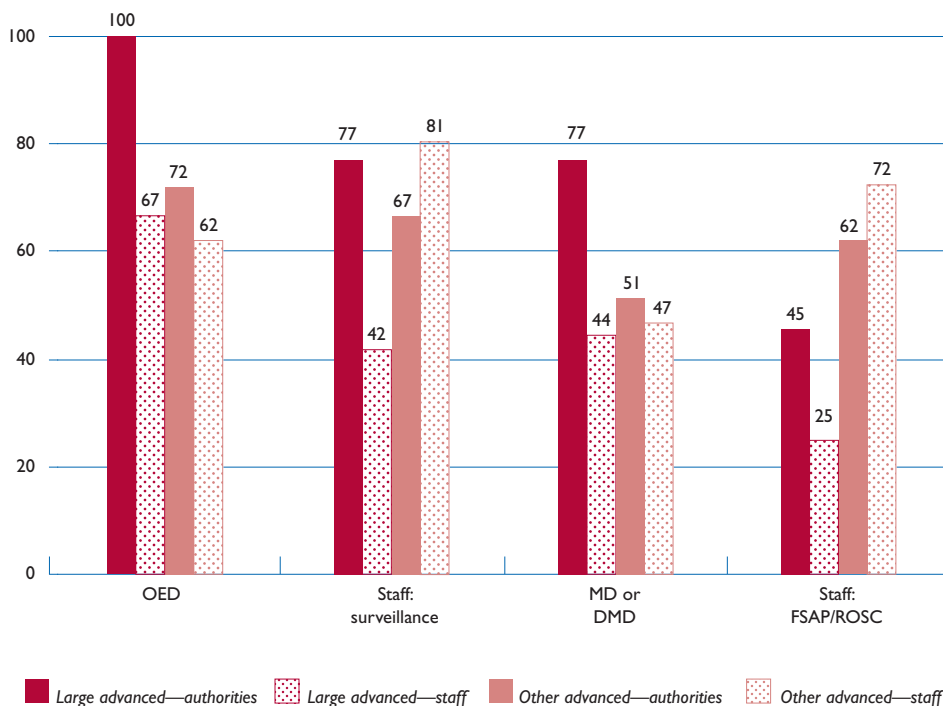
62. The evidence also points to several specific qualitative concerns, discussed below, including (i) staff incentives; (ii) the conduct of IMF management's interactions with the authorities; and (iii) the care with which the institution has addressed the particular sensitivities and concerns of country counterparts.

#### Staff incentives for interaction

63. Area department staff said that face-to-face interactions with the authorities and other stakeholders were neither satisfactorily rewarded nor resourced. About 55 percent of staff respondents working on advanced economies said that such interactions with the authorities was given too little weight in their annual performance reviews. More than 50 percent said they thought too little time was devoted to interactions relative to other work. More than 45 percent reported not getting adequate support from senior staff and/or management on disagreements with the authorities. As Figure 12 shows, these concerns are not limited to staff

<sup>18</sup>Staff were more sanguine: 60 percent of those working on G-7 economies, and 82 percent of those working on other advanced economies, thought the Fund did a good or excellent job.

**Figure 13. Authorities' and Staff Views on IMF Interlocutors**  
(Percent of respondents)



Note: Shows the share of authorities who responded that interactions were “effective” or “very effective.” Results for staff working on FSAPs/ROSCs include only those who interacted with them.

working on the advanced economies, but rather are endemic across area department staff.

### Effectiveness of different interlocutors

64. The survey results suggest that some channels for interactions with the authorities were more effective than others, with IMF management the least effective of all. Figure 13 shows the responses of authorities and staff to the survey question on the effectiveness of three channels of interaction for the advanced economies—staff working on surveillance, staff working on FSAP/ROSCs, the Executive Directors’ offices, and IMF management. The highest survey ratings from the authorities of the large advanced economies and the other advanced economies went to the Executive Directors and their staff; and the lowest went to FSAP staff by the respondents from the large advanced economies, and to the Managing Director/Deputy Managing Director (MD/DMD) by respondents from the other advanced economies. The MD/DMDs scored much higher among the authorities from the large advanced economies. Among the staff, only 44 percent thought MD/DMDs interactions were effective. In interviews, a few staff pointed to instances when, in their

view, management had been ineffective in pursuing important issues during meetings with authorities.

### Missed opportunities

65. Interviews with authorities and staff point to a number of instances where the Fund missed opportunities to strengthen the country relationship. For example, the Fund lost influence with the authorities in a large advanced economy following a change in government that saw the retirement of a key individual who had been a conduit for, and actively sought, the Fund’s advice; subsequently mission staff could not re-establish substantive contact on a regular basis with senior management in the finance ministry and did not meet with the finance minister. In another large advanced economy, where there was a long tradition of interactions between the Fund and staff in the main economic institutions, Fund staff had access to officials at the highest levels, including very good access to the finance minister at mission-end; however, over the last few years of the evaluation period, Fund staff observed that senior officials tended to be less open, advancing the standard policy line and prepackaging the discussions, while meetings were short, and senior officials

did not appear to be actively engaged. In-country presence, in this case Korea, exemplified another type of missed opportunity: after a long period of rebuilding the relationship after the East Asia crisis, Fund management decided to close the resident representative office in Seoul, despite widespread advice to the contrary, to the effect that closure would undermine hard-won trust and constitute a significant loss of on-the-ground perspectives and ongoing contacts with banking and other groups.

## V. Conclusions

66. The evidence presented in this paper points to limited effectiveness of IMF interactions with the advanced economies, and especially the large advanced economies. The authorities of many of these countries had limited interest in the work the Fund could provide beyond an objective assessment of policies and prospects and an exchange of views, interactions they widely considered to be effective. One important topic on which most large advanced economies did not want to interact with the Fund on international coordination of policies and the analysis of economic and financial spillovers, for which they rated interactions as ineffective. The other advanced economies had greater interest in a Fund role here, but they also rated interactions on it as ineffective. In areas such as cross-country analysis and macro-sectoral linkages, the evidence considered suggests that staff did a lot of papers but did not succeed in making its mark with the advanced economies.

67. The Fund's transparency policy, launched at the start of the evaluation period, affected interactions in important ways. It clearly influenced interactions with stakeholders such as the media, contacts with which grew over the period. It also affected interactions with the authorities themselves. Fund staff saw the transparency initiative as a vehicle for gaining leverage with the authorities of the advanced economies, who now had to worry about what the Fund said. However, the authorities of some advanced economies that had been major proponents of the Fund's transparency policy in practice resisted the timely disclosure and dissemination of mission findings. This greatly diminished the scope for enhanced leverage.

68. In evaluating the management of interactions, the paper focused on strategy, staffing, and relationship management. On strategy, the evidence points to large differences between the authorities and staff on priorities for interactions. It also suggests the Fund lacked an effective strategy for bridging these differences and for increasing the authorities' interest in the analysis it could provide. On staff-related issues, a particularly troubling finding—emerging from the evaluation interviews with the authorities and staff as well as from the staff survey—is that a desire to preserve the country relationship (and possibly protect their careers) had led to assessments that were too cautious. Clearly a desire to please the authorities, or at least to avoid displeasing them, was a fact of life for staff working on the advanced economies, and a challenge to the independence of their analysis. On relationship management, the paper found missed opportunities for strengthening the country relationship, underpinned by weak staff incentives.

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# IMF Interactions with Emerging Economies

## I. Introduction and Overview

1. This paper examines IMF interactions in emerging economies. It focuses on interactions with the authorities during 2001–08, with particular attention paid to 2007–08. Like the companion papers on the advanced economies and the PRGF-eligible countries, it considers the extent to which interactions were effective and well managed. Like them, it also looks at interactions with country stakeholders beyond the authorities, especially as they affected the primary relationship with the authorities.

2. The paper finds that IMF interactions with the large emerging economies had limited effectiveness; they were more effective with the other emerging economies. The large emerging economies rated interactions with the IMF lower than the other emerging economies. These differences reflected the two groups' different perspectives on the relevance and effectiveness of individual IMF roles, especially on contributions to the development of policy frameworks, programs, and capacity building, but on other roles as well. A key driver of these differences was the large emerging economies' declining interest in the Fund's existing products and services—which in some cases entailed a transition from a program to a surveillance-only relationship and a dramatic decline in the Fund's influence—and the Fund's lack of a strategy for dealing with it. Meanwhile, many authorities of large emerging economies found the surveillance process provided little value added and/or lacked evenhandedness, especially vis-à-vis advanced economies. In trying to increase traction, staff launched a number of initiatives—including new modalities, expanded outreach, and stepped up country analysis on a case-by-case basis—which had limited impact overall given the scale of the challenge to the Fund's relevance. For the other emerging economies, the evaluation found some of these same issues, albeit to a smaller degree, and a wide variety of experience. Importantly, their problems with interactions tended to be more straightforward, related to the management of turnover and these countries' desire for greater institutional attention to the challenges they faced. In such circumstances,

successes came easier as solutions were more amenable to individual country teams' ability to meet countries' particular circumstances.

3. The evidence and analysis that lead to these conclusions are developed in the remainder of this paper, which is structured as follows. This first chapter profiles the emerging economies and the evidence on which the paper is based, and summarizes the policy guidance governing interactions during the evaluation period. Chapter II discusses interactions with the authorities, first, providing an overview based on the survey evidence and the country case studies and, second, examining in turn the evaluation evidence on programs and transitions; surveillance; and knowledge transfer and capacity building. Chapter III discusses interactions with other in-country stakeholders beyond the authorities. Chapter IV discusses the management of interactions, taking up in more detail issues of strategy, style, and relationship management. Chapter V concludes. An annex contains the list of countries covered by the paper.

### A. Country coverage

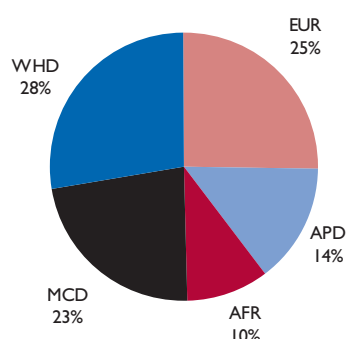
4. The paper covers IMF interactions with 81 economies in the *WEO* definition of emerging economies<sup>1</sup>—a large and diverse group in the Fund's membership.<sup>2</sup> They range from large federations such as Brazil, China, India, and Russia to small island economies such as Barbados and St. Kitts and Nevis. Some, like China, because of their size and systemic importance in the world economy, have implications for surveillance similar to those of advanced countries. Together, the emerging economies had a combined GDP of nearly \$18 trillion in 2008, accounting for 30 percent of global GDP measured in current exchange rates; they represent 64 percent of global population. Together, they

<sup>1</sup>For purposes of the evaluation, emerging economies are those economies not included among the advanced economies, and are not eligible for PRGF resources (India being an exception). Macao and Montenegro were not surveyed. Macao did not have Article IV consultations during the evaluation period.

<sup>2</sup>Annex 1 lists the 81 emerging economies considered in the paper.



**Figure 1. Distribution of Emerging Economies Across IMF Area Departments**



account for about 32 percent of Fund quotas. Of 24 Executive Directors on the IMF Board, 19 have emerging economies in their constituencies.

5. Within the group, the paper looks at “large emerging economies” and “other emerging economies.” The “large” category includes 19 countries, which together account for 24 percent of global GDP. The “other” category includes 62 countries and territories, which together account for about 6 percent of global GDP.

6. IMF interactions with emerging economies are managed by all five Fund area departments. As shown in Figure 1, 28 percent of emerging economies are covered by the Western Hemisphere Department (WHD), 25 percent by the European Department (EUR), 23 percent by the Middle East and Central Asia Department (MCD), 14 percent by the Asia and Pacific Department (APD), and 10 percent by the African Department (AFR).

7. The evaluation used a sample of 23 emerging economies for more in-depth analysis. The sample consisted of 9 large emerging economies (Brazil, China, Egypt, India, Indonesia, Russia, South Africa, Thailand, and Turkey), and 14 other emerging economies (Algeria, Barbados, Botswana, Bulgaria, Costa Rica, Czech Republic, Kazakhstan, Kuwait, Lebanon, Lithuania, Oman, Suriname, St. Kitts and Nevis, and Trinidad and Tobago).

8. These countries engaged in a variety of activities with the IMF. Each received extensive technical assistance in almost every year. Each engaged in Article IV consultations.<sup>3</sup> With the exception of China, Indonesia, and Suriname, each participated in the FSAP just before or during the evaluation period.<sup>4</sup> Brazil, Bulgaria, Indonesia, Kazakhstan, Lebanon, Lithuania, and Turkey had program arrangements for part of the evaluation period.

<sup>3</sup>Although discussions took place, no Article IV consultation with China was concluded in 2007 or 2008.

<sup>4</sup>St. Kitts and Nevis participated through the ECCU.

## B. Evidence base

9. Sources of evidence for this paper include survey, documentary, and interview data developed specifically for the evaluation.<sup>5</sup> (They are detailed in the accompanying background technical documents.)

10. The evaluation’s extensive survey evidence covers the authorities and civil society organizations (CSOs) in emerging economies, and IMF staff working on these economies. A response to the survey was received from either the central bank or finance ministry, or from both, in 17 of 19 large emerging economy authorities (89 percent) and 43 of 62 other emerging economy authorities (69 percent).<sup>6</sup> Responses to the staff survey totaled 296 who worked on emerging economies (95 on large and 201 on other emerging economies). The civil society survey received 290 responses from civil society representatives in 69 of the 81 emerging economies (87 respondents from CSOs in large and 203 respondents from CSOs in other emerging economies).

11. Evidence was also gathered from confidential interviews with authorities and Fund staff. Interviews were conducted with respect to 8 large emerging economies and 13 other emerging economies in the sample; the authorities of the remaining sample countries, one large and one other, sent a written response to the interview questions.<sup>7</sup> Interviews were conducted with 27 mission chiefs and/or resident representatives working on the 9 large emerging economies and 27 mission chiefs and/or resident representatives working on the 14 other emerging economies. The evaluation team also conducted interviews with authorities from and staff working on emerging economies outside the sample countries as opportunities arose. Interviews took place in Washington during the IMF Spring and Annual Meetings, during other visits by the authorities or staff to Washington, and by telephone. The evaluation team also visited Algeria, Kuwait, Lebanon, and Oman, following up the evaluation questionnaire that had been sent to the authorities. Additional targeted

<sup>5</sup>The evaluation managed interpretation risks by applying judgment grounded in triangulation across individual sources of evidence, which—as in all such endeavors—may contain measurement errors. The evaluation survey was quite complex, with many questions and many respondents from a large number of countries; all this raises the risk that some questions may have been interpreted differently by different recipients. Also, interview bias is a common feature of such evidence, subject to potential biases of both sides. Finally, the use of the documentary evidence, of course, is subject to many sources of bias, not the least of which is its having been written for another time and another audience—one quite familiar with the Fund’s culture and issues, and one where strict word limits apply to all documents, so that many issues of interest receive quite abbreviated attention.

<sup>6</sup>For the authorities’ survey, one questionnaire was sent to the ministry of finance and one to each national central bank, requesting an institutional rather than a personal response.

<sup>7</sup>The interviews with authorities were at the level of finance ministers, central bank governors, or senior officials.



interviews were conducted to assess the role of resident representatives and management of them in interactions in 5 large emerging market economies. These additional interviews were conducted with current and former resident representatives, as well as mission chiefs and country officials who interacted with the resident representatives.

12. The evaluation team reviewed the Fund's extensive internal documentary record for the 23 countries in the evaluation sample. The material included confidential briefing memoranda to IMF management, mission back-to-office reports, and interdepartmental correspondence on related country issues. Such material gave the IEO a window into internal debates about staff positions on particular issues, if/how IMF management may have weighed in on an issue, and how country views influenced the internal debate and decisions.

13. Other evidence includes data developed for earlier IEO evaluations; IMF ex post assessments, which are available for three of the 23 sample countries; and special studies commissioned by the IEO for the evaluation.

### C. Policies and guiding principles

14. The emerging economies are the most varied of the three country groups considered in the evaluation. Depending on country conditions and IMF activities, some emerging economies are similar to advanced countries in terms of policy challenges and institutional capacity, while others are closer to PRGF-eligible countries in terms of the challenges they face and their interactions with the Fund. Accordingly, the Fund's interactions with emerging economies run the gamut of the Fund's activities, with the exception of access to concessional resources. There is no overarching institutional strategy for engaging emerging economies; IMF interactions with them are governed by the policies and guidelines that apply to all members.

#### Programs

15. Two issues of relevance to some emerging economies over the evaluation period (considered in subsequent chapters) are Fund lending instruments and conditionality. Fund financial assistance to emerging economies is provided primarily through Stand-by Arrangements (SBAs) to help countries with short-term balance of payments problems; they may be provided on a precautionary basis, both within the normal access limits and in cases of exceptional access. Financial assistance provided to the large emerging economies during the evaluation period was mainly under SBAs. The Extended Fund Facility (EFF) is available to help countries address longer-term balance of payments problems requiring fundamental reforms; the financial assis-

tance extended to other emerging economies over the evaluation period was mainly under the auspices of EFFs. The Contingent Credit Line (CCL) was established in 1999 to provide a precautionary line of credit to members with sound economic policies, but who were vulnerable to contagion effects from capital account crisis in other countries. The CCL was never used and expired in November 2003.<sup>8</sup>

16. The Fund's approach to conditionality evolved over the evaluation period. It began in 2000 with new staff guidance to narrow the scope of structural conditionality to conditions that were "macro relevant." In 2002, guidelines called for "parsimony" and "criticality" in the use of conditions. In its 2005 review of the guidelines for conditionality, the Board welcomed streamlining on the breadth of coverage of structural conditionality, although that there had not been much in the way in a reduced number of conditions. Following a 2007 IEO evaluation of structural conditionality, the Board concluded that Board documents should provide a clear description of the links between structural conditionality and program goals and supporting reforms. Guidance was contained in "Revisions to the Operational Guidance Note on Conditionality" of July 2008.<sup>9</sup>

#### Surveillance

17. Guidance on surveillance flows directly from the Articles of Agreement. Article IV states that "the Fund shall exercise firm surveillance over exchange rate policies of members, and shall adopt specific principles for the guidance of all members with respect to those policies." For most of the period covered by the evaluation, operating principles for surveillance were contained in the 1977 Surveillance Decision and associated guidelines. The main principle guiding exchange rate policies was that members should avoid exchange rate manipulation to prevent balance of payments adjustment or gain an unfair competitive advantage. Protracted large-scale intervention in one direction in exchange markets, for example, would be cause for discussion with a member as it could be inconsistent with the international adjustment process. The decision was to be reviewed every two years.

18. Staff guidance for bilateral surveillance was contained in the "Operational Guidance Note for Staff

<sup>8</sup>In March 2009, after the period considered here, but while the survey and other evidence was being gathered, the Board established the Flexible Credit Line (FCL). The new FCL provides a credit line with large upfront financing to members with very strong fundamentals and institutional policy frameworks, and that have track records of very strong policies and remain committed to maintaining such policies in the future. There is no traditional ex post conditionality nor prior actions.

<sup>9</sup>The approach to IMF conditionality was changed in March 2009. See PIN No. 09/40, April 3, 2009, <http://www.imf.org/external/np/sec/pn/2009/pn0940.htm>.

Following the 2002 Biennial Surveillance Review,” September 2002. It was updated in the May 2005 “Surveillance Guidance Note.” Essential elements of surveillance were: a clear depiction of the economic situation; a candid analysis of the short-term economic outlook; a clear assessment of the prospects for noninflationary longer-run growth; a substantive policy discussion; and pointed summaries of staff’s analysis and policy conclusions. Coverage and focus included: the range of issues covered, including nontraditional but macroeconomically relevant areas; selectivity; evenhandedness; trade matters; governance; candor, particularly the treatment of exchange rate issues; fiscal issues; financial sector issues; vulnerability assessments; indicators of external vulnerability; debt sustainability analysis; and reporting on social indicators.

19. The June 2007 Surveillance Decision introduced the concept of external stability as the organizing principle for bilateral surveillance. The decision provided guidance on the conduct of exchange rate policies to cover all major causes of external instability. It also set out the modalities of effective modern surveillance, including its collaborative nature, the importance of dialogue and persuasion, and the need for candor and evenhandedness. Interim guidance, “Implementing the 2007 Surveillance Decision—Interim Guidance Note,” was available in June 2007. The interim guidance included the requirement for a clear assessment of the exchange rate level, and, if fundamental misalignment causing external instability were present beyond “any reasonable doubt,” there had to be a clear statement that this is so. In the event, the categorization of an exchange rate as fundamentally misaligned proved difficult to implement, and the guidance was later revised to remove the requirement to use the term “fundamental misalignment” in recognition of the uncertainty in attributing economic outcomes to exchange rate policies alone.<sup>10</sup>

20. There is separate guidance for the financial sector, which was provided in “The 2004 Financial Sector Guidance Note.” Current guidance, albeit issued after the evaluation period, is contained in “Financial Sector Guidance Note,” April 24, 2009. There is also separate guidance for FSAPs and FSAP updates.<sup>11</sup>

### Technical assistance

21. For technical assistance, the 2001 policy statement highlighted the importance of country ownership

<sup>10</sup>See the “Statement of Surveillance Priorities” October 2008, and “The 2007 Surveillance Decision: Revised Operational Guidance” June 2009.

<sup>11</sup>See <http://www-int.imf.org/depts/pdr/Surveillance/Financial-Sector/FSAP/fsap-procedures-guide.pdf>; <http://www-int.imf.org/depts/pdr/Operational-Guidance/Surveillance-GNMay2005.doc>; <http://www.imf.org/external/np/pp/eng/2008/080408.pdf>; and <http://www-int.imf.org/depts/pdr/Operational-Guidance/SM02292.pdf>.

and called for a review of past and current efforts, including a country’s track record in implementing Fund-supported TA. An IEO evaluation in 2005 called for the development of a medium-term country framework setting TA priorities, embedded in surveillance and UFR activities; subsequently, area departments began preparing TA Country Strategy Notes for intensive and systemic users of TA. They have been superseded by Regional Strategy Notes (RSNs) that specify medium-term TA priorities across all countries covered by each area department. The 2008 Board discussion of reforms to enhance the impact of Fund technical assistance underlined the need to advance the integration of technical assistance with surveillance and lending operations; and to improve the prioritization of TA in line with the strategic objectives of both recipient countries and the Fund, and by introducing a charging regime.<sup>12</sup>

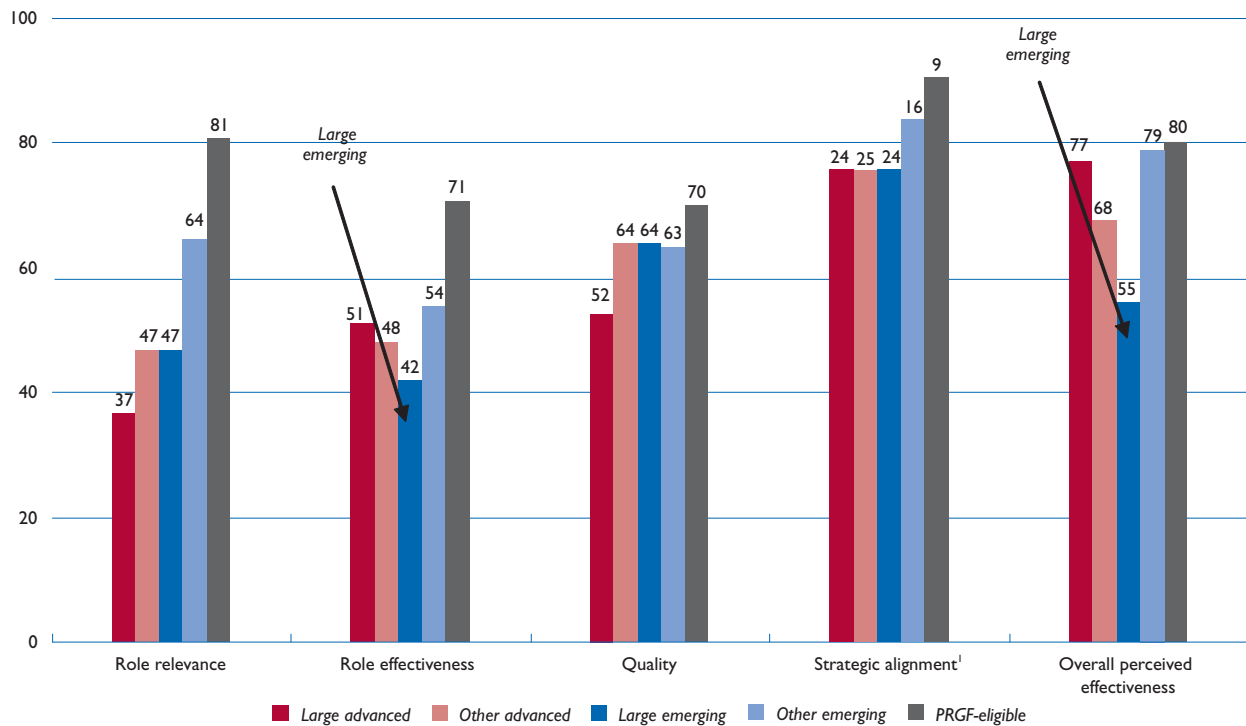
## II. Were IMF Interactions with the Authorities Effective?

22. This chapter examines the evidence on the effectiveness of IMF interactions with the authorities of emerging economies. It begins by addressing some of the overarching themes that emerge from the survey evidence and that are underscored by the evaluation’s interview and documentary evidence. It then explores in more detail specific issues arising during the evaluation’s consideration of the evidence on interactions in the context of programs, and transitions; surveillance; and knowledge transfer and capacity building.

### A. Overarching issues

23. As set out in Box 2 of the main report, and recapped in Figure 2 below, of all the country groups, the large emerging economies were the most negative group in their views about the effectiveness of IMF interactions as measured by the evaluation’s composite indicators. The views of the authorities of the other emerging economies were closer to the average view of all authorities. Different perceptions between the large emerging economies on the one hand and the other emerging economies on the other hand were also apparent in the interview and other evidence, but more muted, as discussed later in this chapter. On role relevance and strategic alignment (discussed in Chapter IV), the other emerging economies also were more in line with the average, while the larger emerging economies were lower, and more in line (on average but not in every detail) with the views of the advanced economies. For quality, the authorities of the large and other emerging

<sup>12</sup>IMF (2008c).

**Figure 2. Composite Indicators of Interactions (Authorities' Views)**

<sup>1</sup>Inverted scale. The average absolute percentage point difference across the ten purposes between how much the authorities wanted the IMF to fulfill each purpose and how much staff aimed to do so ("a fair amount" or "very much").

economies were similar, and about the average of all countries. Not illustrated here, but as shown in Figure 1 of the main report, the staff's composite ratings are generally higher than the authorities', but the relativities of the ratings between large and other emerging economies are generally the same as between the authorities of the emerging economies and the staff working on them.

24. Box 1 pictures the underlying survey data on role relevance. It shows that the large and other emerging economies generally ranked the relevance of Fund roles in a similar manner, although the other emerging economies were generally more interested in the Fund's involvement in every role. For both groups, the two most relevant Fund roles were: providing a clear and objective assessment; and contributing to a good exchange of views. Beyond that, the large emerging economies favored a Fund role in international policy coordination, while the other emerging economies favored the Fund's advising on operational aspects of policies. For both groups, the three least relevant roles were: building consensus outside and inside government; and providing program and monitoring support.

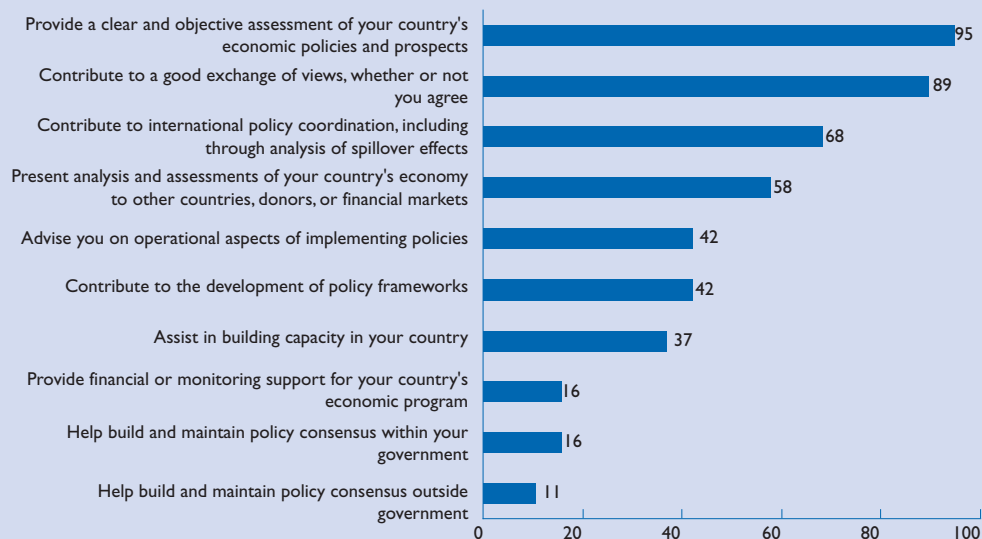
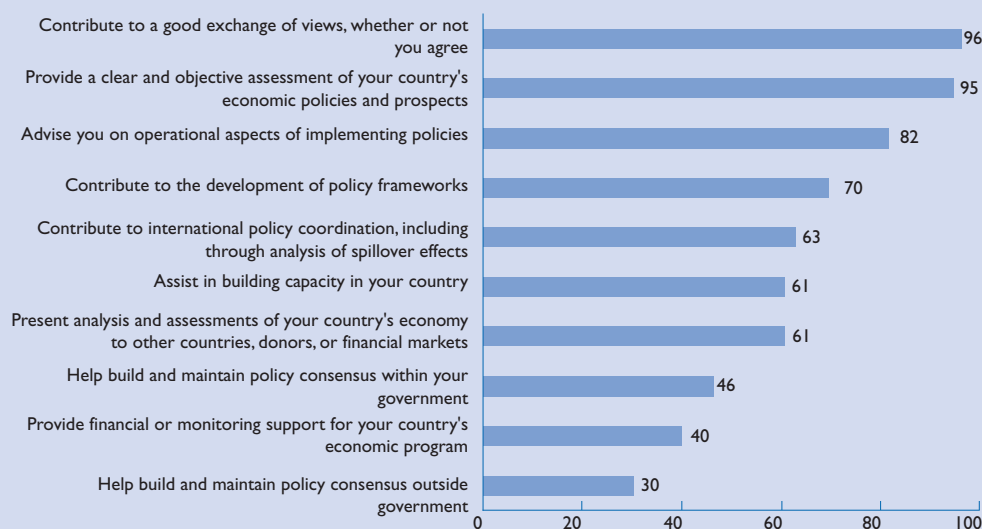
25. Box 2 shows the underlying survey data on role effectiveness. As shown, the large and other emerging economies generally rate the effectiveness

of Fund roles in a similar manner, although, as with relevance, the other emerging economies are typically more positive. For both groups, the most effective Fund roles and activities are: good exchange of views, objective assessment, and capacity building for the large emerging economies and program support for the other emerging economies; the three least effective were: building consensus inside and outside government; and international policy coordination.

26. Box 3 pictures the underlying survey data on ten attributes of the quality of interactions. It shows that the large and other emerging economies generally rank the quality attributes in a similar manner, and score them at similar levels. For both groups, the highest rated attributes are: focusing on topics of interest; responding quickly to requests for analytic work; actively engaging in a constructive dialogue; and listening to the authorities' perspective. The lowest rated attributes are: bringing quickly to your attention changing external conditions; "what if" questions; long-term approach to the relationship; and cross-country analysis.

## B. Key issues

27. The remainder of this chapter looks at interactions between the authorities and staff in the context of

**Box 1. Role Relevance of Interactions****Large Emerging Economies**  
(Percent of respondents)**Other Emerging Economies**  
(Percent of respondents)

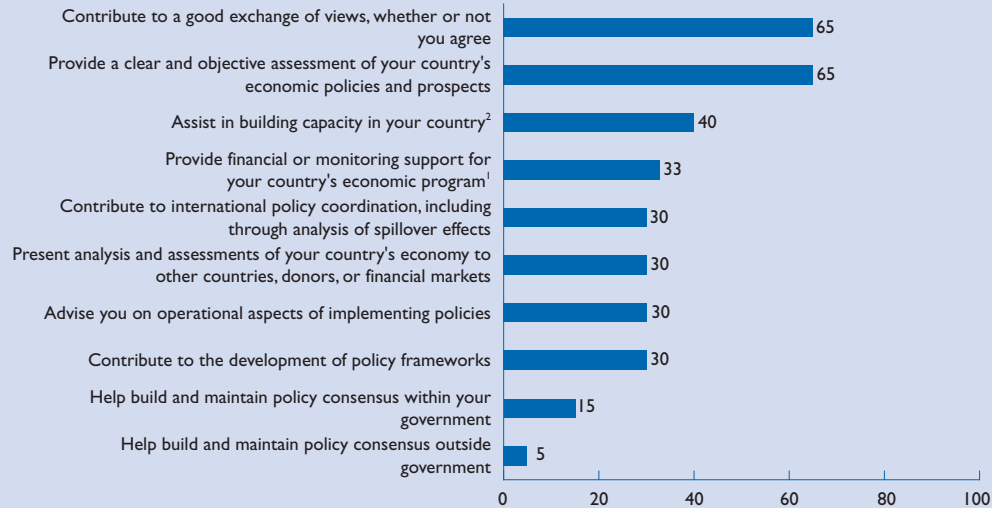
Note: Shows the share of authorities who wanted the IMF to perform each role "a fair amount" or "very much."

programs (including transitions into and out of them); surveillance; and knowledge transfer and capacity building. It draws on the evaluation's more detailed survey, interview, and documentary evidence. The discussion details the positives and the negatives, painting

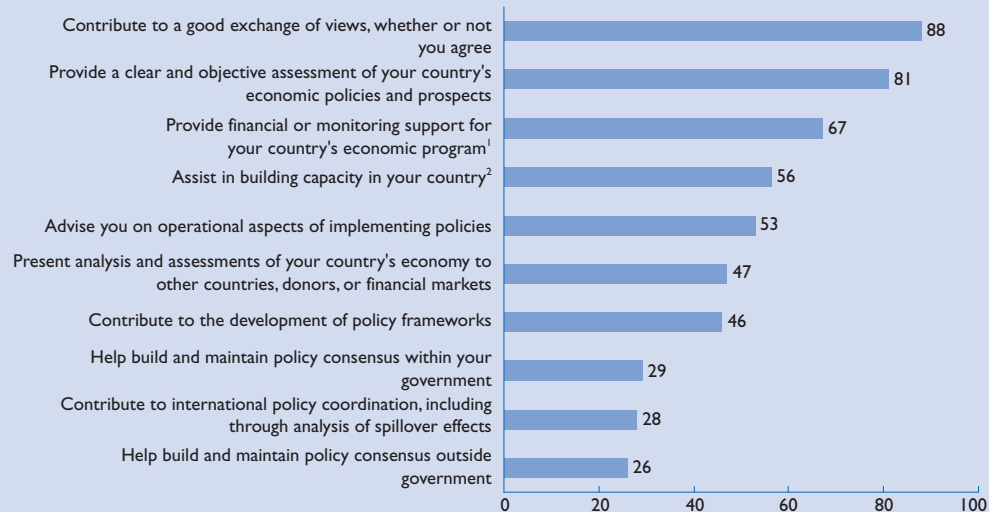
a mixed picture of such interactions during the evaluation period, and especially in the last two years. Boxes 4 and 5, respectively, set out aspects of the engagement between the Fund and the large and other emerging economies in the evaluation sample.

## Box 2. Role Effectiveness of Interactions

### Large Emerging Economies (Percent of respondents)



### Other Emerging Economies (Percent of respondents)



Note: Shows the share of authorities who responded that interactions were "effective" or "very effective."

<sup>1</sup>Includes only those who responded that their country had an IMF financial or monitoring program.

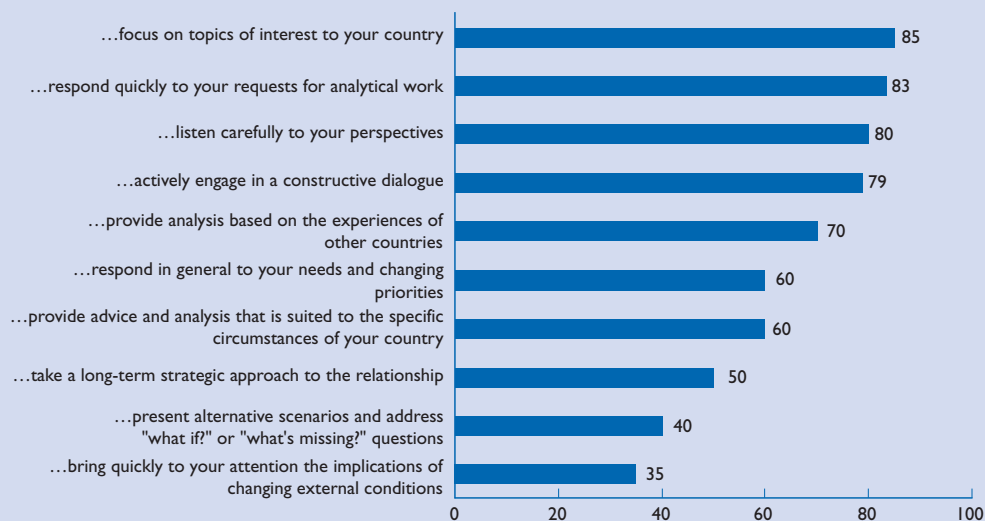
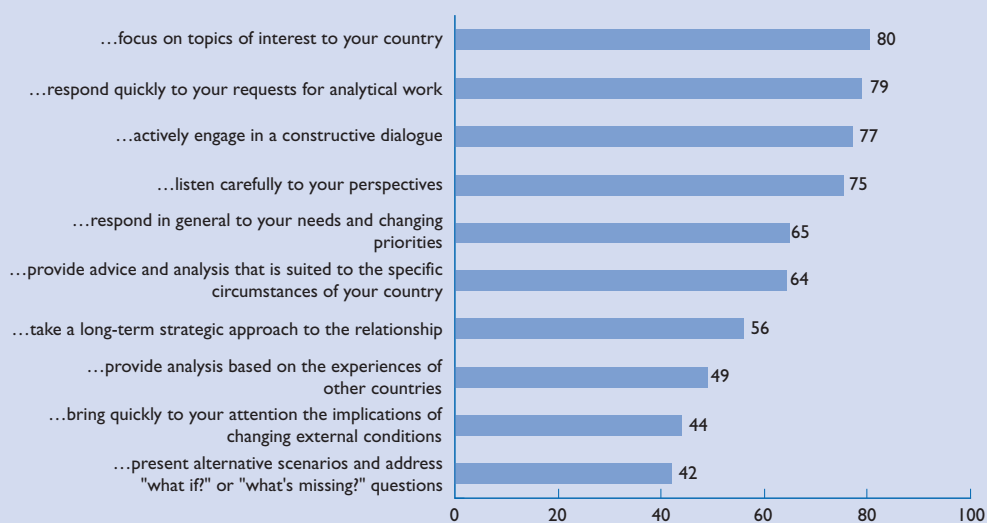
<sup>2</sup>Includes only those who responded that their country received IMF technical assistance or training.

### Programs and transitions

28. The character of Fund engagement in member countries depends significantly on whether a country is in a surveillance-only or a program relationship. Within the emerging economies group, both types of relation-

ships were present during the evaluation period, and a number of countries transitioned from programs into surveillance-only status.

29. Some 40 percent of emerging economies had programs at one time or another during the evaluation period. This included about half of the large emerging

**Box 3. Quality of Interactions****Large Emerging Economies**  
(Percent of respondents)**Other Emerging Economies**  
(Percent of respondents)

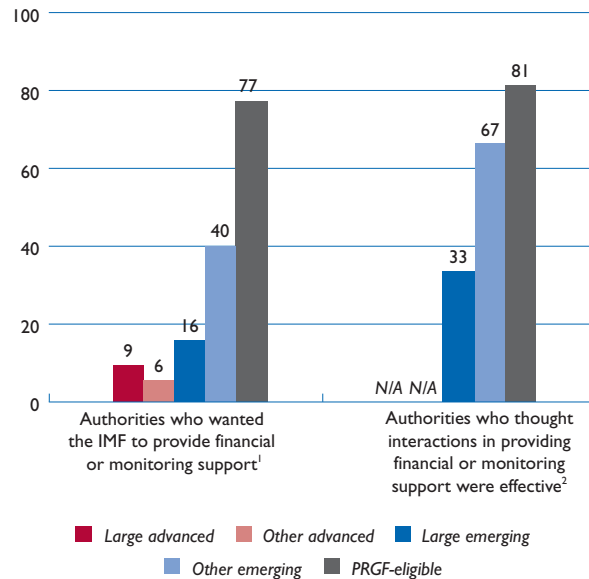
Note: Shows the share of authorities who responded that the IMF did a "good" or an "excellent" job to ...

economies and one-third of the other emerging economies. As Figure 3 shows, for the 2007–08 period about which the question was asked, there was much less interest by large emerging economies than by other emerging economies. This reflects very different financial situations of the two groups, and the sharply improving external positions of many

large emerging economies over the evaluation period, with only two countries, Turkey and Ukraine, with programs during 2007–08. Among the other emerging economies, Bulgaria, Dominican Republic, Gabon, Hungary, Iraq, Macedonia FYR, Latvia, Lebanon, Paraguay, Peru, and Seychelles had programs at some time during this period.



**Figure 3. Financial and Monitoring Programs: Who Wants Them? Who Thinks Interactions Were Effective?**  
(Percent of respondents)



<sup>1</sup>Shows the share of authorities who responded “a fair amount” or “very much.”

<sup>2</sup>Shows the share of authorities who responded “effective” or “very effective.” Includes only those who responded that their country had an IMF financial or monitoring program.

30. Interviewed authorities of emerging economies expressed pluses and minuses of their program experience with the IMF.

- On the plus side, one interviewed country authority noted that interactions were “very intensive and fruitful” in the context of a program. Another acknowledged that they had benefited from the discipline of a program—though the increased openness of Fund staff to authority ideas after the transition to surveillance was still appreciated. And in another case, interviewed authorities highlighted what they characterized as the proven results from IMF policy advice on the establishment of a successful monetary/exchange rate framework, which they also said established a strong foundation for a continuing relationship in the future.
- On the minus side, lingering and bitter memories of their own or others’ past program interactions tended to dominate the views of some interviewed country officials whose authorities were reluctant to enter any relationship with the IMF that would lead to a loss of policy autonomy—or to any publicly perceived loss of autonomy. When substantial Fund resources were involved, one

official stressed, the Fund was in a position of power relative to the authorities, limiting the authorities’ bargaining power.

31. Interviewed authorities generally characterized their program relationships as lacking in flexibility on the Fund’s side. The large emerging economies were more pronounced in this criticism in their survey responses, as shown in Figure 4. Indeed, a majority of survey respondents from large emerging economies—and almost 40 percent of respondents from other emerging economy—agreed that IMF policies and procedures were inflexible or burdensome, with even higher numbers for the IMF’s unwillingness to innovate. About 35 percent of large and 20 percent of other emerging economy authorities responded that staff had been unwilling to consider different approaches to achieve desired policy outcomes. However, the survey evidence suggests that perceptions have changed for the better. Nearly 40 percent of each group responded that the Fund had done a better job in the last two years in its willingness to consider other approaches compared to the previous six years.

32. The transition from program to surveillance as the primary mode of interactions brought for many authorities a fundamental change in their relationship with the Fund. Interviewed authorities said that as countries transitioned from a program to a surveillance-only relationship, the authorities felt freer to reject the Fund’s advice, and the Fund seemed to listen more closely to their views. Most emerging economy authorities that experienced this transition, either within the evaluation period or earlier, viewed the less prescriptive relationship under surveillance more favorably. At least one interviewed authority who had experienced this shift in the nature of interactions noted relief in ceasing to be lectured to as in a “professor-student relationship.” Instead, the relationship under surveillance was characterized by several authorities as a dialogue among peers, with the result that authorities felt more confident to voice their own ideas. Broadly similar sentiments were expressed by interviewed officials of both large and other emerging economies with past program relationships. However, some authorities regretted the more limited availability of advice following the change from program to surveillance-only status.

33. While the authorities of emerging economies welcomed the new surveillance-only relationship with the Fund, for staff the transition entailed a serious downgrade in influence especially on country policies. Accompanying the downgrade was reduced access to key people and information and reduced interest by the authorities in dialogue with them especially about policies. Indeed, the documentary evidence for the program period foreshadowed the problems, with, for example, one back-to-office report to management noting the authorities’ extreme reluctance to discuss economic

#### Box 4. Evaluation Case Studies: Large Emerging Economies

IMF interactions with the nine large emerging economies in the evaluation sample evolved over the period as circumstances in their economies and priorities for the Fund shifted.

Of the three large emerging economies that had program relationships with the IMF during the review period, Turkey remained in a program virtually throughout the period, while Brazil and Indonesia experienced the transition to a surveillance-focused relationship.

- In Turkey there were three consecutive Stand-By Arrangements beginning in 1999 and concluding in 2008. Interactions were characterized by frequent back and forth with staff, including on technical and policy issues and a strong connection between IMF management and senior policymakers.
- The program in Brazil (concluding with post-program monitoring in 2005) was widely viewed as a success of country ownership, with the IMF stepping in to support the authorities' own priorities. Strong anti-IMF sentiments lingered beyond the program period and affected the evolution of the relationship and interactions once it returned to a surveillance focus. In the more arm's-length relationship, technical input was sought more than policy dialogue.
- Indonesia concluded its program with the IMF in December 2003, with post-program monitoring continuing until October 2006. Interactions with the Fund for most of the period were intense, with market reactions to policies a key focus of discussions. Once the program ended, the relationship shifted, with more room for homegrown policies but also a need for new ways to engage substantively and provide value added.

Three other large emerging economies transitioned out of program status in the two years preceding this evaluation.

- In Egypt (SBA concluded in 1998), substantive dialogue characterized interactions in the period, with a give and take in policy discussions and room for disagreement. The authorities looked to the IMF for analysis, and the Fund was influential, even though reforms moved at a slower pace than staff thought desirable.
- In Russia (SBA concluded in 2000) the transition to a surveillance-focused relationship, combined with a rapid strengthening of the economy, changed the focus of staff work to more selective topics of interest to the authorities. In some areas this was supported by technical assistance, though in general the expertise of the civil service improved strongly through the period. While the continuing dialogue with the Fund was helped by staff continuity, there was less to and fro on policy issues as well as gradually reduced access to some high-level policymakers.
- Thailand completed its SBA with the Fund in June 2000; post-program monitoring ended in 2002. Interactions through surveillance reflected Fund staff efforts to build relationships by taking a low-key approach.

Finally, three large emerging economies—China, India, and South Africa—had no program relationship with the IMF during the review period, nor immediately prior to it. Interactions with these countries revolved largely around surveillance, with a relatively limited role for technical assistance—particularly in India and South Africa, though FSAPs have been conducted in both of these countries. Concerns were raised, to different degrees, about the value that the IMF brought to the table through its analysis and advice, and about evenhandedness in the conduct of surveillance.

policies with IMF staff. And in interviews, the authorities from several large post-program emerging economies emphasized that in the context of a surveillance-only relationship they did not seek direct policy advice from the Fund. However, in contrast to the authorities' low interest in engaging with the Fund on the policy framework indicated in the survey (as shown in Figure 5), over 80 percent of staff working on those countries said they aimed to do just that, with interviewed mission chiefs and resident representatives clarifying that the most effective approach was often to explore options and facilitate discussions of how established frameworks could be strengthened against various risks. They also reflected on the missed opportunities they saw in the institution's failing to define a strategy and rules of engagement for the new terrain. The paper returns to this important topic in Chapter IV.

#### Surveillance

34. Both large and other emerging economies expressed interest in the basic elements of Fund surveillance, though the large emerging economies rated the effectiveness of these activities lower than all other country groups. As discussed in the main report, and reproduced in Figure 6 below, the survey evidence shows that around 90 percent or more of responding authorities from emerging economies said that they wanted the Fund to provide objective assessments of their economies and to participate in a good exchange of views (whether or not there is agreement). But while 80 percent of other emerging economies' authorities thought the Fund was effective in these roles, only 60 percent or so of authorities from large emerging economies thought so—for both activities.

### Box 5. Evaluation Case Studies: Other Emerging Economies

The interviews and document reviews for the 14 evaluation sample other emerging economies revealed different kinds of country situations and, in turn, interactions with the Fund during the evaluation period.

Two countries in the sample exited Fund programs as they made progress on economic reforms and moved toward EU accession. Lithuania successfully completed a precautionary SBA in 2003, and Bulgaria completed a precautionary SBA in 2007 (following an earlier SBA and EFF). Interactions continued through surveillance in both cases, with some drop in intensity. FSAPs and FSAP updates were featured for both during the period, with specific recommendations emerging for Bulgaria with respect to technical assistance.

In three countries, the nature of interactions changed as they moved out of, or into, programs with the IMF. With Algeria, interactions during the period focused on a more open dialogue through surveillance—following a program that concluded in 1998. With Lebanon, on the other hand, which entered into a program relationship through emergency post-conflict assistance in 2007, interactions under the program were considered effective, in contrast to earlier disagreements on the policy stance. In Kazakhstan, a precautionary program was cancelled during the period. With the Kazakh economy transforming rapidly, the focus of dialogue shifted from structural adjustment to financial sector issues. Two FSAP updates were conducted during the period, and technical assistance included support for modernization of the central bank.

For the “small states” in the sample (Barbados, Suriname, St. Kitts and Nevis, and Trinidad and Tobago), none of which had programs over the period, interactions took place in the context of surveillance, including the FSAP process, and technical assistance. The regional technical assistance center, CARTAC, played a key role in assessing, planning for, and providing technical assistance. While surveillance engagement with IMF staff was appreciated, as giving an additional viewpoint to consider, evidence of missteps or missed opportunities emerged in some cases.

Interactions with the remaining countries in the sample—Costa Rica, Czech Republic, Botswana, Kuwait, and Oman—were focused primarily on surveillance. In Costa Rica, interactions through surveillance and technical assistance were intensive and effective, with many staff visits outside the Article IV mission cycle.<sup>1</sup> Interactions with Costa Rica were set in a regional and strategic context, facilitated by a regional resident representative (beginning in 2006), Fund participation in regional finance ministry, central bank, and regulatory fora (and, now, the new regional technical assistance center, CAPTAC-DR). In other cases, for varying reasons, the IMF faced challenges in maintaining constructive engagement, with questions raised in individual cases about the value of IMF missions, the tone of reporting, the transience and style of mission chiefs, or the confidentiality of information.

<sup>1</sup>Costa Rica entered into a program with the Fund just after the evaluation period concluded.

#### Value added

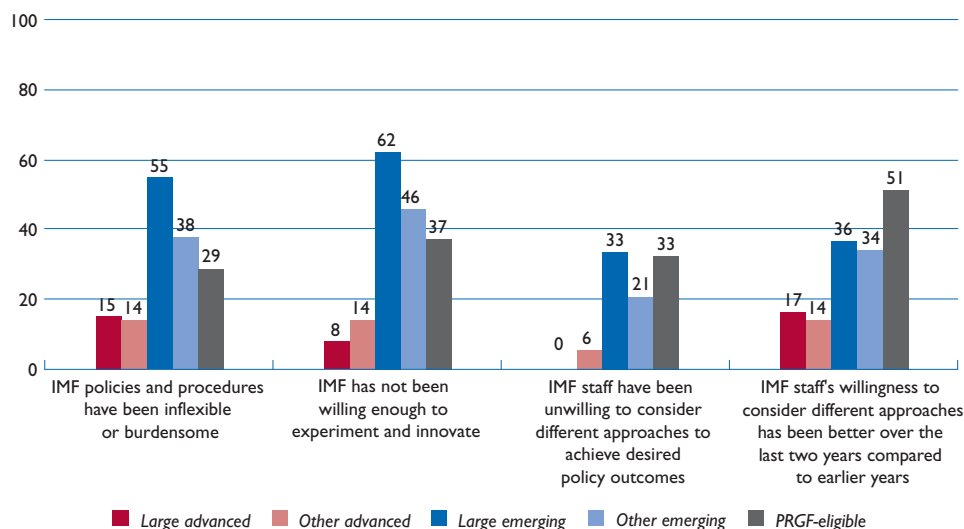
35. Though many authorities preferred the interactions under a surveillance-only relationship to what they had experienced with programs, some also raised concerns about what they perceived to be a lack of value added from the surveillance process. Interviewees, from both large and other emerging economies, expressed views such as: that the IMF’s advice was either routine, or offered very limited perspectives; that advice failed to take into account country-specific constraints; that it was behind the curve on global financial developments; or that the Fund never said anything new. A few said that the Fund had been associated with policy recommendations that were ill-advised, while others argued that the advice was insufficiently backed by analysis.

36. The survey evidence highlights several key areas in which the IMF fell short. As shown in Figure 7, emerging economies were in line with other groups in their view of the Fund’s poor performance in quickly bringing to authorities’ attention the implications of

changing external conditions and in contributing to international policy coordination (including through the analysis of spillover effects from one country to another). One bright spot was that more large emerging economies were satisfied with the Fund’s provision of cross-country analysis (70 percent); other emerging economies were less satisfied (50 percent). The survey evidence also points to some Fund shortcomings in the area of innovation and considering alternative scenarios. Meanwhile, as shown in Box 3, about 40 percent of emerging economy respondents thought the Fund did a good job providing alternate scenarios and addressing “what if” questions. The survey also points to limited effectiveness in providing operational advice, though few large emerging economies (42 percent) looked to the Fund for this role—and even fewer found its performance satisfactory. This activity was much more important to other emerging economies, as over 80 percent of authorities indicated that they wanted the IMF to do so. Yet only half of respondents thought that the Fund carried out this role effectively.

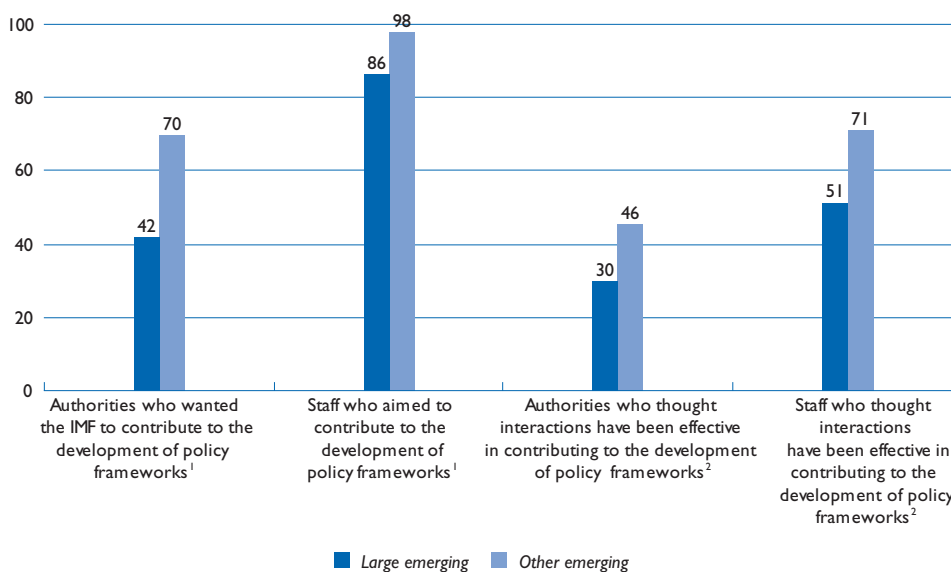
**Figure 4. Is the Fund Inflexible, Unwilling to Innovate, and Closed to New Approaches? Has Staff Willingness to Consider Different Approaches Improved?**

(Percent of authorities who responded “agree” or “strongly agree”)



**Figure 5. Do the Authorities Want the IMF to Contribute to the Development of Policy Frameworks?**

(Percent of respondents)



<sup>1</sup>Shows the share of respondents who answered “a fair amount” or “very much.”

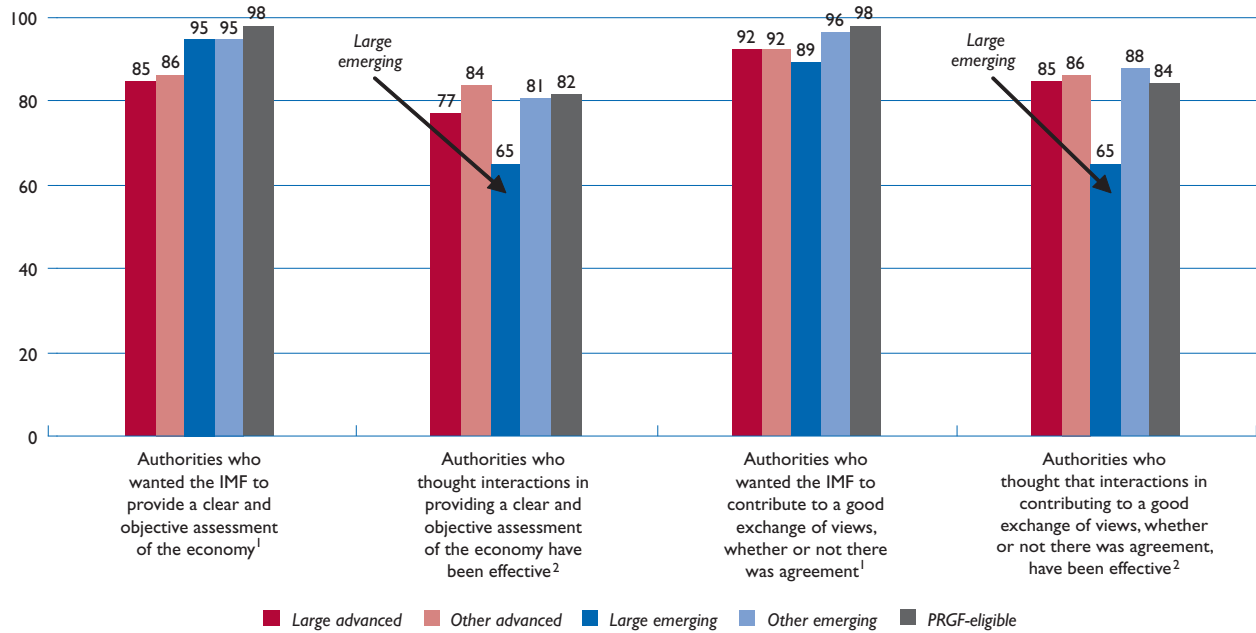
<sup>2</sup>Shows the share of respondents who answered “effective” or “very effective.”

37. The evaluation interviews add nuance to some of the survey findings on the value-added (or lack thereof) of interactions in the context of surveillance. The importance of cross-country analysis was raised repeatedly in interviews by both authorities and staff—and it was highlighted in 2004 by the Executive Board in a call to

increase its use to add value to policy discussions. However, some interviewed emerging economy authorities wished the IMF would have provided more relevant and timely cross-country information, with a few pointing out that the comparator countries used were not pertinent to their country cases. Several mission chiefs, too, expressed

**Figure 6. Authorities' Views on the Fund's Role and Effectiveness in Interactions in Assessing Economies' Policies and Prospects and in Contributing to a Good Exchange of Views**

(Percent of respondents)

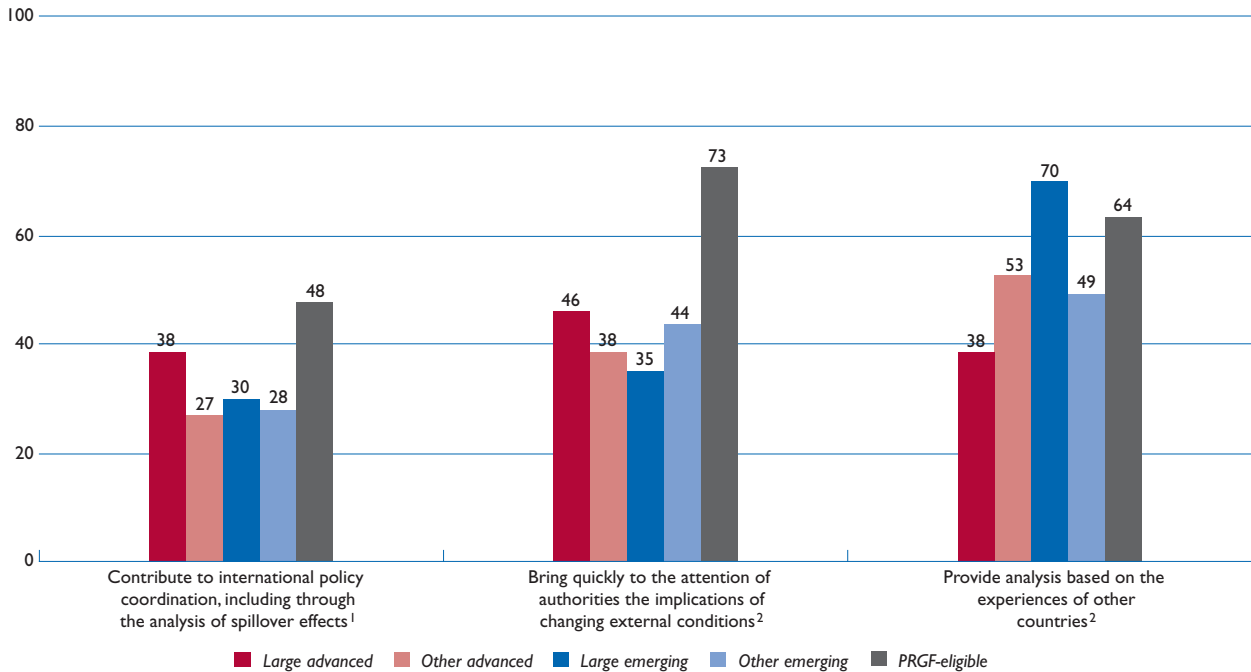


<sup>1</sup>Shows the share of authorities who responded "a fair amount" or "very much."

<sup>2</sup>Shows the share of authorities who responded "effective" or "very effective."

**Figure 7. International Dimensions**

(Percent of respondents)



<sup>1</sup>Shows the share of authorities who responded that interactions had been "effective" or "very effective" in the role.

<sup>2</sup>Shows the share of authorities who responded that the Fund had done a "good" or an "excellent" job.

the view that, while cross-country experience provides a comparative advantage for the institution in aiding deeper dialogue with the authorities, it was not being effectively used.<sup>13</sup>

### Evenhandedness

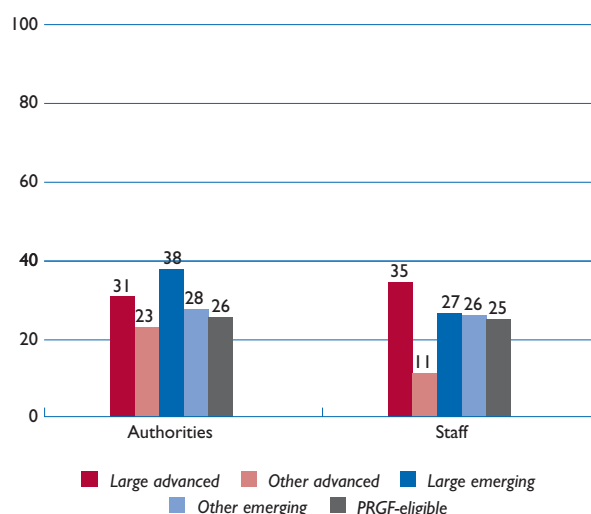
38. Some large emerging economies question the evenhandedness with which the Fund conducts surveillance, undermining confidence in the Fund's advice. In the evaluation survey, 86 percent of authorities from large emerging economies said that surveillance served the interests of the largest IMF shareholders, a higher share of authorities than thought that surveillance served the interests of the countries themselves (68 percent). Large emerging economies do not perceive IMF programs or technical assistance in the same way, as nearly all of those who had an IMF program or TA believed they aimed to serve their interests. The view of surveillance in large emerging economies also contrasts sharply with that of officials from other emerging economies, 82 percent of whom said surveillance served their interests. Only 59 percent of this group answered that surveillance served the interests of the largest shareholders.

39. The interview evidence supports and complements the survey evidence on the large emerging economies' concerns about evenhandedness. Interviewed authorities underscored their desire for advice that is objective and fair, based on evidence, and driven by facts rather than ideology. But several thought this standard had not been met. Instead, one authority felt that a double standard was being applied, with decisions and policies of the IMF influenced by noneconomic factors from its largest shareholders. Staff also reported that interactions were undermined by views in member countries that the Fund had acted in the interests of the market rather than the countries during the Asian crisis of the 1990s. There was also a sentiment that the Fund's 2007 Bilateral Surveillance Decision reflected an agenda driven by the large advanced economies. Some interviewed staff members also reported that authorities felt that way and said that such sentiments diminished the authorities' trust and confidence and the ability of the Fund to influence the domestic debate.

40. For other emerging economies, concerns were expressed about a different facet of evenhandedness—in particular, whether small countries received the same treatment as large. Interviews revealed views 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. In this context, concerns

<sup>13</sup>After the close of the evaluation period, the IMF has introduced a collaborative intranet workspace on "Cross-Country Work, Spillovers and Linkages."

**Figure 8. Insufficient Accountability of Staff**  
(Percent of respondents who answered "agree" or "strongly agree")



were expressed about the Fund's increased focus on exchange rate issues, global imbalances, and the 2007 Surveillance Decision. The authorities of one country complained that the staff had suggested that their stance of macroeconomic policy be made more expansionary in line with global needs, an action they felt was not in their interest.

41. Such examples of what authorities considered misguided advice were seen to reflect the staff's weak accountability for its advice, inter alia. Figure 8 shows that 38 percent of the respondents from large emerging economies and 28 percent of those from other emerging economies agreed with the critique queried in the evaluation survey that over the past two years there had been insufficient accountability for the quality of advice given. Over one-quarter of staff respondents working in emerging economies agreed.

### New modalities

42. The evaluation also looked at the evidence on efforts to enhance the dialogue with authorities through new initiatives. Several mission chiefs in emerging economies experimented with new ways to enhance the dialogue, such as seminars, regional conferences of finance ministers and central bank governors, selected issues papers (SIPs) jointly authored by authorities and staff, and, even in one case, internal reorganization. There were also institutional initiatives such as streamlined Article IV consultations,<sup>14</sup>

<sup>14</sup>Streamlined Article IV consultations are conducted for countries in which there is no current need for detailed coverage of all the issues usually treated in Article IV consultation reports. They are followed by a regular consultation in the subsequent year.



and multilateral consultations. Interviewed mission chiefs said that they tried to deepen the surveillance dialogue by dovetailing technical assistance with surveillance in ways that both sides considered useful, and some staff reached out to authorities in emerging economies to provide follow-up analysis and advice after missions.

43. According to staff, the authorities of emerging economies tended to value seminars, which provided an informal setting for freer debate than the more formal Article IV dialogue, brought in outside experts, and provided cross-country perspectives. Some authorities also praised specific seminars and conferences which they found useful. Survey evidence supports that view more generally: a quarter of the authorities of large and a third of those from other emerging economies wanted somewhat more or much more use of seminars.

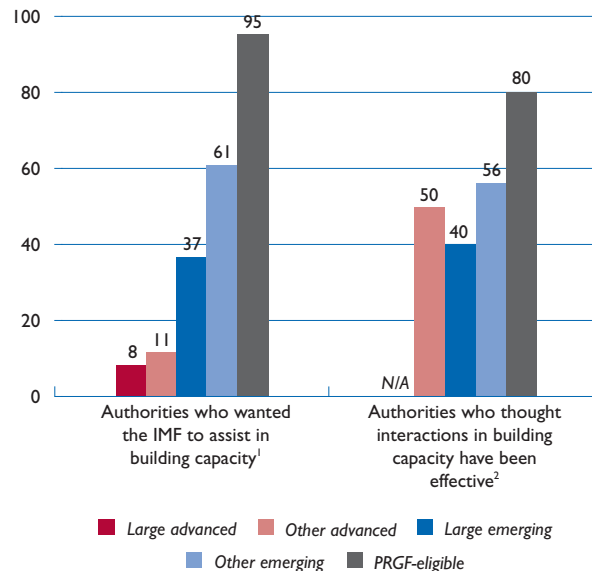
44. The authorities' views on the value of selected issues papers (SIPs) were more mixed. A few authorities of large emerging economies said that they did not find that SIPs added much value. But in several other emerging economies, well-directed SIPs with a relevant choice of topics were seen as useful by the authorities and, according to mission chiefs, had played instrumental roles in policy changes. Also, as shown in Box 3, 80–85 percent of responding authorities from emerging economies thought that the IMF did a good or excellent job of selecting topics relevant to the country, although that question was not specifically related to SIPs. According to mission chiefs, officials of emerging economies were not enthusiastic about co-authoring SIPs with staff, because such co-authorship might be construed to commit them to a particular policy position. Meanwhile, authorities in some other emerging economies found streamlined consultations and abridged staff reports less useful than the full versions; according to the interviews, they preferred more comprehensive coverage of their policy developments and prospects.

45. The evidence suggests that an internal reorganization improved interactions with some small states. Notably, the Fund's consolidation of all its work on Eastern Caribbean Currency Union countries into one division in WHD in 2003 was an attempt to achieve greater focus on Caribbean countries and regional issues. It was generally felt by authorities and staff that the consolidation had helped to strengthen surveillance in the region and to improve the underlying technical work, with several interviewed mission chiefs noting that the move had helped to integrate bilateral and regional surveillance and to better coordinate Fund work in the region.

### Knowledge transfer and capacity-building

46. Authorities in almost all emerging economies attach the most value to IMF interactions that

**Figure 9. Capacity Building**  
(Percent of respondents)



<sup>1</sup>Shows the share of authorities who responded “a fair amount” or “very much.”

<sup>2</sup>Shows the share of authorities who responded “effective” or “very effective.” Includes only those who responded that their country received IMF technical assistance or training.

they consider as augmenting their own knowledge and understanding of economic and financial policy challenges. Figure 9 shows the survey results for relevance and effectiveness of interactions on capacity building.

47. Interviewed officials from several emerging economies said that they received more valuable input from technical interactions with the IMF—notably those that take place in the context of the Financial Sector Assessment Program (FSAP); Reports on the Observance of Standards and Codes (ROSCs); technical assistance (for inflation targeting in many cases); and training—rather than from Article IV consultations. Several attributed this to the fact that the technical interactions were more closely targeted to countries' specific needs and that they brought something new to the table. Part of the enhanced value arose from the greater use of consultative processes with the authorities in FSAP and TA. Further, the authorities noted that the technical interactions were often conducted by individuals with implementation experience. In describing a successful FSAP mission to an emerging economy, one of the staff involved identified the team's considerable knowledge of the local environment as a reason for the mission's success, noting that the authorities had taken comfort from the fact that the mission members had an understanding of their system.

48. Several authorities considered that interactions through the Fund's regional technical assistance centers (RTACs) contributed to capacity building.<sup>15</sup> Some authorities attributed part of the success of interactions through the RTAC (in particular the Caribbean regional technical assistance center) to participating countries seeing it as their initiative, with the Fund playing a supporting role.

### III. Were Interactions with Other Stakeholders Effective?

49. This chapter looks at IMF interactions with other stakeholders. As in the companion country papers, it looks at the quantity and quality of IMF interactions with other stakeholders, and constraints to more and better interactions. It finds that in many emerging economies, staff faced a conundrum in interacting with other stakeholders, especially if the media might be involved. Sometimes they were pressed by Fund management and senior staff to do more outreach, yet they knew that the authorities preferred it not to be done. Many authorities did not want the Fund to be seen to be criticizing their policies, nor to be praising them, as either could have political fallout. Mission chiefs and resident representatives were profoundly aware of these concerns, which affected the way they conducted outreach.

#### A. Recent developments<sup>16</sup>

50. During the evaluation period, IMF outreach to other stakeholders in emerging economies included engagement with representatives from parliaments, civil society organizations, the media, and market participants. Staff generally interacted more often with market participants and think tanks than they did with parliamentarians and civil society organizations.<sup>17</sup> Detailed data are not available, but interactions with market participants have been a regular feature of staff work for many years. Contacts with think tanks and academics have been less frequent than those with market participants, but increasing as the Fund has increased its dissemination of analytic products such as the *World Economic Outlook (WEO)*, the *Global Financial Stability Report (GFSR)*, and *Regional Economic Outlooks (REOs)*, which were new products developed during the evaluation period. These analytic

products have also provided a platform for interactions with the media that were more acceptable to country authorities than discussions of mission findings about country policies and prospects.

51. Staff outreach to parliamentarians included meetings with staff; speeches by management particularly during country visits; and seminars. Staff interviews suggest that many of the resident representatives in the large emerging economies had contacts with parliamentarians, though such interactions were often informal, low profile and off the record. The internal documents reviewed for the evaluation sample countries suggest that area department staff made an effort to increase their interactions with parliamentarians during the evaluation period, pointing to meetings with members of the legislature in Algeria and South Africa; in Indonesia; in Russia; Egypt, Kazakhstan, and Kuwait; and in Barbados, Brazil, Costa Rica, and Suriname. Also, staff organized country and regional seminars for parliamentarians in Algeria, Indonesia, Libya, Morocco, South Africa, and Tunisia.

52. Responses to the IEO evaluation survey of civil society painted a picture of meetings with civil society in which staff were seen as respectful and listening.<sup>18</sup> But almost half of the survey respondents in large emerging economies who had interacted with Fund staff noted some lack of sensitivity to cultural differences; the proportion was much smaller for respondents from other emerging economies. Survey respondents indicated that they had met with Fund representatives in the context of visiting missions, but meetings with resident representatives also loomed large, especially in the large emerging economies. There were very few meetings with IMF Executive Directors. About half of the respondents who had met with staff did not answer the question on (i) whether their views were taken into account in IMF discussions with the government; and (ii) whether their discussions with the IMF generally contributed to building national support and initiative towards "IMF-backed policies."<sup>19</sup> Of those who did answer more than half have said their views have been reflected, and that their discussions had contributed to building national support for such policies. In both cases, the scores were broadly the same for the large and for the other emerging economies.

53. An EXR survey of outreach with trade unions was carried out in 2007 and covered staff working on emerging economies. According to the respondents, mission chiefs and/or resident representatives had

<sup>15</sup>IMF (2007d) also notes that "the overall finding is that in general, beneficiaries are highly satisfied with the performance of Middle East Regional Technical Assistance Center (METAC)."

<sup>16</sup>Examples provided in this section are taken mainly from the evidence for 23 case studies and for other countries visited. They do not cover the full range of activities in all 81 emerging economies.

<sup>17</sup>See Scholte (2009) and Hammer and Warren (2009).

<sup>18</sup>This survey received 290 responses from representatives of private sector associations (including chambers of commerce and trade or industry associations), media, nongovernment organizations, labor unions, academics, and think tanks in 69 emerging economies. Thirty percent of the responses were from civil society representatives in large emerging economies, and 70 percent from other emerging economies.

<sup>19</sup>"No response," "not applicable," or "don't know."

met with trade union representatives in the previous two years in 42 percent of all emerging economies. Such meetings took place in 30 percent of large emerging economies—including Brazil, Colombia, Indonesia, Mexico, the Philippines, and South Africa—compared with 50 percent of the other emerging economies.

54. Area departments used outreach on *REOs*, *WEOs*, and other analytic products to seek to reposition the Fund as a knowledge-based institution. During the evaluation period, WHD produced eight *REOs* including updates; various issues were presented to country and regional audiences (including government officials, academics, and think tanks) in El Salvador, Mexico, Brazil, Chile, and Colombia, inter alia, with a Caribbean-specific version of the *REO* recently launched. The other area departments have also their *REOs* in similar ways—to reposition the Fund as more of a knowledge institution. For example in Egypt, MCD has done presentations/workshops with think tanks and academia using its *REO* supplemented by presentations on the *WEO* and the *GFSR*. APD's *REO* outreach events in Thailand have also aimed to reach a broad audience, including representatives of academic and private sector. APD's *REOs* have also been presented in major cities in the region and in regional meetings such as ASEAN and APEC. EUR has presented its three *REOs* at seminars at various times in Bosnia and Herzegovina, Bulgaria, Czech Republic, Estonia, Poland, Romania, Russia, San Marino, Serbia, Turkey, and Ukraine.

55. Staff interactions with the media included press conferences, dissemination of concluding statements, and interviews—when consistent with maintaining the relationship with member authorities. There were cases in which authorities objected to such media contact and/or when it was considered by staff to be counterproductive; staff generally refrained from outreach in such cases. In other cases, staff undertook to develop and maintain open informal lines of communication with key media players. In the evaluation sample countries, press conferences at the close of Article IV missions were held in Algeria, China, and Turkey. Mission concluding statements for Article IV consultations, including preliminary conclusions, were published in Egypt, Russia, and Turkey, among the large emerging economies in the evaluation sample and in Bulgaria, Czech Republic, Kazakhstan, Lebanon, and Lithuania, among the other emerging economies in the sample.

## B. Constraints to more and better interaction with stakeholders

56. Interview evidence suggests that Fund staff contacts outside government were constrained by the authorities' guidance and preferences. Mission

chiefs working on emerging economies emphasized that the outreach that IMF staff can extend to other stakeholders—such as parliamentarians, civil society, the media, and market participants—partly depends on what the authorities feel comfortable with. As the Fund's guidance to staff on outreach to legislators and civil society organizations indicates, staff take their cue from the authorities regarding the manner and extent of such outreach.<sup>20</sup> The interviews also pointed to differences across countries, especially as between large emerging economies and the other emerging economies, as highlighted in Box 6.

57. Staff said that many authorities of emerging economies expected them to play at most a low-key role in outreach, and especially to be careful to avoid being seen as driving the policy agenda. The authorities of some large emerging economies and other stakeholders, including civil society, still recall with bitterness the crises of the 1990s, and the role the Fund was perceived to have played in the austerity programs that followed. In some such countries, the authorities seen to be cooperating with the Fund are easily stigmatized, partly because of the reputational damage the IMF has faced in some quarters in the past. Where these negative factors were not present, some authorities supported IMF outreach, which they thought would help them gain support for their reform efforts. Mission chiefs said they used the interactions that took place with civil society organizations to carry out the aims outlined in the Fund's guidelines—notably to provide information on IMF policy advice, and to get information from other sources to round out their own views. Some said they conveyed the views of civil society organizations on policy matters back to the authorities—which apparently was appreciated (the authorities may not always get the candid views of civil society directly).

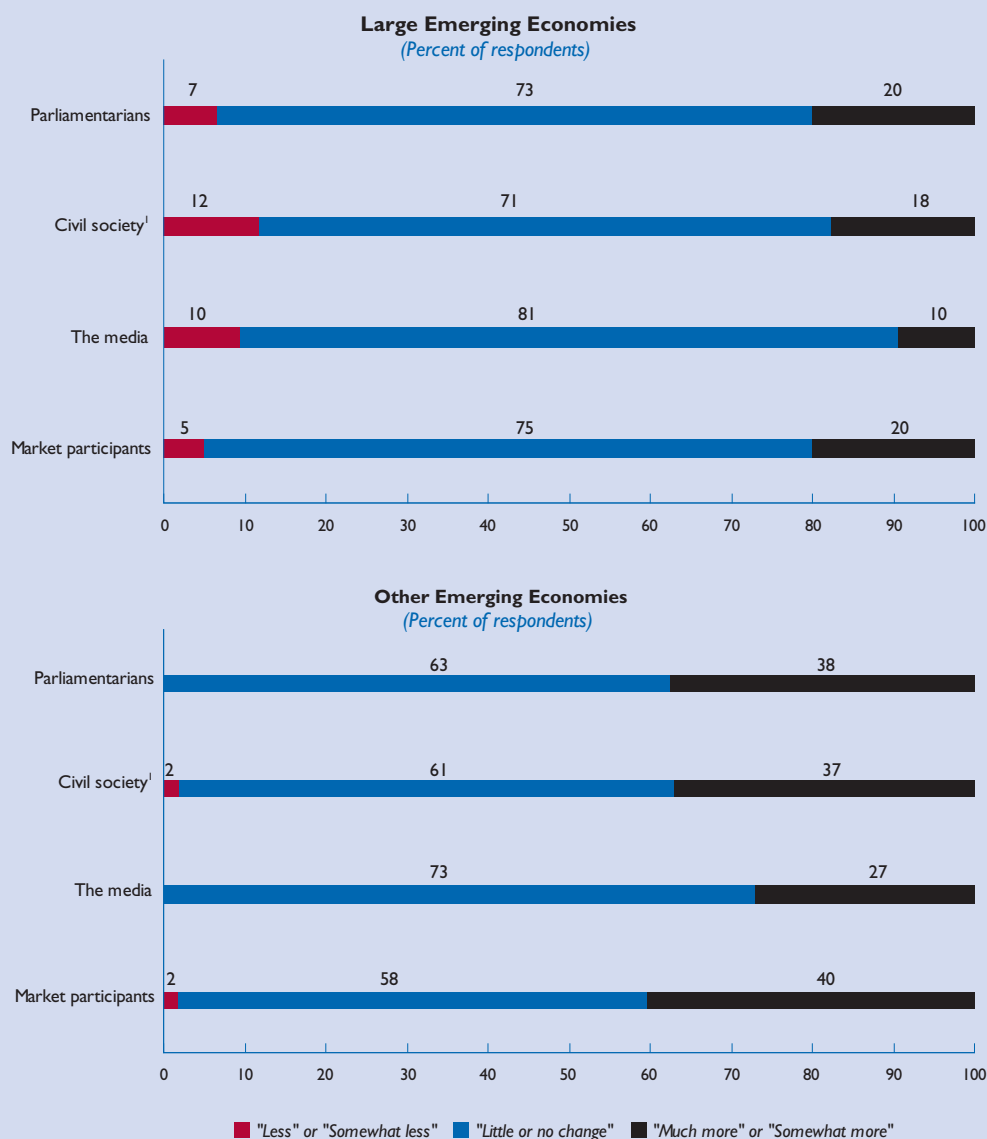
58. Staff interactions with the media about country policies and prospects are the most delicate area. Interviewed staff said they usually took the authorities into confidence before any media contacts and were extremely careful not to appear critical, so as to maintain their relationship with the authorities. Staff felt that their careers might suffer if the authorities were to complain to IMF management about being misrepresented in the media. Therefore the tendency often was to be less proactive in media outreach. However, in a few cases where authorities had once opposed press contacts, there was evidence that attitudes were softening in recent years. For example, in one large emerging economy, where the authorities had historically been very resistant to IMF outreach, especially with the media, some initiatives by the resident representative in recent years had been tolerated, including media appearances. Officials ascribed the change to

<sup>20</sup>See IMF (2003b; 2006c).

**Box 6. Surveyed Authorities' Views on IMF Outreach: Do They Want More, Less, or About the Same?**

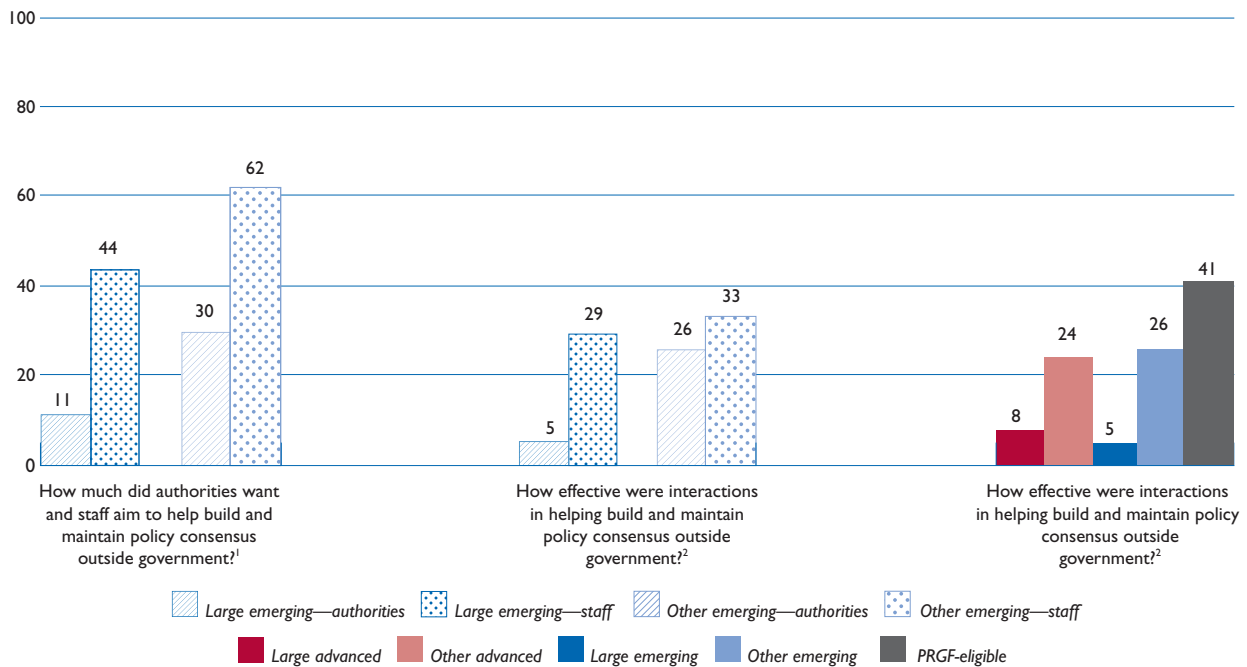
The difference—as between large and other emerging economies—in perspective on outreach to other stakeholders is reflected in the survey evidence. As shown below, large majorities of both large and other emerging economies want the same amount of outreach going forward, including to parliamentarians, civil society, the media, and market participants. But for the large emerging economies, 5–10 percent

want less outreach in each category, and 10–20 percent want more, with 70–80 percent content with current levels. For the other emerging economies, about 60–70 percent are content with current levels, and almost none want less in any category; about 40 percent want more with parliamentarians, civil society, and market participants and about 30 percent want more with the media.



<sup>1</sup>At an early stage of policy discussions.

**Figure 10. Do the Authorities Want Staff to Discuss Policies Outside Government?**  
(Percent of respondents)



<sup>1</sup>Shows the share of authorities who responded that they wanted the IMF to play the role “a fair amount” or “very much,” and the share of staff who responded that the IMF aimed to play the role “a fair amount” or “very much.”

<sup>2</sup>Shows the share of respondents who answered “effective” or “very effective.”

increasing self-confidence on both sides—suggesting lessons for future approaches. On the authorities’ side, the greater confidence was due to good economic performance and a sense of vindication that they had been wise not to follow earlier IMF macroeconomic policy advice. On the staff side, the confidence to pursue initiatives depended on the personality and skills of the individual staff member, and their ability to establish a relationship of trust with the authorities. In one small state, the authorities had traditionally been reluctant to support outreach as the Fund’s image was still tainted by association with earlier crisis, yet they now agreed to issuance of the mission’s press statement.

59. The above views are reflected in the survey responses, which show a very limited interest of the authorities in staff discussions of policies outside government circles. Figure 10 shows that only 11 percent of large emerging economy survey respondents and less than a third of responding authorities from other emerging economy respondents saw a role for the IMF in helping to build policy consensus through contacts outside government. Even fewer felt that the IMF had been effective in such activities, as shown in the middle panel of Figure 10. Staff were generally more positive on whether the Fund aimed to help build consensus outside government and in their assessment of the effectiveness of these activities. The disconnect on

the latter was larger for the large emerging economies than for the other emerging economies. (The right-hand panel of Figure 10 shows how the authorities of all country groups view staff consensus-building activities, with the large and other emerging economies in line with the respective views of the large advanced and other advanced economies.)

60. The above suggests—especially in large emerging economies—little harmony with the area departments’ outreach strategies, which are largely focused on enhancing traction with the authorities by influencing public opinion. Indeed, interviewed staff pointed to internal debates in which some wanted the mission team to hold press conferences in the country, while the mission chief felt that such an activity would backfire with the authorities. There were some references to outreach in the internal documents reviewed for the evaluation, but most, including the Surveillance Agendas, were generally silent on any strategic objectives. An exception was EUR’s country outreach strategies, which were prepared on a pilot basis for FY2008. These country outreach plans contained key messages/policy priorities; main obstacles to recommended policies; outreach steps to reduce resistance; and a matrix of proposed messages, audiences, and delivery. In WHD, the individual strategies for the outreach efforts were less explicit in larger



economies; though in some individual smaller cases the aims were stated. For example: in one, the planned outreach effort aimed at “influencing the broader public debate,” in another, it aimed “to help build a consensus for reform;” and, in a third case, the efforts “...focus[ed] on increasing public awareness and underscoring the urgency of fiscal consolidation.”

61. Limited resources were another constraint to outreach. Due to their field presence, resident representatives tended to have more interactions with outside stakeholders than did mission chiefs. However, some of the interviewed representatives in emerging economies said that their offices lacked enough resources to be more actively involved in outreach. A few resident representatives considered that the Fund’s limited number of products tailored to meet country needs made continuity of outreach in emerging economies more difficult.

62. Mission chiefs said that, in the limited time they had, they faced a trade-off between discussing policy with the authorities and interacting with other stakeholders. While most mission chiefs to emerging economies viewed outreach as an important aspect of interactions, their revealed preference was to spend their limited mission time in policy discussions with the authorities. Given this, it is unsurprising that some scheduled outreach meetings, taking place during missions, became pro-forma as reported by some interviewed staff. The situation was different when the resident representative or headquarters staff devoted time to planning and implementing special events.

#### IV. Were Interactions Well Managed?

63. This chapter looks at three aspects of the management of interactions—strategy; staff style, skills, and turnover; and relationship management. It asks how and how well each was calibrated to promote effective interactions. It concludes that for the large emerging economies, the problem of interactions was a failure of strategy—essentially the absence of one for effectively engaging post-program and other surveillance-only economies. For many other emerging economies, the lack of an explicit overall strategy was less of an immediate concern, as they had greater interest in Fund programs, signaling services, and other advice (such as for meeting EU requirements). For these countries, problems with the management of interactions came down to a number of different things—for some, a lack of an effective country-level strategy, and for others poor management of staff turnover and continuity of the relationship.

##### A. Strategy

64. The Fund did not have an explicit institutional strategy for interactions with emerging economies

during the evaluation period, or a successful implicit one. Elements of institutional strategy specific to these countries were embedded in policy statements, such as the Fund’s Medium-Term Strategy,<sup>21</sup> which highlighted financial and capital market issues and the Fund’s framework for financing. At the country level, the Fund’s implicit approach revolved around the surveillance process, the prevention and resolution of financial crises, and the stepped up provision of technical assistance—especially for other emerging economies. The implicit strategy also supported country efforts to wean themselves from the prolonged use of resources—thus launching the transition from a program relationship to a surveillance-only relationship that was a fact of life for several emerging economies and the IMF staff working on them, as discussed in Chapter II. However, this was done without putting in place an effective approach to post-program interactions that took into account the very real concerns of the country authorities about further engagement with the Fund (see Box 7).

65. As in the advanced economies, the staff’s strategy for generating influence in nonprogram contexts was linked in part to the Fund’s transparency policy and communications strategy. But, as also in the advanced economies, the authorities of the large emerging economies had little appetite for Fund outreach on their economies, especially in fora involving the media. As a fallback, staff invested heavily in regional work designed to reposition the Fund as a knowledge-based institution specializing in the economic policy challenges that countries face, and the global and regional external environments that shape them. The jury is still out on the effectiveness and strategic impact of these activities at both the regional and country levels, which are work in progress.

##### Large emerging economies

66. As shown in Figure 2 in Chapter II, the strategic alignment between the authorities of the large emerging economies and the staff working on them was relatively low in 2007–08. Figure 11 looks beneath this composite measure at its components. As shown there, for six roles there was a gap of more than 20 percentage points between what the authorities think are priorities and what the staff think, with differences of more than 40 percentage points for consensus building within the government and contribution to the development of policy frameworks. (In other words, 64 percent of staff aimed to help build internal consensus on policies, while only 16 percent of authorities wanted this; and 86 percent of staff said they aimed to contribute to the development of policy frameworks, while only 42 percent of authorities said they wanted this.) These large differences point to either lack of knowledge by staff

<sup>21</sup>See IMF (2005c), available at [www.imf.org/external/np/omd/2005/eng/091505.pdf](http://www.imf.org/external/np/omd/2005/eng/091505.pdf).



### Box 7. Exit Strategies from Fund Programs in Emerging Economies

The IEO commissioned an assessment of the transition from program to surveillance-only among a select group of emerging economies—Brazil, Colombia, Indonesia, Kazakhstan, and Lithuania—and its impact on interactions. The assessment found:

- *Background.* The Fund's operating concept was that surveillance was the paragon—the foundational relation of the IMF with its membership. Lending was seen as abnormal, an exception accepted only in crisis or to prevent one, and against conditionality.
- *Case study findings.* The expectation in the programs considered was the ultimate transition back to a surveillance-only relationship, in line with the Articles of Agreement. Precautionary programs also aimed at achieving exit. Each case study contained a clear understanding of what the exit process involved. Nevertheless, the exit process did not address the post-exit strategy, except as the return to surveillance, which was considered a well-understood, welcome, and sufficient mode of future operation.
- *Question.* Why is there little discussion of post-program strategy? If the Fund were a firm about to lose a significant part of its clientele, it would develop new products, or reinvent itself. The challenge is not to get rid of surveillance but make it work in an environment where most of the global GDP is concentrated in surveillance-only countries. In current circumstances, such relationships have tended to become excessively formal, distant, and lower value-added relationships in line with those in advanced economies. The IMF is less influential and with marginal impact on policy design and implementation.
- *Going forward.* The issue is not exit but the quality of surveillance if current deficiencies in country-specific post-exit relations with this new layer of emerging economies are to be addressed.

Source: Vieira da Cunha (2009).

of what the authorities wanted from the Fund, or unresolved issues in the dialogue with the authorities about what the interactions are supposed to achieve. In either case, they raise questions about the Fund's strategy for interactions with this group of countries.

67. What do the interviews with staff and the Fund's internal documents say about these traction issues for the large emerging economies in the evaluation sample? The staff interviews suggest

that staff did grapple with the Fund's limited traction in these countries, especially in surveillance-only cases. As noted earlier, several interviewed resident representatives linked the difficulties they were experiencing in building relations of trust with the authorities to the Fund's failure to articulate a strategy for engaging with post-program surveillance-only countries. Meanwhile, interviews with mission chiefs and the internal documents show considerable debate about how to proceed in several large emerging economies, including with respect to outreach, given the many country sensitivities involved. These cases reveal individual concerns about, and struggles for, increasing relevance and influence, rather than any institutional imperative of the kind that guides the Fund's approach to macroeconomic stability or exchange rate policy.

### Other emerging economies

68. For the other emerging economies, as shown in Figure 12, strategic dissonance between the authorities and staff is much smaller. Five roles have differences above 20 percentage points, but those differences are considerably smaller than for the large emerging economies. For this group of other emerging economies, the evaluation found country-level differences in strategy were decisive for the effectiveness (or not) of interactions in particular country contexts. Some cases (such as in emerging Europe) worked well as there was a clear strategy aimed at EU entry; whereas, others worked less well, as the understandings of the authorities and staff were unclear as to what was to be achieved in the interactions.

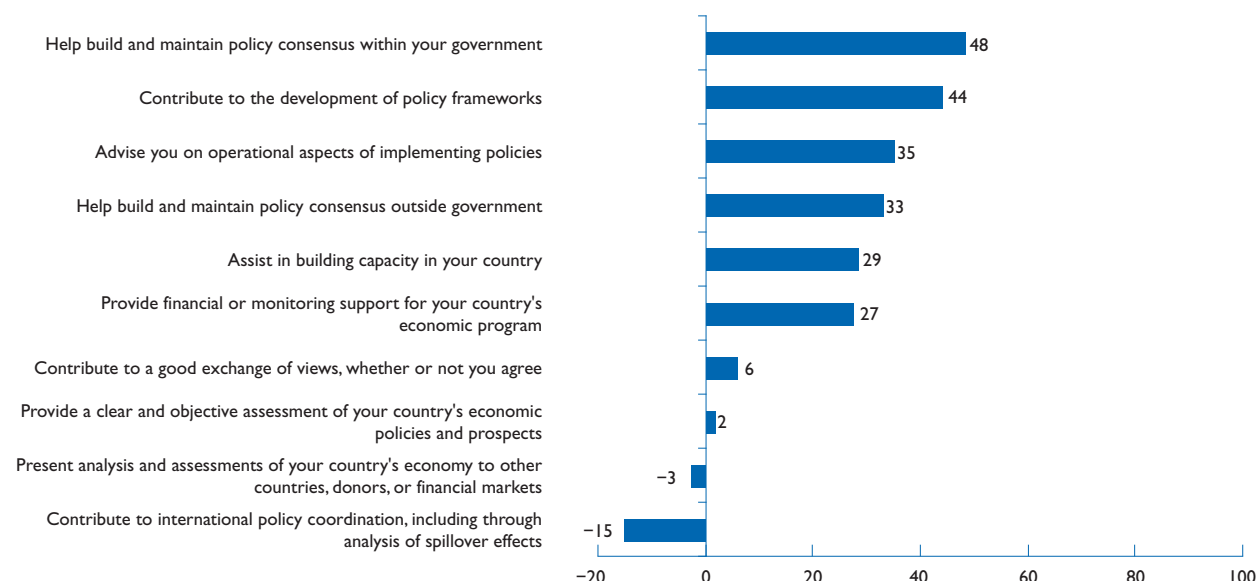
### B. Staff style, skills, continuity, and incentives

69. The survey and interview evidence examined on these topics point to some concerns about the Fund's management of staff resources—in particular its staffing of country teams with the skills needed to provide quality advice to large emerging economy authorities and its management of turnover in other emerging economies. There was a broad level of consistency between large and other emerging economies in terms of their views on staff style, but there were important differences with respect to the adequacy of staff skills, staff preparation for meetings, and the management of continuity. Large emerging economy authorities were more critical of staff skills and preparation, while staff turnover was a more serious issue for the other emerging economies than for the large emerging economies.

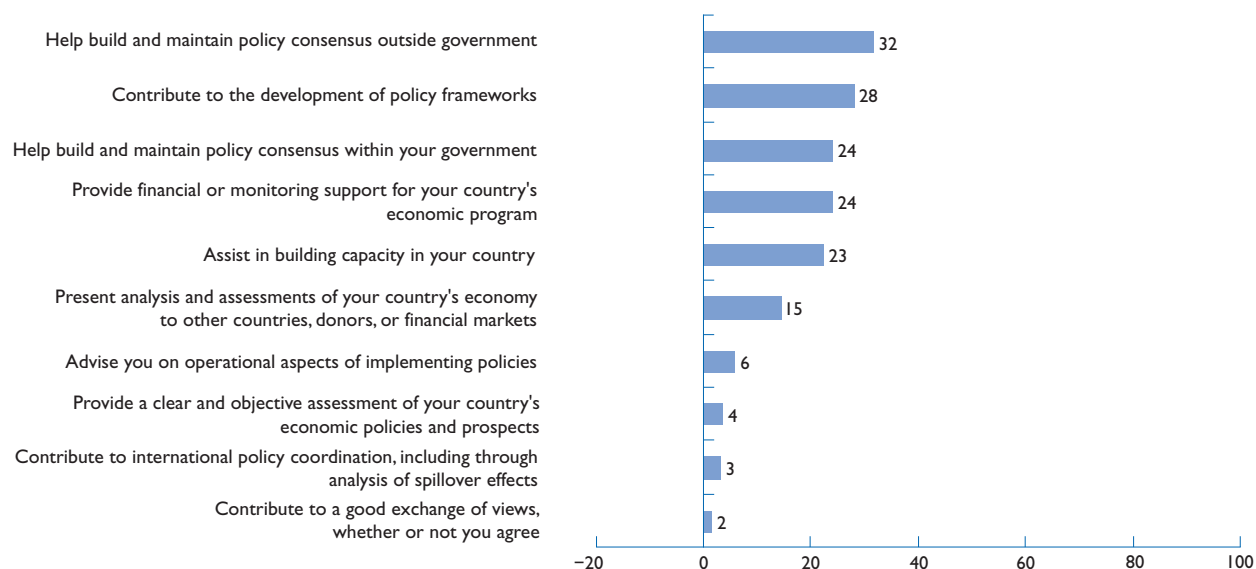
#### Style

70. Overall, the message from authorities about the style of engagement is positive, but the number cit-

**Figure 11. Strategic Dissonance Between Authorities of Large Emerging Economies and Staff**  
(Percent of staff who thought IMF "aimed" to perform each role minus percent of authorities who "wanted" the IMF to do so)



**Figure 12. Strategic Dissonance Between Authorities of Other Emerging Economies and Staff**  
(Percent of staff who thought IMF "aimed" to perform each role minus percent of authorities who "wanted" the IMF to do so)

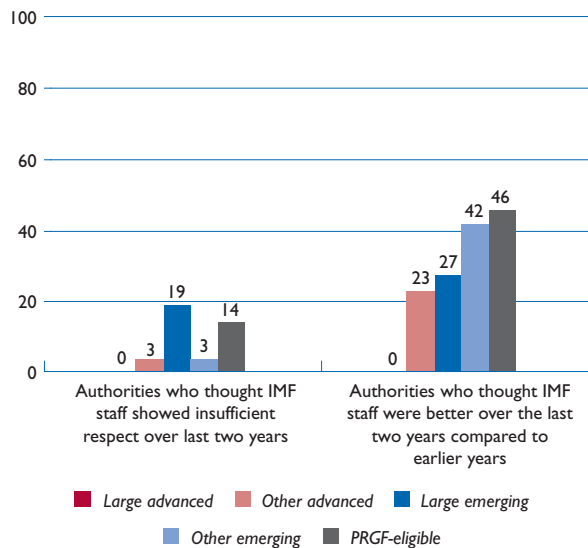


ing concerns remains too large. A majority of survey respondents (respectively 80 and 75 percent of surveyed authorities from large and other emerging economies, see Box 3) said that the Fund did a good job of listening to their perspectives, a central aspect of respect. Almost 20 percent of the large emerging economy authorities responding to the evaluation survey flagged concerns about the staff's respectfulness in their dealings with the authorities and their staff. As shown in Figure 13,

19 percent of large emerging economy authorities said that staff showed insufficient respect to them over the last two years, although 27 percent said the situation was improving. As in other areas the numbers for the other emerging economies are much better—only 3 percent of surveyed authorities found staff disrespectful and 42 percent said the situation had improved. In interviews, both staff and country officials of large emerging economies indicated that relationships with the Fund had in the past

**Figure 13. Respectfulness Towards the Authorities**

(Percent of authorities who responded “agree” or “strongly agree”)



been soured by the style of some Fund staff members, who had come across as highhanded and arrogant, with a tendency to lecture rather than listen. Some authorities also conveyed concerns about what they saw as the staff’s ideological rigidity about policies. Another source of irritation was what an interviewed official of one country referred to as the tendency for staff to give specific advice, for example on monetary policy, when the authorities

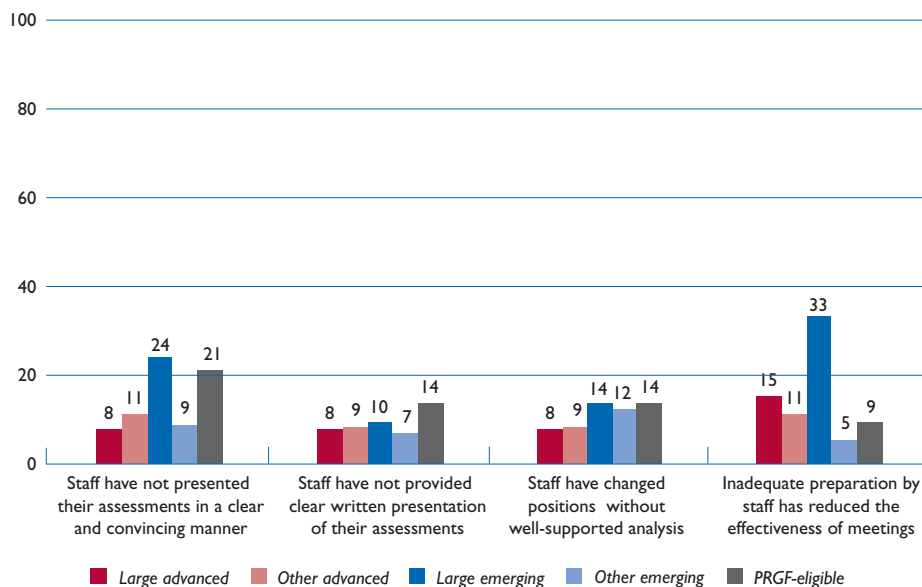
considered the staff’s role to be less prescriptive, focused on providing the analysis that would help inform policymaking. Interviews also revealed specific instances of style irritations in other emerging economies, although some authorities complimented staff, for instance, for being respectful and open-minded.

71. One-third of large emerging economies indicated that inadequate staff preparation for missions reduced the effectiveness of meetings. Five percent of other emerging economies thought so, as indicated in Figure 14. Meanwhile, nearly a quarter of large emerging economies indicated that staff had not presented their assessments in a clear and convincing manner. For other emerging economies, the numbers were lower and more in line with those provided by the other country groups.

72. Figure 15 gives the evaluation survey evidence on whether the lack of diversity of staff members (both in terms of nationality and educational background) working on the emerging economies had adversely affected interactions. It shows that 14 percent of the large emerging economies thought there was an issue, while only 3 percent of other emerging economies thought so and 4–5 percent of surveyed staff working on emerging economies thought so. The issue arose in the evaluation interviews with the authorities of one country. In interviews with staff, three staff members raised diversity as an issue—two in the context of a single country situation where the ethnic composition of Fund teams was a consideration for the authorities, and one suggesting that more diverse staff teams might bring a broader perspective to the table.

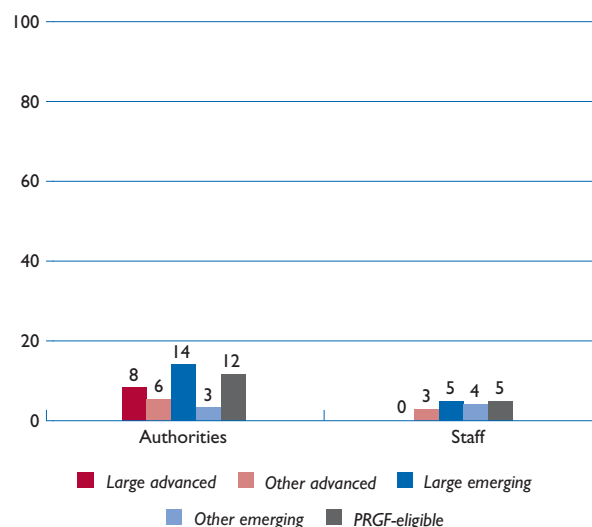
**Figure 14. Authorities’ Views on Staff Mission Preparation and Presentations**

(Percent of authorities who responded “agree” or “strongly agree”)



**Figure 15. Staff Diversity: Authorities' and Staff Views**

(Percent of respondents who answered "agree" or "strongly agree" that the nationalities and/or backgrounds of IMF staff restricted effective interactions)



**Skills**

73. One-third (or more) of large emerging economies expressed concerns about staff competencies in three of four areas queried in the evaluation survey—practical experience, country knowledge, and language proficiency. As illustrated in Figure 16, over 40 percent of respondents indicated that staff lacked sufficient practical experience in policy formulation and implementation. One-third also thought that

inadequate country knowledge and language skills had compromised interactions. Fewer emerging economy authorities criticized staff's technical capabilities (19 percent). For the other emerging economies, the share of authorities who were critical was much smaller for each skill assessed. Interview evidence reinforced the importance of hands-on practical skills and technical expertise to the authorities of large emerging economies, as noted in Chapter II's discussion of knowledge transfer and capacity building. And notwithstanding the concerns about country knowledge, some interviewed authorities praised the staff's country knowledge. As one official from a large emerging economy reported, the capacity of the Fund to understand his authorities' domestic restrictions, together with their firm commitment to performance, had been key to the success of the program.

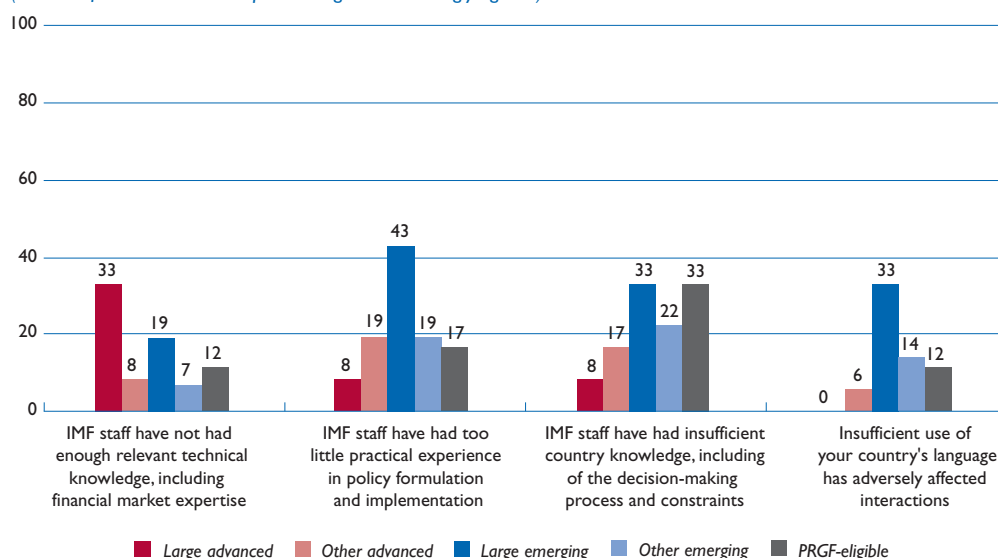
**Staff turnover**

74. Staff turnover—and the ability of the Fund to manage it smoothly—is a concern of many emerging economy authorities. As shown in Figure 17 about a quarter of authorities from both groups felt that the IMF had not provided enough continuity and smooth changeover of mission chiefs and mission members. The interview evidence suggests that the Fund has done less to ensure continuity of the relationship in the other emerging economies, and especially in small states and other relatively small countries, which typically have the least capacity to manage rapid staff turnover.<sup>22</sup> The

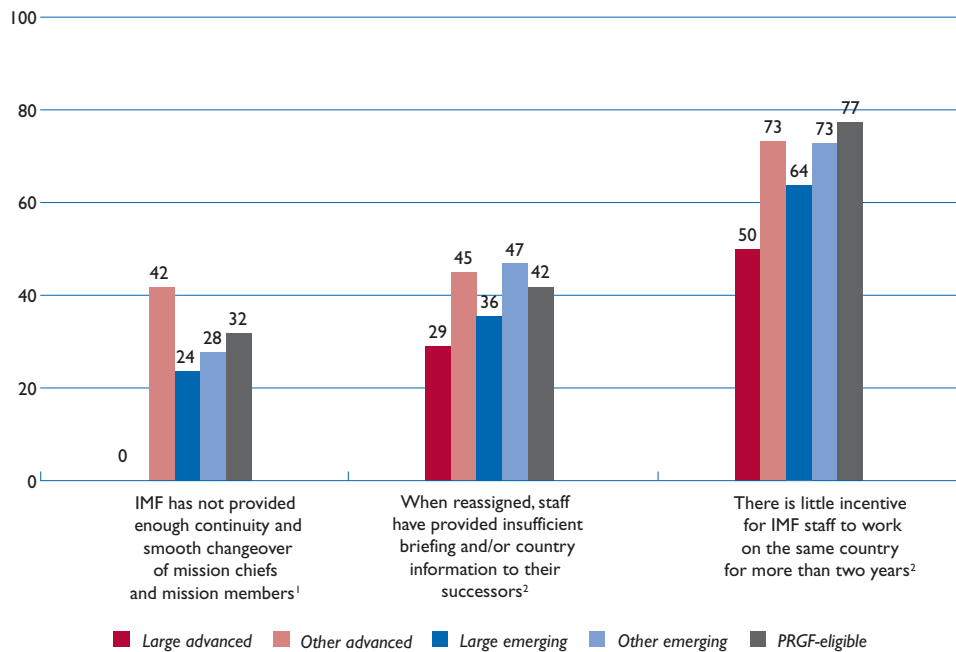
<sup>22</sup>Over the eight-year period, the evidence suggests that, on average, there were 3.8 mission chiefs for a large emerging economy, and 4.0 for an other emerging economy, with some small states having as many as 5 mission chiefs.

**Figure 16. Authorities' Views on Staff Skills: Technical, Practical, Country, Language**

(Percent of authorities who responded "agree" or "strongly agree")



**Figure 17. Continuity: Adequacy, Management, Incentives**  
(Percent of respondents)



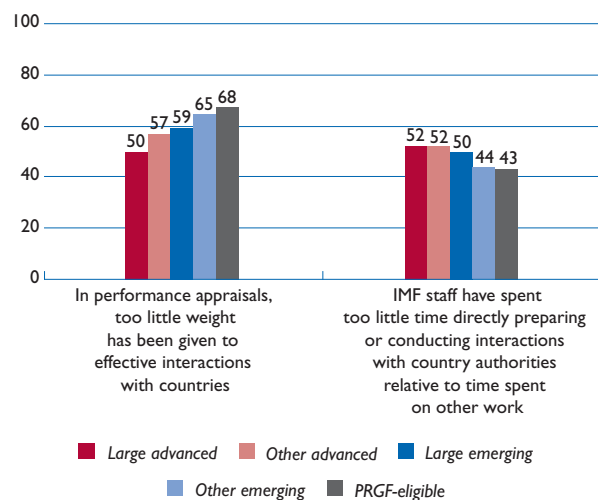
<sup>1</sup>Shows the share of authorities who responded "agree" or "strongly agree."

<sup>2</sup>Shows the share of staff who responded "agree" or "strongly agree."

authorities of one small state complained that mission chiefs to their country had changed so frequently that they had no clear contact point with Fund staff. But the evaluation also found that Fund area departments have attempted to facilitate continuity, including efforts to ensure that all mission members not change at the same time, to bring area department management or the previous mission chief along to introduce the new mission chief, and to send new mission chiefs on familiarizing missions before the start of their posting.

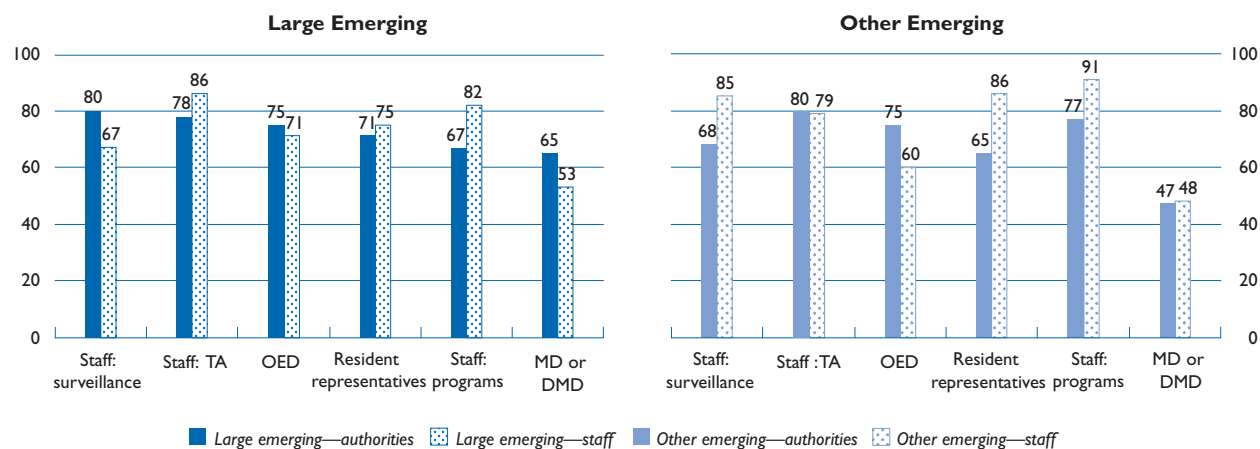
75. Staff expressed a sense that continuity is not managed well within the institution. This conclusion is supported by both survey and interview evidence. Staff survey responses suggest that internal structures and incentives have not been conducive to promoting continuity—particularly so for those working in other emerging economies. As also shown in Figure 18, more than 60 percent of staff working on the large emerging economies and nearly 75 percent working on the other emerging economies agreed that staff had little incentive to work on the same country for more than two years. Nearly half of staff working on other emerging economies also pointed to insufficient briefings to successors during times of transition (compared to 36 percent of large emerging counterparts). The interview evidence points to specific incentives that may underpin these broad conclusions. Some mission chiefs said that staff prefer to work on program countries due to these countries' greater visibility, which improves

**Figure 18. Staff Incentives and Resources for Relationship Management**  
(Percent of staff who responded "agree" or "strongly agree")



career prospects. Some staff also suggested that the lack of sufficient briefings for successors is related to the staff's attaching more importance to "hitting the ground running" for their next job than to briefing their successor, despite this activity's role in helping smooth the transition and maintain productive relations with country authorities.

**Figure 19. Effectiveness of Interlocutors**  
(Percent of respondents)



Notes: Shows the share of respondents who answered that interactions were “effective” or “very effective.” Results for resident representatives, TA staff, and program staff include only those who answered that they had interacted with each.

### Staff incentives for effective face-to-face interactions

76. Area department staff working on emerging economies—and more generally across the Fund—said that the incentives they faced did not favor interactions with the authorities. Figure 18 shows that 59 percent of staff working on large and 65 percent of staff working on other emerging economies indicated that interactions with the authorities were given too little weight in staff annual performance reviews. Staff interviews pointed to other incentives that pushed against closer interactions, such as one staff member who reminded the interviewers that mission chiefs who develop strong relationships with their authorities are seen to have lost their objectivity and independence.

77. Many staff also said they were allowed too little time for interactions relative to other work, such as servicing the Board or management and responding to reviewers’ comments. This result was similar for staff working on both large and other emerging economies (50 percent and 44 percent, respectively). These survey results are supported by evidence from interviewed area department staff, whose perspectives on institutional procedures revealed frustration at the importance given to internal processes that they say take a substantial amount of their time—particularly requirements for briefing and the “crafting” of papers for a smooth passage through the Board (an implicit indicator of performance).<sup>23</sup>

<sup>23</sup>The report of the interdepartmental working group, “Enhancing Career Development at the Fund,” October 2007 also points out that “work processes and incentives are geared predominantly toward servicing Management and the Executive Board, with much less attention to outside stakeholders (member countries, authorities, other stakeholders).”

### C. Relationship management

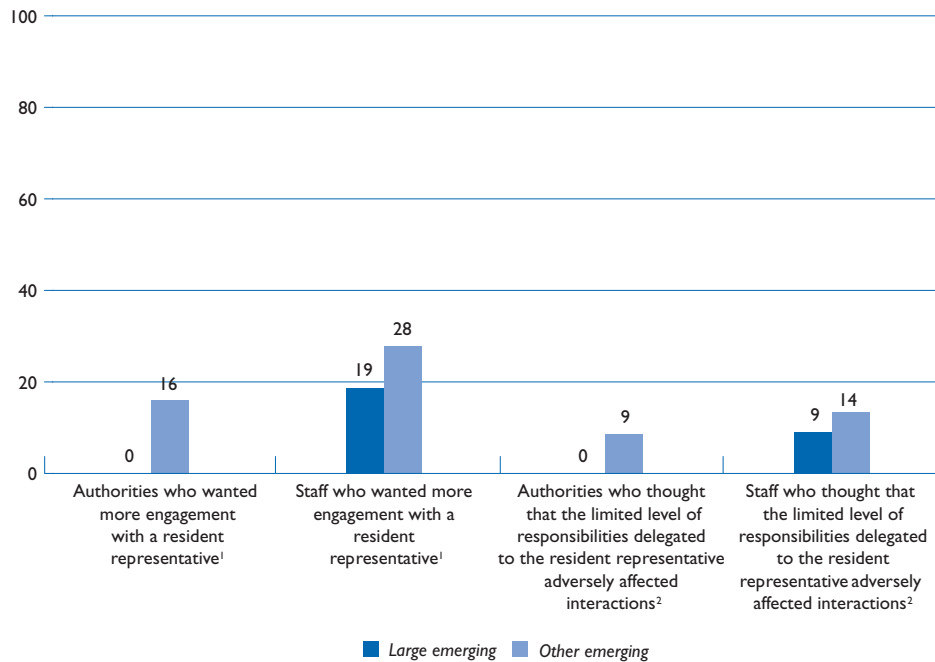
78. Interactions in all their dimensions come together in the Fund’s country relationships, which require proper management for effectiveness. Box 4 in the main report shows the evaluation survey evidence on the authorities’ and staff’s perceptions about the effectiveness of Fund relationship management. By one measure, 80–90 percent of emerging economy authorities’ survey responses agreed the Fund’s arrangements for relationship management were conducive to effective interactions. (The staff’s survey numbers were in the same range.) But on another measure—whether the Fund takes a long-term strategic approach to the relationship—the scores are much lower, with 5–10 percent rating the Fund’s performance as excellent, 45 percent as good, and 35 percent as average. Against this background, this section presents the evidence on three aspects of relationship management: (i) the effectiveness of different Fund interlocutors in their interactions with the authorities; (ii) decentralization and the management and role of Fund resident representatives; and (iii) trouble shooting.

#### Interlocutors

79. The evaluation survey asked the authorities and staff about which they thought was the Fund’s most effective channel for interactions. As shown in Figure 19, the authorities of the large emerging economies gave the highest scores to the staff working on surveillance, notwithstanding their concerns discussed earlier about the surveillance process. They gave the lowest scores to management and to program staff. The authorities of the other emerging economies gave the highest scores to technical assistance staff and the lowest to manage-



**Figure 20. Resident Representatives: Authorities' and Staff Views**  
(Percent of respondents)



<sup>1</sup>Shows the share of respondents who answered "somewhat more" or "much more."

<sup>2</sup>Shows the share of respondents who answered "agree" or "strongly agree."

ment and resident representatives. Staff also gave low scores to management.

80. In the survey, both authorities and staff rated interactions with the EDs more highly than those with management. This finding was true for both large and other emerging economies, though differences in the views of staff and authorities were more pronounced in the other than in the large emerging economies. In other emerging economies, 75 percent of authorities called interactions with the EDs effective, compared to 60 percent of staff. Over 70 percent of both staff and authorities in large emerging economies rated these interactions as effective. The pattern was similar for interactions with management, though effectiveness scores were lower across the board. In large emerging economies, 65 percent of authorities and 53 percent of staff called interactions with management effective, compared to around 50 percent for both groups in other emerging economies.

81. In interviews, mission chiefs generally considered that IMF management can play a useful role in interactions by building an appropriate relationship with a country's political executive at the highest level. This was particularly the case, they felt, in large emerging economies where the staff do not have access at the highest levels. Even in such cases, however, some interviewed mission chiefs expressed the view that management should be careful discussing

details of programs and policies with the authorities.<sup>24</sup> On occasion, messages conveyed by management were unexpected or not previously discussed fully with staff, to the detriment of relations with the authorities.

### Decentralization

82. The IMF has not joined the international trend towards geographical decentralization. If anything, it has moved in the opposite direction, as budget cuts have led to the closing of some country offices. However, the Fund still maintains resident representative offices in 24 emerging economies—11 large and 13 other emerging economies.

83. Emerging economy authorities, for the most part, expressed satisfaction with current arrangements in their countries. As shown in Figure 20, in response to a survey question, none of the large-emerging authorities wanted more engagement from a resident representative office (85 percent preferred the status quo, and

<sup>24</sup>The IMF Office of Internal Audit and Inspection (2002) also points out that "Management has become much more directly involved in negotiations through face-to-face meeting with senior country authorities. Important quality control points within the institution would appear to have been weakened or short-circuited by this process and that Management may be more exposed." In any case, the appropriate balance between the oversight of staff interactions and direct conduct of interactions by management would be worth reviewing and clarifying.

### Box 8. The Handling of Complaints and Tensions

The evaluation survey asked a variety of questions about the way in which the Fund handles complaints from member countries. The chart below summarizes the relevant survey data across country groups. It raises questions about equal treatment of countries in the handling of complaints from the authorities: In particular, it shows that:

For the authorities:

- In terms of satisfaction/dissatisfaction with the process for handling complaints, all country groups fell in the narrow range of 15–26 percent dissatisfied or 74–85 percent satisfied.
- But there are notable differences in how satisfied countries are with the outcomes of their complaints. The emerging economies were the most dissatisfied

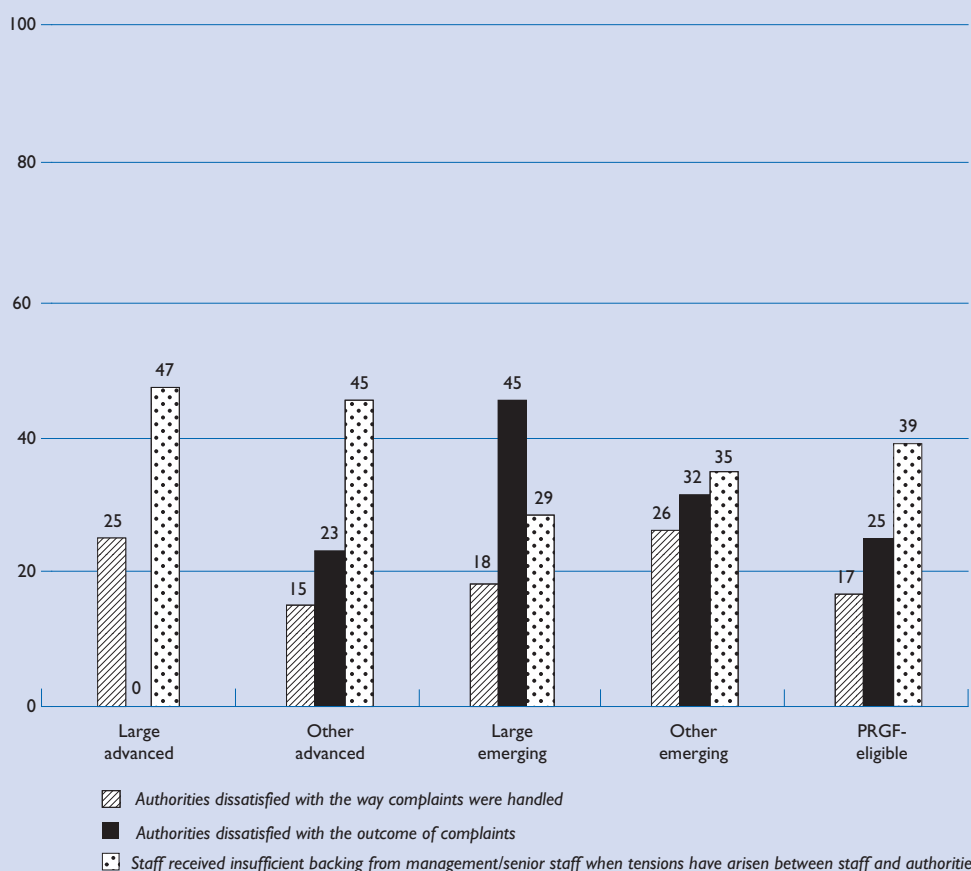
with the outcomes of their complaints—with almost half of large emerging economies dissatisfied.

- None of the large advanced economies had problems with the outcomes of their complaints to the IMF. For the other advanced and PRGF-eligible countries, about one-quarter of surveyed authorities were dissatisfied.

For staff:

- Among staff, the converse is true: almost half of staff working on the large advanced economies said they received insufficient backing from management/senior staff when tensions arose with the authorities.
- But only 29 percent of staff working on large emerging economies perceived insufficient backing.

(Percent of respondents)



15 percent wanted less engagement). For other emerging economies, 76 percent preferred the status quo, 16 percent more, and 7 percent less. The staff was more bullish on an enhanced presence in large emerging economies, with 19 percent saying “more” and 3 percent, “less.”

Of some relevance here—and further evidence of the authorities’ interest in technical inputs as opposed to policy advice—when asked about resident technical advisors, authorities in somewhat larger numbers (20 percent of large and 32 percent of other emerging

economies) wanted the IMF to provide “more” and none wanted “less.”<sup>25</sup>

84. Interviewed 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. Some said that particularly in dynamically changing economies, an annual consultation plus staff visits and ad hoc contacts with management were unlikely to be sufficient to sustain an ongoing policy dialogue or facilitate the identification of emerging risks and vulnerabilities. In the context of budget cutbacks and pending closures of resident representative offices, many mission chiefs maintained that adding resources at headquarters by way of additional staff or increasing the use of technology would not be an adequate substitute for local presence.

85. 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 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. Several said that in order to increase effectiveness, resident representative positions needed to be viewed more strategically, as the best channel available for relationship building with the authorities. 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. Many viewed continued centralization efforts by the Fund as counterproductive. They argued that closure of resident representative posts would only diminish further the Fund’s visibility and make it less able than other international players to maintain the close relationships with authorities necessary to make its voice heard. In internal documentation some IMF area departments have also expressed concerns about the effects of resident office closures.<sup>26</sup>

### Troubleshooting

86. The large emerging economies were the most dissatisfied of all country groups in respect to how their complaints about interactions were handled. Survey

<sup>25</sup>From a different perspective, Box 1 in a paper to the Committee on the Budget, IMF (2005b) noted that “[Executive] Directors were of the view that resident representatives should play a more important role in capacity building and outreach activities, notwithstanding that the direct work with the authorities should remain as the core objective of posts.”

<sup>26</sup>For example, the business plan of APD for FY2009–11 noted that such closures could lead to some lost interactions with authorities and others on the ground in several still-vulnerable Asian countries.

responses suggest that when authorities brought a complaint to the Fund, most but not all, were mostly satisfied with the way it was handled. As shown in Box 8, 18 percent of respondents from large, and 26 percent from other emerging economies, said that they were dissatisfied with the process by which complaints were handled. But a much higher share of authorities—especially of respondents from large emerging economy authorities (45 percent) were dissatisfied with the outcomes of their complaints.<sup>27</sup> Meanwhile, looking at the staff perspective, about a third of staff working on emerging economies believed they did not receive sufficient backing from management and/or senior staff in the case of tension with the authorities—with less country dissatisfaction in cases where staff receive less management support and vice versa.

## V. Conclusions

87. The first conclusion of the paper is that the effectiveness of IMF interactions differs as between the large and the other emerging economies. Several country exceptions notwithstanding, interactions are less effective in the large emerging economies than in the other emerging economies. This conclusion follows from the weight of the evidence on most dimensions considered in the evaluation.

88. Second, the Fund’s ineffectiveness in the large emerging economies derives importantly from a failure of strategy for promoting institutional relevance in post-program and other surveillance-only economies. Other points on the large emerging economies follow:

- The large emerging economies rated the effectiveness of interactions with the authorities of the other emerging economies, in four out of five of the indicators of interactions developed by the evaluation. One driver of these differences was the large emerging economies’ declining interest in the Fund’s existing products and services, which in some cases entailed a transition from a program relationship to a surveillance-only relationship and a dramatic decline in the Fund’s influence.
- Though many authorities welcomed the greater harmony of their post-program surveillance-only relationships, bad memories of past programs tended to dominate the evaluation interviews with many country officials. They stressed that going forward their 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.

<sup>27</sup>These figures include only those authorities who indicated that they had raised a complaint to the IMF, though this group represents a sizable share of all emerging economy respondents; half of large emerging and 39 percent of other emerging economy authorities had a complaint to convey to the IMF.

- Meanwhile, the challenge posed for the IMF in surveillance-only relationships is how to gain and sustain the interest and trust of post-program authorities. To meet this challenge (without the provision of financial assistance), the IMF must bring—and be perceived to bring—value beyond what countries already achieve; a task increasingly difficult given the much higher levels of expertise and capacity than in the past. The authorities of many large emerging economies think that the surveillance process failed this test during the evaluation period, especially during 2007–08. In their view, it provided little value added and/or lacked evenhandedness, especially vis-à-vis advanced economies.
- In trying to increase traction, staff launched a number of initiatives during the evaluation period—including new modalities, expanded outreach, and stepped up country analysis on a case-by-case basis. Overall, these had limited impact on interactions as a whole, given the scale of the challenge to the Fund’s relevance and the absence of an overarching strategy that bridges the authorities’ concerns and the institution’s mission and mandate.

89. Third, for the other emerging economies, interactions were effective with some but not all countries. Other points on the other emerging economies follow:

- The other emerging economies themselves constitute a diverse group, comprising subgroups of “small states,” emerging Europe, and relatively small countries in the Middle East, and other regions, each with distinctive challenges as well as unique country-level issues.

- The authorities of these economies gave IMF technical assistance high marks, in the survey results and the interviews. Interviewed officials from several countries highlighted the staff’s help on banking supervision and inflation targeting. And the FSAP process came in for high praise, including from officials of small states, who more generally were using the IMF to help ratchet up their technical capacity.
- Officials from other emerging economies generally said that interactions were improving, with some associating the improvement with their countries’ transition from program to nonprogram status, yet others a recent change into program status. Some welcomed the Article IV process as an opportunity to test their own ideas and to debate alternatives. But others agreed with the large emerging economies that Article IV reports and discussions were often just updates with “very little new or interesting to the authorities.”
- Importantly, the interactions problems of the other emerging economies tended to be more straightforward, related to the management of turnover and countries’ desire for greater institutional attention to the challenges they faced. Notwithstanding a number of issues that remain to be addressed, successes generally came easier with this group of countries, as solutions were more amenable to individual area departments’ and country teams’ ability to meet countries’ particular circumstances, such as assisting the ambitions for greater regional integration, or providing more country-specific analysis and technical assistance.

## Annex I. Emerging Economies

Large Emerging		Other Emerging
Argentina	Algeria	Lebanon
Brazil	Antigua and Barbuda	Libya
China	Aruba	Lithuania
Colombia	Bahamas, The	Macedonia, FYR
Egypt	Bahrain	Marshall Islands
India	Barbados	Mauritius
Indonesia	Belarus	Micronesia
Iran, I.R. of	Belize	Morocco
Malaysia	Bosnia and Herzegovina	Namibia
Mexico	Botswana	Netherlands Antilles
Philippines	Brunei Darussalam	Oman
Poland	Bulgaria	Palau, Republic of
Russian Federation	Chile	Panama
Saudi Arabia	Costa Rica	Paraguay
South Africa	Croatia	Peru
Thailand	Czech Republic	Qatar
Turkey	Dominican Republic	Romania

## Annex I (concluded)

Large Emerging	Other Emerging	
Ukraine	Ecuador	San Marino
Venezuela	El Salvador	Serbia
	Equatorial Guinea	Seychelles
	Estonia	Slovak Republic
	Fiji	St. Kitts and Nevis
	Gabon	Suriname
	Guatemala	Swaziland
	Hungary	Syrian Arab Republic
	Iraq	Trinidad and Tobago
	Jamaica	Tunisia
	Jordan	Turkmenistan
	Kazakhstan	United Arab Emirates
	Kuwait	Uruguay
	Latvia	West Bank and Gaza

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# IMF Interactions with PRGF-Eligible Countries

## I. Introduction and Overview

1. This paper examines IMF interactions in PRGF-eligible countries. It focuses on interactions with the authorities on surveillance, programs and signaling, and technical assistance during the 2001–08 evaluation period. Like the other country papers, it considers the extent to which interactions were effective and well managed. Like them, it considers interactions with country stakeholders beyond the authorities, especially as they affected the primary relationship with the authorities.

2. The paper finds that IMF interactions with PRGF-eligible countries were more effective than with any other country group. This greater effectiveness reflects an institutional strategy for PRGF-eligible countries replete with attractive financing, debt relief, strong links to donor funding, and competent technical assistance, which in turn made for an abundance of traction in interactions with the authorities during the evaluation period. But in some cases it also led to what authorities perceived to be arrogant and inflexible staff behavior—especially in the first half of the evaluation period and especially at times of program interruptions and delays. There were fewer complaints, and more praise, from countries without such interruptions. Though authorities have reported progress in recent years across a number of dimensions, reputational damage from the earlier period remains, including with many stakeholders beyond the authorities, who continue to define the Fund in terms of structural adjustment, privatization, and fiscal austerity, despite increased staff outreach. The paper finds progress in several areas during the latter part of the evaluation period.

3. The evidence and analysis that leads to these conclusions are developed in the remainder of this paper, which is structured as follows. This first chapter profiles the PRGF-eligible countries and the evidence on which the paper is based, and summarizes the policy guidance governing interactions during the evaluation period. Chapter II discusses interactions with the authorities, examining in turn the evaluation evidence on interactions on surveillance, programs and signaling, and capacity building. Chapter III discusses interactions with other in-country stakeholders beyond

the authorities. Chapter IV discusses the management of interactions with the PRGF-eligible countries, taking up in more detail issues of strategy, style, and relationship management. Chapter V concludes.

### A. Country coverage

4. The evaluation covers IMF interactions with 77 countries eligible for borrowing from the Poverty Reduction and Growth Facility (PRGF).<sup>1</sup> These 77 countries, listed in Annex 1, had a combined GDP of \$1.3 trillion in 2008, amounting to under 2 percent of global GDP measured with current exchange rates.

5. These countries form a diverse group. Some are very small (Kiribati's population is less than 100,000) and some are very large (Nigeria's population exceeds 150 million). Per capita incomes vary widely (from a low of \$140 in Burundi to a high of \$5,710 in Grenada).<sup>2</sup> And the economic and financial challenges they face are equally varied. Some are just emerging from conflict status and others are poised to join the ranks of the emerging economies. But each faces macroeconomic policy challenges and related institutional capacity constraints that the Fund has both the mandate and expertise to help address. Almost all enjoyed macroeconomic progress over much of the evaluation period. Ninety-eight percent (all except Somalia) had Article IV relationships, 95 percent had technical assistance programs, and 75 percent had a program with the Fund at some time during the evaluation period.

6. IMF interactions with PRGF-eligible countries are managed by all five area departments. As shown in

<sup>1</sup>According to the IMF's PRGF Fact Sheet, "Eligibility is based principally on the IMF's assessment of a country's per capita income, drawing on the cutoff point for eligibility to World Bank concessional lending (currently 2007 per capita gross national income of \$1,095)." See [www.imf.org/external/np/exr/facts/prgf.htm](http://www.imf.org/external/np/exr/facts/prgf.htm). Eligibility also takes into account country access to financial markets and status as a small island economy. See Annex 1 for the list of 77 countries, from the IMF *World Economic Outlook* country classification. The sole exclusion from the *WEO* is India, which the evaluation included among the emerging economies.

<sup>2</sup>World Bank, World Development Indicators database, October 7, 2009.



**Figure 1. Distribution of PRGF-Eligible Countries Across IMF Area Departments**

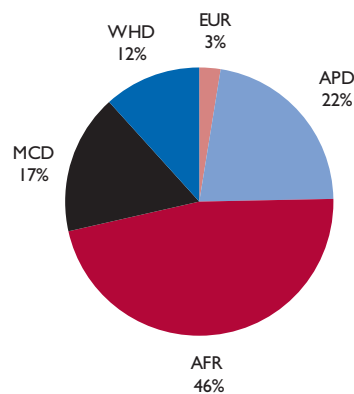


Figure 1, almost half of them are covered by the IMF's African Department (AFR), with most of the remainder covered by the Asia and Pacific (APD), Middle East and Central Asia (MCD), and Western Hemisphere (WHD) departments. Just two countries are covered by the IMF's European Department (EUR).

7. The evaluation sample consisted of 16 countries—Armenia, Bolivia, Burkina Faso, Cameroon, Democratic Republic of Congo (DRC), Ghana, Guinea, Malawi, Mozambique, Nigeria, Pakistan, Senegal, Solomon Islands, Togo, Uganda, and Vietnam. All 16 had regular Article IV consultations during the evaluation period. Fifteen had programs at some time during the evaluation period; the exception is the Solomon Islands. Its inclusion in the evaluation sample is meant to shed light on the nature of IMF interactions with small states, which account for the majority of the “nonprogram” countries among the 77.<sup>3</sup> All 16 sample countries were extensive users of Fund technical assistance. All the sample countries except the Solomon Islands had resident representatives, some of whom were shared with other countries—Senegal and The Gambia, for example, shared a resident representative, as did Benin and Togo.

## B. Evidence base

8. Sources of evidence for this paper include survey, documentary, and interview data developed specifically for the evaluation, as well as relevant data developed for earlier evaluations.<sup>4</sup> Highlights of the

<sup>3</sup>The “nonprogram countries” among the PRGF-eligible countries are: Bhutan, Eritrea, Kiribati, Maldives, Myanmar, Samoa, Solomon Islands, Somalia, St. Lucia, St. Vincent and the Grenadines, Timor-Leste, Tonga, Uzbekistan, Vanuatu, Yemen, and Zimbabwe.

<sup>4</sup>As in all such endeavors, the evidence may be subject to misinterpretation. To manage such risks, the evaluation triangulated

evidence base follow, with greater detail provided in the companion background technical documents.

- The evaluation's survey evidence covers the authorities and civil society organizations (CSOs) in PRGF-eligible countries, and IMF staff working on these countries. The evaluation survey of country authorities was answered by 47 respondents from 41 PRGF-eligible countries, for an overall country response rate of 54 percent.<sup>5</sup> Responses to the staff survey totaled 290, covering work on 69 PRGF-eligible countries (containing some 88 percent of the total PRGF-eligible country population). The civil society survey received 259 responses from civil society representatives in 61 of the 77 PRGF-eligible countries. The methodology and results are set out in detail in the background technical document on the survey.
- The evaluation team reviewed the Fund's internal documentary record for the 16 countries in the evaluation sample. The material included confidential briefing memoranda to IMF management, mission back-to-office reports, and interdepartmental correspondence on related country issues. Such material gave the IEO a window into internal debates about staff positions on particular issues, if or how IMF management may have contributed on an issue, and how country views influenced the debate and the decisions.
- Country visits by the evaluation team to Cameroon, Senegal, and Togo provided opportunities for in-depth interviews with a broad representation of authorities in these countries, as well as for discussions with partners and stakeholders. Also, taking advantage of the IMF Spring and Annual Meetings in Washington—and the telephone—the evaluation team interviewed from headquarters many representatives of the authorities and Fund staff—including resident representatives—and some World Bank staff) who worked on the evaluation sample countries. The interview methodology

across individual sources of evidence and applied judgment and other knowledge when different sources suggested different answers. In terms of possible interpretation and measurement risks, the evaluation survey was quite complex, with many questions and many respondents from a large number of countries; all this raises the risk that some questions may have been interpreted differently by different recipients. Interview bias is a common feature of such evidence, subject to potential biases on both sides. Finally, the use of the documentary evidence is subject to many sources of bias, not the least of which is its having been written for another time and another audience—one quite familiar with the Fund's culture and issues, and one where strict word limits apply to all documents, so that many issues of interest receive quite abbreviated attention.

<sup>5</sup>For the authorities' survey, one questionnaire was sent to the ministry of finance and one to the national central bank where one existed.

and results are set out in the background technical document on the interviews.

- Other evidence includes information drawn from earlier IEO evaluations—especially “The IMF and Aid to Sub-Saharan Africa” (IEO, 2007), the “PRSP/PRGF” (IEO, 2004), and “Structural Conditionality in Fund-Supported Programs” (IEO, 2008). It includes reports from earlier IEO country visits, including to Armenia, Burkina Faso, Ghana, Guinea, Mozambique, Pakistan, and Vietnam; IMF ex post assessments, which are available for 14 of the 16 sample countries;<sup>6</sup> and studies specially commissioned by IEO, including one on IMF outreach to civil society (Scholte, 2009), which included country visits to the Democratic Republic of the Congo (DRC), Malawi, Mozambique, Nigeria, and Uganda among the evaluation sample countries.<sup>7</sup>

### C. Policies and guiding principles

9. The Fund’s evolving approach to interactions with PRGF-eligible countries is catalogued in a series of papers for the Executive Board, the most recent of which is the staff paper on “The Role of the Fund in Low-Income Countries” (IMF, 2008a), which the Board discussed in July 2008. According to that paper, the Fund provides: (i) advice on macroeconomic policies and institutions that support internal and external macroeconomic stability, foster economic growth, and enhance integration in the international trade and financial system; (ii) assistance in building capacity and institutions for sound macroeconomic management and financial stability; and (iii) concessional balance of payments support.

10. The underlying policy guidance to Fund staff on the conduct of these functions is summarized below:

- *Surveillance.* Interactions were governed by the 1977 Surveillance Decision, replaced by the 2007 Surveillance Decision, with specific guidance to staff provided in a series of surveillance guidance notes.<sup>8</sup> These notes instructed staff to engage in

a frank policy dialogue that supports members’ receptiveness to Fund advice. The dialogue should include cross-country comparative studies as a way to add value to policy discussions and, more generally, consultations should attempt to bring to bear other countries’ experiences in addressing similar problems, drawing out policy implications. Spillover effects to and from other countries were to be discussed wherever relevant. Priority is to be given to macroeconomic issues related to external sustainability, vulnerability to balance of payments or currency crises, sustainable growth with price stability, and the systemic or regional impact of policies in large economies. Financial sector issues were to receive thorough coverage. And bilateral surveillance should be informed by multilateral and regional surveillance.

- *Programs and signaling.* As the Fund’s concessional lending facility for PRGF-eligible countries, the PRGF was launched in 1999 to be the vehicle by which the Fund provides financial support to countries’ poverty reduction and growth strategies. The PRGF handbook provides information for staff on the role of the PRSP in PRGF arrangements, the objectives and design of PRGF-supported programs, and monitoring under PRGFs. It covers issues of phasing and access and the relationship of the PRGF with Fund facilities and initiatives, and collaboration with the World Bank.<sup>9</sup> Other modalities for PRGF-eligible countries include the Policy Support Instrument (PSI); staff-monitored programs; and emergency assistance to members in post-conflict recovery and those requiring natural disaster assistance as well as the Exogenous Shocks Facility (ESF). The ESF was launched in December 2005 to assist members experiencing short-term balance of payments difficulties and modified in September 2008 to provide for increased access, and rapid assistance with streamlined conditionality. The HIPC Initiative and the MDRI have also provided debt relief for qualifying PRGF-eligible countries.<sup>10</sup>

Lending to member countries has entailed conditions from the beginning. In 2000, the Fund

<sup>6</sup>Nigeria and Solomon Islands are the exceptions.

<sup>7</sup>The project also involved a country visit to Mali, which is not one of the evaluation sample countries.

<sup>8</sup>Guidance to staff on the conduct of bilateral surveillance is set out in the May 2005 Surveillance Guidance Note—supplemented by the August 2008 note on “Guidance on Operational Aspects of the 2007 Surveillance Decision” (on treatment of exchange rate issues) and by two further notes, of December 2006 and February 2007, that focus on implementing recommendations from the Fund’s Medium-Term Strategy, especially with respect to surveillance agendas. The 2005 Surveillance Guidance Note replaced the Operational Guidance Note for Staff following the 2002 Biennial Surveillance Review. The Surveillance Guidance Note consolidated guidance on treatment of issues bearing on surveillance that were previously contained in various other notes and memoranda. Issued after the close of the evaluation period, recent guidance for financial sector

surveillance (“Financial Sector Guidance Note,” April 24, 2009) sets out (i) how to identify risks to macro-financial stability; (ii) policy and regulatory considerations; and (iii) operational issues. There is separate guidance for the conduct of FSAPs and FSAP updates. See <http://www-int.imf.org/depts/pdr/Surveillance/Financial-Sector/FSAP/fsap-procedures-guide.pdf>; <http://www-int.imf.org/depts/pdr/Operational-Guidance/Surveillance-GNMay2005.doc>; <http://www.imf.org/external/np/pp/eng/2008/080408.pdf>; and <http://www-int.imf.org/depts/pdr/Operational-Guidance/SM02292.pdf>.

<sup>9</sup>There have been recent changes in access limits and norms in July 2009, updating the note from 2004 and including ESF; in PRSP-related procedures in January 2009; and the adoption of review-based monitoring introduced in April 2009.

<sup>10</sup>See <http://www.imf.org/external/pp/longres.aspx?id=4365>.

concluded a review of conditionality that recognized that successful economic policy programs must be founded on strong country ownership. Guidelines on conditionality adopted by the Board in September 2002 re-emphasized the importance of ownership and called for “parsimony” and “criticality” in the use of conditions. The Executive Board reviewed the application of the new guidelines in March 2005 and in July 2008 a revision to the operational guidance note on conditionality was prepared as an aid for staff to the implementation of the 2002 guidelines. Recently, the Fund revised its conditionality framework in the context of an extensive reform to improve its capacity to prevent and resolve crises. For the PRGF, ESF and PSI, loan conditionalities were evaluated as part of the general streamlining of Fund conditionality, shifting to a review-based approach to assessment of program performance rather than through the use of structural performance criteria.

- *Technical assistance.* A policy statement on technical assistance issued in April 2001 highlighted the importance of country ownership of technical assistance and called for a review of past and current technical assistance efforts, including a country’s track record in implementing technical assistance. The 2005 Board discussion of the Technical Assistance Task Force emphasized a strategic approach to the programming of technical assistance, including the involvement and ownership of the authorities, and sufficient flexibility to respond to shifts in priorities.<sup>11</sup> Coordination with, and support from donors was seen to be important, with involvement by country authorities in the design and follow-up of technical assistance activities, based on the needs and priorities set out, where possible, in PRSPs. The 2008 Board discussion of reforms to enhance the impact of Fund technical assistance underlined the need to advance the integration of technical assistance with surveillance and lending operations; and to improve the prioritization of TA in line with the strategic objectives of both recipient countries and the Fund, and by introducing a charging regime.<sup>12</sup>

11. Interactions with in-country stakeholders beyond the authorities involving the provision of information are governed by the Fund’s transparency policy and its communications strategy, as well as by individual policies with relevant outreach provisions, such as on Poverty Reduction Strategy Papers. Guidance to staff is contained on the SPR and EXR websites. Under the transparency policy, there is a presumption of publication of staff reports for Article IV consultations, and

relevantly in the case of the use of concessional resources, the Managing Director will not recommend approval of an arrangement or the completion of a review if the member concerned does not consent to publication of the staff report. The guidance on outreach places a premium on staff outreach to parliamentarians as the countries’ duly elected officials, to civil society in member countries, and to others, while continuing to respect the primacy of the Fund’s relationship with the authorities (see, for example, IMF, 2003b). To strengthen communication of the Fund’s policy messages, staff are encouraged to develop outreach programs and enhance their contacts beyond the authorities. Press conferences should be held after Article IV missions and/or Board meetings, unless IMF departments see reasons not to hold them (e.g., if the authorities object). Similar guidance is embodied in the conclusions of recent reviews of the Fund’s transparency and communications.<sup>13</sup>

## II. Interactions with the Authorities

12. This chapter examines the evidence on the effectiveness of IMF interactions with the authorities of PRGF-eligible countries. It begins with a brief discussion of the overall picture emerging from the survey results, and what it says about IMF interactions with PRGF-eligible countries compared with the other country groups. It then turns to the evaluation evidence on surveillance, programs, and capacity building. A theme running through the discussion is the value most authorities of PRGF-eligible countries placed on the Fund’s products and services in addressing the challenges they faced. How this value affected substantive interactions between the authorities and staff is discussed in this chapter. The implications for the style of interactions are discussed in Chapter IV.

### A. Overarching issues

13. The main report uses survey-based indicators to compare different country groups’ perceptions about interactions, and on each indicator the ratings provided by the PRGF-eligible countries are the highest.<sup>14</sup> This section looks behind those indicators (recapped briefly in Figure 2) and explores what drives the ratings from the PRGF-eligible countries. Unless otherwise specified, the survey data and the attendant discussion refer to the 2007–08 period, as most survey questions were framed in terms of “the last two years.”

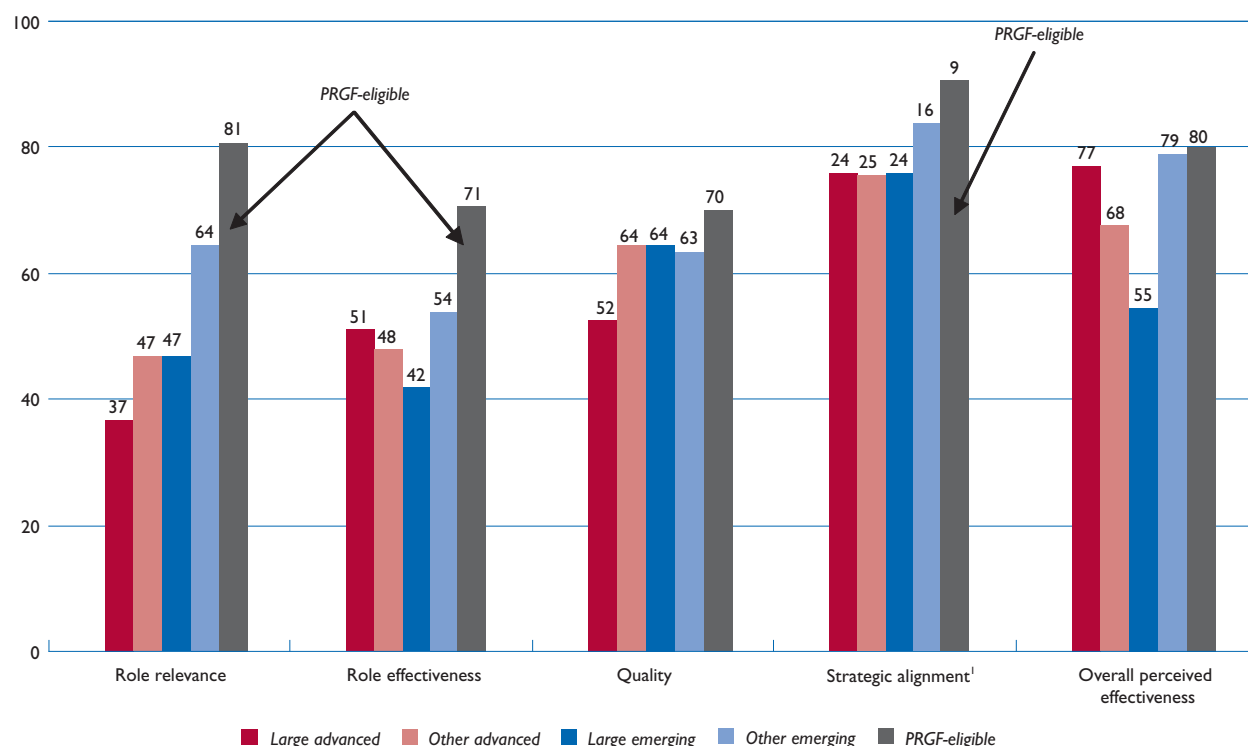
14. Figures 3–5 illustrate the data underlying several of the indicators set out in Figure 2—those for role relevance, role effectiveness, and strategic alignment.

<sup>11</sup>IMF (2005).

<sup>12</sup>IMF (2008c).

<sup>13</sup>See, for example, <http://www-int.imf.org/depts/pdr/Transparency-Publication/Guidance-Notes/Guidance-Note-April06.pdf>.

<sup>14</sup>See Box 2 of the main report.

**Figure 2. Composite Indicators for Interactions**

<sup>1</sup>Inverted scale. The average absolute percentage point difference across the 10 purposes between how much the authorities wanted the IMF to fulfill each purpose and how much staff aimed to do so (“a fair amount” or “very much”).

The data cover survey questions put to both the authorities of PRGF-eligible countries and to the staff working on them about the relevance and effectiveness of ten possible IMF roles.

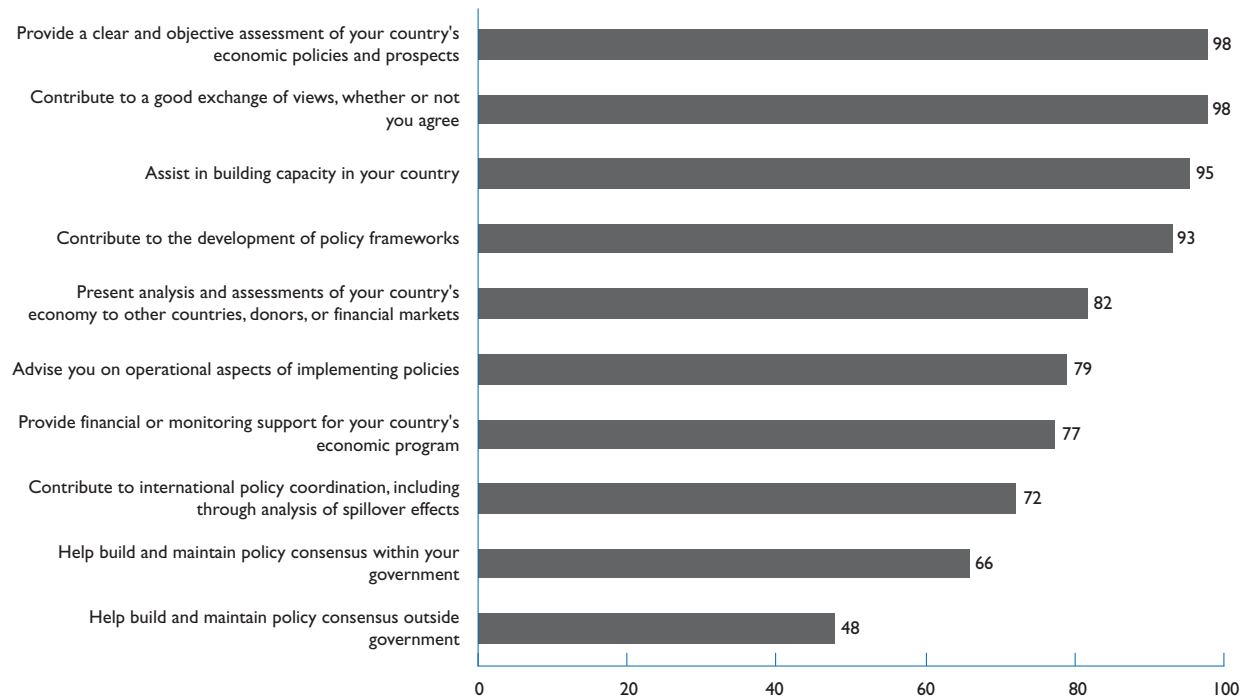
- As discussed in the main report, all country groups (including the PRGF-eligible countries) expressed strong interest in the Fund’s assessment of their countries’ policies and prospects and in a good exchange of views. Where the responses from the PRGF-eligible countries diverge from the others is in their wider interest in Fund interactions. As shown, at least 80 percent of PRGF-eligible survey respondents said they wanted Fund interactions on five roles—as illustrated in Figure 3—the two just mentioned, plus three others: (i) contributing to the development of policy frameworks; (ii) assisting in the development of capacity; and (iii) presenting analysis and assessments of the country’s economy to other countries, donors, or financial markets. Majorities of PRGF-eligible authorities wanted nine out of the ten possible Fund roles.
- Also as shown in Figure 4, at least 70 percent of the surveyed PRGF-eligible authorities rated interactions on 7 of the 10 queried roles as effective or

very effective. For other country groups, only two roles were that highly rated. The three exceptions that received subpar ratings from the PRGF-eligible countries are the Fund’s contribution to (i) international policy coordination, including through the analysis of spillovers; (ii) the development and maintenance of policy consensus inside government; and (iii) the development and maintenance of policy consensus outside government. And even these three roles received higher effectiveness ratings from the PRGF-eligible countries than from any other country group.

- Figure 5 contains the data for the indicator of strategic alignment, which measures by how much the authorities of the different countries and the staff working on them expressed a shared view about the purposes and priorities of their interactions. The strategic alignment indicator for the PRGF-eligible countries reflects the fact that on average, across the ten purposes queried in the evaluation survey, the authorities’ and staff ratings differed by an average of 9 percentage points, compared with 16–25 percentage points elsewhere. Strategic alignment in the context of PRGF-eligible countries is discussed further in Chapter IV.

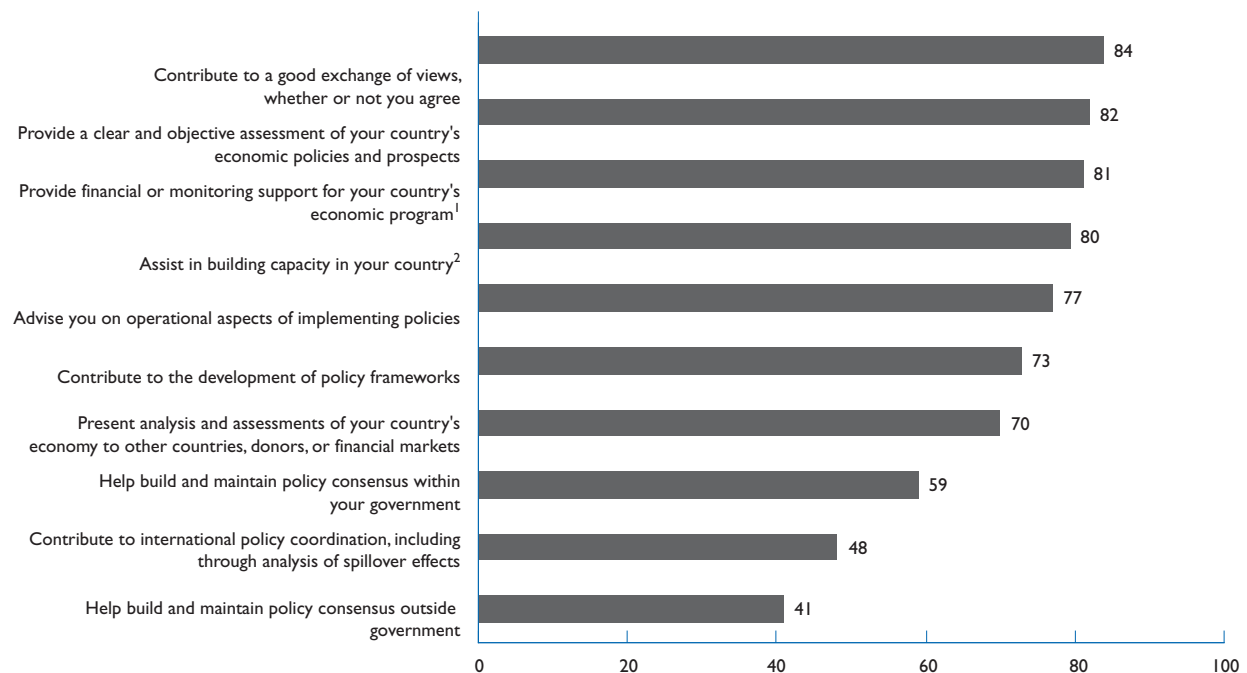
### Figure 3. Role Relevance: PRGF-Eligible Country Authorities' Views

(Percent of authorities who responded that they wanted the IMF to perform each role "a fair amount" or "very much")



### Figure 4. Role Effectiveness: PRGF-Eligible Country Authorities' Views

(Percent of authorities who responded that interactions were "effective" or "very effective")

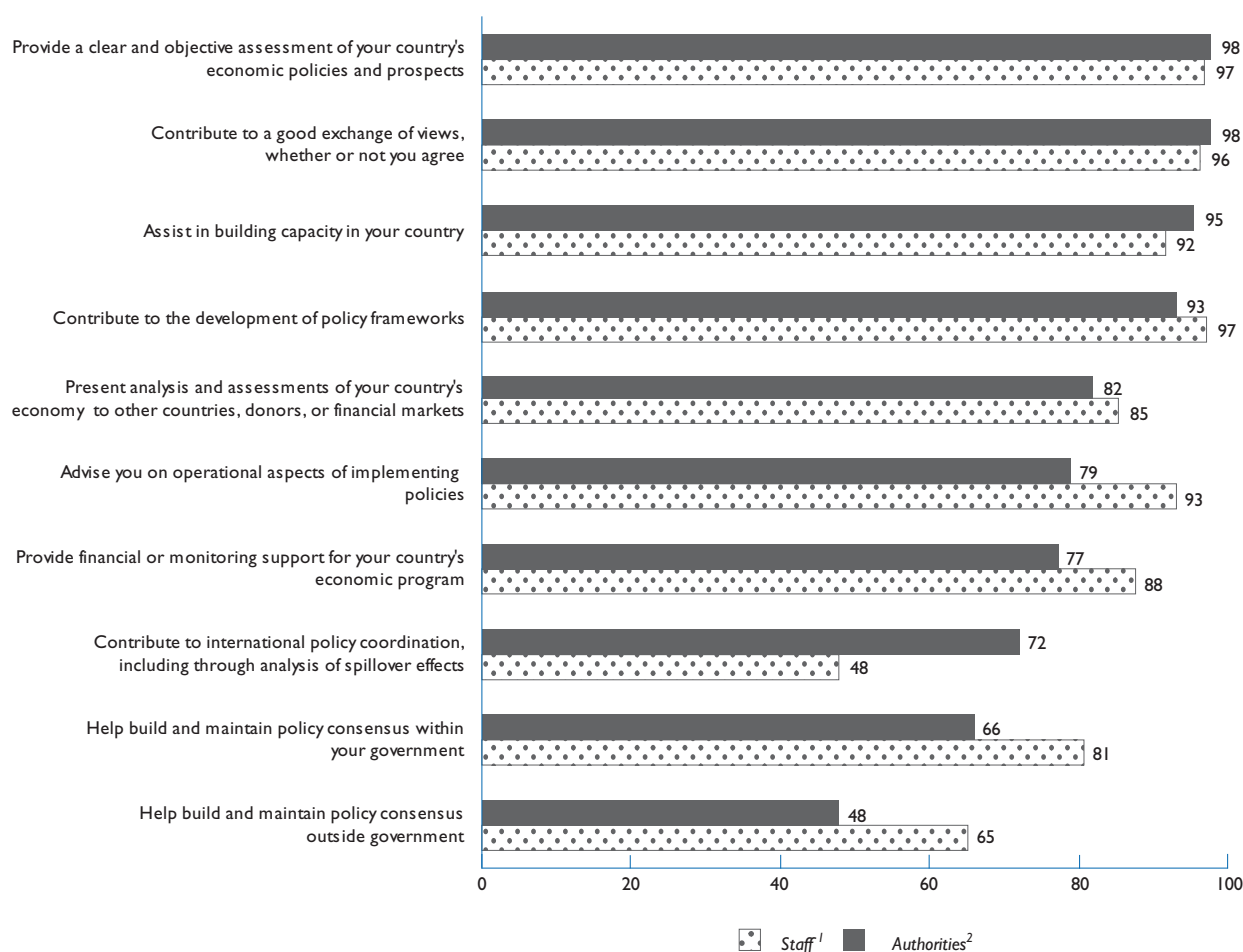


<sup>1</sup>Includes only those who responded that their country had an IMF financial or monitoring program.

<sup>2</sup>Includes only those who responded that their country received IMF technical assistance or training.



**Figure 5. Role Relevance: PRGF-Eligible Country Authorities' and Staff Views Compared**  
(Percent of respondents)



<sup>1</sup>Shows the share of staff who answered that the IMF aimed to perform each role "a fair amount" or "very much."

<sup>2</sup>Shows the share of authorities who answered that they wanted the IMF to perform each role "a fair amount" or "very much."

15. Survey respondents from PRGF-eligible countries also gave the Fund the highest "quality" ratings of all the country groups/subgroups, with the detailed underlying ratings shown in Figure 6. As described in the main report, the survey asked authorities and staff to assess Fund performance in ten dimensions associated with effective interactions. And as shown below, 80 percent or more of responding authorities said that the Fund did a good or excellent job on listening carefully, actively engaging in a constructive dialogue, and focusing on topics of interest to the country. (Not shown, staff rated quality higher than the authorities, by an average of 12 percentage points for each query.) The largest difference between the authorities and the staff was for responding in general to countries' needs and changing priorities, for which 89 percent of staff said they did a good or an excellent

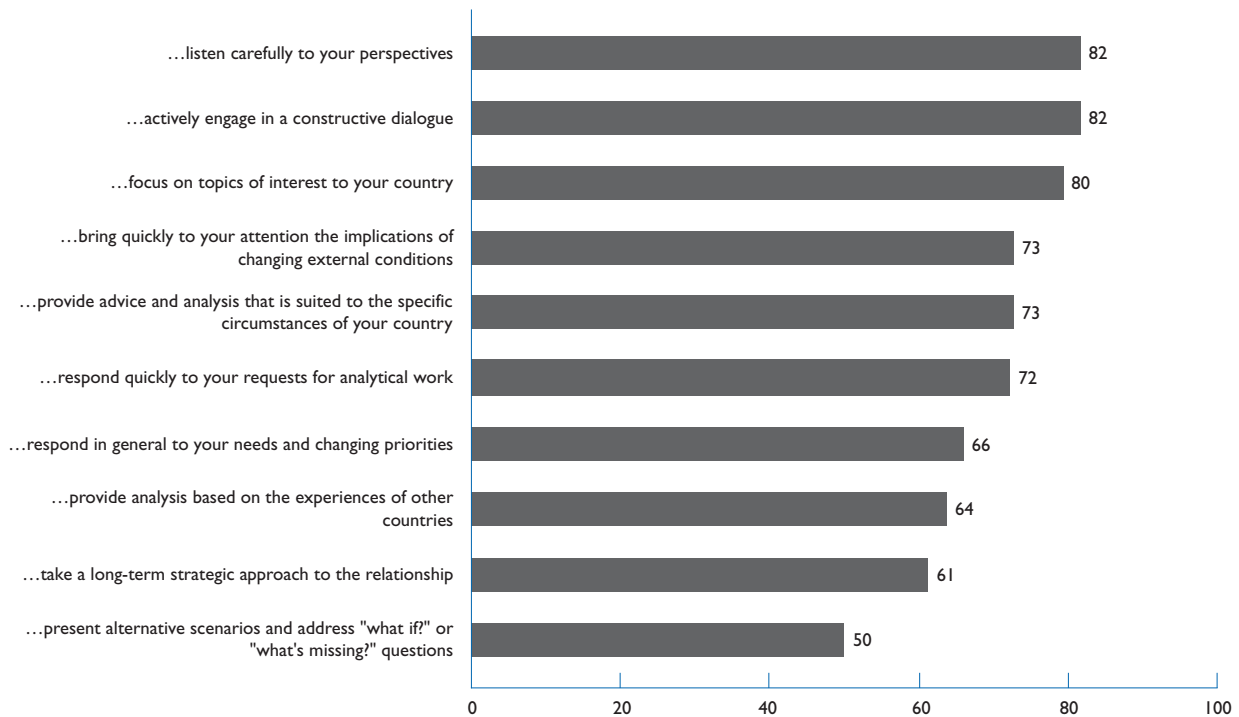
job, compared with only 66 percent of the authorities. The lowest authorities' rating of 50 percent was for the presenting alternative scenarios and addressing "what if" or "what's missing" questions (the staff rating was 69 percent). Of course, "alternative scenarios" means something quite specific in a PRGF context, for which IEO's 2007 Sub-Saharan Africa evaluation, for example, found "ambiguity and confusion" on Fund policy about their use.<sup>15</sup>

16. Finally, PRGF authorities also rated the overall perceived effectiveness of interactions higher than did other country groups. Of the authorities responding to the survey from PRGF-eligible countries, 77 percent said that interactions were effective or very effective

<sup>15</sup>See IEO (2007).



**Figure 6. Quality of Interactions: PRGF-Eligible Country Authorities' Views**  
(Percent of authorities who responded that the IMF did a "good" or an "excellent" job to ...)



over the 2001–08 evaluation period as a whole. Their rating rose to the 80 percent mark for the 2007–08 period. In a reversal of the pattern on quality, where the staff's ratings were higher than the authorities' for every activity queried, the staff's ratings for overall perceived effectiveness were lower than the authorities'—by about 10 percent for the 2007–08 period and 25 percent for the 2001–08 period.<sup>16</sup>

## B. Key functions

17. The remainder of this chapter looks at interactions between the authorities and staff in the context of surveillance, programs, and capacity building, drawing on the evaluation's more detailed survey, interview, and documentary evidence. The discussion details the positives and the negatives, on balance painting a positive picture of interactions during the evaluation period, and especially during the last two years—while acknowledging difficult interactions with several individual countries related to program delays and interruptions in the 2002–04 period.

<sup>16</sup>In the context of other evidence pointing to a change in staff and attitudes in 2007–08 compared with previously, this larger difference for 2001–08 compared with 2007–08 may be capturing, as a surrogate rating, the views of current staff about the effectiveness of their predecessors.

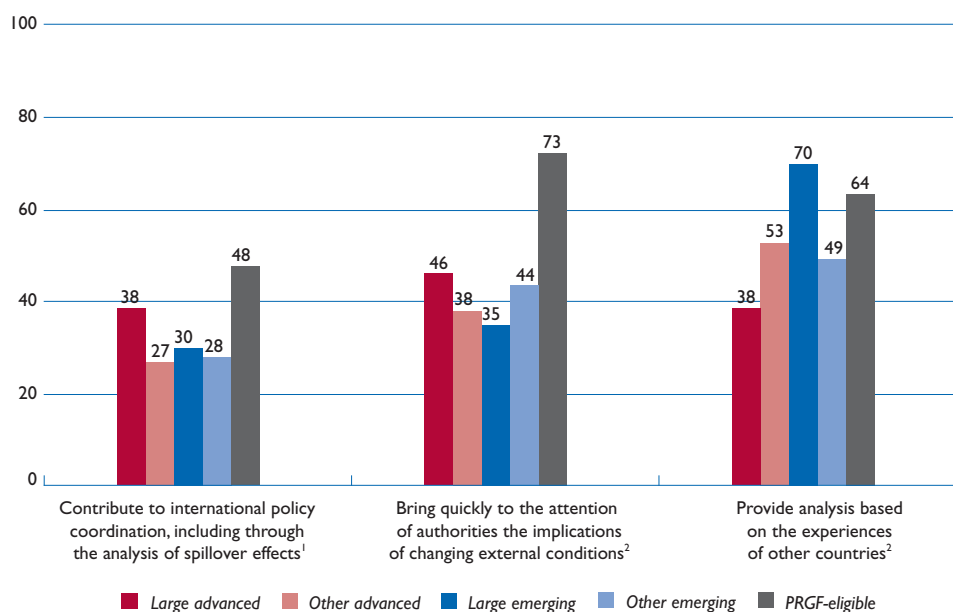
## Surveillance

18. The evidence suggests that PRGF-eligible countries held mainstream views with respect to the purposes and effectiveness of surveillance processes. Figure 2, for example, shows that two purposes queried in the evaluation survey that are associated with surveillance and other Fund activities (provide a clear and objective assessment of the economy's policies and prospects and contribute to a good exchange of views) received the highest scores from the authorities of PRGF-eligible countries for relevance and for effectiveness. These are also the two highest rated items for all other country groups. The ratings provided by IMF staff working on PRGF-eligible countries were broadly the same as those of the authorities. The authorities rated the performance of staff carrying out surveillance activities highly, though slightly lower than that of staff working on programs and technical assistance, as discussed later in the paper.

19. The evidence also suggests that the authorities of PRGF-eligible countries were disappointed by many of the same shortcomings of surveillance as the other country groups, albeit to a lesser extent. As discussed in the main report, the authorities from all country groups expressed concerns about the effectiveness of interactions on three international dimensions of surveillance:

**Figure 7. International Dimensions of IMF Surveillance: Authorities' Views of Quality/Effectiveness**

(Percent of authorities who responded favorably)



<sup>1</sup>Shows the share of authorities who responded "effective" or "very effective."

<sup>2</sup>Shows the share of authorities who responded "good" or "excellent."

(i) international coordination of policies, including the analysis of spillovers; (ii) timely alerts about changing external conditions; and (iii) cross-country analysis of other countries' experiences. Figure 7 shows that these also were problems for the PRGF-eligible countries, albeit not to the same degree as for the other country groups, especially in the Fund's bringing quickly to their attention the implications of changing external conditions. Based on the evaluation interviews, this reflects the Fund's quick response to the food and fuel crises of 2007–08, which the authorities found helpful in the dialogue and in the Fund's action in September 2008 to revise the Exogenous Shocks Facility to make it easier to access. This said, in interviews with government officials, the private sector, and civil society in PRGF-eligible countries, concerns surfaced about what some saw as a double standard in dealing with the then unfolding global crisis, as the Fund was seen to be actively promoting bailouts, government takeovers, and fiscal stimulus packages in advanced economies, which they saw as very different from the medicine prescribed for developing countries.

20. Interviews with PRGF-eligible country officials and staff indicated that a country's program status affected how surveillance was perceived. Officials of one nonprogram country said that they had found Article IV missions valuable for dialogue and periodic evaluation of policies and processes, although staff felt less satisfied with the progress the surveillance policy

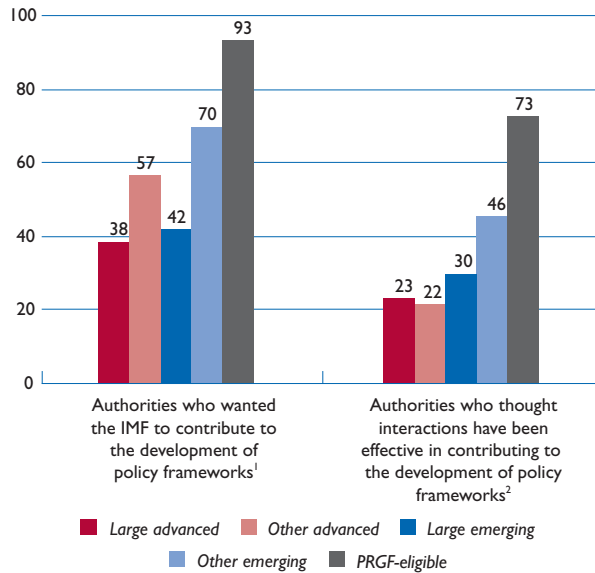
dialogue made in getting action. While officials in another country, which had experienced a prolonged interruption of program status and engagement with donors, said that they had found the surveillance to be constructive and helpful to them in preventing a further deterioration of policies and prospects. But not all feedback was positive, with one finance minister echoing what several officials from emerging economies said about surveillance—that it seldom came up with anything new. Meanwhile, for many program countries, it was often hard to distinguish the end of Article IV consultations from the beginning of negotiations, and staff reports provided to the Board often blurred positions as well.<sup>17</sup> Officials from one country with a Policy Support Instrument (PSI) relationship highlighted the close interlinkages they saw with the surveillance process.

21. Much more than the other country groups, the PRGF-eligible countries wanted the Fund to contribute to the development of policy frameworks. As shown in Figure 8, the authorities of almost all PRGF-eligible countries wanted IMF policy advice; while three-quarters said the Fund was effective or very effective at it. As the figure illustrates, these numbers were very different for the other country groups, where a small majority of other advanced economies and a larger majority from other emerging economies wanted the Fund to contribute.

<sup>17</sup>See also the background technical document on the evaluation's documentary evidence.

**Figure 8. Do the Authorities Want the IMF to Contribute to the Development of Policy Frameworks?**

(Percent of respondents)



<sup>1</sup>Shows the share of authorities who responded “a fair amount” or “very much.”

<sup>2</sup>Shows the share of authorities who responded “effective” or “very effective.”

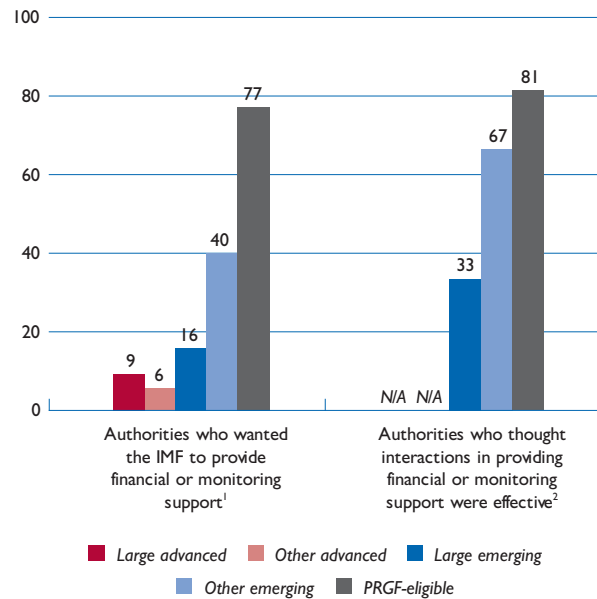
### Programs and signaling

22. Of all Fund interactions, those surrounding programs are the most sensitive. As shown in Figure 9, almost 80 percent of official survey respondents from PRGF-eligible countries said they wanted financial and/or monitoring support from the Fund during the 2007–08 period, 81 percent of those receiving such support saying that it was effective or very effective, with the remainder mostly saying interactions in the context of delivery was “average.” In most years of the evaluation period, 40–45 PRGF-eligible countries had programs, with a total of 60 having programs at one time or another over the period. Box 1 briefly summarizes the experiences of the 15 case study countries with program relationships during the evaluation period.

23. Many of these programs also entailed signaling activities by the Fund—to other countries, donors, and financial markets about country policies and prospects—which added greatly to the financial stakes involved in a country’s securing the Fund’s blessing for its policies and prospects. As shown in Figure 10, this is a service that many PRGF-eligible countries wanted and thought the Fund performed well. And in interviews, officials were full of praise for Fund performance in this area. Officials from two countries expressed deep appreciation for the Fund’s help with

**Figure 9. Authorities’ Views on Programs**

(Percent of respondents)



<sup>1</sup>Shows the share of authorities who responded “a fair amount” or “very much.”

<sup>2</sup>Shows the share of authorities who responded “effective” or “very effective.” Includes only those who responded that their country had an IMF financial or monitoring program.

the Paris Club. Officials from a third said the Fund had been extremely helpful in securing resumption of donor support and resolving arrears to World Bank. An official from a fourth country said that his authorities considered the Fund to have played a unique role relative to other organizations. Another said that this was an area of particularly successful interactions.

24. The bottom line is that most authorities and staff believe that during the evaluation period, the Fund added value in PRGF-eligible countries through financial and monitoring programs, debt relief, and donor signaling. However, there are differences of view across countries, depending on their own their particular experience with the Fund. This “suite” of products and services brought to those countries which could access them substantial financial benefits, direct and indirect, securely anchoring the Fund’s role with this group of countries during the evaluation period. The result was an abundance of traction in Fund interactions—in contrast to the situation in the surveillance-only advanced and emerging economies discussed in the main report and in the other country papers. But this abundance of traction was also seen to put staff in a position of power vis-à-vis the authorities, as several ministers of finance from Sub-Saharan African countries observed. In turn, different PRGF-eligible countries saw the playing out of this

### Box I. PRGF-Eligible Country Case Studies

The interviews and document reviews for the 15 evaluation sample countries with programs during the evaluation period revealed different kinds of country situations and, in turn, interactions with the Fund during the program process.

- Some of the countries (such as Armenia, Burkina Faso, Mozambique, Nigeria, Pakistan, and Uganda) broadly met their macroeconomic goals over the period, with the Fund making a contribution in each case, whether to the reform process, debt relief, and/or the Paris Club process.
- Others (such as Cameroon, Ghana, Malawi, and Senegal) achieved important progress, albeit with significant program interruptions in the 2002–04 period and controversy—and occasional acrimony—in their interactions with the Fund.

- In a third group of countries (the Democratic Republic of the Congo, Guinea, and Togo), underlying governance issues were present throughout much of the evaluation period and progress is both recent and fragile, with the HIPC Completion Point not reached.
- Finally, in two others (Bolivia and Vietnam), macroeconomic performance was strong throughout most of the evaluation period, but PRGFs were interrupted early on by other conditionality issues. Neither of these countries needed the Fund's financial support, and the Fund lost influence in both: in one because of a change in government and the Fund's identification with the heavily market-oriented policies of the predecessor government, and in the other as the World Bank and other budget support donors and providers of technical assistance became more closely involved.

power imbalance differently depending on their own country situations, as discussed below.

25. The authorities of some PRGF-eligible countries saw the resulting imbalance of power, coupled with what they saw as a rigid intellectual paradigm, as leading to demanding and inflexible conditionality to which the authorities had to agree or else.

- For several interviewed authorities, “inflexibility” was a lightning rod for bitter complaints about Fund interactions, many of which related to major program interruptions and/or delays in the delivery of debt relief. They complained about what they saw as inappropriate inflexibility by the Fund in program negotiations and reviews. Several said that in their experience PRGF conditionality had been calibrated too tightly, too inflexibly, and with too much ambition in light of domestic political considerations and capacity constraints.
- Some saw the Fund as preoccupied with minutia and the letter (rather than the spirit) of the law.<sup>18</sup> In some cases—according to interviewees who recalled them with bitterness—staff stubbornness had led to conditions that were not fully “owned” by the authorities and that in due course led to prolonged program interruptions with adverse consequences.<sup>19</sup>

<sup>18</sup>The evaluation sample countries, for example, included two important such cases, one involving a safeguard assessment, which ultimately led to the demise of a PRGF, and another involving misreporting, which was ultimately recognized to have constituted a de minimis situation.

<sup>19</sup>The IEO evaluation on structural conditionality in IMF-supported programs (IEO, 2008) found that: “Views on program design and the process of negotiation differed, but in general, the authori-

- Several interviewed authorities from Sub-Saharan African countries attributed their conditionality disputes with the Fund to what they termed the “tyranny of the PDR review process.”<sup>20</sup> They argued that at least for the early part of the evaluation period, PDR staff had what they saw as undue power to trump area department staff, who better appreciated the constraints and challenges that the authorities faced.<sup>21</sup>
- Some current and former area department mission chiefs broadly shared this perspective, complaining that the review system forced them to spend valuable time refuting central reviewers' points, both large and small. But other current and former area department mission chiefs felt that the briefing paper and the associated review process were essential for ensuring evenhandedness across countries and conformity with Fund policies and Board guidance.

26. For the authorities of other PRGF-eligible countries, the Fund's power was also recognized, but on balance seen as helpful to their interests whether in dealing with the Paris Club, other creditors, or donors

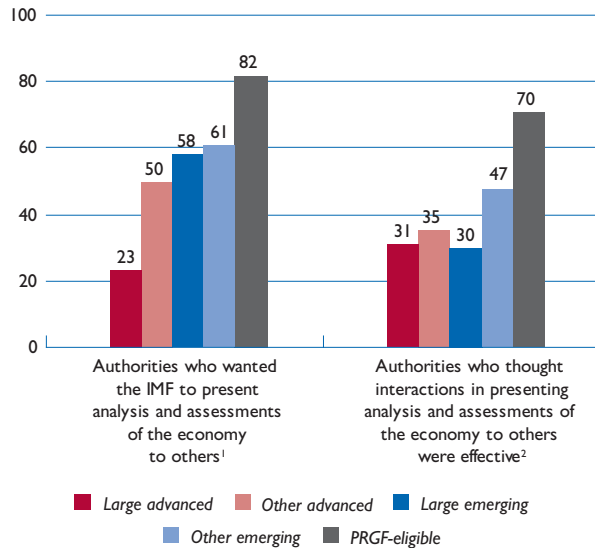
ties held more positive views about Fund conditionality in countries where programs had been more successful.”

<sup>20</sup>There also were instances during the evaluation period in which the “institutional view” was argued by the IMF Legal Department, in connection with a case of misreporting in Pakistan, or by Treasurer's, with respect to the safeguards issue in Vietnam. See IMF (2002 and 2006).

<sup>21</sup>Several authorities also pointed to instances in which mission chiefs said they tended to agree with the authorities but it was not in their brief. However, many staff members saw this as more frequently said than meant, as a vehicle for smoothing their relationship with the authorities while carrying out their instructions for headquarters, to which they had contributed.

**Figure 10. Do the Authorities Want the Fund to Present Analysis and Assessments of Their Economies to Other Countries, Donors, or Financial Markets?**

(Percent of respondents)



<sup>1</sup>Shows the share of authorities who responded “a fair amount” or “very much.”

<sup>2</sup>Shows the share of authorities who responded “effective” or “very effective.”

or in disciplining spending ministries and other policy interests at home. They accordingly saw flexibility somewhat differently.

- Some authorities said that they had found the Fund to be sufficiently flexible—or, in some cases, inflexible but helpfully so—on matters of conditionality. Ministry of finance officials from two countries saw the Fund’s famous strictness on conditionality as a way to reinforce spending discipline with their colleagues in spending and other ministries.
- One former minister of finance said that the Fund in the end proved to be quite flexible. But that it had taken a lot of pushing from staff and the authorities, and lobbying from their supporters among powerful shareholders, to get management to move to where the authorities wanted the Fund to go.
- Yet others said that flexibility had simply not been a problem for them. They debated policies and conditions amicably and professionally with the team, back and forth, and in the end all agreed.
- Several interviewed authorities also pointed to the Policy Support Instrument (PSI) as an important innovation that put them more squarely in the driver’s seat and was more conducive to country ownership than previous Fund approaches. Officials of

one country said that they felt more in charge with the PSI and that that had made an important difference to their interactions with the staff, while an official from another PSI country said his authorities considered the PSI relationship to have been successful from all angles.

27. The evaluation evidence suggests that the time dimension is critical to the debate about flexibility. The survey evidence illustrated in Figure 11 shows that 30–40 percent of PRGF-eligible respondents said that Fund policies and procedures were inflexible and that the staff was insufficiently willing to innovate. But 51 percent said the staff’s willingness to consider different approaches had improved over the past two years, suggesting ipso facto a worse situation before. Meanwhile, most of the specific complaints raised in the evaluation interviews dated from the 2002–04 period. In almost all cases, interviewed officials—even from those who complained most bitterly about program interruptions—said that the Fund had changed and was now more reasonable and flexible. Or at least as flexible as they needed; indeed some said they did not want the Fund to be “too flexible” as it would diminish the value of its endorsement, something that they saw as especially important for signaling to donors. Several interviewees highlighted the way the Fund had handled the 2007–08 rise in oil and food prices on world markets and its support for “smart subsidies” targeted to the most affected and with built-in exit strategies.

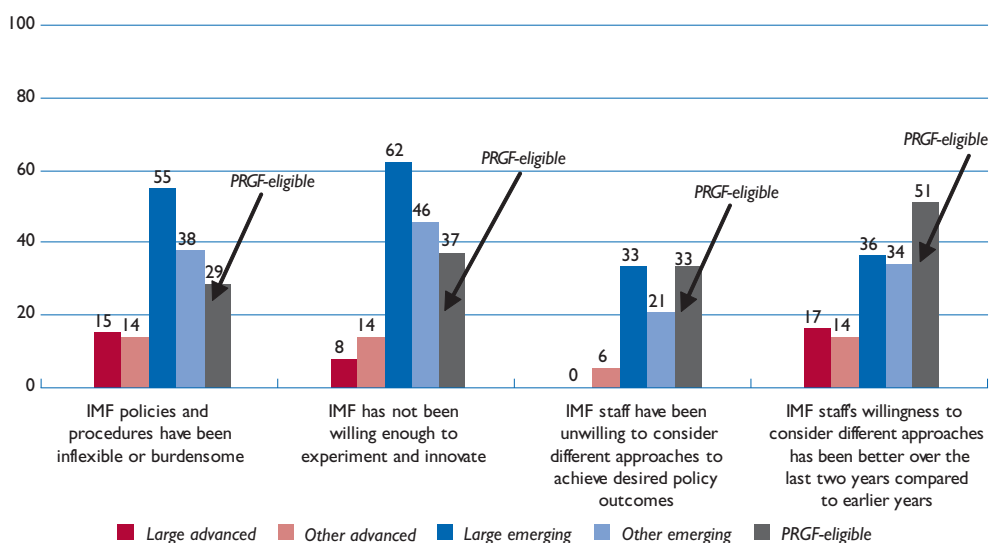
### Capacity building

28. Capacity building grew rapidly during the evaluation period, much of it targeted to PRGF-eligible countries. In the survey, 95 percent of respondents said they wanted the Fund to help build capacity and 80 percent said the Fund did a good job in this role. As illustrated in Figure 12, these numbers are much higher than for other country groups, even for the other emerging economies, which also are major users of technical assistance. All respondents said that they 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. Interviewed officials from finance ministries praised the Fund’s technical assistance generally, and specifically technical assistance for public finance and its providers, including those from Regional Technical Assistance Centers (RTACs), for which the Fund endeavors to use resident advisors from the region. Closely related, the desire for greater use of local experts where available also arose in the interviews with authorities and in the surveys. Former central bank governors



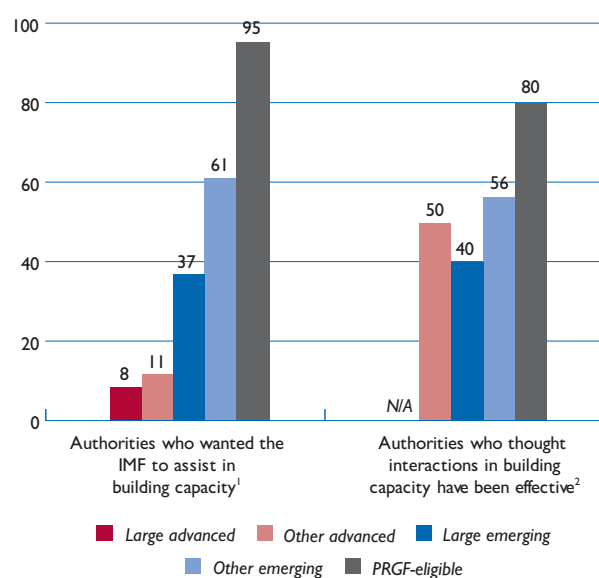
**Figure 11. Is the Fund Inflexible, Unwilling to Innovate, and Closed to New Approaches? Has Staff Willingness to Consider Different Approaches Improved?**

(Percent of authorities who responded “agree” or “strongly agree”)



**Figure 12. Capacity Building**

(Percent of respondents)



<sup>1</sup>Shows the share of authorities who responded “a fair amount” or “very much.”

<sup>2</sup>Shows the share of authorities who responded “effective” or “very effective.” Includes only those who responded that their country received IMF technical assistance or training.

praised the Fund’s technical assistance on payments systems, inter alia.

29. But some interviewed officials, noting the very large quantities of IMF technical assistance that

had been provided, questioned its results in terms of sustained improvements in local capacity. This raises an issue about the programming of technical assistance and how it relates to the country’s and Fund’s medium-term vision, and in turn how the strategy for technical assistance reflects country track records in following through on past assistance. The documentary evidence reviewed for the evaluation suggests that the links between Fund technical assistance programs and country priorities improved over the evaluation period, but still remained relatively weak—with the most recent round of reforms designed to improve the prioritization of TA in line with the strategic objectives of both recipient countries and the Fund only recently adopted.<sup>22</sup> The Regional Strategy Notes (RSNs) on technical assistance that were launched during the evaluation period contain some forward-looking country information, but minimal detail and links to other work of the Fund and donors. Similarly, the surveillance agendas, introduced in 2006 as a short-hand strategy brief, typically listed elements of the planned technical assistance program, but did not make clear how the programmed items fit into the overall agenda. Interviewed area department mission chiefs said they signed off on Fund technical assistance activities, basically on behalf of the authorities, with a view to vetoing activities that the authorities did not want. But they also said that practice varied on how proactive a role they and the authorities played in the identification and design of the technical assistance program.

<sup>22</sup>See IMF (2008c).



### III. Interactions with Other Stakeholders in PRGF-Eligible Countries

30. This chapter looks at IMF interactions with stakeholders beyond the authorities. It examines recent developments in such interactions, and constraints on their effectiveness. It finds that an increasing amount of outreach took place to parliamentarians, civil society, the media, and market participants during the evaluation period. It also finds greater interest among the authorities of PRGF-eligible countries for such outreach than in most other country groups. However, sensitivities remain, especially with respect to civil society and the media, where painful memories of the structural adjustment era continue to define the Fund's image and undermine its effectiveness, in some cases making association with the IMF a political liability for the authorities and their ideas.

#### A. Recent developments

31. In PRGF-eligible countries, the Fund has been making an attempt to increase its efforts to outreach to a broader group of stakeholders, including parliamentarians, civil society organizations, the media, and market participants.

32. Interactions with parliamentarians in PRGF-eligible countries have focused particularly on issues related to parliamentary oversight for public financial management. Staff organized country and regional seminars for legislators, for example, in the Kyrgyz Republic in June 2006, and in Liberia and Tanzania in 2008. Other interactions with parliamentarians of PRGF-eligible countries took place through seminars, meetings with visiting groups of parliamentarians at IMF headquarters, and management speeches to members of parliaments, often under the aegis of the Parliamentary Network of the World Bank.

33. As noted in Chapter I of this paper, the evaluation survey of civil society representatives received 259 responses from 61 of the 77 PRGF-eligible countries. Almost half of these respondents were from nongovernmental organizations (NGOs), with the remainder fairly evenly divided among think tanks, media, and private sector associations, and with a smaller share of labor union representatives. Of the total, 173 respondents said that they had interactions with the IMF between 2001 and 2008.<sup>23</sup> The survey

<sup>23</sup>Of the 86 respondents reporting no contact with the IMF, only 3 percent said that they had requested a meeting but were not given an appointment. About two-thirds of those who had met with staff said they found the meetings useful, and would like to meet more often. They had mostly met with Fund resident representatives or missions from headquarters; they had almost never met with the Executive Director for the country either locally or in Washington.

results suggest that most such respondents found Fund staff respectful and willing to listen, although fewer found them sensitive to cultural differences. Almost half of the respondents who had met with staff did not answer the question on (i) whether their views were taken into account in IMF discussions with the government and (ii) whether their discussions with the IMF generally contributed to building national support and initiative towards "IMF-backed policies."<sup>24</sup> Of those who did answer, about a third said their views have been reflected, and about half said their discussions had contributed to building national support for policies. The survey results provide no evidence of change one way or another in the Fund's approach over the evaluation period.<sup>25</sup>

34. At the request of the IEO, Jan Aart Scholte carried out an intensive review of IMF outreach to CSOs, building on earlier work that he had done, including drafting the IMF's guidance to staff on outreach to civil society.<sup>26</sup> His research for the IEO generally corroborated the earlier IEO finding of "limited and ineffective" outreach by Fund staff with civil society, based on his more intensive engagement with civil society representatives, while also noting evidence of increased outreach in evaluation sample countries such as Malawi and Mozambique.<sup>27</sup> This research also found that a number of civil society organizations felt that the Fund was not being tough enough on fiscal transparency, a topic of widespread concern to civil society in many PRGF-eligible countries. This finding was echoed in the evaluation team's own meetings with civil society representatives in Cameroon, Senegal, and Togo, discussed below.

35. Survey evidence gathered by the Fund's External Relations Department (EXR) on staff outreach with trade unions is also germane. EXR survey showed that about half the staff teams working on PRGF-eligible countries had met at least annually with trade unions in the two years preceding the 2007 survey. Of the staff respondents who had held such meetings, about half said that the meetings had "influenced Fund policy advice in the country." Staff notes suggest that the influence was at a very general level, such as reminding staff of how important labor market flexibility or pension reform was, or educating staff

<sup>24</sup>"No response," "not applicable," or "don't know."

<sup>25</sup>The survey asked the CSO representatives whether interactions with the Fund were important to their work both in the last two years and over the eight-year evaluation period. It also asked whether interactions were useful in the last two years and over the whole eight years. Answers were nearly identical for the two time periods: 78 percent thought interactions were important over the last two years, and 77 percent over the whole eight years. 68 percent thought interactions were useful over the last two years, and 65 percent over the whole eight years.

<sup>26</sup>IMF (2003b).

<sup>27</sup>Scholte (2009). See also IEO (2007).

about how trade unions and other stakeholders viewed the Fund and/or the country's policy challenges and agenda. But the meetings do seem to have played a useful role in informing Fund staff and local trade union representatives about each other's activities and priorities.

36. As in the other country groups, organized outreach to the media in PRGF-eligible countries has focused on the dissemination of the Fund's *Regional Economic Outlooks (REOs)*. During the evaluation period, AFR produced eleven *REOs*, beginning in June 2003. Since 2005, *REO* launch has included road show presentations in English and French, for example, in Ghana and Senegal in 2007. Other area departments' *REO* disseminations to PRGF-eligible countries were more limited.

### **B. Constraints on more—and more effective—staff outreach**

37. Most internal IMF documents reviewed by the evaluation team say little about outreach. Many staff back-to-office reports and most staff reports mention meetings with one or more CSOs, or the media, or private sector representatives, but they provide scant detail. Of course, page limits and word counts are fiercely guarded in the Fund, and routine meetings naturally receive limited coverage, leaving more space for recording the policy dialogue with the authorities. Board documents for the period, whether associated with programs or surveillance in the PRGF-eligible evaluation sample, are similarly brief on the subject. The surveillance agendas said relatively more, and included the Fund's country outreach strategy as one of their four main topics. However, in practice even they tended to list the plans, rather than providing an outreach strategy or explaining how strategy linked the planned actions to possible results—although in fairness to staff there was, in the main, a two-page limit for the entire agenda.

38. IEO interviews with mission chiefs and resident representatives provided an inside view of the incentives affecting staff outreach. Mission chiefs were generally more comfortable with the structured meetings that occurred as part of a two-week country visit, while most of the responsibility for outreach fell to the IMF resident representative in the country in question. Among some resident representatives, risk aversion abounded, colored by concerns that the results of their outreach might surface in the media in ways that the authorities would not like—and mindful of the summary recall to headquarters of several resident representatives in PRGF-eligible countries for crossing the line. While describing the kinds of outreach efforts they made, they also detailed the constraints they faced to doing more—from too little time and too few other resources, to strong reservations from the authorities, to

lack of incentives from headquarters, to limited impact in affecting stakeholder views—that deterred them from doing more.<sup>28</sup>

39. Staff survey responses, too, provide evidence on constraints, highlighting three key issues: risk aversion, training, and resources.

- Risk aversion among staff is understandable; about 40 percent of mission chiefs and resident representatives working on PRGF-eligible countries said that management would not support them when tensions arose with the authorities. And about 20 percent of staff said that management would not support them if tensions arose with other stakeholders.
- As regards training in the skills needed for effective outreach, what is relevant is how Fund staff learn. On-the-job experience, advice from IMF area departments and PDR, and feedback from the authorities were the prime sources from which mission chiefs and resident representatives working on PRGF-eligible countries said they acquired skills for undertaking outreach. EXR was not generally seen as a major source of advice, except for training in interacting with the media. Indeed, the EXR website and the CSO guide got the two lowest rankings of all the learning vehicles that IMF staff queried.
- Third, staff perceive a tight resource constraint, notwithstanding underruns in the Fund's administrative budget over the period. One interviewed resident representative told the evaluation team that there were things that the department wanted the resident representative to do more of, such as outreach, but with budgetary cutbacks this was not possible. Even without cutbacks, IMF resident representatives' resources were stretched, as the evaluation team on Sub-Saharan Africa saw firsthand in 2006, and also on its more recent visits to Cameroon, Senegal, and Togo.

40. The power of each of these three constraints on interactions is affected by the country context, and especially by the degree of negativity felt towards the Fund because of its past association with structural adjustment and privatization. As noted in Box 2, the reputational legacy of structural adjustment, the CFA franc devaluation, and privatization looms large in much of West Africa. But in many PRGF-eligible countries, popular interest in fiscal transparency—a core Fund mandate—is even larger and, as the Senegal experience shows, can provide a basis for repositioning the Fund around a positive message. Of course repositioning needs also to be able to deal with the past, with

<sup>28</sup>See the background technical document on the interviews for more detail.

### Box 2. Moving Beyond Structural Adjustment: A Tale of Three Cities

Three case studies, drawn from IEO staff country visits to Cameroon, Togo, and Senegal, provide an interesting perspective on IMF outreach. In each country, IEO staff met with representatives of civil society, asking about the frequency of meetings with the IMF, the seriousness of the engagement, perceptions of changes in the Fund's approach over time, and their overall perceptions. In each, the questions about the evolution over time evoked strong negative reactions about the Fund's perceived role in structural adjustment in the 1980s and the CFA franc devaluation in the 1990s—but beyond this common ground the responses were very different in the three countries.

- In Yaoundé, civil society representatives were generally angry with the IMF. They blamed the IMF for Cameroon's problems—highlighting privatization problems and the squeezing of social expenditures, *inter alia*—attributing to the IMF the motive of wanting to keep Cameroon poor. They said that

IMF missions “met” with them on occasion, but did not seriously engage.

- In Lomé, civil society representatives had a more favorable view of the IMF, which was widely seen to have played a positive role in brokering the resumption of donor involvement in Togo and the clearance of arrears to the World Bank and others. They said that they met with IMF missions, and that the missions seemed to listen to them. But some cautioned that the Fund should not be too soft on governance issues—it was essential that the IMF be a ruthless truth-teller on these critical fiduciary issues.
- In Dakar, civil society representatives praised the Fund for the very constructive role they perceived that the institution had played in government transparency and in alerting the population to serious risks and problems with the current program, including on governance-related fiduciary issues.

staff equipped with (i) the facts and figures needed to show what the Fund did in the past and how and why it may have been right or wrong and what it has done to change, and (ii) critically important, the authorization from headquarters to speak about the past, and in what terms especially in admitting institutional mistakes.

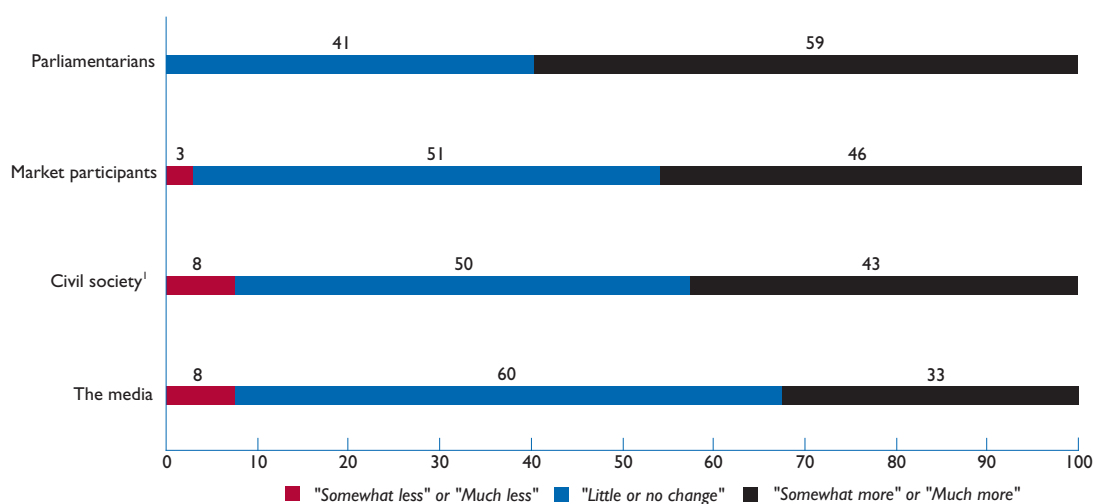
41. Reflecting the above, the evaluation survey asked the authorities whether they wanted more, less, or about the same amount of outreach with a variety of groups going forward. The surveyed authorities were fairly evenly divided on how much of a role they wanted the Fund to play in outreach aimed at securing consensus on policies. Nearly half said they wanted the Fund to do at least the same amount of outreach as at present, and 40 percent saw the Fund's efforts to do so as effective or very effective. Very few wanted less outreach than at present. Indeed, 61 percent said they wanted the Fund to engage more in a wide discussion of policies (including through public seminars or meetings) and 30 percent wanted the same amount of engagement. Many PRGF authorities also were open to more outreach to specific groups. The upper panel of Figure 13 shows that 59 percent of the authorities wanted the Fund to increase its outreach to parliamentarians, 46 percent to market participants, 43 to civil society organizations, and 33 percent to the media.

42. The lower panel of Figure 13 suggests that the authorities of the PRGF-eligible countries were more interested in expanded IMF outreach than any other country group/subgroup. This is an important point: while Figure 3's overall numbers for helping build and maintain consensus outside government are the lowest

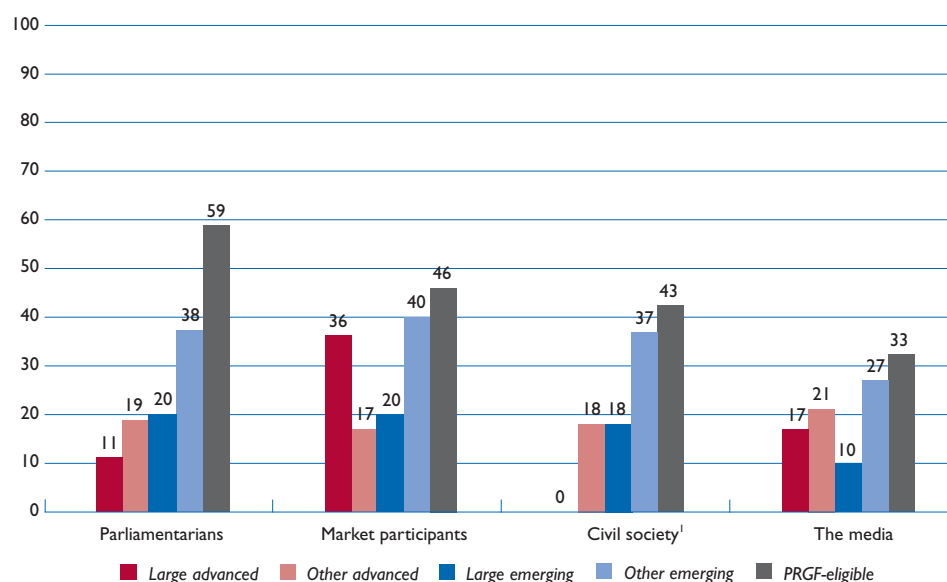
of all queried roles, they are higher in the PRGF-eligible countries than in the other countries. And more generally, the authorities of the PRGF-eligible countries are looking to Fund staff to help educate the public on economic and financial issues, as part of the Fund's capacity-building role—to the 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.

43. These themes, and how Fund outreach fits into countries' complex political dynamics, featured centrally in the evaluation interviews. In some countries such as Uganda, the authorities welcomed Fund outreach. They indicated that at the start of their program they had requested such efforts to help educate the public and gain support for reform; they said the home-grown approach that had been developed in Uganda led to the PRSP approach more generally, which called for engagement with civil society as part of the road to the HIPC. Likewise in other countries, such as Cameroon more recently, the authorities saw the desirability of greater Fund outreach to educate the public and help reduce the stigma that they felt in dealing with the Fund. In Malawi too, the authorities welcomed the Fund's outreach which they saw had increased in recent years, as a central part of educating the Fund teams on the constraints and issues that their country faced and of educating the public on economic and financial issues. But in some other countries, staff said their outreach efforts either did not take place after having been discouraged by the authorities or had brought unintended (and negative) consequences for interactions with the authorities,

**Figure 13. Surveyed Authorities' Views on IMF Outreach: Do They Want More, Less, or About the Same with Each Group?**  
(Percent of respondents)



**Comparison with Other Country Groups<sup>2</sup>**



<sup>1</sup>At an early stage of policy discussions.

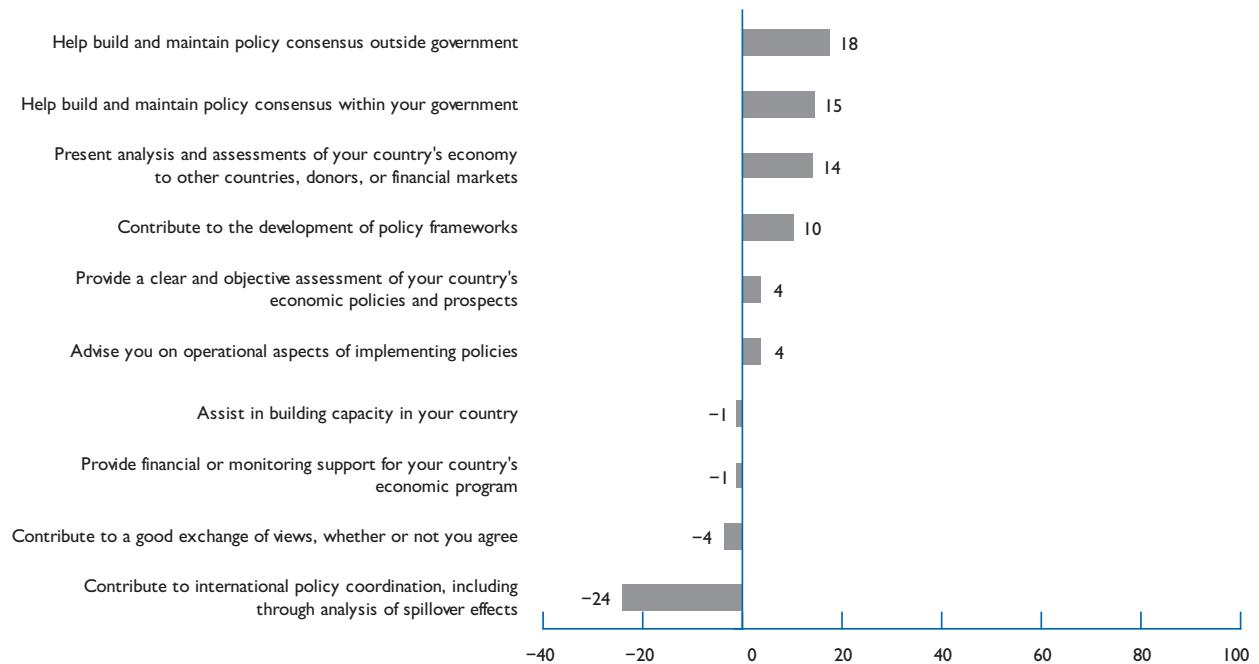
<sup>2</sup>Shows the share of authorities who responded that they would have wanted the IMF to engage “somewhat more” or “much more” with each group.

intensifying conflicts between the Fund’s confidential advisor role and the increased focus on outreach and transparency. And in other countries, such as Nigeria, memories of the structural adjustment era necessitated a very cautious and low-key approach, working with think tanks and the private sector, and increasingly with parliamentarians, while emphasizing that there was currently no program involvement with the Fund.

#### IV. Management of Interactions with PRGF-Eligible Countries

44. This chapter looks at three instruments in the management of interactions—strategy, staffing, and relationship management. It asks how and how well each was calibrated to promote effective interactions. The analysis and evidence point to the following:

**Figure 14. PRGF-Eligible Countries: Strategic Alignment Between Authorities and Staff**  
 (Percent of staff who thought IMF "aimed" to perform each role minus percent of authorities who "wanted" the IMF to do so)



- First, the Fund did a good job of articulating an institutional strategy for much of its operational work with PRGF-eligible countries, especially when compared to its work on the other country groups. But it did less well in systematically customizing its strategy to individual country conditions, especially with respect to: (i) the management of face-to-face interactions with the authorities in the first half of the evaluation period; (ii) the repositioning of the Fund with stakeholders beyond the authorities around a more positive message than structural adjustment and privatization; and (iii) the development of country-focused technical assistance programs, ensuring coherence across functional departments and other service providers.
- Second, the style of Fund interactions with PRGF-eligible countries improved over the last two years of the evaluation period. Most authorities think disrespectful staff behavior is largely, though not entirely, a thing of the past. The bad news is that it was perceived as a widespread problem during the first half of the evaluation period—in part related to the difficult negotiations referred to above—and remains a component of what many critics and counterparties see as the Fund's signature style.
- Third, relationship management in PRGF-eligible countries has generally taken a back seat to time-sensitive and stressful interactions on program negotiations and reviews between headquarters-

based mission chiefs and the authorities. The resident representative program could be managed more strategically, especially by clarifying roles and accountabilities on the country team and in interfacing with the authorities.

### A. Strategy

45. The Fund's evolving approach to interactions with PRGF-eligible countries is catalogued in a series of papers for the Executive Board. The 2008 staff paper "The Role of the Fund in Low-Income Countries" (IMF, 2008a) was the latest in a series that, along with discussion by Executive Directors, aimed to clarify the purposes and scope of Fund interactions in PRGF-eligible countries.<sup>29</sup> As noted in Chapter I above, that paper covers the policy dialogue, capacity building, use of Fund resources, and cooperation with partners, synthesizing a range of policy decisions and developments from previous few years. Though its immediate audience was the IMF Board itself—in light of continuing debates there on the role of the Fund in PRGF-eligible countries<sup>30</sup>—the 2008 strategy (and its predecessors) was also meant to provide helpful clarification to PRGF-eligible country authorities and partners. Indeed, the PIN for the paper's Board discussion noted the Board's support for the strategy, while observing that "it is important that the Fund's

<sup>29</sup>See, for example, IMF (2003a and 2004).

<sup>30</sup>As documented in IEO (2007) and elsewhere.



PRGF-eligible country-related objectives and responsibilities are well-articulated, consistent, and understood both within and outside the institution.”<sup>31</sup>

46. The evaluation survey evidence supports the view that the Fund generally succeeded in this goal. As discussed in the main report—and reprised in Figure 2 and Chapter II of this paper, the evaluation’s strategic alignment indicator is considerably higher for the PRGF-eligible countries than for the other country groups: 8 percent higher than for the other emerging economies and 20 percent higher than for the advanced and large emerging economies. In turn, these differences reflect the relatively greater meeting of the minds between the authorities and staff working on PRGF-eligible countries on the purposes and priorities of their interactions with each other. See Figure 14 above.

47. Even so, the clarity of purpose and scope articulated at the institutional level in “The Role of the Fund in Low-Income Countries” was not always as visible at the country level.<sup>32</sup> As one senior area department staff member indicated in an interview with the evaluation team, generally there was no systematic strategic plan for considering Fund engagement at the country level; he said that it depended very much on individual factors largely at the discretion of the mission chief. This had three important dimensions that are highly relevant for the evaluation.

- First, management and senior staff did not always pay sufficient attention to the management of face-to-face interactions with the authorities of PRGF-eligible countries, which was delegated to individual mission chiefs. In many cases, this worked fine even in program situations, if either country implementation was broadly on track or if there were implementation issues but a mature and diplomatic mission chief to manage the situation. But as discussed in Chapter II, in several cases in the first half of the evaluation period, interactions between the authorities and staff associated with program interruptions and delays ran aground, leaving the authorities (and staff) feeling bitter towards the Fund—feelings that linger on both sides despite the passage of much time.
- Second, there was uneven treatment of the adverse reputational legacy issue in outreach, which is a factor in many PRGF-eligible countries, reflecting

<sup>31</sup>IMF (2008b).

<sup>32</sup>The Fund has experimented over the years with initiatives that have been likened to country strategies or that have contained elements of country strategies, but during the evaluation period its approach to strategy at the country level remained scattered and unsystematic. Fund experiments included country strategy papers, including one for Uganda in 2001, the ex post assessments program introduced in 2002, and the preparation of surveillance agendas, which had some potential as a strategic vehicle before being discontinued in 2008.

the Fund’s association with the structural adjustment era of the 1980s and 1990s. As noted in Box 2, in two of the three West African countries visited by the evaluation team, there was progress on this front. In Togo it reflected a hiatus in country relations with other donors and the Fund’s playing the role of first responder to the changing conditions in 2006. In Senegal it reflected the conscious attempt by the country team, including the resident representative as a key member, in repositioning the Fund around fiscal transparency. But in Cameroon, despite the urging of the authorities, the dialogue with civil society remains stuck in the past. A more systematic cross-country approach is needed to deal with the past and rebrand around a positive message for the future, such as fiscal transparency, which is central to the Fund’s mandate, mission, and work program and popular.

- Third, there was uneven attention across mission chiefs to the building and coherence of technical assistance across functional departments and to discussions of it with the authorities and partners. The costs of such omissions have not been so large to date, as they would have been in a more complex organization, given the relatively narrow choice of products and services on offer by the Fund. However, they are relevant for the growing and increasingly complex Fund business of technical assistance, where the importance of ensuring a strategic perspective in the identification of priorities, including for the Regional Strategy Notes remains paramount. Going forward, ensuring work program coherence will become more of an issue. This is an area where the lessons learned from the World Bank’s country assistance strategies are relevant, especially for prioritizing across different functional departments’ possible services and making sure that the whole of the Fund package adds up to more than the sum of its parts, and is supportive of the country’s and the Fund’s medium-term objectives.

## B. Style and staffing

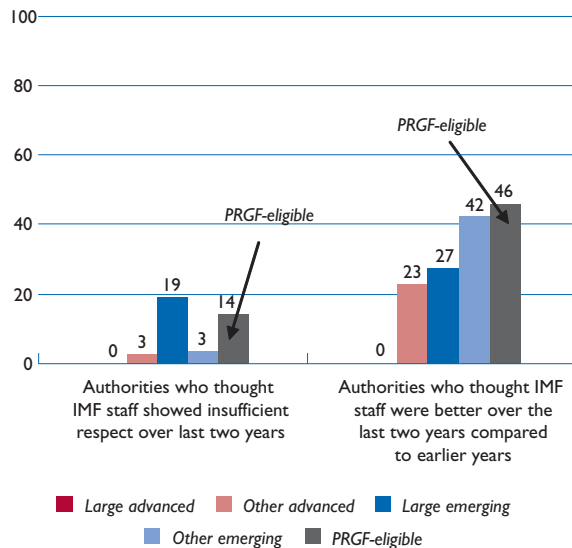
48. The Fund’s success in assisting countries to achieve their objectives depends critically on its staff. Considered below are three dimensions of central relevance to interactions with PRGF-eligible countries: attitude, skills, and turnover.

### Style

49. Interviewed authorities readily volunteered that people matter for the Fund’s effectiveness. In this connection, and focusing on mission chiefs and resident representatives, they offered high praise for some staff



**Figure 15. Staff Respectfulness Towards the Authorities**  
(Percent of authorities who responded “agree” or “strongly agree”)



members and sharp criticisms of others. More generally, they said that the Fund’s style had been improving, and that the days of the Fund’s “dictatorial approach” were a thing of the past. Following up on such a critique of Fund style, the survey asked the authorities whether the staff had shown insufficient respect to them and their colleagues. The comparative results are shown in Figure 15 alongside the answer to the query about whether performance had improved over the past two years. Fourteen percent of official survey respondents from PRGF-eligible countries said that respect was a problem in the 2007–08 period. This number was indeed higher than for the advanced economies, although lower than for the large emerging economies. The good news is that 46 percent said that respectfulness had improved over the past two years—the largest improvement of all country groups. The bad news is that the two numbers taken together suggest that for the 2001–06 part of the evaluation period about which a direct question was not asked, the situation had been worse.

50. Looking at several other behavioral issues in the 2007–08 period, Figure 16 asks whether the survey evidence suggests that Fund staff treated rich countries better than poor countries. To this end, it compares the results for the PRGF-eligible countries with those for the other country groups on issues such as listening, responsiveness, and accountability. In so doing it finds Fund behavior to be comparable or better in the PRGF-eligible countries than elsewhere. This is not to say that the performance levels, generally in the 60–80 percent satisfactory range, are acceptable; but it simply says that problems the Fund may have with listening, responsiveness, and accountability in PRGF-

eligible countries are not the result of staff’s treatment of the least powerful countries, but rather reflect more pervasive tendencies across the institution.

### Skills

51. As regards staff skills, the authorities’ most pronounced concern was that staff had insufficient country knowledge, including about the decision-making process and constraints. This kind of knowledge is especially important to PRGF-eligible countries, which—as illustrated in Figure 17—look to IMF staff in much greater proportions than do other country groups to “help build and maintain policy consensus within government.” It is highly relevant to the staff’s ability to customize a country strategy to local conditions, taking into account political economy and other considerations affecting the feasibility and sequencing of policy reforms. The survey results suggest that the authorities of PRGF-eligible countries found fewer problems with staff technical skills, practical experience, and language skills than other country groups.<sup>33</sup>

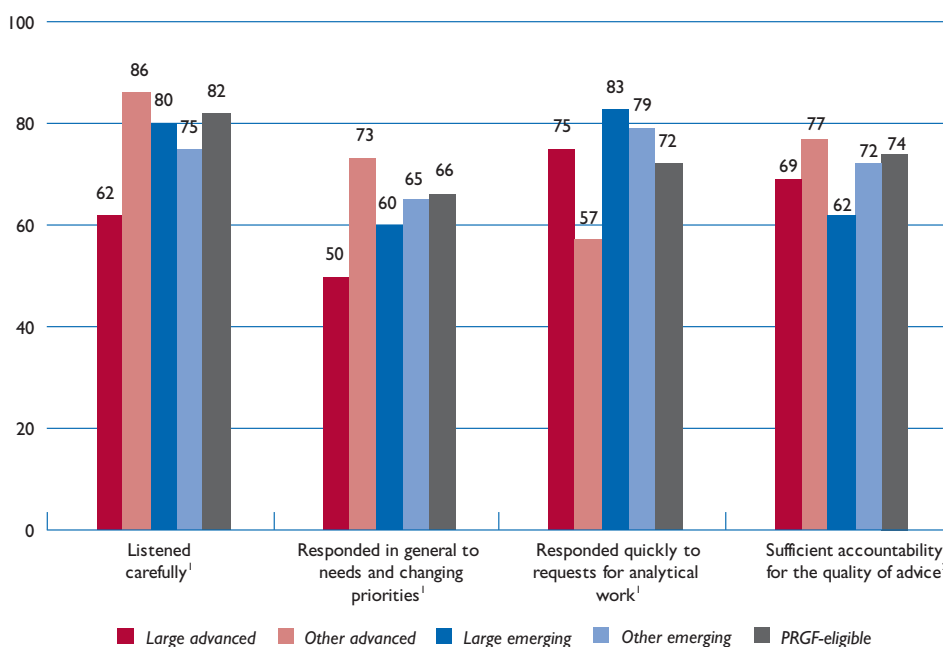
52. Nevertheless, as indicated in the interviews with the authorities, skills gaps were beginning to emerge during the evaluation period, especially among PRGF-eligible countries that began the transition to emerging economy status. In one case-study country, ministry of finance staff said the mission skills mix was increasingly a problem, especially among the fiscal staff on the core team (though not among the technical assistance and ROSC missions to that country). Interviewed officials from two other case-study countries raised concerns about the Fund’s handling of requests for help with inflation targeting. They felt they had received the brush-off from country teams which said their countries did not meet the pre-conditions. In one case, a subsequent technical assistance mission provided the requested advice and technical support. In another the authorities sought and received the necessary assistance elsewhere.

53. Language skill gaps, raised by 12 percent of surveyed officials, were also raised by several interviewees. One official said that his authorities had been dismayed by the arrival of a mission chief who did not speak the local language. Another said that where members did not speak the local language, it was considered to be a handicap. An official of a third country said that the problem for his team was more with the mission documents, such as the letter of intent and the technical memorandum, which needed to be quickly translated into the local language, than with the discussions. Interviewed staff stressed the importance of local language skills for resident representatives, but less so for mission chiefs. One mission chief said the Fund should make knowledge of the local language (or of a language that

<sup>33</sup>See Figure 15 of the main report.

**Figure 16. Did Fund Staff Treat Other Countries Better or Worse Than PRGF-Eligible Countries?**

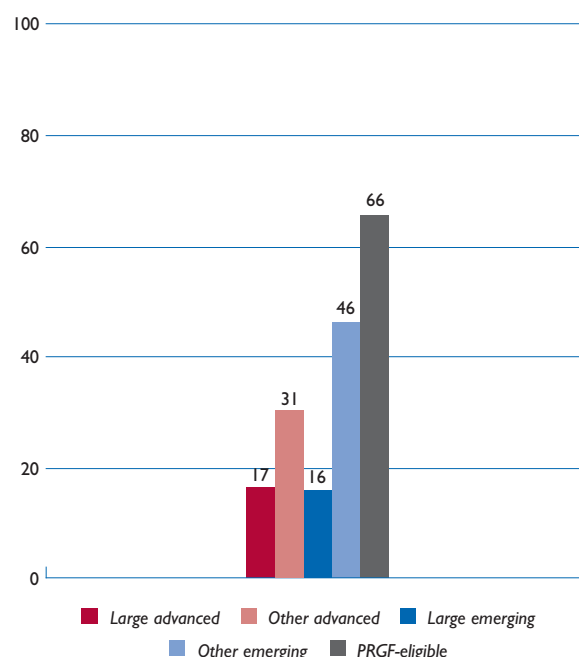
(Percent of respondents)



<sup>1</sup>Shows the share of authorities who responded that the IMF did a “good” or “excellent” job.  
<sup>2</sup>Shows the share of authorities who responded “disagree” or “strongly disagree” that there was insufficient accountability for the quality of Fund advice.

**Figure 17. Authorities’ Views on How Much They Wanted the IMF to Help Build and Maintain Policy Consensus Within Government**

(Percent of authorities who responded that they wanted the IMF to perform the role “a fair amount” or “very much”)



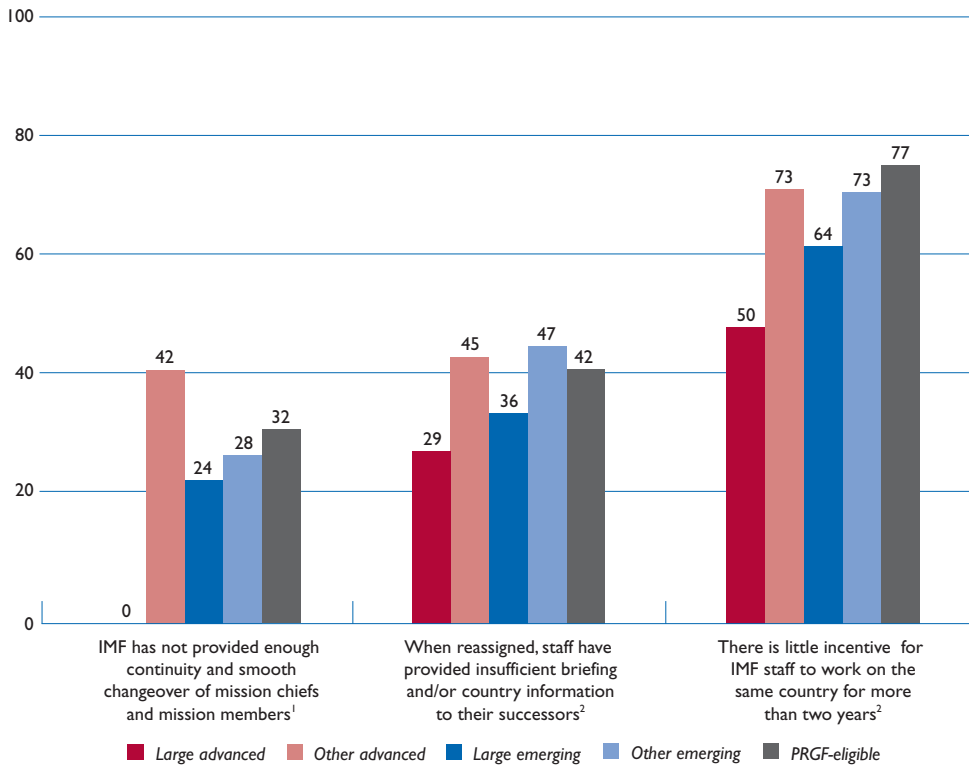
is widely spoken in the country) a strict requirement for resident representative positions, and should also provide sufficient language training prior to the assignment. For mission chiefs and mission members, many interviewed staff shared the view of one interviewee, who said that language skills were important but at the end of the day, it was professional skills that mattered the most. This view was expressly shared by some officials, as well, especially for technical experts.

**Turnover**

54. Turnover among mission chiefs is more than an irritant for many PRGF-eligible countries. Nearly one-third of the surveyed authorities of PRGF-eligible countries said that the Fund had not provided enough continuity—this proportion is higher than in the emerging economies and the large advanced economies, though considerably lower than in the other advanced economies (Figure 18). Meanwhile, staff pointed to internal incentives that drive rapid turnover; 77 percent of surveyed staff working on PRGF-eligible countries said they had little incentive to work on a country for more than two years—a proportion broadly comparable to those for some other country groups.

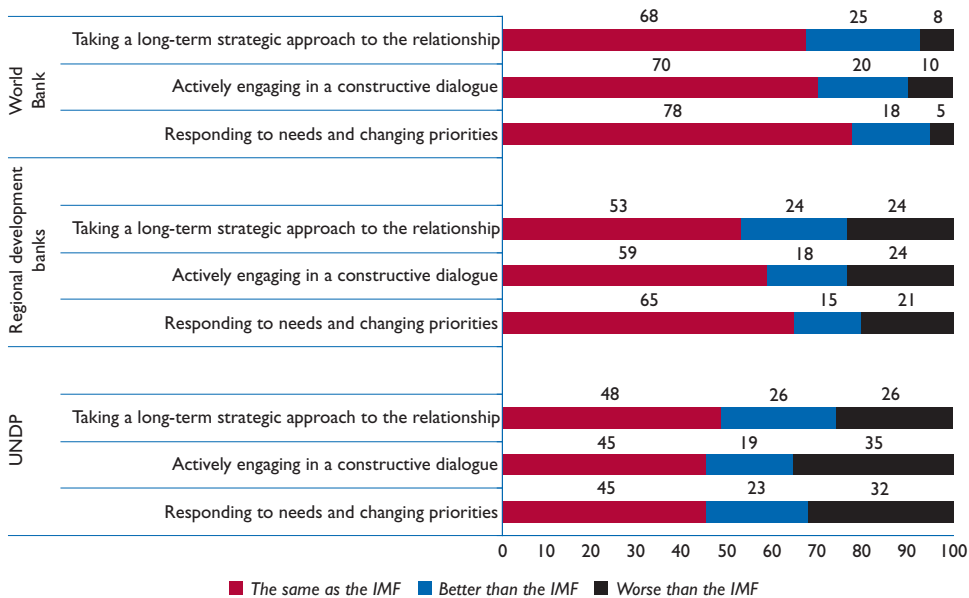
55. In the evaluation interviews, almost all country officials complained about staff turnover, and many staff

**Figure 18. Staff Continuity and Turnover: PRGF-Eligible Countries Compared with Other Country Groups**  
*(Percent of respondents who answered “agree” or “strongly agree”)*

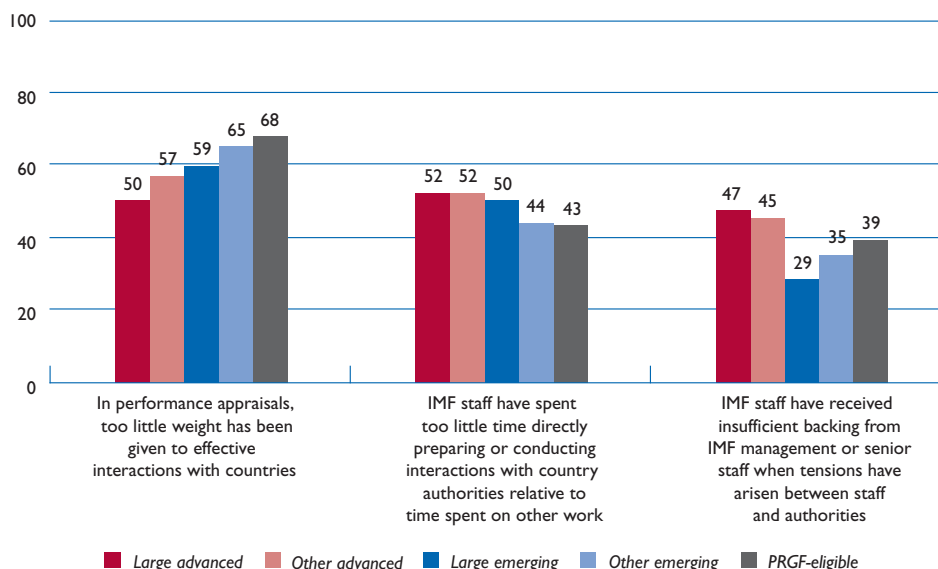


<sup>1</sup>Authorities' survey.  
<sup>2</sup>Staff survey.

**Figure 19. Authorities of PRGF-Eligible Countries Rate the World Bank over the IMF, but the IMF over the UNDP**  
*(Percent of respondents)*



**Figure 20. Staff Incentives**  
(Percent of staff who responded “agree” or “strongly agree”)



agreed. They spoke of significant turnover of mission members, with adverse consequences for interactions. One said that he said his staff had to continually “retrain” Fund staff, as old Fund team members left and new ones came. Another said the Fund’s “revolving-door” approach undermined rather than supported capacity building. Several officials raised special concerns when the mission chief and resident representative changed at the same time, compounding the loss of institutional memory, and called for better management of succession planning in country team coverage. One finance minister referred to a year in which the ministry team had to deal with three different mission chiefs in quick succession.<sup>34</sup> Many staff members said that they thought that current tenures were too short to establish relationships of trust with the authorities—although several staff members cautioned that longer tenures carried risks of staff becoming too close to the authorities and losing objectivity.

### C. Relationship management

56. The authorities’ survey results give mixed signals on the Fund’s strategic management of its relationship with them. For PRGF-eligible countries, over 90 percent of authorities’ and staff survey respondents said the Fund’s relationship management was conducive to effective interactions. But only 61 percent of authorities rated highly the Fund’s

<sup>34</sup>Such a case seems to be exceptional, however, being partly associated with the removal of a failed mission chief before his/her time and replacement by an interim mission chief while an appropriate successor was being identified.

performance on “long-term strategic approach to the relationship.”<sup>35</sup> Meanwhile, when the authorities were asked to compare the Fund’s approach to long-term relationship management to those of other organizations, the World Bank’s approach scored better (Figure 19). The Fund scored about the same as the United Nations Development Program (UNDP) and the regional development banks.

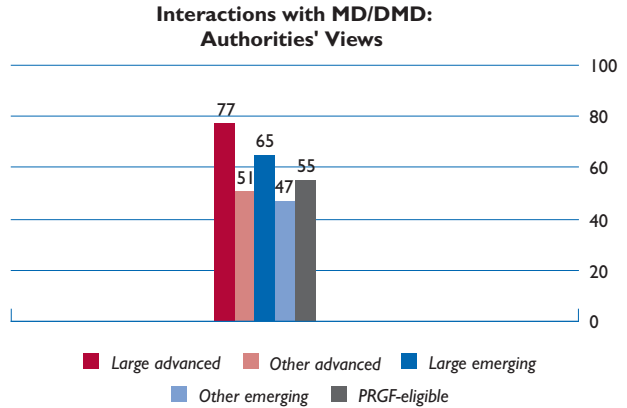
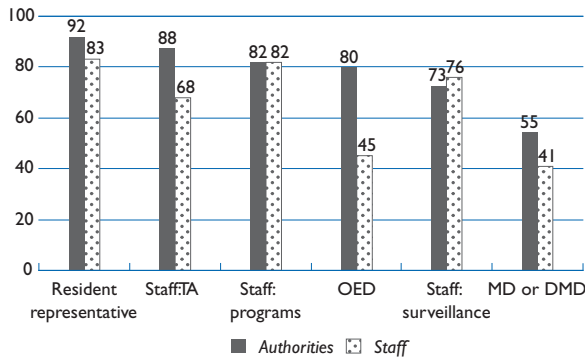
57. The evidence also points to several qualitative concerns, discussed below: staff incentives; the role of the resident representative in IMF country teams; and the conduct of IMF management’s interactions with the authorities.

#### Staff incentives

58. Area department staff painted a grim picture of how they see the management of their own interactions with the authorities—a picture that was not unique to work on PRGF-eligible countries. As shown in Figure 20, 68 percent of staff working on PRGF-eligible countries said that their interface with the authorities was given too little weight in their annual performance reviews. More than 40 percent said they thought too little time was devoted to interactions, relative to other work, such as servicing the Board and management and responding to reviewers’ comments. Almost 40 percent reported not getting adequate support

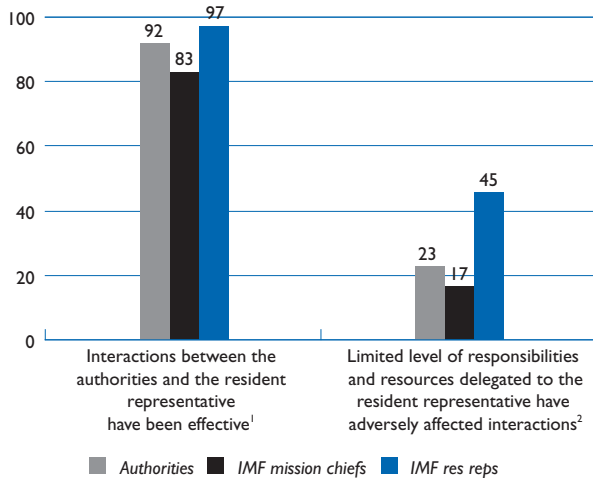
<sup>35</sup>Mission chiefs were more sanguine than the authorities: 82 percent of them thought the Fund did a good or excellent job. But resident representatives were less: 53 percent of them thought the Fund did a good or excellent job.

**Figure 21. Fund Interlocutors: Who Is More Effective? Who Is Less?**  
(Percent of respondents)



Notes: Shows the share of respondents who answered “effective” or “very effective.” Results for resident representatives, TA staff, and program staff include only those respondents who answered that they interacted with them.

**Figure 22. Views on Resident Representatives in PRGF-Eligible Countries**  
(Percent of responses)



<sup>1</sup>Shows the share of respondents who answered “effective” or “very effective.”  
<sup>2</sup>Shows the share of respondents who answered “agree” or “strongly agree.”

from senior staff and/or management on disagreements with the authorities.

**Interlocutors**

59. The survey asked the authorities and staff about which they thought was the Fund’s most effective channel for interactions. As shown in Figure 21, authorities gave the highest scores to the staff, especially resident representatives and to the Executive Directors’ offices (OED). From the staff survey, the results

were similar, albeit with lower marks for the Executive Directors’ offices. The authorities and staff both gave much lower ratings to the Managing Director/Deputy Managing Directors. The dip in staff votes for technical assistance staff reflects the lower marks given to them by program mission chiefs and resident representatives. (The right-hand panel of Figure 21 provides a comparative perspective on authorities’ views on the effectiveness of MD/DMD interactions.

**Resident representatives**

60. As shown in Figure 21, surveyed authorities rated their interactions with IMF resident representatives as the most effective of all Fund interlocutors, followed closely by their ratings for technical assistance missions. But many resident representatives interviewed for the evaluation felt undervalued and neglected by IMF headquarters. Some (by no means all) expressed bitterness about the Fund’s treatment of resident representatives and what they described as the headquarters-centric approach to interactions, which they found ill-advised. In the survey, 45 percent of the resident representatives said that Fund interactions suffered because of their lack of resources and power (Figure 22). But only 22 percent of the surveyed authorities and 17 percent of the mission chiefs made such an assessment.<sup>36</sup>

<sup>36</sup>The apparent split between the views of resident representatives and the views of the authorities parallels a similar finding from IEO’s evaluation of IMF work in Sub-Saharan Africa (IEO, 2007), which found that the work pressures on the resident representatives came less from the relationship with the authorities, who were satisfied with the services they received, than from the growing burden of coordinating with the donors of decentralizing budget support and of doing outreach, which many resident representatives felt was outside their comfort zone.

61. Interviewed authorities expressed a range of views about resident representative offices, but most said they were comfortable with current arrangements. In terms of staff profile for the job, several officials indicated that their authorities preferred junior staff members, with strong technical skills, who could work well with their own technical staff. They said more senior staff as resident representatives were viewed with caution, given past experience in some cases and general concerns with how senior staff might be perceived by the wider public in others. In praising the current representative, officials of one country spelled out their ideal resident representative, as someone with a good balance of technical, managerial, and diplomatic skills—and good judgment.

62. Staff attitudes were more complicated, especially as regards relations between resident representatives and mission chiefs. Interviewed missions chiefs were unanimous in highlighting the importance of the resident representative function, characterized by one mission chief as the most underestimated asset of the Fund. However, some resident representatives pointed to tensions with mission chiefs about their functions—with some mission chiefs seen to be *laissez-faire* while others are very controlling—including with respect to the residents representatives' role during missions, where they felt their effectiveness vis-à-vis the authorities was undermined. Summing up the debate, one senior staff member said that in his view, the job of resident representative was not well understood at headquarters, with most resident representatives isolated and not appreciated given the breadth of their responsibilities, but that the converse was also likely true (i.e., that the resident representatives probably did not understand headquarters).

63. Interviewed mission chiefs and resident representatives did share one concern—that resident offices were being cut back. All agreed that relationships with authorities would suffer if resident representative offices were to be closed down, because they have more interactions with the country than the rest of the Fund as they engage in daily and weekly meetings.

## V. Conclusions

64. The weight of the evidence presented in the paper points to the high value that the authorities of PRGF-eligible countries attached to Fund products and services. The authorities of a large majority of these countries sought Fund monitoring and program support at some time during the evaluation period; they

saw this support as helping them to secure debt relief and donor funding, although many had concerns about specific aspects of conditionality. Most appreciated the Fund's technical assistance, and wanted more. They also appreciated the Fund's analysis and exchange of views on surveillance, although the dialogue on the preparation, negotiation, and review of programs tended to crowd out the time allocated for more reflective processes.

65. The resulting abundance of traction in Fund interactions with PRGF-eligible countries put the Fund in a position of power, raising questions about how the staff's exercise of that power affected interactions with the authorities in both substance and style. Some authorities saw the Fund's power as useful to them in engaging with the Paris Club and donors, and in disciplining their own spending ministries. But others saw it differently, with particular flash points surrounding difficult face-to-face interactions related to program interruptions and delays especially during the 2002–04 period. Despite the passage of much time, affected authorities—and staff as well—recall these interactions vividly and with bitterness. The authorities' recollections focus on what they perceived as arrogant and/or rigid staff behavior; while the staff's on what they perceived as a lack of clear signals and support from senior staff and management. Meanwhile, for many stakeholders outside government, the adverse reputational legacy of structural adjustment and privatization defined the Fund's image throughout the evaluation period.

66. The evaluation found evidence of progress in the second half of the evaluation period, especially in the last two years. The Fund's policy tool kit, staff attitudes, and external outreach have evolved. Higher priority has been attached to the management of face-to-face interactions, including in times of substantive disagreement between the authorities and staff. These changes, which preceded the onset of the recent global crisis and the steps the Fund has taken to modify its instruments and approach to conditionality, coincided with the graduation of some PRGF-eligible countries from program support into surveillance-only relationships or into formal monitoring arrangements under the Policy Support Instrument (PSI), for which accessing authorities feel greater ownership. Going forward, strong efforts will be needed to ensure the Fund maintains and appropriate balance between flexibility and firmness, to further improve staff attitudes, and to rebrand around a popular message attuned to the Fund's core mission such as fiscal transparency, while also honestly acknowledging problems in its past.



## Annex I. PRGF-Eligible Countries

Afghanistan	Djibouti	Madagascar	Solomon Islands
Albania	Dominica	Malawi	Somalia
Angola	Eritrea	Maldives	Sri Lanka
Armenia	Ethiopia	Mali	St. Lucia
Azerbaijan	Gambia, The	Mauritania	St. Vincent and the Grenadines
Bangladesh	Georgia	Moldova	Sudan
Benin	Ghana	Mongolia	Tajikistan
Bhutan	Grenada	Mozambique	Tanzania
Bolivia	Guinea	Myanmar	Timor-Leste
Burkina Faso	Guinea-Bissau	Nepal	Togo
Burundi	Guyana	Nicaragua	Tonga
Cambodia	Haiti	Niger	Uganda
Cameroon	Honduras	Nigeria	Uzbekistan
Cape Verde	(India) <sup>1</sup>	Pakistan	Vanuatu
Central African Rep.	Kenya	Papua New Guinea	Vietnam
Chad	Kiribati	Rwanda	Yemen
Comoros	Kyrgyz Rep.	Samoa	Zambia
Congo, Dem. Rep. of	Lao PDR	São Tomé and Príncipe	Zimbabwe
Congo, Rep. of	Lesotho	Senegal	
Côte d'Ivoire	Liberia	Sierra Leone	

<sup>1</sup>Included in emerging economies.

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