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Efficiency and Legitimacy: Trade-Offs in IMF Governance

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Abstract

Designing appropriate governance structures for an international financial institution such as the IMF is difficult, because steps to enhance the legitimacy of such an institution through constraints on its decision-making process may affect its operational efficiency. Potential trade-offs between legitimacy and efficiency exist for any public institution but are arguably more severe for an international one, because delegating power to it politically controversial and, thus, likely to imply tighter constraints. The paper also underscores that the trade-offs are not absolute, however: they depend on the specific ways in which legitimacy is pursued—that is, on the specific constraints that are set. Strategic reforms should, thus, aim at improving the terms of the trade-off by exploring steps that are Pareto-improving in the dimensions of legitimacy and efficiency.

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I. Introduction

The ability of an international organization to achieve its goals ultimately rests on its legitimacy (Woods, 2000; and Van Houtven, 2002, p. 66). Legitimacy means that its actions must be seen as expressing an accepted source of power delegated to it by sovereign countries. An institution that is not regarded as legitimate will face key obstacles in achieving its goals and will likely be ineffective. However, establishing legitimacy typically requires the imposition of constraints on the operations of such international organization—rules, systems of checks and balances, transparency requirements—and these, in principle, may come into conflict with the efficient pursuit of the international institution's goals, or what will be called here its operational efficiency (the ability to achieve its goals without wasting resources). Governance structures aimed at enhancing the institution's legitimacy may reduce its operational efficiency, giving rise to the potential trade-offs between legitimacy and operational efficiency.

This paper is about these trade-offs as they apply to the governance of the IMF. It should be stressed from the outset that these trade-offs are common to any public or political institution, but they become more severe for an international institution because the delegation of power to an international institution remains a politically difficult act. This implies that the constraints set on international institutions to boost their legitimacy in the eyes of sovereign countries (and their national voters) may have to be stronger than those set on domestic institutions, thus potentially affecting more deeply their operational efficiency. This potentially low efficiency has implications for the achievement of the institution's stated goals. In principle, low efficiency can be offset by the adequate provision of resources, so as to at least preserve an institution's effectiveness. But releasing resources to an international institution is also a controversial action for sovereign states. International institutions may end up being subject to particularly tight resource constraints. Consequently, limited efficiency is likely to translate into limited effectiveness.

The paper discusses the legitimacy-efficiency trade-offs with respect to three dimensions:

- *Control of political power over the operational decisions of international "technocrats"* (Section II). Close control by national political authorities is one way to enhance the legitimacy of an international institution, but it may lead to decisions that are suboptimal from a technical perspective. The paper argues that the political control over the IMF is pervasive at the formal level. In practice, owing to information-processing constraints, the control is less pervasive, although unevenly applied across countries. Yet, its costs in terms of efficiency are not trivial. Here the challenge is to find forms of control that reduce the disturbance to operational efficiency, based perhaps on more operational independence coupled with strong ex post accountability.

- *Transparency in IMF decision making* (Section III). Transparency enhances legitimacy, and, in many respects, can also lead to increased effectiveness. However, it may also come into conflict with operational efficiency, given the confidential nature of the financial matters the IMF deals with. Section III explores the various channels through which transparency may involve costs, a necessary step in the search for more effective forms of transparency.

- *Uniformity of treatment across countries* (Section IV). Uniformity of treatment also enhances legitimacy but may involve spending resources on activities that have low priority for the purpose of achieving the IMF's operational goals. Avoiding waste and arbitrary selection at the same time is a difficult task.

The resource constraint issue, which, as noted, implies that low efficiency may impair effectiveness, is discussed in Section V. That section also illustrates how the particular nature of IMF work, as well as outdated work processes, may further constrain the efficient management of IMF resources. Section VI concludes the paper.

Before proceeding, two points must be underlined. First, this paper is, by its nature, somewhat lopsided, as it focuses more on the need for efficiency, than on the need for legitimacy. This aims at provoking the discussion on an issue—the search for efficiency—that is often disregarded. Moreover, the paper's focus on the existence of trade-offs between efficiency and legitimacy does not mean that the author believes those trade-offs are inevitable. Indeed, their extent depends on the specific ways through which legitimacy is pursued. The challenge is thus to find possible ways in which the terms of the trade-off could be improved. For example, as noted, forms of political monitoring that are focused on ex post accountability do not directly affect operational decisions, contrary to direct political control. Also, other steps advocated in the past to boost IMF legitimacy—such as more transparent procedures for the selection of IMF management or changes in the distribution of political control across various member countries—may achieve that goal with no undesired effects on efficiency.[2] Reforms should, thus, aim at improving the terms of the trade-off by exploring steps that are Pareto-improving in the legitimacy and efficiency dimensions. However, while examples of such steps are provided, a full discussion of possible lines of reform goes beyond the scope of this paper—whose goal is to highlight the existence of potential trade-offs, not to find solutions. More work, as well as expertise in areas such as delegation theory, is needed to address the difficult issues raised in this paper.

Second, assessing the magnitude of the trade-offs is admittedly a difficult and essentially judgmental task. But this does not justify neglecting their existence. Indeed, one should wonder to what extent some of the alleged mistakes in IMF work during the last few years were due to governance structures reflecting an inadequate appreciation of the trade-offs, rather than to specific errors in judgment.[3]

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[2] See, for example, Akyüz (2002), Woods (2000), Buira (2003), Caliari and Schroeder (2003), and Passacantando (2004).

[3] For example, the report of the Independent Evaluation Office on Argentina (IMF, 2004) argues that the IMF supported weak policies in that country for too long, focused its fiscal analysis too narrowly, did not analyze sufficiently the long term sustainability of the exchange rate regime, and did not enforce conditionality. While highlighting these

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II. Appropriate Degree and Form of Political Control

Public opinion often perceives the IMF as a monolith, and little attention is paid to the various components of its governance structure. A bird's-eye view of the latter is therefore useful (see Van Houtven, 2002, Chapter 3, for a more detailed discussion).

A. IMF Governance Structure

The IMF governance structure involves four entities:

- *The direct representatives of countries' interests* (the "capitals," as they will be referred to henceforth). Formally, the main bodies representing the capitals are the Board of Governors—which includes ministers of finance and central bank governors—and its International Monetary and Financial Committee (IMFC). These bodies provide the ultimate source of political oversight but meet infrequently (typically twice a year). Meetings of the IMFC are now routinely preceded by preparatory meetings at the Deputies' level.

- *The Board of Executive Directors* (EDs)—thereinafter referred to as "the Board"—where 24 EDs in Washington, D.C. the IMF's 184 member countries. The Board "exercises all the powers for conducting the IMF's business, except those that the Articles of Agreement—that is, the Fund's statute—have reserved for the Board of Governors" (Van Houtven, 2002, p. 14). The Board provides close political oversight over Management (see next paragraph) and staff, meeting at IMF headquarters for at least three days a week. Thus, the "representatives" of IMF shareholders follow the IMF's work, and approve its decisions, virtually on a daily basis. This is an unusual governance feature with respect to, say, a private corporation. Note also that the EDs, while to some extent independent,[4] generally operate, for key decisions, in concert with "the capitals."

- *The Managing Director*, appointed by the Board, is at the same time the IMF's Chief Executive Officer, head of the staff, and the Chairman of the Board. It is common to

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shortcomings is important, it is equally important to understand the underlying causes of those shortcomings and, in the perspective of this paper, whether they could be explained by inadequate governance structures. For example, and bringing forward some of the issues raised later, did those errors reflect "clientelism" of IMF staff with respect to the authorities (see Section II.C), or implicit political pressures, or the inadequacy of the provision of human resources?

[4] All Executive Directors cannot be legally dismissed until his or her term has expired. However, this formal independence does not apply to the "appointed EDs" (those representing the countries with the five largest quotas), who can be dismissed for any reason (see, for example, Kafka, 1996, p. 331).

refer to the Managing Director, First Deputy Managing Director, and Deputy Managing Directors collectively as "Management."

- *The staff*—currently some 2,700 international civil servants—represent the IMF's "technical" voice. They execute IMF policies in the same way, for example, central bank employees execute monetary policy at the national level.

In addition to this formal structure there are other forums in which IMF business is discussed, such as the G-7, G-20, and G-24 meetings.

This governance structure—particularly the role of the Board in making and monitoring IMF decisions—suggests a relatively limited degree of delegation from the political to the technical dimension. Things are more complex than they appear, though, and quite naturally differ across the range of activities performed by the IMF. To explore the actual allocation of decision-making power, it is useful to review how the relationship between various components of IMF governance—and, in particular, between what I will call the "political pole" (the Board and "the capitals") and the technical pole (management and staff)—has evolved over time.[5]

B. Some History

The issue of the appropriate degree of political oversight was hotly debated when the IMF was established. British and U.S. views diverged on this. The U.S. side, headed by Harry Dexter White, envisaged close political oversight, involving a Board working at the IMF headquarters. The British side, headed by John Maynard Keynes, was against close oversight, and the British "plea for independence" was clear from the very beginning. In the words of Robert Skidelsky (Keynes's biographer):

> The British wanted the two institutions [IMF and the World Bank] to be apolitical, deciding matters on technical grounds. To this end they wanted them located outside Washington; and wanted the Fund, in particular, to be under the unencumbered control of the Managing Director and his staff, with the twelve Executive Directors and their alternates representing their countries and regions on a part-time basis, and at part-time salaries. The Americans wanted the Fund and Bank to be located in Washington: they wanted the executive directors to be full time . . . . (Skidelsky, 2003, pp. 829–30).

[5] This split between political and technical poles is a simplification, as each component of each of the poles plays a specific role. Moreover, the role of management, as interface between staff and the Board, cannot be seen as fully technical. More generally, reflecting their personalities and background, some members of management may be closer to the political pole than others.

The British view reflected a number of concerns: (a) political considerations might overrule technical considerations;[6] (b) insufficient delegation might prevent efficiency;[7] and (c) the IMF might be seen as operating more under rules than under discretion (Martin, 2002, p. 16). American views eventually prevailed, as close political oversight was seen as the needed counterpart for accepting the obligations of membership (Van Houtven, 2002, p. 65), and the IMF ended up with a Board of political appointees sitting in continuous session.

Indeed, in the early days of the IMF's life, EDs had a direct role not only in vetting IMF decisions daily, but also in running IMF business, including by actively negotiating with countries and heading field missions (Martin, 2002, p. 20). However, it soon became clear that this governance structure was de facto impracticable, owing primarily to informational constraints, as the membership and activities of the IMF increased: "Growth of membership and turnover on the Board meant that it did not build up the kind of institutional memory that the staff gained over time" (Martin, 2002, p. 23).[8]

Thus, as of the early 1950s, the role of management and staff gradually increased (Horsefield, 1969, p. 470–73; Gold, 1972, p. 172; and Strange, 1973, p. 279).[9] In the words of one of the U.S. EDs, "The result was a strong Management/staff and an Executive Board that acted largely on management recommendations" (Southard, 1979, p.7).

Between the early 1950s and the early 1990s the balance of power between the two poles went through various fluctuations, with no clear trend. Overall, while the Board never became a rubber stamp for management/staff decisions, it retained a more significant role in setting general policies and guidelines, rather than in decisions on specific countries (Boughton, 2001, p. 1031). The obvious exceptions were country cases with higher political

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[6] The submission of the British delegation at the Atlantic City meeting of June 1944 that preceded the July 1944 Bretton Woods conference considered that, "so far as practicable, we want to aim at a governing structure doing a technical job and developing a sense of corporate responsibility to all the members, and not the need to guard the interests of particular countries" (quoted in Horsefield, 1969, p. 86). See also Boughton (2001), p. 1032.

[7] At the Savannah conference of March 1946, which at that point had to give operational interpretation to the Articles of Agreement, the Canadian representatives argued that "the Board could not achieve the best results if it was engaged in a continuous study of figures and memoranda" (Horsefield, 1969, p. 132).

[8] See also Kafka (1996, p. 327).

[9] The Board's decisions of January 12, 1948 formalized and detailed the relationship among staff, management, and the Board, including assigning to staff the task of conducting negotiations with country authorities. However, the Board's rein on staff remained initially tight, as "the composition of each staff mission was subject to Board approval, and the Board outlined detailed instruction for them" (De Vries and Horsefield, 1969, p. 471).

value for the key shareholders—where the political role of the capitals over the Board was probably more important, however.

A more definite trend may have emerged since the mid-1990s, with a number of steps aimed at increasing the information available to the political pole and its capability of vetting, ex ante, the positions taken by the technocratic pole:

- More information has been required to be disclosed to the Board: for example, side letters[10] have been required to be disclosed to the Board since September 1999. Also, as of early 2003, all "comfort letters" and similar statements made by staff to other international financial institutions (IFIs), donors, and creditors on country developments must be transmitted to the Board.

- The technical pole's discretion in shaping program conditions and modalities has been constrained: conditionality has been streamlined, particularly as concerns structural measures. Moreover, prior actions—steps that staff requires to be taken by countries as a condition of presenting a program (or the review of a program) to the Board—have become formal conditions for the use of IMF resources. Finally, detailed provisions have been issued regarding the conditions under which large lending operations can be recommended by staff (the so-called exceptional access cases, for which early Board involvement is now also required).

- Requirements for ex ante scrutiny of programs by the Board have been tightened: as of mid-2003, before presenting a new program to the Board for countries with prolonged use of IMF resources (some 80 percent of program countries outstanding in mid-2004), an ex post assessment report justifying the need for a new program and outlining its main features needs to be discussed by the Board. Negotiations on a new program cannot be completed before such discussion has taken place.

Moreover, within the political pole, there seems to be a clear trend toward shifting control away from the Board and toward the capitals of the largest countries:

> The major industrial countries, the Group of Seven ... have exhibited a growing tendency in recent years to act as a self-appointed steering group or "Directoire" of the IMF. Recent reports of the finance ministers to the heads of state and government at the annual summit meetings have sometimes tended to deal with IMF matters in a manner that raises the question of whether they will leave the Executive Directors representing the Group of Seven countries with the necessary margin for discussion and room for give-and-take that is essential for consensus building (Van Houtven, 2002, pp. 30–31).[11]

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[10] Side letters are letters that program countries send to management on confidential aspects of program policies (e.g., in the exchange rate area).

[11] As these changes were implemented, more radical proposals to enhance political control were being discussed. See a description of the French reform proposal in De Gregorio and

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There are four reasons for these trends: (1) the increasing size of IMF financial support in several headline cases during the 1990s called for closer political oversight over the use of "international taxpayers' money;" (2) the role played by the IMF as the number of programs increased raised the question of whether unelected technocrats had not acquired too much power; (3) the end-of-the-century crises raised questions on IMF effectiveness (delegating political power is always controversial, but more so if results are mixed); and (4) with the dramatic development in communication technologies, it has become easier for the capitals to exert their influence on the Board (Kenen and others, 2004, pp. 99–100).

C. Key Features of IMF Governance and Its Implications for Efficiency

The key features of the IMF governance structure can thus be summarized as follows.

- First, at the *formal level* political control is pervasive, as most IMF actions have to be approved by the Board. This formal control has increased in recent years.

- Second, in *practice*, the ability of the political pole to exert its influence is limited by its constraints in processing information. The view that the Board does not have the resources to monitor staff effectively is indeed quite widespread (De Gregorio and others, 1999, pp. 21, 78–82; Harper, pp. 284–285; Caliari and Schroeder, 2003; and, perhaps more significantly, IMF, 1999, pp. 33–34). Thus, it remains to be seen whether the recent effort to strengthen formal control over the technocratic pole will succeed in enhancing actual control.[12] The information processing constraints remain severe; in this respect, the ratio between professional staff working for the Board and regular professional staff has remained roughly constant over the last 10 years (at about 9½ percent).[13]

- Third, although there is no firm evidence of this, it stands to reason that, in the most relevant cases as well as in the setting of key policy guidelines, the balance of power

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others (1999, p. 99) and of the Miyazawa proposal also in De Gregorio and others (1999, p. 95).

[12] Reversals did occur in the past. For example, some 20 years ago the Board asked that at the end of a program, an assessment of its success or failure be included in the first staff report following the conclusion of the program. This initiative—similar to the new "ex post assessments" discussed above—eventually fell into disuse.

[13] Moreover it has been argued that, because of the increased speed at which decisions have to be taken in today's world of high capital mobility, the actual balance of control has shifted toward the staff (De Gregorio and others, 1999, p. 80), except with respect to large countries such as the United States (De Gregorio and others, p. 82), which can devote larger resources to staff monitoring.

> is tilted toward the political pole.[14] Within the political pole, however, power rests primarily with the capitals of the larger shareholders. Even leaving aside arguments of political weight, larger countries (and, more generally, advanced countries) can devote more resources to monitoring the IMF, and can thus play a more significant role. And, as argued, the role of the "large" capitals has increased in recent years.

The preceding configuration raises issues of legitimacy and equality of treatment across countries.[15] Here, however, we focus on its implications for the IMF's efficiency.

The first implication relates to the risk that IMF decisions (in cases where the political stakes are high) reflect direct political pressures, originating typically in the capitals, rather than technical factors. How severe is this problem? Leo Van Houtven, former IMF Secretary, while noting that "it could not be expected that decisions would always be taken exclusively on technical grounds," eventually concludes that "the limited occurrence of political decisions in the IMF has been remarkable" (Van Houtven, 2002, pp. 43–44). Econometric work on whether IMF decisions reflect political factors yields mixed results.[16] Surveys do indicate that political pressures are not unusual, with 7 percent of mission chiefs reporting that technical judgment was overridden by political pressures "frequently" or "always," and 48 percent reporting that political pressures had been experienced "occasionally" or "sometimes" (IMF, 2002, p. 64). Moreover, various IMF watchers have reported several cases of direct political pressures.[17] Be this as it may, the frequency of cases of direct political interference is not all that matters: the perception that there have been cases of political interference affects the IMF's credibility, and hence its effectiveness, in all cases. Furthermore, the perception that the IMF is a "geopolitical slush fund" (Willett, 2004) and that the IMF serves "the ad hoc political purposes of broad foreign policy" (Calomiris, 2000, p. 86) remains quite widespread (see also Allegret and Dulbecco, 2004). The controversy

[14] The difficulties faced by the IMF Management's initiative to establish a new debt-restructuring mechanism for sovereign debt—in plain English, a mechanism to deal with the cases of country bankruptcies—shows that, when it comes to major policy issues, the technocratic pole has limited traction.

[15] For example, Van Houtven (2002) argues that the shift of power toward the capitals and away from the Board has reduced the role of developing countries: decisions at the Board are taken by consensus, thus partly enhancing the role of countries with limited formal voting rights.

[16] Bird (2003, pp. 248–252) lists a number of papers that do find econometric evidence of political factors in IMF decisions, including Stiles, 1991, Thacker, 1999, and Barro and Lee (2002). However, the evidence in Bird and Rowlands (2001) is more nuanced. After reviewing this literature, Bird (2003) concludes that the picture is not "completely clear."

[17] See lists in De Gregorio and others (1999) and Bordo and James (2000, pp. 39–40); see also Stiles (1990) and Financial Times, October 5, 2004, p. 4, *"G7 Interfered in IMF Bid to Push Through Russia Reform."*

surrounding IMF decisions taken in early 2003 to roll over the loans to Argentina is still fresh.[18]

A second, and perhaps more subtle, implication of the IMF's formal political dependence is the alleged "clientelism" of IMF staff vis-à-vis country authorities. Bordo and James (2000, p. 8) notes that "IMF staff reports on member countries are thought to be insufficiently critical (because of the development of a sort of "clientelism," in which good relations with officials and ministers develop." The issue of "clientelism" is also raised in IMF (1999, p. 65): "A view that exists in the institution is that a report that is incisive but offends the authorities is damaging to a mission chief's career while one that is bland and later turns out to be lacking in some important respects will be overlooked."

While, again, the existence of clientelism should not be exaggerated, some aspects of IMF culture may encourage it. In particular, managers are assessed partly on the basis of their ability in keeping good relationships with country authorities. This may affect, in particular, surveillance cases, as this is where a harsh assessment given by staff may be more strongly objected to by country authorities (particularly in "calm waters," that is, when surveillance is potentially more effective in preventing future crises).

Does clientelism reflect the IMF's political governance structure? This is hard to prove. But it stands to reason that the voice of country authorities is amplified by the fact that the IMF is not formally independent from political forces, and that political representatives sit in Washington, D.C. in continuous sessions.[19]

The third implication relates to the ongoing shift in decision power from the Board to the capitals. As argued by Kenen and others (2004, pp. 99–101), this shift affects efficiency as decisions are taken by officials who have more limited knowledge of the IMF than do EDs and have only occasional or no contact with staff. Allegret and Dulbecco (2004, p. 10) take a similar view. This problem is particularly severe in areas where the political pole retains a higher degree of control, namely in setting policy guidelines.

The fourth implication relates to the role of the Board in the IMF's daily management. From a corporate governance perspective, it is unusual that shareholders' representatives participate in daily management activities. The rationale for more detached participation (focused, for example, on setting goals and monitoring results) rests on the information-

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[18] See, for example, leader in *Financial Times*, January 20, 2003, "The G7 Blinks: The IMF Has Been Forced to Take a Huge Gamble."

[19] There are provisions that, in principle, protect staff from political pressures, but their effective role is doubtful. In particular, Article XII, Section 4.c of the Articles of Agreement includes a provision obliging countries to "respect the international character of [the staff's] duty and ... refrain from all attempts to influence any of the staff." But this article is not well known even to IMF staff, a sign that IMF culture does not emphasize it. In a sample of IMF economists I contacted, only 7 percent knew that such a provision existed.

processing constraints that are at the basis of any principal-agent relationship. Given the cost of evaluating information, it is more efficient for decisions at the daily level to be delegated to the management of a company or an institution. Moreover, a body representing shareholders must potentially be large. In the IMF case, the large size of the Board also reflects its political nature and the related need to give voice, without excessive pooling, to all member countries.[20]

The report of the external evaluation of surveillance points candidly at the atypical role of the Board in terms of governance: “Everything we know about institutional governance indicates to us that a group of 24 is, to put it mildly, extremely large for useful exchanges of views, discussion, and group decision making” (IMF, 1999, p. 75).

Van Houtven (2002, p. 23) also notes that the “decision making and management of the IMF would be better served by a smaller Board.” Kafka (1996, p. 333) expresses a similar view.[21]

What impact does the Board’s atypical role have on efficiency? As discussed, many believe that the Board does not have enough resources to challenge the staff’s views and that, in practice, in the majority of cases it performs only a formal role. However, this activity of formal control is quite time consuming—for the Board as well as the staff. It is time consuming for the Board because trying to absorb (and react to) all the information provided by staff is not easy; about two-thirds of the Board’s time is spent on country matters rather than in setting policy guidelines or in monitoring their overall implementation. And for the staff, it is time consuming because it results in the production of activities that may be carried out largely as a formality. With the increased weight of the political pole in the last few years, the trend toward formal “micromanagement” has, if anything, increased, with the Board expressing views and imposing formal requirements on quite technical and detailed issues.[22]

[20] Indeed, the Board’s political nature has also made it difficult for the Board to operate through committees: "The glaring absence of meaningful committee work speaks volumes for the constraints under which Directors apparently operate, de facto if not legally, as country and constituency representatives" (IMF, 1999, p. 75). This “size” issue is typical of international organizations. As noted by Lister (1984, p. 101), “a perennial problem of international organization has been to fashion an executive organ that is both small enough to deal expeditiously with the flow of regular business and yet representative enough to act authoritatively.”

[21] As IMF Secretary, Leo Van Houtven was directly in charge of the relationships with the Board; Alexandre Kafka was an Executive Director for more than 30 years.

[22] Such as the list of indicators staff should use to assess countries’ vulnerabilities, templates for debt sustainability, the reporting of the effectiveness of IMF surveillance in specific countries, the reporting of relationships with the World Bank, the reporting of statistical issues, and the background papers prepared for Article IV consultations.

D. Trade-Off and Right Balance

Political oversight is needed by domestic institutions, and, to an even greater extent, by international organizations because they must be seen by sovereign countries as exercising legitimate powers. Without legitimacy, the IMF ultimately would be ineffective.[23] Some forms of political control can hamper operational efficiency, however; hence a trade-off arises. The question is: what form and degree of delegation from the political pole to the technocratic pole—in other words, the degree of "slack" in the principal-agent relationship—are most appropriate for an institution such as the IMF? This issue has not been studied much. Models of delegation[24] have found limited application to the study of international organizations, possibly because of the complexity of the issues involved—for example, those related to the existence of multiple "principals" (the country members), which have, in turn, various principals (each country's stakeholders).

I have argued above that the current approach results in (a) political influences that are often not transparent and are exercised unevenly across countries; and (b) excessive resources being spent in pro forma activities, reducing at the same time the actual political oversight, the ability to set proper guidelines, and efficiency. Could a different approach work better? Various proposals have been put forward:

- Giving the IMF more operational independence, while enhancing its ex post accountability, as proposed, for example, by De Gregorio and others (1999), Bordo and James (2000), and Allegret and Dulbecco (2004). Note, however, that the proposal in De Gregorio and others (1999) and Allegret and Dulbecco (2004) to make the Board independent does not address one issue raised in this paper, namely the difficulty a large body, such as the Board, has in managing a financial institution on a daily basis. This issue could perhaps be better addressed by reviving the idea of a nonresident board, in charge of broad oversight, rather than of specific decisions, as originally advocated by Keynes and more recently by others.

- Enhancing the protection of staff from explicit and implicit political pressure. A critical step, recommended by the report of the External Evaluation of Surveillance, would be to alter the incentive structure by making it clear that management will back up staff members who give frank advice (IMF, 1999, p. 67).

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[23] Indeed, various authors have underscored that some form of political control can enhance the IMF's effectiveness. De Gregorio and others (1999, p. 93) argue that peer pressure can be an important tool in the IMF's hands. Cunliffe (quoted in De Gregorio and others, p. 125) argues that "granting independence to the IMF would result in the dissipation of support for the institution."

[24] See, for a recent survey, Bendor, Glazer, and Hammond (2001); and, regarding delegation from politicians to bureaucrats, Alesina and Tabellini (2004).

- Reassessing the role of the Board, with the aim of minimizing activities that result in merely formal control, while increasing its role vis-à-vis the capitals (Van Houtven, 2002). One specific step proposed by Woods (2000) is to increase the amount of time the Board could spend on setting policy guidelines by considerably reducing its responsibilities for country decisions.

III. Appropriate Degree of Transparency

Transparency is key to the legitimacy of a public institution. Until recently, (the mid-1990s) in determining the extent of IMF transparency, the balance between legitimacy and (at least what was perceived as) efficiency was biased toward the latter. It was assumed that the confidential nature of IMF business was incompatible with a high degree of operational disclosure. However, during the last few years, it has become clear that secrecy weakens IMF legitimacy. Moreover, it has been noted that transparency is also important for efficiency. First, it allows closer monitoring and accountability of IMF staff; and, hence, in a principal-agent perspective, it should boost efficiency. Second, transparency in the IMF's advice (e.g., the publication of IMF staff reports) magnifies the IMF voice; if markets listen to it, inappropriate policies are more directly penalized, enhancing the "peer pressure" mechanism on which IMF surveillance has traditionally relied. Indeed, the shift toward greater transparency has partly reflected the Fund's attempt to enhance its effectiveness in the aftermath of the Asian crisis.

While the benefits of transparency in terms of legitimacy and efficiency have been appropriately emphasized over the last few years, the debate has been somewhat one-sided. There are also potential trade-offs between transparency and efficiency, and acknowledging them is a necessary step in establishing appropriate transparency policies. The reader will hopefully forgive me if, to correct this one-sidedness, the rest of this section is somewhat biased in the opposite direction.

A. Some Definitions

When I use the term "transparency policies" (or, for simplicity's sake, "transparency"), I refer to policies that require the dissemination of documents to an audience that would not otherwise receive them. The following should be noted:

- I am referring to the dissemination of *documents*, as one cannot assume that the content of the document (that is, the *information*) is unaffected by the dissemination constraint.[25]

- Typically, IMF documents contain (a) information on a certain country or country group (e.g., data on reserves, the decision of a government to devalue, information on

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[25] Strictly speaking, using the term "transparency policies" as a synonym for publication requirements is not appropriate, since the latter does not necessarily involve a higher degree of dissemination of information. Nevertheless, I will follow the standard convention.

certain financial institutions, the government's intention to introduce a certain measure); (b) views of staff, or of other components of IMF governance, on a certain policy issue (e.g., whether exchange rate levels or regimes are appropriate, whether banking supervision is adequate, or whether political risks exist); and (c) assessments of IMF performance. In what follows, I will focus primarily on (a) and (b).[26]

- Discussions on transparency should always identify the original and new recipients of the documents. In what follows, I will focus on changes in transparency rules that broaden the dissemination of documents from the technocratic pole (and the country authorities of a specific country) to either the political pole or the general public.

B. Potential Drawbacks of Transparency

1. I will first consider the specific mechanisms through which transparency vis-à-vis the public at large can affect IMF efficiency. I will also initially (and perhaps unrealistically) assume that the dissemination requirement does not alter the information in the document to be published. In this context, transparency has three direct drawbacks:

- Transparency—for example, the publication of IMF views regarding the sustainability of an exchange rate regime under current policies—can cause a negative market reaction (say, a speculative attack) that could have been avoided through a change in policies (IMF, 1999, p. 75). The stress here is on the fact that the negative market reaction could have been be avoided had country authorities been given sufficient time to react to the IMF's views. Supporters of full transparency often argue that if the IMF's views can trigger a crisis, they might as well be released, since the crisis will occur one way or another. This view misses the point that the IMF's confidential advice could, one would hope, lead to a policy change that would avoid the crisis. Moreover, a vulnerability assessment is always probabilistic in nature, but most readers will only consider the modal projection or outlook, which could precipitate a crisis.

- In countries with an IMF-supported program, transparency (in particular the publication of letters of intent) may disrupt the conditionality process. A program, as well as its related conditionality (that is, the set of conditions that need to be met for the IMF to continue to support a program), is not carved in stone at its inception. Conditions are often modified as developments unfold (Mussa and Savastano, 1999). This process of program negotiation and renegotiation is more difficult to manage if markets are fully aware of the contents of letters of intent. For example, failure to take certain actions covered by conditionality may trigger a crisis even when the IMF would have been willing to waive them. Conversely, waiving conditions may be

[26] What follows could, however, also be applied to assessments of IMF performance (self-assessments or assessments by outside experts). The latter, however, also bring to the fore some additional issues, including whether excessive emphasis on past "mistakes" may reduce the credibility of the IMF in the future.

inappropriately seen as a watering down of a program. The key point is that the negotiation/conditionality process requires time, and transparency, in a world of high capital mobility, dramatically cuts the time available for this process to work effectively and for an optimal redesign of a program. Thus, in this context, conditionality may end up acting as a coordinating device for speculative attacks (creating a reverse catalytic effect).

- Transparency about a government's intention to implement a measure can prevent the implementation of that measure if public knowledge of the government's intention leads to a coalescence of vested interest against it.

In the preceding cases, the original information is provided to the public, so, at least, the expected benefits usually linked to transparency (a more informed public) can be reaped. But one cannot assume that the information in the documents to be published will not be affected by the publication requirement. First, given the costs arising if the original information is disseminated, country authorities may be unwilling to share all of the information they have with IMF staff. This would prevent the IMF from effectively performing its functions, as staff will not be in a position to provide adequate advice to country authorities (IMF, 1999, p. 75). And second, given the limited protection of staff vis-à-vis political pressures (see Section 2), or because of the risk of causing a crisis, staff may be inclined to be less candid in documents that are going to be published. This implies that the correct information would not be provided to the public, giving rise to a pro-forma transparency.

Whether the above drawbacks apply also with respect to transparency vis-à-vis the Board depends on whether the information provided to the Board would or would not leak to the public. This is a controversial issue. IMF (1999, p. 78) concludes that "any such discussions [on confidential issues] could only be reported to the Board in a quite general way if their substance were expected to remain confidential." Van Houtven (2002, p.19) also notes that "delicate issues may arise in cases when the need for disclosure of information to Executive Directors appears difficult to reconcile with the requirements of confidentiality of a member country." Martin (2002, p. 40) refers to the "occasional embarrassing leaks from the Executive Board," although leaks of sensitive material have been infrequent (and there also have been examples of leaks from staff). However, even without leaks, countries may be unwilling to share with other countries specific information. As noted by Martin (2002), "For any borrowing country, some states are likely to be political adversaries. They will then be reluctant to reveal sensitive information to the Board."

C. Transparency in IMF History

How have these considerations affected IMF work over the last sixty years? For many decades after the IMF was set up, the issue of transparency vis-à-vis the public was not regarded by IMF shareholders as critical. Transparency issues did feature prominently in the discussions leading to the establishment of the IMF, but only as far as they related to the information to be provided *to the Board*. Thus, at the Savannah conference of March 1946, Keynes took the view that no country would be willing to confide in the Managing Director if the Executive Directors were to be made acquainted with everything that was going on (Horsefield, 1969, p. 133).

In any event, as discussed above, the shift to the staff in early 1948 of the responsibility for dealing with country authorities created a barrier between the Board and member countries (Martin, 2002, p. 37). This situation prevailed during the following decades. The issue, however, resurfaced periodically, with the technocratic pole reiterating the following:

> The confidentiality of relations between member governments and the Fund management and staff, so fundamental to the successful operations of the Fund, could be impaired.... [W]ere a member government to believe that any information provided to the Fund would be made available to governments around the world, there would be a devastating effect on the future of the Fund. (de Vries, 1985, p. 994, referring to staff and management views in the late 1970s).

During the 1990s, however, the demand from the world public opinion for more transparency vis-à-vis the public mounted rapidly (see, for example, De Gregorio and others, 1999, pp. 84–85) and the technocratic pole, also in consideration of potential benefits in terms of effectiveness (see paragraph 36 above), came to accept the need for change (Van Houtven, 2002, p. 69). Thus, the IMF has started publishing a number of previously unpublished documents, including staff reports and letters of intent (IMF, 2003).

The pressure on the technocratic pole for more transparency vis-à-vis the Board has increased in parallel. As discussed in the previous section, this has, for example, involved the disclosure to the Board of all side letters, as well as more frequent and informal Board discussions of country developments.

D. Unresolved Issues

While the move toward transparency has merits, and is in any case unavoidable, it has been assumed that at least some of its potential drawbacks could be easily minimized through appropriate policies.[27] In particular, rules allow the deletion of "highly market-sensitive material" from published staff reports. However, the deletion policy may not be perceived as sufficient protection by the countries involved. First, the request for deletion needs to be approved by IMF management—consequently it is far from certain what would be regarded as "highly market-sensitive." Second, the flexibility in making changes, even for highly

[27] Others have assumed that transparency, even in delicate areas such as exchange rate assessment, cannot be a problem in any case. The recent report of the IMF's Independent Evaluation Office acknowledges the inherent sensitivity of exchange rate assessments for countries with pegged exchange rates as such assessments could "alarm the markets" (IMF, 2004, paragraph 238), but concludes that the problem can be resolved by making such discussions "a routine exercise, something markets expect to occur as a matter of procedure." However, it is not clear why the fact that assessments of exchange rate regimes are routinely made would diminish the impact of an IMF statement that concluded that a certain regime is not sustainable.

market-sensitive information, is limited.[28] And third, since the deletion policy covers only highly market-sensitive information, it does not address other concerns the authorities may have, including the risk that untimely publication of policy intentions would make the policy implementation more difficult.[29]

Thus, the majority of the Board has typically focused on the benefits from transparency rather than on the existence of trade-offs. For example, the following refers to a recent Board discussion:

> Directors considered that candor and transparency were essential dimensions of surveillance, and took note of efforts to improve information provided to the Executive Board and to boost publication of staff reports.... Some Directors noted, however, that there may be trade-offs between transparency and candor (IMF, 2003).[30]

I side with those who believe these trade-offs should be explored more extensively.[31] Ultimately, increased publication of IMF documents can enhance the IMF's efficiency: when the voice of the IMF is heard publicly, governments (particularly in democratic countries) may be more willing to act under pressure from public opinion and the markets. But acknowledging the existence of costs is an important step toward finding more efficient forms of transparency. In particular, the following questions seem to deserve further scrutiny:

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[28] Deletions are possible, but modifications need to be limited to what is required to keep the text intelligible and grammatically correct. Moreover, deletions cannot be used to eliminate entire sections of a report or several paragraphs. Finally, the presumption is for a high degree of parsimony in distinguishing material that is clearly highly market-sensitive from what is only politically sensitive.

[29] A side letter can be used to protect the confidentiality of measures whose early disclosure would make their implementation more difficult. But this approach can only be followed for program countries, and not for countries where the IMF is only engaged in surveillance.

[30] The reference to a trade-off between transparency and candor (rather than between transparency and effectiveness) should not mislead the reader. The issue is that as a result of requiring publication of staff reports, these may turn out to lack candor and thus to be ineffective.

[31] Mohammed (2000, p. 203) also points out the costs arising from excessive transparency. At the time of his writing. Mohammed was Advisor to the Chairman of the Group of Twenty-Four (G-24), the intergovernmental group of developing countries set up to concert their position on monetary and finance issues. He had earlier been Director of the IMF's External Relations Department. Kafka (1996, p. 335) also warns about the limits of transparency. Williamson (2000) actually blames the IMF for excessive transparency when it "forced Thailand to reveal in October 1997 that it had mortgaged all its reserves" (p. 336).

- How to make sure that, in spite of publication requirements, countries provide the necessary information. Self-assessments conducted by the IMF on the implementation of transparency policies are quite sanguine on the outcomes of the experiment. However, only time will tell how the provision of information to the IMF by member countries has been affected by publication requirements.

- How to make sure that the publication of internal IMF documents does not result in a pro forma transparency, where the most important information is actually not disclosed.

- To what extent it would be appropriate to delay the publication of some documents, in contrast to the current practice of virtually immediate publication.[32] This would still allow ex post accountability while reducing the risk of ex ante censorship.

- What the appropriate degree of transparency vis-à-vis the political pole (of the Board and the capitals) is. The extent to which the information acquired by the technocratic pole, and all views held by it, should be shared with the Board (and "the capitals") is not entirely clear at present.

IV. Appropriate Degree of Uniformity of Treatment Across Countries

Evenhandedness in the treatment of country members is seen as a critical requirement for the IMF[33] as it seeks to enhance its legitimacy. And yet, economic conditions do differ across countries. Thus, it stands to reason that efficiency requires selectivity—applying certain procedures or approaches to only the countries that really need them. In theory, there is no contradiction between evenhandedness and selectivity. One can, for example, use some screening process that is applied to identify countries that, for example, require more in-depth work. What ultimately matters is that countries be assessed on objective grounds—a uniformity of treatment *in substance*. In practice, however, *formalistic* uniformity of treatment is much easier to establish than substantive evenhandedness. This may lead to a bias toward the application of the same formal procedures to all countries, with a consequent loss in terms of resources and, hence, efficiency.

While the need for selectivity in IMF surveillance work is, in principle, accepted, difficulties have arisen in practice. If anything, trends in recent years seem to have been toward less selective approaches—as advocated by some developing countries (see, for example, Mohammed, 2000, p. 203). The key surveillance process—the Article IV consultation—takes

[32] De Gregorio and others (1999, p. 88) note that delaying the publication of documents would reduce the risk of negative market reactions.

[33] For example, the October 2004 IMFC Communiqué noted that, "Effective and evenhanded IMF surveillance across the whole membership is central to promoting high and sustainable growth in member countries and to crisis prevention" (IMFC, 2004). In the IMF, the term "surveillance" refers to the monitoring of countries' economic developments and policies.

place annually for most countries, with fewer than one-tenth of the IMF membership on a 24-month cycle.[34] Even in the latter case, staff visits often take place in years without formal Article IV consultations. Various standard surveillance tools, many of which have been introduced in recent years to strengthen IMF surveillance (for example, those to assess public debt and external debt sustainability), have to be applied to all countries. Moreover, major new expansions in the IMF mandate—in particular the assessment of the application of standards and codes—have covered all countries.

This bias against selectivity emerged clearly during the Board discussion of the so-called vulnerability assessment exercise, one of the few examples of selective practices, that was introduced by IMF staff and management in 2001 to monitor more closely countries with higher vulnerabilities. The press information notice summarizing the Board discussion on this issue indicated the following:

> The periodic vulnerability assessment exercise... provides a platform for an independent assessment by relevant functional departments of key issues in individual countries, offers an opportunity to exchange views on analyses of vulnerability across different regions, and provides inputs for bilateral surveillance activities and program design. Several Directors saw merit in applying this exercise to advanced economies and not just emerging market economies. Other Directors pointed out that developments in advanced economies were examined at high frequencies through other mechanisms (IMF, 2003).

More selectivity in IMF work has been advocated in several reform proposals in recent years, but the attention has not focused on selectivity in the country dimension. Following Feldstein (1998), the need for focusing the IMF on its core areas of (macroeconomic) responsibility has been widely accepted, at least in principle. Correspondingly, various authors have underscored the need to reduce the overlap, in terms of issues covered, in the mandates of the main international economic institutions (for a recent discussion see Kenen and others, 2004, pp. 95–97).

While a pruning of IMF responsibilities is needed, one should not forget that a rigid breakdown of economic problems by their nature is not easy. In particular, macroeconomic issues and structural issues are often closely related, and excessively constraining the scope of the IMF's work would inevitably impair its effectiveness.[35] Combining selectivity in the issue dimension with selectivity in the country dimension—dealing with certain issues only

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[34] Program countries are also on a 24-month cycle, but they are, of course, subject to much closer monitoring as part of the program discussions.

[35] For example, many of the turn-of-the-century emerging market crises deeply reflected underlying structural problems. This, of course, does not mean that the IMF should deal, *at the technical level*, with areas where it does not have enough expertise. But, the overall assessment policy design and, in the case of program countries, the negotiation process with country authorities, can hardly broken down without an effectiveness loss.

in countries where those issues are macroeconomically relevant—could thus provide a more effective approach. The question is how to do this without impairing the principle of uniformity of treatment across countries.

In this respect, two avenues could be explored:

- At the "micro level," consideration should be given to broadening the use of screening processes to avoid applying essentially the same formal procedures to all countries.

- At the "macro level," the key issue is whether the responsibilities in terms of country coverage of the international economic organizations—which involves significant overlap between the Organization for Economic Cooperation and Development (OECD) and the IMF for industrial countries, and between the World Bank and the IMF for nonindustrial countries—should not be revised. Some have, for example, argued that the IMF should reduce its work on industrial countries (see, for example, Polak, 2004). A milder alternative would be to identify a "leading institution" in the relationship between the international community and each country. The issue is, once more, a difficult one, since it involves trade-offs. Leaving aside the question of legitimacy, it has been argued that the overlapping of responsibilities may foster healthy competition (Krueger, 1997, p. 23) and, possibly, accountability.

V. Resource Constraints, Efficiency, and Trade-Offs

Constraints on an institution's efficiency would not impair its effectiveness if an adequate amount of resources were made available. It is thus important to assess the tightness of the IMF's human-resource constraint.

Few IMF-watchers have addressed this issue.[36] This is surprising because the adequacy of human resources is critical to the effectiveness of any decision-making process. Bordo and James (2000, p. 6), in discussing the size of the IMF, does start by providing information on both human and financial resources, but if then tackles only the latter's adequacy. Vaubel (1994, pp. 53–54) points at the rapid increase of IMF staff since 1960 and wonders whether it represents "a textbook case of Parkinson's Law" and concludes—without reporting any supporting empirical evidence—that the increase was not explained by increased balance of payments imbalances worldwide but was more correlated with the increase in IMF quotas. However, other critics—perhaps most forcefully Jeffrey Sachs and the Meltzer Commission—have argued that the IMF is understaffed, given the number of program cases

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[36] At the Savannah conference of March 1946, when IMF goals had already been crystallized in the Articles of Agreement, the views on the appropriate size of the staff ranged widely from the 30 professionals proposed by the British delegation to the 300 proposed by the U.S. delegation (Skidelsky, 2003, p. 830). The width of this range, however, partly reflects the more rule-based approach the British side envisaged for the IMF (see Section II).

usually handled.[37] In the same vein, IMF (1999, p. 73) also pointed out the inadequacy of its own human resources, concluding that "there is no doubt that many Fund staff are chronically overworked."

Yet, a cursory look at the growth of IMF staff over the last thirty years suggests no dearth of resources. From 1970 to 2002, the number of staff increased in relation to the number of member countries, although much less markedly with respect to the number of IMF-supported programs (Table 1). However, this increase needs to be interpreted in light of rising IMF responsibilities (for example, during the 1990s in international standards and codes, anti-money laundering, financial sector analysis, governance, and provision of information related to transparency requirements) and the increased complexity of problems, particularly as a result of increased capital mobility.[38]

Moreover, the increase in IMF staff does not say much about the adequacy of its level. IMF teams seem small by many standards. A typical IMF "mission" team includes, in addition to the mission chief, four (rarely five) economists who usually have additional assignments to carry out when at headquarters. A resident representative assists the team in most program cases, and in key surveillance cases. Other staff are also involved in reviewing the work of mission teams on a part-time basis, with reviewers typically working on tens of countries at the same time.

Is this resource endowment sufficient? Consider the following:

- Economic policy teams in central banks and finance ministries of industrial countries typically include hundreds of economists.[39] IMF teams are expected to cooperate with country authorities, but, in practice, local economists may not have adequate skills, and may have different goals than the IMF staff's, making full cooperation difficult.

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[37] "The Meltzer Commission noted that the IMF, with just one thousand or so professional staff, could not and should not try to run dozens of countries' economic programs" (Sachs, 2000). The Meltzer Commission—or, more properly, the International Financial Institution Advisory Commission—was established in November 1998 by the U.S. Congress to consider the future roles of seven international financial institutions, including the IMF.

[38] For example, the increase in resources used for surveillance during FY2001/2003 was devoted to new tasks in financial surveillance and standards and codes, and to multilateral surveillance, with no increases in the resources available for bilateral surveillance.

[39] The Bank of England's staff in the Monetary Analysis and the Financial Stability Departments includes some 220 professionals. About 200 professionals work at the U.K. Treasury on macroeconomic financial, and structural reform issues. The Research and Economics directorates of the ECB include some 180 professionals. The Monetary Affairs and the Research and Statistics Departments of the Board of Governors of the (U.S.) Federal Reserve System include some 160 professionals. The U.S. Treasury team working in the Domestic Finance and Economic Policy Departments includes some 140 professionals.

- Each of the four mission team economists is typically in charge of one sector (real, monetary, fiscal, and balance of payments). This means, for example, that the critical balance of payments sector is typically the responsibility of a single economist. Thus, a single person deals with monitoring and projecting trade flows, the service account, the capital account, external debt stocks, competitiveness, trade restrictions, issues related to external debt negotiations, and so on.

- The availability of human resources assigned to program countries rises only modestly with the size of the financial resources committed by the IMF, as the composition of country teams, particularly in area departments (that is, those more directly in charge of dealing with country authorities), is fairly similar across countries. The relation between the amount of human and financial resources assigned to a country is depicted in Figure 1, which reports on the vertical axis the log of the ratio between human resources (in staff years) and the log of millions of Special Drawing Rights (SDRs) committed. The relationship is negative since the amount of human resources does not rise proportionately with the size of lending. The implicit elasticity is quite low (0.11) for the whole IMF (top panel) and is particularly low for area departments (0.08)—indeed only one-half that of other departments (0.16). This means that as the size of a program increases, the amount of resources increases more slowly for the teams in charge of a more direct contact with the authorities, while a faster increase is observed for the staff in charge of review work and other noncore activities.

- Program work attracts more resources than surveillance work, but the increase is, again, relatively modest. An econometric estimate relating the human resources assigned to a certain country to measures of its size, a dummy for program countries, the amount of lending, and the country type (industrial or not), shows that, on average, the existence of a program increases the human-resource allocation by less than a third with respect to a surveillance-only relationship (Table 2). This is not much, taking into account the responsibilities that fall on the staff when they are engaged in program work.

The scarcity of the IMF's human resources is exacerbated by the high turnover across countries of IMF staff. Some 60 percent of the teams of nonprogram countries change with each mission. Perhaps more important, since mission teams often include economists assigned only temporarily to a country, the turnover of regular desk economists (on their main country assignment) is also high: based on a sample of area department economists, collected in May 2004, the median time that desk economists/and mission chiefs had worked on their main assignments were 12 months and 13 months, respectively.

Whether high turnover is an inevitable feature of IMF work is controversial. Some IMF watchers see this as a requirement for an international organization, given that it allows staff to benefit from "cross-fertilization" of experiences (Feinberg and Gwin, 1989, p. 26; De Gregorio and others, 1999, p. 19). High turnover may also reduce the risk of clientelism. Others, however, have regarded this turnover as excessive (IMF, 1999, pp. 31–32; IMF, 2002, pp. 88, 137), pointing out the lack of familiarity with country features that it generates. Other potential drawbacks are shortsightedness in work planning (and, thus, insufficient incentives to start work initiatives with longer-term yields) and reduced accountability, since as successors have to deal with problems that were left unattended (IMF, 2002, p. 68). Be this as it may—and I believe turnover is excessive—to the extent to high turnover is regarded as necessary, it should be taken into account in assessing the adequacy of IMF resources.

Little work has been done by IMF staff to assess the adequacy of the *level* of human resources (while, of course, the effect on the existing resource endowment of *changes* in tasks assigned to the IMF is routinely assessed). One exception is Ivanova and others (2003), who try to assess whether the probability of success of IMF programs depends on the size of staff teams. The results suggest that team size has little effect on program outcomes. This result—which is puzzling, short of concluding that economic science is so inconsequential that the work of economists does not have value added—can have two explanations: (a) assuming there is a minimum threshold for effectiveness, the size of staff teams may currently fall so short of that threshold that a marginal additional amount of resources does not help; and (b) the organization of staff teams is not adequately modified to accommodate increased availability of resources.[40]

This discussion suggests at least the need for a comprehensive assessment of the adequacy of the IMF's human resources. It is critical to stress that the issue has to be addressed by taking a fresh look at the level of resources, not at increments. Of course, should resources be found insufficient, the conclusion should not necessarily be that they need to be increased. Possibly, tasks need to be streamlined (see Section IV on selectivity) or efficiency needs to be improved (for example, by exploring ways to reduce excessive turnover).

VI. Conclusions

This paper has highlighted a number of issues that should be explored further to support the ongoing effort to strengthen IMF governance with the goal of simultaneously enhancing its legitimacy and efficiency. It has underscored the existence of trade-offs that make this goal elusive: features of governance that could enhance the IMF's legitimacy may weaken its operational efficiency. But synergies—or, at least, Pareto improvements—are also possible, and some of them also have been highlighted.

For example, reforms aimed at a redistribution of political oversight among countries may enhance legitimacy without increasing the degree of involvement of political control over day-to-day operations. Strengthening the protection of staff against political influences would

[40] Anecdotal evidence suggests that this may be the case. For some time, the Russia desk benefited from a large increase in staff resources. The experiment ran into organizational difficulties, with many concluding that IMF teams larger than four or five economists are ineffective. However, the work organization of the Russian desk did not change as resources increased. This led to a duplication of functions (with, say, two economists covering, in competition, the same sector) and related coordination problems. Absorbing new resources typically requires a new work organization—for example, assigning senior economists the task of supervising more junior ones.

help increase candor in published IMF documents and, hence, lead to genuine, rather than pro forma, transparency. Ex post accountability can be a substitute for close ex ante monitoring of the political pole on the technocratic pole. Reduced direct political pressure would also be consistent with uniformity of treatment across countries and alleviate the risk that selectivity in processes is perceived as reflecting political discrimination.

The intention of this paper was not to propose solutions, but to highlight issues. Considerable more work is needed before reaching conclusions. Topics that deserve further work include the following:

- How the political pole could monitor the technocratic pole without undue costs in terms of efficiency, and, in this respect, (a) the role that explicit political considerations should play in affecting IMF decisions; (b) the role of the Board in day-to-day management of the IMF; and (c) steps to avoid staff's potential "clientelism."

- How to reconcile transparency and confidentiality needs, and how to avoid forms of pro forma transparency that would damage both efficiency and accountability.

- The possibility of improving efficiency through more selectivity in the country dimension—more specifically, the scope for increased prescreening to identify countries to which more resource-intensive procedures should be applied, and for ways to reduce the overlapping of country responsibilities across international organizations.

- The adequacy of the amount and use of the IMF's human resources.

Table 1. Number of Fund Staff Relative to IMF Member Countries
and Fund-Supported Programs

Staff	Year			
	1970	1980	1990	2002
All staff				
Per country	8.7	10.1	11.9	14.7
Per program	43.3	48.8	34.8	51.6
Professional staff and managers				
Per country	...	5.9	7.6	10.5
Per program	...	28.9	22.2	36.6

Table 2. Factors Affecting the Allocation of IMF Human Resources Across Countries: Regression Results Based on FY 2003/2004

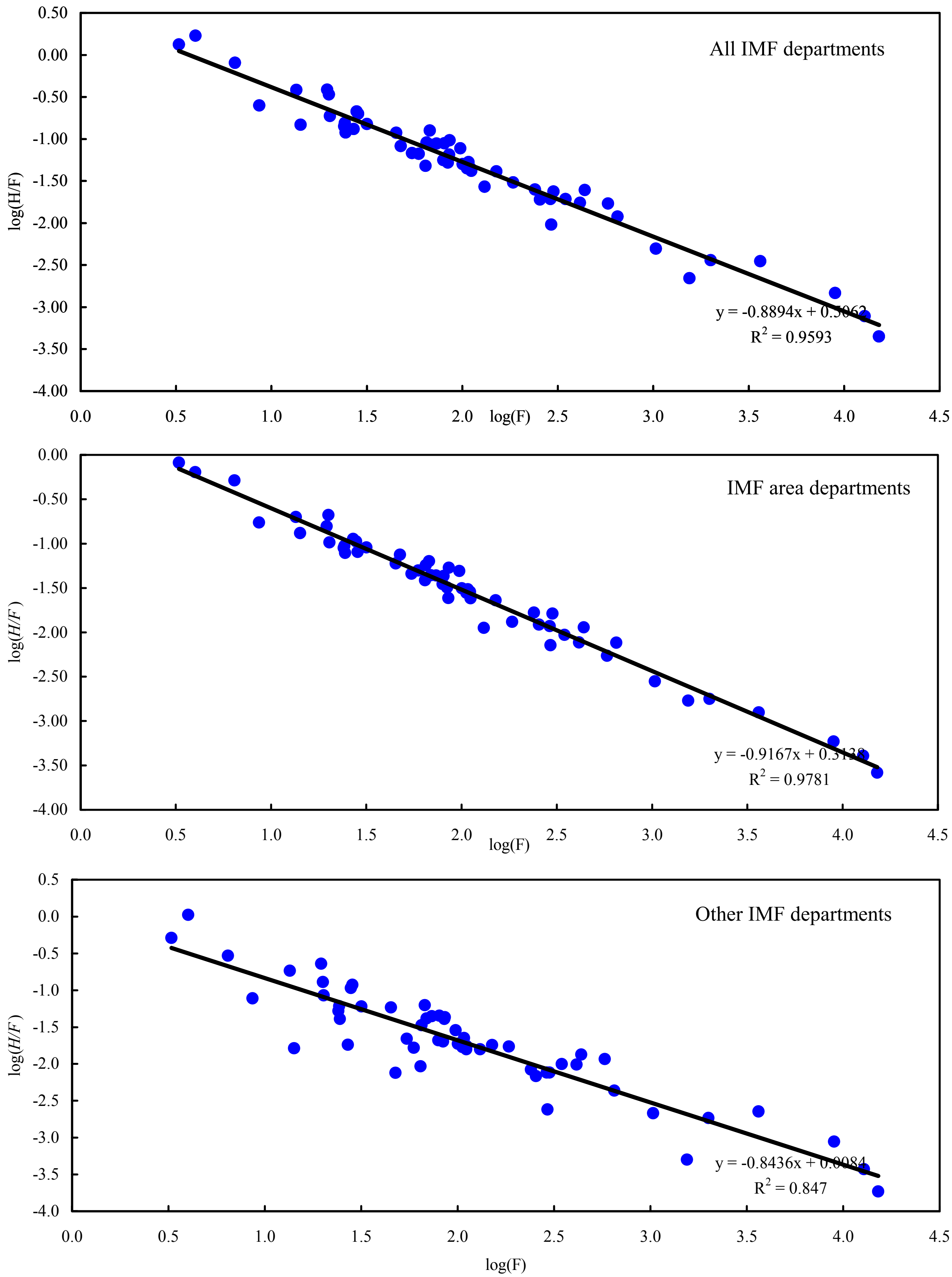
(dependent variable: number of staff-years)

Regressors	Coefficient	*t*-statistics
Constant	0.10	2.50
Log (per capita GDP) 1/	0.21	8.85
Log (SDR) 2/	-0.05	-1.03
Program dummy 3/	0.43	4.33
Industrial country dummy 4/	-0.30	-5.00

Notes: R^2 = 0.50; standard error = 0.24; and number of observations = 177.

[1] At purchasing-power-parity exchange rates.
[2] Amount of approved lending per program, in millions of SDRs.
[3] Equal to 1 for program countries.
[4] Equal to 1 for industrial countries.

Figure 1. Allocation of IMF Financial and Human Resources Across Program Countries



Notes: H denotes the amount of human resources measured in staff- years used in FY2003 and FY2004; F denotes the approved amount of lending for programs outstanding as of September 30, 2003, in million of Special Drawing Rights.

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