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July 25, 1997

To: Members of the Executive Board

From: The Secretary

Subject: **Review of the Resident Representative Program**

Attached for consideration by the Executive Directors is a paper reviewing the resident representative program, which will be brought to the agenda for discussion on a date to be announced. A supplementary background paper is expected to be issued in late August. A consolidated list of recommendations appear on pages 79-85.

Mr. Brau (ext. 37854) or Ms. Doughty (ext. 37399) is available to answer questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

Review of the Resident Representative Program

Prepared by the Office of Internal Audit and Inspection

(In consultation with other departments)

Approved by Eduard Brau

July 24, 1997

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EXECUTIVE SUMMARY

- This review of the resident representative program has been based on extensive consultation, a wide-ranging survey that gained a 75 percent participation rate, interviews with senior officials from 16 countries, visits to a further five member countries, and independent analysis by OIA.
- At end-1996, the Fund had 69 resident representatives located in 66 posts with responsibility for covering 70 countries that vary widely in terms of income level and degree of access to private capital markets. The rise in the number of member countries with resident representative posts has closely paralleled the rise in members with "program/intensive" Fund involvement.
- In FY 1996, the total cost of the program amounted to some \$32 million, of which the value of national authorities' contributions is estimated at about \$2.5 million. In FY 1996, the annual cost to the Fund of the "typical" resident representative was approximately \$400,000 when located in the field and approximately \$250,000 when that person was located at headquarters. The incremental cost of the typical resident representative position (\$150,000 per annum in FY 1996) is significantly lower than informal estimates which tend to underestimate the overhead costs of a headquarters economist.
- Unit costs in the Fund's field program are broadly in line with those of the World Bank, and both the Bank and the Fund are higher-cost than the ADB, the IDB, and the UNDP. The Fund is atypical in its largely "one expatriate" per post approach, and in its shorter average assignment duration (2.3 years versus, for example, approximately 3.5 years in the case of the World Bank).
- The "typical" Fund resident representative is an A14-A15 economist with around ten years' prior experience at the Fund who has not held a previous resident representative assignment. He/she tends to be appointed from an area department background. The prior performance profile of resident representative staff varies widely across departments. On average, however, the rate at which departments have awarded outstanding ratings for field performance has typically fallen well below the 15 percent level for staff Fund-wide.
- Satisfaction with the overall effectiveness of posts is high. The level of access to senior national economic policy-makers provided to IMF resident representatives is exceptional and is a major asset that should be more fully utilized for the benefit of members. Posts have a substantial impact on the overall quality of the Fund's work with member countries. Across a range of areas directly related to the success of Fund-supported policies and programs, there is wide agreement that the contribution of posts matches or exceeds that of staff missions. Most Executive Board and senior IMF staff members who participated in the review believe that the Fund has too few posts and that more economists should be field-based.

Overall, a well functioning resident representative program is a powerful and generally cost-effective tool in the Fund's country work.

- There are two key areas in which resident representatives have unique value to add: (i) timely policy advice, both in the context of averting poor policy ideas before they gain momentum, and in the context of triggering rapid action in response to early signs of adverse macroeconomic developments; and (ii) ongoing support to local efforts to strengthen macroeconomic institutions and capacity.
- However, there is currently a high rate of variability in the effectiveness of posts across both countries and departments, and around one third of posts are not as effective as they should be. Two thirds of Executive Board and senior IMF staff respondents believe that significant potential exists to increase the value added by the resident representative program, *and this view is corroborated by the sizable minority of those who work with posts who are only "satisfied" (or worse) with effectiveness.*
- "Quality gaps" occur in relation to resident representative staff, "influence gaps" are common, and problems regarding the level of "authority" delegated to resident representatives are evident. The review has shed light on clear instances of "failures" in the program, including in staff selection and in integrating resident representatives with the work of staff teams, and results need to be strengthened. The present budgetary framework provides departments with incentives that are not conducive to maximizing efficiency with respect to program resources.
- Several influences on the future external environment may lead to a decline in the number of posts. Notwithstanding the "communications revolution", however, other factors including the World Bank's decentralization program may work against a smaller field presence by the Fund. Flexibility is needed to adapt to the variety of potential situations and needs that arise both throughout the Fund's membership and over time, suggesting that no "single model" for the cases in which posts may be utilized should be adopted by the Fund.
- An important feature of an enhanced program should be a re-focussing of the role of resident representatives on the two key areas in which they have a comparative advantage over missions. This will generally require greater efforts by resident representatives to help strengthen macroeconomic institutions. In all cases, delegated authority should exist: national authorities say "do not send messengers". High-quality resident representative staff are both suitably experienced and well-placed to undertake a leadership role in missions and staff visits in selected well-defined circumstances. Resident representatives should be present at the Board table for annual Executive Board meetings on their countries to assist the mission chief, as called upon, to respond to questions, and this can be accomplished at minimal cost.
- The primary determinant of posts' effectiveness is the quality of staff assigned as resident representatives. The survey results indicate that effectiveness is linked to

policy/technical competence, communication skills, self-confidence, and a take-initiative style. The capacity most highly valued by national authorities is economic policy experience. The Review Committee should be responsible for endorsing area departments' preferred candidates for resident representative positions.

- The impact of the current environment of budgetary consolidation on promotion opportunities should lead to some natural broadening in the pool of strong performers who are willing to undertake resident representative assignments. Changes in the role of resident representatives would also be expected to play a key role in influencing the proportion of A14/A15 staff interested in taking up these assignments.

- The current level of field benefits appears to be appropriate, but a regular review cycle for field benefits should be introduced. There would be merit in the first such review following the outcome of the World Bank's review of its field benefits, expected in 1998. Limited spouse employment opportunities in field locations are a major obstacle to recruitment for these positions and the Fund may have to consider options such as (partial) replacement of family income in order to make a dent in this problem.

- A B-level program administrator should be assigned for a minimum of two years to undertake reforms in a number of areas: the program's administrative support arrangements; introduction of a regular field benefits review; measures to address spouse employment difficulties; the Fund's approach to training resident representatives and local staff at resident offices; and to assist with implementation of any decisions taken by management as a result of this review.

- Resident representative positions should be unified within area departments' authorized staff ceilings; an important implication of this reform would be that changes in the number of resident representatives would have no impact on overall staff numbers. Annual ceilings on area department staff resources would continue to be set in the usual manner. Post opening/closure decisions should be based on considerations of maximizing operational effectiveness and should be devolved to area departments within the constraints of overall budgetary limits set annually by the Executive Board.

- The incremental costs of resident representative positions should continue to be budgeted in a central dollar pool. The size of the pool should be subject to an annual ceiling that incorporates an additional flexibility margin that would allow the number of posts to fluctuate by up to 10 percent each year. This margin is essential to provide departments with incentives to close posts and to provide for the greater fluctuation in the number of posts that would be expected under the proposed modified arrangements. It is critical that the budgetary framework accommodates rather than frustrates the needed operational flexibility. Over time, and within overall budgetary constraints, this system would make the optimal size of the program an endogenous result of the framework and would promote an optimal distribution of posts across departments.

- This review outlines a comprehensive package of mutually reinforcing recommendations aimed at strengthening the resident representative program. If improved results are to be achieved, it is critical that these measures be introduced as a package—ideally on May 1, 1998, at the outset of FY 1999. Were the recommendations to be implemented partially or sequentially, the intended results would not materialize.
- The philosophy that should drive the program is that posts will be staffed only if high quality personnel are available. Unless departments succeed quickly in attracting more such staff to posts and unless field benefits remain adequate, the number of posts may well decline in the near term. Enhanced flexibility, and greater ease of management and Executive Board oversight of the program, would strengthen the Fund's ability to adapt rapidly and effectively to a variety of country situations and needs in an evolving international environment.

I. INTRODUCTION

1. In May 1996, Fund management asked the Office of Internal Audit and Inspection (OIA) to review the effectiveness of the Fund's resident representative program. The proposal for a wide-ranging evaluation of the program was endorsed by Executive Directors in their discussion of the Board's FY 1997 work program.¹ The review was initiated in August 1996. It encompassed extensive consultation with Executive Directors and Fund staff, a survey that gained high participation, interviews with senior officials of 21 countries including via five country visits, and independent analysis by OIA.² A draft of this report received comments from Fund departments, many of which were incorporated. Significant comments that were not adopted, and the reasons, are noted in the report.

2. The Fund first posted staff members on long-term resident assignments in member countries in 1956. The resident representative program has evolved considerably in the 40 years since then. At end-1996, the Fund had 69 resident representative staff located in 66 posts with responsibility for covering 70 countries (Table 1). Executive Directors have reviewed aspects of the resident representative program on several previous occasions.³

3. This report sets out OIA's overall assessment of the resident representative program as it currently operates (Section II); discusses a number of potential influences on the external environment within which the program will be operating over the next few years (Section III); elaborates the broad parameters of how enhancements in the program might be made operational (Section IV); and discusses the results that could be expected from such modifications to the program (Section V). Annexes to this report contain a description of the key elements that formed the basis of the evaluation (Annex I); a brief outline of the main operational features of the current program, and of the review's findings regarding the program's strengths, weaknesses and resource costs (Annex II); and a consolidated list of the recommendations arising from the review (Annex III).

4. A supplementary background paper provides further information on the history of the program; other international organizations practices with respect to field offices; the cost of the IMF resident representatives relative to the costs of both headquarters-based staff and other organizations' field-based staff; the budgetary process as it applies to the program; country targeting of the program; national authorities' perspectives on resident representative posts; partnership arrangements with national authorities; the interaction between area departments and resident representatives; personnel issues; and other issues as they relate to

¹BUFF/96/68, June 3, 1996.

²The elements that formed the basis of the evaluation are described in more detail in Annex I.

³See Supplement 1, Section I for a description of the historical development of the program. The most recent review of the program is contained in EBAP/94/69; September 2, 1994.

Table 1. Location of Resident Representative Posts
(December 31, 1996)

Africa	Asia & Pacific	Europe I	Europe II	Middle East	Western Hemisphere
Benin 1/	Bangladesh	Albania	Armenia	Egypt	Argentina 7/
Cameroon	Cambodia	Bosnia and Herzegovina 2/	Azerbaijan	Pakistan	Bolivia
Congo	China (2) 3/	Bulgaria	Belarus	West Bank and Gaza Strip 5/	Ecuador 8/
Cote d'Ivoire	India	Croatia	Estonia 6/	Total: 3	Haiti
Ethiopia	Indonesia	Hungary	Georgia		Honduras 9/
Ghana	Laos PDR	Macedonia, FYR	Kazakhstan		Jamaica
Guinea	Mongolia	Netherlands Antilles 4/ 5/	Kyrgyz Republic		Mexico
Kenya	Nepal	Poland	Latvia 5/		Nicaragua
Madagascar	Philippines	Romania	Lithuania		Peru
Mali	Sri Lanka	Slovak Republic	Moldova		Venezuela 2/
Mozambique 2/	Viet Nam	Total: 10	Russian Federation (4)		Total: 10
Senegal			Tajikistan		
Sierra Leone	Total: 11		Turkmenistan		
Tanzania			Ukraine (?)		
Uganda			Uzbekistan		
Zambia			Total: 15		
Zimbabwe					
Total: 17					Grand Total: 66

Source: Office of Budget and Planning.

1/ The resident representative in Benin also covers Togo.

2/ Mozambique, Bosnia and Herzegovina, and Venezuela were not covered by the survey because these posts were too recent to enable meaningful participation.

3/ While the post in China has two resident representative positions, one of the assigned staff has remained at IMF headquarters since end-June 1996.

4/ The post in the Netherlands Antilles, which is financed by the Netherlands Government, is not covered by this review as it differs in nature from a regular IMF post. None of the information presented in this report includes data relating to the Netherlands Antilles.

5/ The Netherlands Antilles, and West Bank and Gaza Strip, are not members of the Fund. The term "country" as used in this report sometimes refers to non-sovereign territories such as these.

6/ The post in Estonia closed on January 1, 1997. Estonia is now covered by the resident representative assigned to Latvia.

7/ The resident representative in Argentina also covers Uruguay.

8/ The post in Ecuador has been vacant since September 1995.

9/ The resident representative in Honduras also covers Costa Rica and El Salvador.

resident representatives including technical assistance, external relations, and technology. The background paper also contains the principal survey results and other statistical analyses.

II. OVERALL ASSESSMENT

5. In order to streamline the information presented in this section, discussion of the current program's operation, strengths, weaknesses, and resource costs has been located in Annex II. The reader interested in first turning briefly to the facts, judgements and findings of the review that underlie the overall assessment set out below should refer to this Annex before proceeding. Annex II also contains a majority of the cross-references to sections and tables in the supplementary background paper for readers who are interested in following up survey and other results; only specific points or topics that are not referenced in Annex II are cross-referenced in the text of this report.

6. **Resident representative posts have a substantial impact on the overall quality of the Fund's work with member countries.** Across a range of both general result areas and specific result areas directly related to the success of Fund-supported programs, there is wide agreement that the contribution of posts matches or exceeds that of staff missions. Satisfaction with the overall effectiveness of posts is generally high, and effectiveness is perceived very favorably both by national authorities relative to other organizations' field offices, and by other organizations' field representatives. A majority of Executive Board and senior IMF staff respondents believe that the Fund has too few posts, and about two thirds of Executive Board and senior IMF staff respondents believe that more economists should be located in the field.

7. **The Fund's credibility with national governments is exceptional and IMF resident representatives enjoy a level of access to key national economic decision-makers that is not normally provided to other organizations.** This feature of the program is a major asset and its potential should be fully exploited by the Fund. The day-to-day ability to influence the actions and decisions of policy-makers is a major factor underpinning the effectiveness of resident representatives and distinguishing their contribution from that of staff missions. The opportunity to make a critical difference to economic outcomes through timely interventions, dogged persistence, the establishment of uninterrupted working relationships with national counterparts, and the power of ongoing persuasion, cannot be replicated by staff teams that visit periodically from Washington. The fact that representatives reside in post countries and experience local conditions first-hand for extended periods appears to be a significant consideration in gaining national authorities' trust and increasing the degree of openness with which resident representatives are treated relative to missions.

8. Resident representatives have a comparative advantage over staff missions in several areas, but **there are two key regards in which resident representatives have unique value to add: (i) timely policy advice**, in the context both of averting poor policy ideas before they gain momentum, and of triggering rapid action in response to early signs of adverse

macroeconomic developments; and (ii) ongoing support to local efforts to strengthen macroeconomic institutions and capacity. (Sections VI and X of Supplement 1).

9. There is widespread agreement that **resident representatives out-perform staff missions in an important aspect of policy advice: providing early warning of impending slippages in Fund-supported economic programs and minimizing adverse program “surprises”**. In this area, the ability to discuss in person with the Minister of Finance or Central Bank Governor a prospective policy measure or a series of recent developments that has the potential to undermine achievement of the country’s macroeconomic targets can be more valuable than any contribution to redressing the effects of policy errors or unexpected developments at a later date after the events have taken place.

10. There is also wide agreement that **posts should place approximately equal emphasis on program support and support for macroeconomic capacity-building efforts**. The ability of resident representatives to contribute to a legacy of strengthened national macroeconomic capacities is a key area in which there is significant untapped potential in the program (Section VI of Supplement 1). From the perspective of medium-term effectiveness, a large proportion of national authorities believe that the role of resident representatives should move further in this direction of supporting capacity-building. In addition, there is broad agreement amongst IMF staff and Executive Board members who participated in the review that weak macroeconomic capacity is one key factor underlying unwillingness to close posts in many instances (Annex Table 2 and Section V of Supplement 1; and Section IV.D below).

11. National authorities readily acknowledge, to a greater extent than Fund staff, that a **major contributor to the success of the program over the years has been the high average level of competence, commitment and professionalism of the large majority of Fund staff who have served as resident representatives** (Annex Table 4 and Section VI of Supplement 1). The program could not have achieved the results that it has without able field staff in the large majority of cases who work hard to perform a delicate balancing act between the interests of national authorities and those of IMF staff in Washington, sometimes under conditions where the back-stopping provided by headquarters-based economic and other staff, and the cooperation offered by national authorities, have fallen considerably short of ideal.

12. **There is a high rate of variability, however, in the effectiveness of posts and significant potential exists to increase the value added by the program**. Two thirds of Executive Board members and senior IMF staff who participated in the review believe that the program’s value-added can be increased, and this view is corroborated by other survey results which, in aggregate, suggest that around one third of posts have problems of one kind or another that reduce their effectiveness (Section V of Supplement 1). The extent of the problems varies across countries and departments (Annex Table 6 and Section V of Supplement 1). The nature of the problems varies across different elements of the program: post objectives should be better defined and the role of resident representatives better targeted

at their areas of comparative advantage; personnel quality should be higher and selection arrangements should embody safeguards; the level of authority delegated to resident representatives and the extent of their integration with the work of country staff teams should be increased; partnership arrangements with national authorities and the incentives framework for budgetary resources employed in the program should be strengthened. There is substantial room to improve the results of resident posts by reducing this variability and increasing the consistency with which a high quality "product" is delivered via the program to all those member countries in which posts are judged to be an operationally warranted tool.

13. **The program as it currently operates is weighted towards an emphasis on short-term results obtained by individual representatives, with significantly less focus on the objectives and achievements of posts over the medium term.** At present, objectives are specified on two occasions: first, in a general manner when a post is opened; and, second, via *incoming resident representatives' terms of reference*. *Terms of reference* are typically "catch-all" documents specifying a list of functions and activities, often with little tailoring to the specific needs of the country over the forthcoming one-three year period, and little sense of priorities.⁴ A further important weakness with terms of reference as a vehicle for specifying objectives is that the horizon of the document does not extend beyond the period of assignment of the current incumbent. A lack of explicit objectives for *posts* weakens area departments' ability to take stock periodically of the extent to which posts are making progress towards meeting their original objectives, and encourages a more ad hoc year-to-year approach both to individual representative's objectives and to whether or not individual posts should remain open. These characteristics are reinforced by a budgetary framework for the program that makes it very difficult for area departments to optimize the distribution of staff resources between headquarters and the field in order to target particular objectives in field- or headquarters-based work.

14. The exceptional level of access provided to resident representatives, combined with the unique value they can add, suggest that **the two staff members critical to the success of the Fund's interaction with an individual member country normally are the mission chief and the resident representative.** The resident representative program is one of the key mechanisms through which Fund relations with a large subset of members are conducted on a week-to-week basis. The effectiveness of the program therefore has an important bearing on the success or otherwise of the interaction between the Fund and these member countries. At

⁴For example, an informal survey of the contents of almost 50 resident representatives' terms of reference that was carried out by PDR in early 1996 yielded an average of 16 functions specified per document, and a range of 38 functions Fund-wide. OIA's review of the full set of resident representative terms of reference in force at end-1996 suggested that this remained an accurate picture of the way in which terms of reference are framed.

present, however, the institutional focus on selection of the “right” staff for resident representative posts is not nearly as strong as for mission chiefs.⁵

15. **There have been clear instances of “failures” in the program**, including in staff selection -- where adequate safeguards against occasional outright miscasting of staff in posts are currently lacking -- and in integrating resident representatives with the work of country teams. While no selection system can be “fail-safe” -- honest mistakes will occasionally be made whatever system is in place-- the present system whereby each area department selects its resident representatives has been associated with instances of “selection-despite-objection.” More generally, the present system has the basic weakness that the negative externalities that accrue to the Fund as a whole and that can result (and have resulted in a number of cases over the years) from acceptance of low quality candidates by area departments may be under-weighted in selection decisions. In these cases, the value of the post to the Fund and the country may well be negative. National authorities can clearly observe both the quality of the staff member and his/her lack of authority, and the extent of cooperation of national counterparts is influenced accordingly. In the words of one official facing such a situation “*the (resident representative) office is only a post office (i.e., mail box).*” There is a small proportion of cases, in single digits, in which the product provided via the program has been clearly unsatisfactory (Box 1; and Annex Table 4 of Supplement 1). These worst cases typically, but not exclusively, result from appointment of staff not suited to the assignment.

16. **The majority of “less-than-successful” assignments, however, are the product of a complex set of failings:** poor matching of country needs with staff skills by area departments; weak incentives facing mission chiefs to effectively manage field staff; inexperience and lack of guidance provided to otherwise competent economists taking up resident assignments; poor cooperation with resident representatives by national authorities in some cases; inadequate recognition in selection that the qualities needed for field effectiveness may differ from those needed at headquarters; and systematic inattention to the impact that poor interaction between missions and resident representatives has on the ability of resident representatives to forge effective relationships with national authorities. In these cases, the resident representative may simply be average or below average rather than strong performers; he/she may lack experience, strong technical or interpersonal skills, or confidence/persuasiveness. In such cases, little involvement of the resident representative in the country work of the staff team in Washington (often combined with poor interaction between the mission and the representative) and lack of clearly delegated responsibility/authority to the resident representative, work together to limit his/her influence on policy positions taken by the staff and reduce the effectiveness of the representative with national authorities.

⁵Mission chiefs have typically been subject to Review Committee scrutiny on a number of occasions from the time of promotion to grade A14. At end-1996, about one half of resident representative staff were grades A12-A14 and either had not been reviewed by the Committee or had been reviewed on one occasion (for promotion to grade A14).

Box 1. Success Stories and Mis-Fires

Success Stories

* In a major country where commitment to reform by the monetary authorities was clear but analytical/technical capacity was initially weak, a resident representative achieved an extremely high level of access to the head of the central bank and a core group of senior officials -- to the extent that he/she participated in near daily meetings with these officials to advise on the implementation of monetary policy. Over a two year period, via this "special relationship", the representative provided officials with enough assistance that the central bank developed a full capacity to implement monetary policy successfully and his/her advice in this area was no longer needed.

* In a post-chaos case involving heavy reliance on donor support, a resident representative took on a key coordination role among local donor representatives and in relation to the Fund's own extensive program of technical assistance. He/she became widely respected in this role in the eyes of all key players, in addition to functioning as a trusted and close advisor to the authorities at all levels.

* A resident representative who is a trusted policy and technical advisor to the government also speaks widely to influential groups in the country and participates in media discussions; the highest political authorities credit him/her with buttressing public support for their reform programs.

* A resident representative coordinated a widely acclaimed emergency program of technical assistance to restore the functioning of a key domestic institution. This program included the re-creation of a key statistical reporting system and the replacement of lost regulations, accounts and other core operational documents.

Mis-fires

* After a resident representative has taken up an assignment, the area department that appointed the representative realizes that it has misjudged the abilities of the person and that he/she is not technically competent to successfully perform the agreed duties. As a result, the resident representative serves only one year and is recalled. This has happened on a small number of other occasions.

* It is discovered that, contrary to the area department's instructions and despite warnings, a resident representative has been providing policy advice to the national authorities that is not in accordance with existing agreed policy positions.

* A resident representative displays personal behavior that is offensive to his/her host national authorities who request that the Fund replace the resident representative; another representative makes comments to the press during an election campaign that are construed to be meddling in the political affairs of the member country, resulting in calls for his/her withdrawal.

17. Against the background of the program's substantial overall contribution to the quality of the Fund's country work, **an analysis of costs (relative both to the costs associated with employing Fund economists in Washington and to the costs of other organizations' overseas posts) suggests that the cost-effectiveness of the program is rather high.** The incremental cost of a typical resident representative relative to a headquarters-based economist (estimated by OIA to have amounted to \$150,000 per annum in FY 1996) is low compared to the substantial actual and potential benefits of locating a strong staff member in the field. While the average cost of a typical Fund representative (approximately \$400,000 per annum in FY 1996) is broadly in line with that of the World Bank and higher than those of other comparator organizations, Fund posts are almost invariably one-person operations (in terms of the number of expatriate staff). Fund resident representatives thus face a sharp concentration of field responsibilities and associated pressures in one person relative to the field staff of other organizations. Moreover, the effectiveness of IMF posts relative to those of other organizations is perceived very favorably by national authorities and other observers.

18. **Overall, the resident representative program is a powerful tool in the Fund's country work. While creditable results have been achieved, better results are possible and should be sought. A strong degree of consensus exists among those involved in the work of IMF resident representative posts on five key points:**

(i) the Fund has, via the resident representative program, a level of access to key economic decision-makers in certain countries that is a tremendous resource for an international monetary institution effective only through its members' cooperation;

(ii) resident representatives have a comparative advantage over missions in achieving several of the Fund's objectives in working with member countries. The potential value-added associated with working alongside national officials in their local environment on a day-to-day basis is much greater in certain areas than that associated with periodic visits from Washington;

(iii) to maximize effectiveness over the medium term, resident representative posts should place approximately equal emphasis on supporting programs and on supporting efforts to strengthen local macroeconomic institutions and capacity;

(iv) posts should be viewed mostly as transitional (rather than long-term) instruments, with the clear expectation that the need for posts will diminish as their results strengthen; and,

(v) a high quality of resident representative staff is of paramount importance to the effectiveness of resident representative posts.

19. **These consensus elements stand up well to critical scrutiny and should form the building blocks of a strengthened resident representative program. Both the Fund's interests and members' interests are served by resident representatives who deliver both**

(i) timely short-term program (or policy) support, and (ii) incremental strengthening in members' abilities to formulate and implement effective macroeconomic policies. Without the former, macro-economic targets remain vulnerable; without the latter, macroeconomic progress may be short-lived and a focus on short-term Fund support may inadvertently crowd out the strengthening of "home-grown" macroeconomic institutions.

III. THE EXTERNAL ENVIRONMENT

20. Before considering ways in which the results obtained from the resident representative program might be strengthened, it is important to look ahead to the external environment in which the Fund is likely to be operating over the next few years. **Several influences suggest that the future external environment may lead to a decline in the size of the program. A number of factors may also work against a smaller field presence by the Fund.**

21. Assuming that the current Fund-supported adjustment efforts of many countries are successful, **a sizable group of members may be expected to graduate from direct Fund financial support and the reliance of these and other members on private capital flows may be expected to continue to expand.** In many such cases, where financial and structural adjustment agendas have been largely completed, there will no longer be a need for resident representative offices.

22. Even in cases where the Fund's involvement with a member country remains intensive, **the "communications revolution" (including, for example, the advent of the Internet as an "information highway" and means of communication; video-conferencing capability, etc) nullifies any *raison d'être* for posts that function largely as mail or messenger offices.** It has not, however, lessened the value of high quality resident representatives in intensive cases because the critical contribution that can be made by these staff is not replaceable by more rapid or continuous communication and information technology.

23. One implication of trends in the Fund's work environment is that, **while some decline in the number of posts may occur as the transition country "bulge" works its way through to graduation, the slow rise that had taken place anyway in the use of posts is unlikely to be reversed in the absence of explicit policy action to this end.** Over time, resident representatives have taken on a higher profile as a valuable instrument in the Fund's work on intensive cases. Expectations within the Fund have risen regarding the "normal" standard of service with which members can expect to be provided. As the Fund's willingness and capacity have grown to sustain more continuous close interaction with these members via a field presence, the demand for such services has expanded. The review of experience under ESAF-supported arrangements raises the question of whether greater use of resident representatives in ESAF countries, in conjunction with other steps, might help to counteract the frequent and damaging program interruptions experienced in the sample under review.⁶ Against this background, the survey results reveal the degree to which resident representatives

⁶EBS/97/112; June 23, 1997.

are now seen as a normal and desirable part of the Fund scenery in operational cases. Thus, in intensive cases, it cannot be presupposed that a substantially lower demand for resident offices will be a natural consequence of the future environment.

24. A fundamental factor likely to influence the future size of the resident representative program is **the potential need for the Fund to remain very actively engaged, including via a field presence, with many post-program countries.** While graduating countries may have eliminated macroeconomic disequilibria to the extent that they no longer need direct Fund financial support, significant vulnerabilities may remain in many cases, particularly in relation to the structural resilience of institutions that impinge on macro-economic stability, perhaps for a period of years after programs have ended. In addition, the Fund's financial claims on many of these countries will remain relatively high for some years.

25. Notable in this regard is the high degree of economic vulnerability that was judged to continue to exist (during interviews for this review), even after sustained program achievements, by three of the *most successful* transition countries. These were not cases where there is any risk of either a Fund dependency syndrome or the desire for a "free lunch", but cases of genuine concerns about **the potential risks arising from premature withdrawal by the Fund of an important bulwark of the domestic reform constituency—the resident representative—before domestic economic and political institutions have adequately matured.** When an IMF resident representative in his/her capacity as a credible and objective observer plays an early warning role and points to economic "danger" signs, *"the Government pays much more attention than if I make the same arguments"* in the words of one official (Section VI of Supplement 1). A commonly expressed view in these cases is that domestic institutions have not yet had time to establish an equivalent track record and credibility. In the absence of a resident representative, member countries have pointed to situations where Governments have been slower to fully acknowledge the risks and to act in response to adverse developments.

26. Another influence that may call into question both the ability and the desirability of the Fund shrinking its field network over the coming years is **the World Bank's program of decentralizing operations and relocating significant numbers of staff from Washington to the field.** This particular change in the way the Bank works is already altering Fund-Bank staff interaction in some parts of the world. If the Bank's decentralization strategy is fully implemented, it is likely to have a profound and lasting impact on the way in which the staffs of the Fund and the Bank do business together.⁷ In particular, in countries where the Fund has

⁷The rationale for the Bank's decentralization program is to improve the country focus, quality, effectiveness and sustainability of its support for development programs. The decentralization initiative involves shifting the locus of work, decision-making authority and responsibility from headquarters to its 80 country offices to varying degrees. For example, the latest plans envisage that 21 out of a total of 48 Country Directors will be field-based (PC97-
(continued...))

resident representatives, the Bank's decentralization will shift a large part of the operational effort involved in maintaining close collaboration with the (relatively more numerous) Bank staff away from Fund staff teams in Washington and onto the Fund's (mostly one person) resident representative posts. Moreover, associated changes in the Bank's staffing mix in some cases may also impact both field- and headquarters-based Fund staff. In the case of one large World Bank field office visited during the course of this review, the Bank had reduced the number of its macro economist staff from five staff years to 0.5 staff years and no longer intended to produce a Country Economic Memorandum, relying instead on the Fund's macroeconomic framework and staff reports.

27. A further class of post-program situations—**large or systemically important developing countries who have graduated from use of Fund resources, but whose adjustment and reform strategies remain only partially realized**—pose a different set of challenges. Globalization puts a premium on the Fund's *state of readiness* in these cases: in the presence of ongoing structural weaknesses, economic indicators can deteriorate quickly and large shifts in capital flows can occur rapidly raising systemic issues for the Fund's membership. In these cases, there are four related motivations that may lead the Fund to favor retention of a staff presence in the field after program involvement has ceased.

28. First, some of these countries are large complex economies with a welter of country-specific institutional features and are characterized by a general lack of transparency in the economic sphere. It can be difficult to *fully understand* rapidly changing complex cases from Washington without a staff member on the spot who is sifting the important developments from the background noise. A resident representative who has regular contacts with a spectrum of local economic players can provide both a degree of confirmation regarding the genuineness of any emerging problems and a degree of precision regarding the appropriate timing of any actions desirable by the Fund that cannot always easily be replicated by visiting staff missions from Washington. **In these cases, a resident representative can be viewed as a kind of "insurance policy", and potentially a very cost-effective one, against the risk that staff's distance from the situation on the ground may result in an under-weighting of the risks.**

29. Second, a strong resident representative in these circumstances can fulfil an important role in terms of providing *intellectual input* that helps to direct the agenda for the mission's background preparations, the mission's approach to the in-country dialogue with the authorities, and the focus of mission staff's applied research work. **The right person in the field is often in a position to stay ahead of the curve and to identify correctly the set of issues looming over the horizon that the authorities could beneficially start considering ahead of time.** Increasingly, countries recognize that the Fund's principal contribution is not financial assistance but analytical insight and sound policy advice. In such an environment, it

⁷(...continued)

25, CODE97-41; June 13, 1997).

may be helpful to diversify the allocation of the intellectual assets at the disposal of the Fund by locating some proportion of the Fund's strongest staff closer to where they may be able to help effect a transformation of sound intellectual contributions into policy actions.

30. Third, in these cases there may be a role for the Fund in *actively encouraging greater economic transparency*, and one of the most effective means may be via the presence of a resident representative. By illuminating what one official described as "*cobwebs of uncertainties*", resident representatives are often able to draw attention to areas of concern and ensure that they do not fall off the domestic policy agenda (Section VI of Supplement 1). In particular, **in situations where productive avenues for influence may otherwise be limited, a targeted program of in-country publicity carried forward by a resident representative for relevant applied research by Fund staff that has an emphasis on cross-country comparisons, approaches to minimizing rent-seeking behaviors, and "best practice" experiences elsewhere can ensure that the Fund retains an important vehicle for influence within a country and can significantly strengthen the effectiveness of the Fund's surveillance role in some cases.** Such publicity can act as an important signaling device to the rest of the economy on public sector issues, highlighting black spots and information or governance gaps.⁸ In-country publicity is more likely than relatively "distant" publicity via press releases issued in Washington to help reinforce the position of domestic financial and private sector constituencies for greater economic transparency, to strengthen economic policy monitoring by domestic groups, and to ensure that domestic economic agents' (and domestic policy-makers') choices are informed by relevant analysis. In a sense, this approach shifts the "goal posts" for these countries to the more transparent economic systems maintained by the advanced economies' group to which they aspire.

31. Fourth, the reality may be that **the Fund's in-country influence diminishes if the Fund does not maintain a resident presence in large developing countries that remain vulnerable.** The message received repeatedly throughout the course of this review is that the Fund may underestimate the informal influence that is associated with the presence of a strong resident representative (Section VI of Supplement 1). Moreover, authorities tend to see the withdrawal of Fund resident representatives at the conclusion of program relationships as reinforcing perceptions that the Fund is only present in countries in a "monitor/auditor" role in times of crisis (programs), and is not around to support the continued maintenance of strong macroeconomic policies in non-crisis periods when implementation capacity may be greater. Finally, to a rather impressive degree (as reported by a range of those who participated in the review including during the course of country visits and interviews), Fund representatives have come to play a major role in briefing visiting senior officials and private sector groups

⁸One important advantage of tackling such issues via in-country publicity of Fund or other research, rather than via country-specific policy pronouncements by resident representatives (or, indeed, even by missions), is that such an approach should help to minimize the potential for any associated negative "backlash" against Fund staff venturing into transparency/governance areas.

that is both trusted and highly valued by the authorities and by leading official bilateral representatives.

32. On balance, in OIA's view, the influences outlined above provide a note of caution to arguments that the external environment in the next few years unquestionably holds the keys to a substantially smaller role for the resident representative program.

IV. KEY ELEMENTS OF A MODIFIED PROGRAM

33. While the results of OIA's evaluation of the resident representative program are encouraging in many respects, the weaknesses identified suggest that, overall, more than fine-tuning is necessary. Important corrective measures are required in order to ensure that the program meets the Fund's standards for quality in services provided to member countries. Several of the mutually reinforcing elements of the *package* that shapes the program -- objectives, incentives, resources, roles, quality, partnership arrangements -- should be strengthened. Proposals that address each of these elements are described below and a consolidated list of the recommendations made is contained in Annex III.

34. In seeking to improve effectiveness, two ingredients are essential — building on the strong elements of consensus among those involved with the program (see paragraph 18 above), and ensuring that adaptations in the program reinforce rather than curtail the Fund's flexibility to react smoothly to changes in the external environment. **Building on consensus implies that a modified program should seek both to safeguard a high quality of representative staff and to reinforce more consistent "targeting" of the role of resident representatives at those activities that are likely to maximize the program's effectiveness and to strengthen the transitional nature of posts.**

35. Within strengthened quality and role parameters, area departments should retain flexibility to tailor the way they use the program so that they are able to continue to adapt to the variety of situations and needs that arise both throughout the Fund's membership and over time. **Ensuring continued flexibility to react to an evolving external environment implies that, while addressing the existing program's weaknesses, a modified program should not seek to impose any "single model" such as, for example, limiting the use of resident posts to program countries.** The survey results, the interviews with national authorities, and the follow-up visits to a sample of countries underlined the diverse circumstances in which departments find themselves interacting with member countries. Both the specific form of members' macroeconomic vulnerabilities, and the specific opportunities for resident representatives to add value, vary widely from country to country.

A. Role of Resident Representatives

36. An important weakness contributing to inconsistent results in the current program is the lack of a basic Fund-wide paradigm for the role of resident representatives. Given the additional cost of locating staff in the field, **the role of resident representatives should be**

tightly focussed on the areas in which representatives have a comparative advantage over missions: timely on-site policy advice/program support and promoting the strengthening of macroeconomic institutions and transparency. In each of these two principal areas of comparative advantage, departments should identify the highest-priority country-specific outputs that need to be achieved during the period an individual representative will be in the field. Examples might include weekly monitoring of the central bank balance sheet and follow-up advice to help ensure that a particularly vulnerable monetary program remains on track; and assisting the ministry of finance to set up a macroeconomic framework in which to ground its fiscal projections. In determining the most important country-specific outputs on which an individual representative would be expected to focus his/her efforts, departments should consult with national authorities (see Section IV.C below). Beyond identifying these core priority areas (which may change over time), departments should remain free to further elaborate the specification of individual resident representatives' responsibilities and tasks in ways that meet departments' priorities.

37. The lack of a Fund-wide consensus on the core role of resident representatives is a weakness because it has led to a certain misperception, widely-held in some quarters, that the role is of a generic, all-encompassing nature. While ad hoc assignments are inevitable and need to be accomplished, resident representatives are not in the field *mainly* to fulfill an ongoing service function for missions and headquarters-based staff; this is simply not the main purpose for which economists are assigned to countries. This approach to the role ignores the comparative advantage of resident representatives and results in a "dumbing down" of the contribution obtained from posts. **A serious need exists to scale back the use of representative staff for unproductive and low value-added tasks ("messenger/run-about" type activities).** For routine information gathering and other tasks, posts should normally employ a local professional in a research assistant capacity. While provision of information to headquarters-based staff is an important element of the role of resident representatives, it is an area in which headquarters-based staff have a potentially far-reaching demand and there is a real risk that information-gathering activities predominate, crowding out critical work.

38. This is especially true of *routine* data collection activities which are not a function in which it is cost-effective to employ resident representatives. In situations where an exceptional data problem or a one-time data need arises, use of the representative to resolve an issue or to meet the specific or urgent data requirement is appropriate. By definition, however, significant time spent on *routine* data gathering activities by representatives occurs at the expense of allocating that time to other activities, and the opportunity cost of unrealized output in areas that cannot be replicated by other means is high.⁹ **Ultimately, it is the responsibility of national authorities to put in place effective systems for the regular transmission of data**

⁹This is not to say that resident representatives do not need to fully understand economic data developments relating to their countries — such understanding is essential to a resident representative's ability to perform the role effectively.

that is routinely required to staff based in Washington, and of mission chiefs to ensure that authorities meet their responsibilities in this area without the need for constant intervention by resident representatives. In those cases where extracting data from disparate branches of the national bureaucracy is a traditionally laborious and time-consuming process, it may be necessary for national authorities to dedicate a local official full-time to this activity.

39. **The main purpose of locating a resident representative in the field is to capitalize on the Fund's access to key national economic policy-makers.** Central to this role is targeted persuasion: the promulgation —via whatever appropriate paths are able to be effectively employed by representatives— of ideas and actions that move the authorities to act fully on the policies they have broadly embraced. One useful mind set in which to approach the role is “if I were in the shoes of a responsible senior official, what would my concerns be, what problems would I need to solve, what bottlenecks/obstacles would I need to overcome?” In an important sense, the resident representative's job consists of an ongoing search, together with the staff team, for practical mechanisms that would transform the economic policy advice endorsed by the Executive Board for the country concerned into policy actions emanating from national policy-makers that have been customized for local conditions. Depending on the country situation, this process may involve hands-on fire-fighting/problem-solving by the representative, or it may take the form of a more arms-length intellectual contribution.

40. **In addition to this policy role, resident representatives should take on a capacity/institution/transparency building role in one key macroeconomic area.** Such a role has been performed by a number of representatives in various countries, but does not currently occur in nearly enough cases (Section VI of Supplement 1). Examples of such a role might include: assisting the central bank to establish or strengthen a research function in the monetary policy area, assisting the ministry of finance to establish a macroeconomic framework in which to ground its fiscal projections, helping local officials to set up a financial programming unit that provides national policy-makers with an in-house capability to track program parameters, or helping to set up (in cooperation with local economic agencies and in consultation with relevant Fund departments in Washington) a seminar/lecture series in which, for example, visiting speakers, Fund staff, and local experts address salient policy-oriented topics. The approach of resident representatives in this area of capacity-building should be that of facilitator/promulgator, rather than implementor. The emphasis is on harnessing and developing local skills in the selected area and, in order to be successful, it is important that representatives' efforts be matched by the authorities' commitment of staff resources to such projects (see Section IV.C below).

41. There are important reasons for the role of representatives to encompass an institution-building function. In addition to the comparative advantage that resident staff have over visiting missions in supporting these activities, **the survey results point to weak domestic macroeconomic capacity as a key factor that contributes to unwillingness to close posts and to the consequent long duration of some resident offices** (Annex Table 2 and Section V of Supplement 1). These factors underlie the recognition by a majority of survey

respondents that, in order for posts to fulfil a transitional function, there should be approximately equal emphasis by representatives on program/policy support and on capacity/institution/transparency building. The current framework for the resident representative program does not adequately address this issue and, in practice, there is a constant risk of “short-termism” in staff’s approach both to its own in-country work and to the priorities of posts. Week-to-week exigencies associated with program/policy support have predominated, in a large majority of cases, at the expense of activities whose benefits have a longer gestation period. While it is inevitable and appropriate that exigencies will play a role in posts’ priorities, it is important that the staff’s approach to interaction over short horizons with member countries is one that minimizes moral hazard and does not promote longer-term dependencies. National authorities rightly place a high priority on capacity-building activities, and resident representatives’ efforts in this area can play a critical role in establishing and maintaining a foundation of goodwill and close cooperation between the authorities and the post. In the absence of an emphasis by posts on contributing to the development of domestic capacities, national authorities are much more likely to question the balance of interests (the Fund’s or the authorities’) being served by posts, and much more likely to perceive resident representatives as having a largely “auditor” type role in the country.

42. **A prerequisite for achieving the twin objectives of policy/program support and promoting the strengthening of macroeconomic institutions/capacity/transparency is that resident representatives be given sufficient authority to carry out these roles effectively.** A message received frequently and forcefully throughout the course of this review is that representatives who lack genuine delegated authority from IMF staff in Washington are not useful to national authorities (Section VI of Supplement 1). Where representatives do not have any delegated operating room, they gain little respect from authorities and are thus hamstrung in fulfilling any significant potential role in policy advice or institution-building. Moreover, where headquarters staff severely constrain the room for judgement by resident representatives, an environment is established that is conducive to posts degenerating into relatively costly data collection and “mail box” centers. Two observations should be taken from this review in relation to assignments of resident representative staff to the field without adequate delegation of authority: (i) such assignments are not an effective use of scarce institutional resources; and (ii) national authorities say “do not send staff in these circumstances.”

43. **Guidelines for a modified program should mandate that *ad referendum* authority be delegated from mission chiefs to resident representatives *within the boundaries of existing agreed policy positions* set out in briefing papers and memoranda of economic policies, and apply to representatives in the carrying out of their field responsibilities.** Such delegated authority should and, in many cases, does already exist, but in other cases it does not (Annex Table 5 of Supplement 1). Where the resident representative is suitably qualified and experienced, it should be expected that the breadth of *ad referendum* delegation across various areas would be wide; in cases where the representative’s experience or skills are more narrowly based, the extent of delegation should be similarly limited, with his/her authority to operate *ad referendum* outside these areas constrained to take place in close

consultation with headquarters. But, in all cases, delegated authority should exist; resident representatives who simply carry questions and answers back and forth are no more than messengers.

44. **With genuine delegated authority, it becomes critical that the representative—who is usually but not always more junior in rank than the mission chief—be the trusted “*alter ego*” of the mission chief *vis-à-vis* the authorities, or the potential for conflicting policy advice is too great.** This *alter ego* function is grounded in resident representatives’ unique access, influence and perspective in relation to policy-makers’ views and to the practice of policy implementation on the ground. It does not, however, mean that the mission chief would rely mostly on the resident representative in all areas of interaction with the authorities. (At present, in relation to the particular areas of economic policy in which he/she has expertise and perspective, the *alter ego* role tends to be played by the desk economist, and this would not change). Representatives fulfilling an *alter ego* role generally *vis-à-vis* the authorities does, however, underline the importance of the two key figures interacting over time with national authorities—the mission chief and the resident representative—having a sound and robust relationship. **This argues for (i) representatives wherever possible working with mission chiefs on staff teams prior to taking up resident assignments, and (ii) mission chiefs playing a key role in proposing candidates for resident representative positions.**

45. **The review has spotlighted two issues that are notable in integrating work carried out by resident representatives with that performed by headquarters-based staff. First, representatives are often viewed as “outsiders” at present. It is a *sine qua non* for resident representatives’ effectiveness that they be closely integrated members of the staff teams working on their countries and the converse should be true of country work carried out by the staff team in Washington, or the relationship between the staff team and the representative is flawed. Second, headquarters-based economists and representatives have differing comparative advantages and their respective roles should be targeted at those comparative advantages in order to maximize overall institutional effectiveness.** Resident representatives should normally be expected to have unique access, influence, and perspective to provide in relation to policy-makers’ views and to the practice of policy implementation on the ground in the country. Headquarters-based economists would normally be expected to have specialized expertise, influence, and perspective in relation to particular areas of economic policy. Both have some additional more general functions in their respective locations. Irrespective of their physical location at any particular time (e.g., desk economists on staff missions to the country, or representatives on visits to headquarters), their area of comparative advantage remains the relevant consideration in their respective roles.

46. **Given the access and perspective afforded by their location, resident representatives should have a formal role in the preparation of briefing papers, staff reports, and country notes to management.** In the case of briefs for staff missions and other visits, representatives should in all cases be consulted on the appropriateness of the proposed timing of the visit and on the authorities’ state of preparedness for the work of the mission or staff

visit; practices in this area are currently uneven (Annex Table 10 of Supplement 1). In the case of staff reports for *annual arrangements*, resident representatives should provide input to the discussion of the mechanisms put in place by the authorities to implement the program, the effectiveness of those mechanisms, and the areas in which Fund-provided or other technical assistance would be helpful to overcome weaknesses in implementation capacity. In the case of staff reports for *Article IV consultations* with countries in which a post is maintained, representatives should provide input to the discussion of measures taken by the authorities that have a bearing on the transparency (or otherwise) of national macroeconomic policies, processes, and outcomes, and of areas in which transparency remains weak. In the case of all consequential country documents, resident representatives (like staff from other relevant departments) should be provided with an explicit window within which to comment on draft versions.¹⁰ In many cases, resident representatives are currently provided with opportunity to comment but, in too many cases, this does not occur or occurs only sporadically (Annex Table 10 of Supplement 1). When consequential country documents are transmitted to management, the cover note should confirm that they have benefitted from the representative's comments.¹¹

47. The presence of Fund resident representatives in member countries has important implications for the conduct of staff contacts with national authorities. It is fundamental to representatives' ability to function effectively that virtually all substantive staff contacts of a non-technical nature with the authorities (and also most management contacts) take place via, or involve the participation of, the representative. While circumstances may occasionally arise that necessitate direct contacts with national authorities within the country and without the resident representative's participation, such instances should be rare. In most cases staff recognize and respect resident representatives' pivotal role in contacts with national authorities but, in a minority of cases, circumvention occurs (Annex Table 10 and Section VIII of Supplement 1). In cases of *recurrent* circumvention, resident representatives' ability to realize the comparative advantage offered by their location in the field is directly obstructed and his/her relationship with the authorities is seriously undermined. National authorities will tend not subsequently to work through the person on issues of consequence but instead to communicate directly with Washington when such issues arise. In these cases, the representative's position in the field becomes, by definition, a role to which the level of authority that has been delegated is inadequate for the role to be effectively performed.

¹⁰Where concerns exist about security of information transmission to the post, signal encryption technology should be purchased and installed by the Fund or the post should be discontinued because it cannot function effectively. (Other technology issues in relation to resident representative posts are discussed in Section XI of Supplement 1).

¹¹Reflecting the principle that resident representatives are critical members, and should form an integral part, of the Fund staff teams working on post countries, the "and, by the way," approach that has become customary to recognizing the contribution of representative staff in country documents (in the form of a footnote stating: "... and the staff team was assisted by the resident representative ...") is a misrepresentation that should be corrected.

Recurrent circumvention represents a practice that constitutes grounds for serious doubts about the operational effectiveness of maintaining a post.

48. Contacts between Fund staff and national authorities in the absence of resident representatives will naturally occur more often outside the member country. **Resident representatives should, however, be present at meetings outside the country that involve substantive negotiations or important financing sessions (i.e., Consultative Group meetings, Paris Club meetings).** In many cases, resident representatives already travel to such meetings outside the country, but in too many they do not and this reduces their ability to monitor effectively the implementation of the agreed outcomes of such sessions (Annex Table 10 and Section VIII of Supplement 1).

49. **The occasional use of suitably qualified representative staff in the role of mission leader for advance/fact-finding teams or for non-sensitive review/technical missions would have significant operational benefits.** High quality resident representative staff are often both suitably experienced and well-placed to undertake a mission leadership role *on occasion* and this opportunity is not currently exploited, nor generally even contemplated; this is wrong-headed. In many cases resident representatives are operationally capable of performing a mission leadership role: over 50 percent of the representatives located in the field in late 1996 had previous experience of leading a staff mission or visit at some time during their Fund careers, and another 15 percent were staff at the A14-15 level on the cusp of readiness for such responsibility (Annex Table 7 of Supplement 1).¹² Moreover, in certain technical areas that rely on an understanding of detailed local institutional arrangements, resident representatives with the necessary background will sometimes be especially well-placed to lead the team examining such issues. The operational and institutional benefits of the periodic assignment of such responsibility to suitably qualified resident representatives lie in their familiarity with certain issues; in the likely strengthening of resident representatives' influence with national authorities and of mutual confidence between authorities and representatives; in the related strengthening of representatives' operational effectiveness and accountability that is likely to accompany such periodic enhancement of their role; and in the operational gains that the Fund accrues from a more complete utilization of its resident representative staff resources.

50. **National authorities generally have no objection to qualified representatives occasionally undertaking a mission leadership role.** The sizable sample of national authorities (17 member countries, or 25 percent of those covered by posts) that have been questioned on the acceptability of this proposal have been virtually unanimous (90 percent) in the view that they would have no difficulty with suitably qualified representative staff, on occasion, undertaking the role of mission leader for advance/fact-finding teams and for *non-sensitive* review/technical missions (Section VI of Supplement 1). A number of officials noted

¹²A strengthened selection process (see section IV.B below) will only increase the proportion of resident representatives who would likely meet the "suitably qualified" criterion.

that such a role would strengthen resident representatives' influence with national policy-makers and reinforce the relationship between representatives and national authorities (Section VI of Supplement 1). OIA fully endorses this view: mutual confidence is dependent on the quality and skills of representatives (skills that, by necessity, must include the ability to deliver an unwelcome message and "remain friends" the next day), and can never genuinely be founded in a "good cop (resident representative), bad cop (mission chief)" model of interaction.

51. National authorities emphasize, and OIA agrees, that key negotiating and review missions should continue to be led by headquarters-based mission chiefs. When major or sensitive negotiating issues are at stake, missions should always continue to be led by the headquarters-based mission chief for the country.

52. Some departments argue that representatives occasionally undertaking the leadership role would pose logistical difficulties for pre- and post-mission work, and would involve the loss of the representative as "facilitator" during missions. OIA does not believe that such difficulties are substantive; a view that is shared by certain other departments. Adequate advance planning would minimize any organizational difficulties associated with resident representatives on occasion preparing a draft briefing paper or briefing note *in situ* in collaboration with the headquarters-based mission chief and staff team. Consultation with other departments on policy measures (if indeed new measures were contemplated in the case of staff visits or straightforward reviews), and departmental comments on the draft brief, are similarly capable of taking place between the field and headquarters. Ideas and issues related to briefs are already frequently exchanged back and forth between mission chiefs and resident representatives. In many cases where a team was led by the representative, only a back-to-office report (rather than a staff report) would be necessary, but the occasional field preparation of a draft staff report for an uncomplicated review is also feasible. Many staff missions already return to headquarters with a partially prepared draft of the staff report in hand and such practices may be well-suited to these cases. On the partial loss of the resident representative as "facilitator", the effectiveness of staff teams is not primarily dependent on the use of representatives in an interlocutory or facilitation role, and occasionally foregoing such assistance in respect of non-sensitive staff visits or review missions is not likely to unduly strain operational productivity.

53. In the case of an occasional review mission led from the field, travel by the representative to and from Washington to attend the related Executive Board meeting would have no budgetary impact as it simply replaces travel by a headquarters-based mission chief to and from the country. Indeed, independent of an occasional mission leadership role, OIA believes that it is fundamental that the resident representative -- as the Fund's representative in the member country -- should attend one Executive Board meeting related to the country annually, and that it is currently unusual that Fund representatives do not normally do so. The travel of representatives to one Board meeting per annum (outside of cases where a representative led the mission) would similarly result in minimal or no additional costs since the associated travel could and should in the large

majority of cases be synchronized with representatives' existing annual visits to headquarters for consultations with their departments (Annex Table 10 of Supplement 1).

54. **There are clear benefits likely to be associated with the attendance of resident representatives at, in particular, the *principal annual* Executive Board meeting for the member country.** In the case of program countries, the principal Board meeting would normally be consideration of the annual arrangement and, in the case non-program countries, it would be consideration of the Article IV consultation. On the occasion of these principal annual discussions of the member's policies, it is important that the staff member who will be present in the country on a day-to-day basis as policy implementation unfolds over the period ahead is present at the meeting to hear the discussion first-hand. Moreover, in view of the unique vantage point afforded by resident representatives' close interaction with the authorities and their proximity to policy implementation, it is likely that the deliberations would benefit from representatives' contributions.

55. **In addition to these benefits, the availability of the Fund's resident representative at the Board table on one occasion per year is in OIA's view a constructive and appropriate extension of the Fund's accountability to its members and their representatives.** Executive Directors should have a formal opportunity each year to direct a question -- *should they wish to do so* -- to the staff representative who is present year-round on the Fund's behalf in the member country. In OIA's view, genuine follow-through by the Fund at Executive Board level on the additional perspectives able to be offered by representatives in the areas of implementation and transparency would be likely to strengthen, respectively, the confidence shown by national authorities in Fund representatives, and the partnership between the Fund and member countries.

56. **In view of the operational and accountability benefits, OIA recommends that guidelines for a modified program specify that resident representatives be one of the staff representatives present at the Board table on the occasion of the country's *principal annual* Executive Board meeting in order to assist the mission chief, as called upon, to respond to questions of Executive Directors.** The guidelines should identify representatives' attendance at the principal annual Board meeting as *the normal expectation* to be observed in all but exceptional cases where for unavoidable reasons the representative is unable to travel to Washington for the meeting.

57. **A number of departments do not support this recommendation on the basis that resident representatives have important tasks to perform in the field prior to many Board meetings (transmission of supplementary data, liaison regarding prior actions, putting out "other fires"), and on the basis that resident representatives are not different from other members of the staff team; certain other departments support OIA's recommendation.** Transmission of supplementary data to headquarters in the two to three days prior to Board meetings should be primarily the responsibility of authorities, but could if necessary be handled in most cases by local professional staff at the resident post. As a matter of sound practice, deadlines for prior actions should terminate around a week prior to

Board meetings. Should significant “other fires” emerge in the days prior to the principal annual Board meeting, the appropriate course of action for many reasons may well be a change of Board date but, in any event, OIA recognizes that exceptional circumstances will occasionally arise in which it is simply not feasible for a representative to attend a particular Board meeting. The difference in roles and responsibilities between resident representatives and other members of the staff team is elaborated at length in this report. The differing responsibilities carried out by representatives relative to headquarters-based economists lies at the heart of why it is desirable and appropriate that representative staff be present once each year when the Executive Board meets to consider the economic policies adopted by these member countries.

58. **National authorities value the performance by resident representatives of a broad coordination role in relation to macroeconomic technical assistance.** This important existing role—carried out by representatives in many post countries which are often active recipients of Fund-provided technical assistance (TA)— complements the role proposed for representatives in supporting capacity-building efforts themselves in one specific area. Coordinating Fund-provided TA normally involves providing vital input into the identification and sequencing of areas where such TA is most needed; coordinating with resident TA advisers/experts; assisting the authorities to strengthen the implementation of TA recommendations; and helping where possible to channel the TA provided by other organizations. The survey results suggest that, while the coordination between resident representatives and TA-providing departments appears to be functioning satisfactorily in a majority of cases, potential exists in some cases to strengthen both the involvement of representatives in the initial design of TA and the coordination between TA missions and representatives (Annex Table 11 and Section XI of Supplement 1). Supplementing this role in TA-related activities is the involvement of representatives in coordinating the selection of national candidates for training opportunities provided by the IMF and the Joint Vienna Institutes (INS/JVI). The collaboration between INS/JVI and resident representatives appears, in the large majority of cases, to be functioning well (Annex Table 11 and Section XI of Supplement 1).

59. **The effectiveness of the current coordination between IMF Executive Directors’ offices and resident representative offices is viewed by a majority of survey respondents as adequate.** The *level* of interaction between representative staff and Executive Directors’ offices currently is unsurprisingly rated by most respondents as relatively less frequent overall than representatives’ interaction with other more regular counterparts. A majority of respondents -- including national authorities -- believe that somewhat more frequent interaction between Directors’ offices and Fund representatives may be useful (Annex Table 11 and Section XI of Supplement 1).

60. Complementing resident representatives’ role in coordinating Fund-provided TA activities locally is the **ongoing cooperation of resident representatives with local representatives of other organizations assisting the country**, including the World Bank, the regional development banks, the UNDP, the ILO, and bilateral aid agencies. The survey

results suggest that the practice of field collaboration between Fund representatives and these organizations is functioning satisfactorily (Annex Table 11 and Section XI of Supplement 1).¹³

61. **National authorities in general appreciate the efforts currently undertaken by resident representatives in the area of helping the authorities to explain economic policies to local audiences.** Indeed, the majority of national authorities commenting on this issue in the survey and/or in interviews would like to see representatives take a greater role in this area; however, in a limited range of other countries, national authorities are explicit in preferring a low public profile by the resident representative (Annex Tables 6 and 11, and Sections VI and XI, of Supplement 1).

62. **Area departments should take steps to remedy weak economic “back-stopping” services provided to resident representatives (timely provision of relevant data, cross-country information, relevant publications, etc) by headquarters-based staff.** For most area departments, it is likely that the number of representatives warrants the part-time dedication of a capable research officer to the task of supporting field staff for the department as a whole. Instances of resident representatives finding themselves in situations where, for example, the local Minister of Finance’s office is a more reliable source of a copy of the Interim Committee’s Communiqué than departmental staff in Washington, or where local official bilateral representatives receive copies of the Fund staff report on the country well in advance of the representative, or where they have to make repeated requests for data or assistance on other matters that national officials have requested of them have been encountered too frequently during this review (Annex Table 10 and Section VIII of Supplement 1).

63. **The administrative burden placed on resident representatives in their professional role as staff heading resident offices, and in their personal situation as Fund staff located at a distance from headquarters, needs to be minimized.** At present, valiant efforts are made by the staff who provide administrative support services for representatives, but even best-efforts are not yielding satisfactory results in an environment where there are two fundamental problems: (1) “non-standard” situations or events requiring discretionary authority are in many areas more frequent than “standard” situations; and (2) resident representatives are currently required to interact with very many different individuals in the general sphere of “administrative” issues (Annex Table 11 and Section X of Supplement 1). In OIA’s view, the nature of the resident representative program—70-odd individual staff with differing family situations and professional needs who reside in 65 or so separate geographic locations with differing local characteristics and feasible options—makes it likely that an overly “rules-oriented” administrative system will involve greater frustration and lower value-for-effort-expended, than a somewhat more “discretion-oriented” approach.

¹³See also paragraph 102 below for further discussion of Fund-Bank field collaboration.

64. **Given the nature and \$34 million budget (FY 1998) of the program, the full-time dedication of a B-level staff member (preferably a former resident representative) is warranted to take overall charge of its administration, with a view to (1) transforming the character of the program's administration from a centralized micro-rule basis to a "discretion within clear and invariant limits" approach; and (2) enhancing the customer service orientation of the support arrangements, possibly via the reorganization of existing administrative staff resources supporting the program to allow the establishment of a central "clearing-house" unit for administrative support organized on a regional basis.¹⁴ In addition, the B-level administrator could be asked by management to assist departments in the implementation of any modifications to the resident representative program that may be made following the conclusion of this review.**

B. Personnel Targeting¹⁵

Demand Factors: Personnel Skills and Quality

65. **The *primary* determinant of the effectiveness of resident representative posts is the quality of the resident representative staff that are assigned.** At the heart of these roles is the ability to interact in a sustained manner at a high level of competency — in terms of both technical and interpersonal skills — with senior national authorities. These roles can only be performed effectively by staff with the appropriate skills and judgement and the Fund should assign only high quality staff members to these positions (Annex Table 4 and Section IX of Supplement 1). The wrong people in these roles is a waste of resources, involves a high opportunity cost in terms of what could be achieved with the right person, and can be damaging to the Fund's relationship with national authorities. Where sufficient economist resources of the appropriate quality are not available, posts *should* be left vacant or be closed by area departments.

66. **Quality is not linked to grade or seniority. The survey results, country interviews, and related analysis indicate that effectiveness is linked to strong attributes in four areas: policy/technical competence, communication skills, self-confidence, and a take-**

¹⁴The B-level program administrator assignment should probably be for up to two years initially, with an evaluation of its continued need at the end of that period. There are three further areas (see Section IV.B below) that this person could also be charged with: (1) establishing a mechanism for periodic reassessment of the Fund's field benefits package and conducting the first such review; (2) reviewing, proposing and implementing solutions to the serious spouse employment and family income issues the Fund faces in attracting staff to field assignments; and (3) revamping the Fund's approach to providing necessary training for resident representatives and their support staff.

¹⁵A number of personnel issues not discussed here, including supervision of resident representatives, are discussed in Sections VIII and IX of Supplement 1.

initiative style (Annex Table 7 and Sections VI and IX of Supplement 1). Strong policy and technical skills build essential credibility with national authorities and are the skill most valued by them — but, while they are necessary, they alone are not sufficient to ensure success. Interpersonal effectiveness — the ability to communicate well, with tact and persuasiveness — is also critical. Self-confidence is a key element in a role that hinges on being able to sell ideas. Finally, it is important that resident representatives have a capable, take-initiative style as this affects the extent to which they are sought out by authorities to assist in overcoming problems. Interaction is weaker where resident representative staff are “timid” or lack outgoing personalities. The ability to maintain an approach of amiable persistence can be an important quality in these roles where staff are inevitably confronted with a certain level of stone-walling and with frequent setbacks. A clear message from member countries is that they appreciate resident representatives who take the initiative regarding contacts and interaction (although they may not necessarily communicate such appreciation to representatives), and who are prepared to take a very hands-on approach to working with authorities where this can help to achieve the desired results. National authorities state categorically that they are not interested in receiving “ambassadors”, and pretentiousness or ostentation in any form naturally tend to go down rather badly (Section VI of Supplement 1).

67. In addition to a strong general profile in these four areas, **it is important that a certain basic level of targeting take place between an individual country’s particular needs over the coming one to three-year period and the prior experience and background of a candidate.** The early specific identification of the key priority area for capacity building (see section IV.A above) should help in this regard. Mismatches currently occur and this reduces the results achieved (Box 1).

68. The quality problems experienced in the past stem in part both from weak incentives facing departments to target their strongest staff members for these roles, and from a lack of effective safeguards that place a floor under staff quality. The proposed strengthening in the role requirements (and authority) for resident representatives (described in section IV.A above) should increase departments’ incentives in this regard. However, the mixed performance of the current selection process suggests that a change in approach is needed in this area. First, it should become a requirement that all resident representative positions be formally advertised.¹⁶ Second, **in view of the important role of resident representatives in interacting with national authorities, and the fact that in doing so these staff represent the Fund as a whole rather than an individual area department, responsibility for endorsing the recommendation of resident representative candidates should formally be vested in the Review Committee (or Senior Review Committee), which might wish to**

¹⁶This is not the case at present. Administration Department advertises a list of “prospective” resident representative vacancies in the bi-monthly “Career Opportunities” list. These positions are not formal vacancies and the department in question may have already identified a suitable candidate via other means.

delegate the task to a sub-group.¹⁷ Area departments would continue to select from among the applicants their preferred choice for the position (a process in which mission chiefs should be closely involved), and would forward their preferred choice, together with the full list of applicants, to the (Senior) Review Committee which would be charged with endorsing (or otherwise) the department's selection and recommending those selections that they can endorse to Fund management. In addition to the direct impact of these two changes on area departments' approach to nomination of candidates, both changes would send an important signal to the key target group—high quality staff at around the A14 level—that the selection process for these positions is (a) taken seriously by the institution, and (b) a more open and transparent process than the current one.

69. In view of the importance that resident representatives be fully-integrated members of the staff teams working on these countries, resident representative positions should count as area department staff positions. Resident representatives would become regular area department staff members. This is necessary both to help ensure that departments' decisions regarding whether to locate a staff position at headquarters or in the field are based solely on considerations of operational effectiveness, and to help strengthen the perception and the practice of full integration between headquarters- and field-based work on the country.¹⁸ The present system in which resident representative positions are outside area department staff position ceilings inappropriately: (i) supports the notion that resident representatives are "outsiders" who are technically not employed by area departments; (ii) weakens the incentives facing departments and mission chiefs to ensure that resident representative staff are treated in all important respects equally to headquarters-based staff; and (iii) is conducive to variability in the quality of selection decisions.

70. With a strengthened selection process and the unification of resident representative positions within area departments' staff ceilings, a much greater convergence would be expected to be seen over time between the proportions of "1" ratings awarded for field-based and headquarters-based work by departments in the

¹⁷The Review Committee, which is chaired by the Director of Administration and has a total of 8 members drawn from the senior staff of departments, advises management regarding recommendations by departments for promotion of staff to grades A14 through B2; the Senior Review Committee advises on promotion to grades B3 and B4. In this case, a sub-group of the full Committee could be made up of, for example, any four members as long as one of the four represented an area department other than those departments whose representative positions were to be considered. Most -- but not all -- departments support a shift to selection by a sub-group of the Review Committee.

¹⁸See Sections IV.D and IV.E below for discussion of how post opening and closure decisions would be intended to work in an environment in which resident representative positions are unified with area departments' regular staff positions, and of how this proposed modification would affect the budgetary process.

annual performance evaluation process. The latter has generally been approximately 15 percent Fund-wide, while the former has averaged approximately 7 percent over the past five years (Annex II). There is currently no clear explanation for the divergence between the proportions of "1" ratings assigned for field-based and headquarters-based work, but there are two possibilities: either field staff are poorer performers overall relative to headquarters-based staff, or the probability of outstanding performance being recognized with a "1" rating differs systematically between field-based and headquarters-based positions. Continued sharp differences in this area would be an indication of fundamental problems and this issue should be monitored by Administration Department.

71. The ceilings on departments' A15 positions should automatically rise by the appropriate extra number of A15 positions when resident representative positions are transferred to departments' staff ceilings. With resident representative positions part of area department staff ceilings, these *positions* would become indistinguishable from regular area department economist positions. Taking up a resident representative assignment would become no different in this respect to joining the regular staff of an area department in any other position (or to relocating from one position to another within the same area department).¹⁹ The only difference between a regular economist position and a resident representative position would be that the incumbent of the latter would be working in a different physical location. *One important implication of this modification would be that changes in the number of resident representative positions would have no effect on overall staff numbers either within an individual area department or Fund-wide.*

72. On the issue of the length of individual resident representative assignments, the current one, two, three years formula should be retained, but the four year option should be removed (Annex Table 8 of Supplement 1). Four years is too long in terms of both the loss of familiarity with developments at headquarters, and the ability to take a completely dispassionate approach to the job. In this regard, the "option" that resident representative staff return to headquarters annually for consultations with their colleagues should become a requirement: while the current program guidelines note that such annual visits "should" occur, practices in this area have been somewhat uneven (Annex Table 10 of Supplement 1). At present, national authorities are required to request formally in writing the annual renewal of an incumbent's term; consideration should be given to discontinuing this practice between the first and second year of an assignment, with the effect that the requirement would only apply

¹⁹In an environment where resident representatives are regular area department staff, there would be no role for a "home department rule" (i.e., where the department from which the representative was appointed is *required* to re-absorb the staff member at the end of his/her field assignment); there would, however, be nothing preventing departments and individuals voluntarily agreeing on such return arrangements.

to renewal for a third (and final) year.²⁰ There is no obvious reason why assignments related to specific one-off projects should not take place for periods shorter than one year, and ADM should design a set of simplified standard guidelines to facilitate departments making such assignments.²¹ There should be an explicit understanding that, if any one of the three parties (the area department, the resident representative, or the authorities) wishes to truncate a particular regular resident representative assignment during the first nine months, then this should be done. The operational costs that can be associated with unsuccessful assignments simply outweigh the administrative inconvenience and costs of shortened tenure.

Supply Factors: Responsibility/Career Path, Benefits, and Other Issues

73. In the current environment of budgetary consolidation, fewer promotion opportunities at the A14-A15 level are likely to encourage staff to consider field assignments as a means of increasing the range and variety of career options available to them, leading to some “natural” broadening in the pool of strong performers who are prepared to undertake field assignments over the coming few years. **In addition to natural growth in the proportion of staff prepared to consider field assignments, many of the changes recommended in the Fund’s approach to the role of resident representatives should help to bring about a further much-needed broadening in the pool of strong performers who are interested in undertaking field assignments.** In particular, the provision for leadership responsibility to be extended occasionally to suitably qualified resident representatives for selected non-sensitive missions or staff visits (see section IV.A above) will level the playing field between field-based and headquarters-based A14-A15 and above jobs. This innovation is operationally warranted and there should be an expectation that A14 (and above) resident representative staff will be given appropriate opportunities to undertake such mission leadership roles during the course of a field assignment. Such an expectation would be likely to become an important factor in dislodging this capable target group from their desks in Washington and it has the added advantage of expanding the number of staff who can be further tested in the field prior to promotion to the A15 gateway.

74. **In addition to increased opportunities in field positions to demonstrate abilities important for promotion, the changes in the selection process and in other provisions governing personnel issues should help to alleviate both “out-of-sight, out-of-mind” tendencies by departments, and perceptions on the part of economist staff that such tendencies exist.** In particular, the fact that resident representatives would become regular area department staff means that any existing incentives to underweight these staff in the

²⁰For the second year renewal, mission chiefs could simply confirm with authorities that they are agreeable to a renewal and leave with them a letter confirming their verbal agreement and requesting that they take any specific administrative steps necessary to formalize the matter.

²¹The design of such guidelines is a further area with which the proposed B-level administrator could be charged.

performance evaluation and promotion processes would be eliminated. One of the most important current obstacles to strong performers at the A14/A15 level (a key target group) taking up resident representative assignments is the perception that there is a low likelihood of being promoted to A15/B1 while in the field and, therefore, taking up a resident representative assignment at this level involves running a risk of “missing out” on A15/B1 slots that open up during the period in which one is absent from headquarters (Annex Table 8 of Supplement 1). With unified positions, there would be no structural incentive for departments to direct promotion slots away from or toward either field- or headquarters-based economists.

75. In fact, the promotion prospects *should* be reversed, i.e., departments should be specifically encouraging those A14/A15 staff on the brink of promotion to extend their capabilities by undertaking a field assignment on the basis that good field performance will count in their favor, and advance their cause more rapidly. ***Ideally, staff advancing to B-level in work on operational cases (particularly, but not only, those working in area departments) should have undertaken a resident representative assignment at some stage during their Fund careers. In view of the findings of this review regarding the substantial operational contribution of resident representatives, it would be helpful for management to state that it wishes the Review Committee to attach higher weight than hitherto to successful field performance in considering placing candidates on the list of eligible B-level candidates.*** It is unavoidable, however, that there will be cases where, often for personal or family-related reasons, undertaking a field assignment has not been and/or will not be possible for individual staff members. While this may be a limiting factor in the experience these individuals are able to bring to bear in operationally-oriented B-level roles, resident representative experience should not be a formal requirement for progression.

76. The enhanced benefits package for field assignments that became effective in FY 1994 has been an important factor in increasing the number of qualified Fund staff who are prepared to take up resident assignments (Annex Table 8 of Supplement 1). Overall, and with the exception of one area (see below), analysis of the survey results and other data suggests that the current *level* of financial benefits is striking about the right balance among: reimbursing staff for additional costs incurred in the field; recompensing staff for the higher “success risk” under which they operate in field assignments; and providing a financial incentive to take up field assignments (Section IX of Supplement 1). **As a matter of best practice, however, the Fund should introduce a regular review cycle for resident representative benefits, probably on a four yearly basis as is the case for staff’s regular benefits.**²²

77. **The first such review needs to encompass an area closely related to field benefits: spouse employment difficulties in field locations and their implications for family**

²²As noted in section IV.A above, the reassessment of field benefits is an area that the proposed B-level program administrator could be charged with taking up, together with the other issues discussed in the remainder of this section.

income.²³ Limited opportunities for spouse employment in field locations are an important obstacle reducing staff members' willingness to consider field assignments, and are likely to be an obstacle that disproportionately impacts the ability of women economists to take up these relatively "high profile" assignments (Annex Table 8 of Supplement 1). This is an area that raises complex issues to which no easy solutions exist. The World Bank is currently struggling to address spouse employment issues in its decentralization strategy, and the Bank, the IFC and IMF are liaising at the staff level regarding possible joint approaches to promoting greater coordination of "cross-hiring" and other practices in order to expand the limited range of available opportunities for spouse field employment.²⁴ While the Fund should pursue these initiatives, the limited "reciprocal" cross-hiring opportunities that the Fund is likely to be able to offer other organizations (in view of the small size of Fund resident offices), and the limited prospects for early broad progress on changes in relevant national laws and regulations governing these areas, mean that such initiatives are unlikely to make any real dent in the problem facing the Fund.

78. The serious obstacle to attracting staff members to field roles that is presented by spouse employment difficulties, and the associated family income and spouse career impacts, is an area that needs to be given careful consideration in any re-targeting of the Fund's overall benefits package. In OIA's view -- a view supported by a number of departments -- the Fund probably faces little alternative than to consider measures aimed at some (partial) replacement of family income. Such measures could potentially be financed through savings in other areas (see below). In the absence of measures that address the family income problem, any across-the-board reduction in the overall level of financial incentives based on -- for example, the strengthened career incentives that would result from the implementation of this review's recommendations -- could have a seriously deleterious impact on departments' ability to recruit high quality staff members for field assignments.

79. Two areas in which the field benefits review should give consideration to re-balancing elements within the current overall package of allowances and benefits are (a) the current housing benefits; and (b) the level of hardship allowances relative to across-the-board allowances. On housing, Fund resident representatives (like World Bank staff but unlike field staff of other organizations) are currently provided with free housing. The introduction of a modest uniform "rental" charge may be both justified on the basis that staff's housing costs would normally amount to 25-30 percent of a staff member's net income at headquarters, and helpful in funding measures to address family income-related obstacles to recruitment of field staff. On hardship versus across-the-board allowances, there are indications that less intrinsically "attractive" post locations (which are often in countries that

²³A number of other family-related issues (e.g., education, medical facilities, etc.) are discussed in Section IX of Supplement 1.

²⁴PC97-25 and CODE97-41 (June 13, 1997); and minute of IDB, IFC, IMF and World Bank joint staff group meeting of January 1, 1997 on spouse employment issues.

may offer the greatest opportunities for value added by strong resident representative staff) remain those that departments find most difficult to fill and an increase in hardship allowances relative to across-the-board allowances could go some way to alleviating this problem.

80. Despite the fact that there is a number of existing differences between Fund field offices and Bank field offices, the financial and other benefits now applying to Fund resident representative positions are broadly the same as those currently applied by the World Bank to its field staff.²⁵ As part of its decentralization initiative, however, the Bank is in the process of reassessing the package of benefits applying to its field staff and perhaps revamping them in the direction of narrowing distinctions between headquarters and field benefits. **The differences between the Fund and Bank “field philosophies” may well increase as the Bank’s decentralization initiative develops (see section IV.D below), and the Fund should take care to ensure that its approach to field benefits is closely targeted at meeting its particular institutional priorities.**

81. Nonetheless, in view of the fact that the modifications in the Bank’s benefit arrangements may occur soon (and that any review of field benefits involves the purchase and assessment of much detailed financial survey data which the Bank will have completed), **there would be merit in the first regular review of Fund field benefits taking place in 1998 once the results of the Bank’s review have become available.**

82. **In the area of training for resident representatives and other field staff, a thorough re-assessment is required.** The Fund does not now do enough to prepare staff adequately for field assignments, and does not train the local office managers of resident representative posts with a view to reducing the routine administrative duties of resident representatives (Annex Table 8 and Section IX of Supplement 1).

C. Partnership Arrangements

83. **The framework governing the resident representative program should embody a basic requirement for posts to be accompanied by explicit partnership arrangements with national authorities.** The host country’s receptiveness to a resident representative post, and the degree to which national authorities draw the resident representative into domestic policy-making processes, are key determinants of posts’ operational effectiveness in most cases (Section VI of Supplement 1).²⁶ National authorities need to face clear incentives to

²⁵For an outline of the Fund’s current benefits package and for further discussion of benefits comparisons see, respectively, Annex II of this report and Section III of Supplement 1.

²⁶There are cases in which host countries’ receptiveness to posts may be somewhat muted, and resident representatives may tend to be held at arms-length from domestic policy-makers, but where posts can remain an operationally effective means of strengthening Fund influence
(continued...)

cooperate effectively with resident representatives. These incentives will be present only where posts are unambiguously perceived as being of value to member countries (clearer role requirements, a strengthened selection process, and higher staff quality should be helpful in this regard), where expectations regarding the level of commitment required from national authorities are explicit, and where departments face clear incentives (relative resource scarcity, and accountability for post results) to monitor closely that authorities live up to these commitments.

84. In order to draw host countries into a collaborative role with resident offices from the outset, it is important that departments consult national authorities at the time the objectives for the post are being established, and over time as the objectives are reviewed. In many cases this is being done, but in others the performance is mixed (Annex Table 1 of Supplement 1). In particular, the early involvement of national authorities should be sought in identifying and agreeing the priority area in which the representative will assist the authorities to strengthen local macroeconomic capacity (see section IV.A above). Following consultation with the national authorities on a post's objectives, a copy of the final terms of reference for the post should be formally provided to the authorities (see section IV.D below).

85. Formal written understandings should normally be reached by departments with national authorities regarding their willingness and ability to work closely with the resident office, regarding the assignment of staff resources on the authorities' part to joint capacity building projects and—in program cases—regarding the establishment of a high-level program implementation committee which meets regularly and in which the resident representative participates as advisor. Practices tend to be uneven in these areas (Annex Table 9 and Section VII of Supplement 1). Establishing a platform of "ground rules" under which resident representative offices are provided by the Fund will encourage a more interactive and focussed engagement at the outset, and should minimize the potential for misunderstandings and under-utilization of resident representatives by national authorities.²⁷ Greater emphasis on areas of long-term benefit to national authorities should also help to lessen the extent to which resident representatives are viewed solely as program monitors and increase the extent to which they are viewed as partners.

86. The current level of consultation with national authorities regarding individual candidates for resident representative positions remains broadly appropriate. Survey respondents believe, however, that any "veto right" by national authorities should be based on -- and generally limited to -- candidates' *curriculum vitae* information (Annex Table 9 of

²⁶(...continued)

on the domestic policy agenda or of enhancing economic transparency (see Section III above).

²⁷In some cases, national authorities do not currently have a clear understanding of the extent to which they are able to draw on the assistance of the Fund resident representative.

Supplement 1). There should be an expectation that the Executive Director representing the country and national authorities will have been provided with an opportunity to meet the candidate, and that the latter meeting should normally take place in the course of a regular staff mission to the country. In most cases some form of pre-assignment visit usually occurs, but not necessarily during the course of a regular mission.

87. While the costs of operating resident posts with quality staff are modest in relation to posts' contribution to the effectiveness of the Fund's country work, the principle that authorities are expected to bear some part of the costs should be maintained.²⁸ The formal understandings between the Fund and national authorities should in all cases specify the nature of the resource contribution that the authorities have agreed to make. In the majority of cases, this consists of office space and, in many cases, it extends to secretarial staff and/or to a car and driver (Annex Table 9 of Supplement 1). **By far the most valuable form of country contribution is the provision of office space within the central bank or ministry of finance. The very favorable influence that an "inside" location has on the attitudes of national and Fund counterparts, on access to key officials and policy-makers, and on the informal practice of collaboration should make this arrangement the standard expectation.** In cases where the Fund's post is not now so located, departments should make ongoing efforts to have resident offices relocated inside central banks or ministries of finance unless there are strong country-specific policy-related reasons for not doing so (Annex Table 9 of Supplement 1). In the majority of cases, there is limited value-for-effort-expended to be achieved from attempts to extend national authorities' contribution beyond these areas of office space, secretarial support, and/or car and driver. In particular, experiences with locally-provided economist and research assistance staff have been mixed and, in general, resident representatives have found that directly selecting and hiring a suitable individual themselves has delivered more consistent results (Section VII of Supplement 1).

D. Targeting of the Program

88. **The current centralized approach to post opening and closure decisions has (appropriately) accommodated an expansion in the number of posts in response to a systemic shift in the global economic environment, but has proved much less successful at ensuring that resident posts are transitional in nature. Moreover, the current system inhibits the transfer of program resources across departments and fails to provide departments with incentives to maximize efficiency with respect to resources employed in the program.** The current centrally administered approach to post openings and closures leads to distortions and inefficiencies arising in *both* the total number of posts and in their distribution across regions. Because representative positions are not currently fungible with departments' other staff resources, departments face an incentive to maximize their "consumption" of these "free" goods. Once these positions have been allocated, and other

²⁸A fuller discussion of host country contributions is contained in Sections III and VII of Supplement 1

than in clear-cut situations, there is weak motivation for a department to close a post and give the staff position back to the central pool. Not only is this system likely to result in over-consumption in aggregate, it also presents an obstacle to optimizing the inter-departmental allocation of posts over time.²⁹ Since there are weak incentives to close a post, the ceiling on the overall size of the program is more-or-less continually binding, making it very difficult for efficient decisions to be made at the margin regarding changes in the distribution of posts across departments. The system thus tends to place a heavy burden on Fund management for virtually all inter-departmental post closure/opening decisions. Essentially, gridlock in the system tends to result in the distribution of posts across departments from year to year owing more to the number of posts each department had in the previous year than to discernible, relatively "objective" criteria. This, in turn, results in the criticism that the system lacks transparency.³⁰

89. **In considering the overall size of the program, there are some signs that the "optimal" number of posts may be higher than the current size of the program.** The substantial contribution that high quality resident representatives can make to the quality of the Fund's country work and the relatively low incremental cost of these positions, combined with the fact that the total number of program/intensive member countries has been approximately 100 for the last several years, points to the possibility that the "optimal" number of resident representatives may be higher than the present 70 positions (FY 1998).

90. **Other factors, however, may be inflating the current number of posts; and, from a supply side perspective, the current size of the program may have reached or be close to reaching a high water mark.** The incentives embodied in the current budgetary system for the program suggest that there may be a degree of "over-consumption" built into the current size of the program. In addition, problems with the effectiveness of around one third of posts suggest that some "over-consumption" may be being supported by the current selection system for resident representatives. Moreover, it may be that the number of posts is now reaching a level that strains the Fund's capacity to fill reside approximately resident representative positions with consistently high quality staff. The total number of Fund economist staff is approximately 860 and the number of economist staff in area departments

²⁹Moreover, since the budgetary framework limits possibilities for intra-departmental substitution between resident representative positions and headquarters-based economists, departments' ability to adapt their overall allocation of resources to reflect changing circumstances and priorities is circumscribed.

³⁰Executive Directors have questioned the system over the years (see, for example, the minutes of the Committee on the Budget, meeting 94/5; October 27, 1994) and, during the course of this review, no department has argued for retention of the current system while virtually all acknowledge its weaknesses.

number of resident representative positions, approximately 8 percent of total economist staff or 15 percent of the economist staff assigned to area departments are needed every two to three years to fill posts. It may be stretching logistically-achievable bounds for the program to be able to sustain these rates of absorption over a long period while maintaining quality standards.

91. **On balance, it is not clear whether the optimal size of the program is larger or smaller than the current number of representative positions and, in practice, the optimal size of the program is likely to vary over time.** It is difficult to assess with confidence the outcome of the various factors influencing the optimal size of the program. Higher quality standards for staff assigned to resident representative positions may place a practical ceiling on the size of the program, but how binding this constraint is in the short term would vary according to the extent to which changes in the role of resident representatives and in other aspects of the program following this review led to an increase in the proportion of suitably qualified staff willing to undertake these assignments. Moreover, while there may be over-consumption of posts in some cases, it is equally possible that repressed demand exists for posts in some regions of the world. Finally, the unification of representative positions with regular area department staff positions will lead to demand for posts also being influenced by operational priorities requiring headquarters-based staff resources, and by ongoing pressures for budgetary consolidation.

92. **Because an “optimal” size for the program cannot be independently determined, and is anyway likely to vary over time, flexibility should thus be a critical characteristic of the framework for post opening and closure decisions.** Whether the demands on departments’ resources stem from intensive program-based stabilization efforts in countries, from ongoing needs to strengthen macroeconomic institutions, or from surveillance cases where a need for enhanced monitoring or for promotion of greater transparency remains, the flexibility to use a resident post plus missions, or missions alone, should exist as long as overall cost controls and effective accountability mechanisms are in place. Nonetheless, in an environment where many countries may be graduating from direct Fund financial support, both the size of the program and the location of posts *should* vary over time if efficiency of staff and dollar resource use is to be maximized. In such an environment, significant efficiency gains are likely from a system that enables departments to reallocate resources quickly by substituting *at the margin* between missions and representatives.³² Handling any adjustment to

³¹(...continued)
existing resident representatives.

³²It is only at the margin that staff missions and resident offices can be considered substitutes. OIA shares the view—expressed by many staff during the course of this review—that one of the Fund’s strengths is its team-based approach to country work, and that staff missions and resident representatives are natural complements to each other rather than substitutes. The

(continued...)

a smaller number of posts by imposing high quality standards both on the purposes for which posts are used and on the selection of staff for resident representative assignments is likely to be a more efficient approach than centrally imposing a program of downsizing in what would inevitably be a relatively indiscriminate manner.

93. **The *philosophy* that should drive the Fund's approach to the resident representative program in OIA's view is that high quality staff will be sent to countries in cases where a field-based staff member is an operationally effective allocation of resources.** This philosophy should drive both the broad size of the program (within the Fund's aggregate budget constraint) and decisions regarding the location of posts. Given the institution's relatively small size, such a philosophy is likely to result in the Fund not maintaining posts in some countries in which other international organizations operate resident offices.³³ Nonetheless, the contribution to the Fund's operational effectiveness that can be made by a network of field representatives is likely to be maximized if the number and country location of those representatives is permitted, to the greatest extent possible, to contract and expand naturally in response to changing operational priorities and country needs, and to the availability of high quality staff resources.

94. **In view of the critical role that the ability of the number of posts to increase and decrease has on the efficiency of resource use in the program, OIA recommends that a flexibility margin equivalent to meeting the cost of at least 10 percent of the resident representative positions utilized in the previous year be built into the budgetary framework for the program.**³⁴ This flexibility margin is warranted on the basis of the number of program/intensive countries, the substantial contribution made by resident representative posts, the relatively small incremental cost (\$150,000 per annum in FY 1996) of a resident representative position, and the fact that changes in the number of posts will no longer have any impact on overall staff numbers. It is also warranted on the basis that the number of posts needs to be able to rise and fall modestly during the course of a financial year in order to respond to changes in the external environment, in departments' operational priorities both at headquarters and in the field, and in the supply of high quality staff available to fill resident representative positions. *Equally importantly, such flexibility is critical to promote efficient decision-making at the margin across departments.* Without a margin of flexibility that facilitates transfers of program resources across departments, departments will remain

³²(...continued)

survey results indicate divided views regarding whether posts have reduced the number or size of missions, with a narrow majority believing that posts have reduced the duration of missions (Annex Table 2 and Section V of Supplement 1).

³³See Section II of Supplement 1 for information regarding other international institutions' field programs.

³⁴The budgetary mechanics of how this proposal could be made operational are discussed in section IV.E below.

reluctant to close posts because they will be concerned about their ability to gain back the necessary incremental resources to open a post in the future.

95. Within two constraints—the departmental ceilings on personnel and the budgetary ceiling on dollar costs in the program—post opening/closure decisions should be essentially devolved to departments. A devolved decision-making system would allow the overall size of the program to ebb and flow—within clear overall budgetary limits—in response to the totality of priorities and resource pressures facing departments. Area departments should each be responsible for post opening/closure decisions on a case-by-case basis taking into account (i) what the department judges to be operationally most effective in the context of the priorities it faces in its interaction with countries over the period ahead; (ii) the availability of economist staff who have the skills to add value in the field; (iii) the department's overall budgetary ceiling for staff positions; (iv) the existence of budgetary funds for the purpose (see section IV.E below). Within the overall staff and budgetary constraints, the size of the program would become an endogenous result of the framework for its operation that would vary according to circumstances and over time.

96. In seeking ways to improve the current post opening/closure system, a price or bidding mechanism (such as the competitive bidding process being considered by the World Bank) could, in principle, also be contemplated.³⁵ Because the Fund does not employ a devolved dollar budgeting approach to departmental personnel costs (for good reasons that were discussed only recently by the Executive Board), a resource pricing or auction-based approach would involve a significant departure from the Fund's current "budgetary philosophy".

97. Variants on the current centralized post/opening closure system such as, for example, a "committee" type approach—an approach that is supported by some departments—could in theory also be envisaged. One advantage of a Fund-wide committee-based approach to post decisions is that it would be more transparent and participatory than the current approach. OIA does not believe, however, that such a system would promote efficient resource use in the program or lead to optimal post location decisions. Whether operational priorities are best advanced through staff missions or through staff missions in combination with a resident representative is a judgement to which a committee cannot make an informed contribution. It is extremely difficult to make decisions that maximize operational effectiveness at the margin from a central organizational unit or committee because the optimal number and allocation of resident representative posts at any given point in time will depend on (i) too much situation-specific information, a great deal of

³⁵The World Bank's "Strategic Compact" initiative includes a special fund intended to cover transition costs under the initiative, and it is currently proposed that the Bank's regional departments will bid for additional field office money from this fund during the course of the Bank's regular budget process (World Bank's Planning and Budgeting Department; April 1, 1997).

which is of a qualitative nature, and (ii) too many disparate pair-wise relative judgements regarding operational merit.

98. **In OIA's view, almost any centralized mechanism for making post location decisions is likely to rapidly mutate into a "quota-allocation" mechanism that bases its decisions for the allocation of posts across departments on simple and relatively arbitrary rules with all the attendant disadvantages of the current system.** Those disadvantages include: (1) the "fixing" of post decisions at the beginning of a given time period (usually the financial year) irrespective of whether suitably qualified staff members are available to fill posts (the implicit assumption is that quality trade-offs will be made to fill posts); (2) the tendency over time for departments' allocated post "quotas" to come to be viewed as "rights" that are relatively invariant across departments; (3) the blunting of department accountability for the use of post resources and of incentives to substitute between posts and missions at the margin (for fear of losing the "rights" to a post); and, (4) the tendency for the criterion of maximizing operational effectiveness to be obscured in a centralized decision-making system. The method most likely to contribute to optimal post location decisions is to get the incentives facing departments right. A committee could make no contribution to this and, if anything, would create an incentive for each area department to become an articulate advocate for a higher "quota".

99. **While there are a number of posts that have remained open continuously for long periods, the introduction of generalized "norms" regarding the optimal duration of posts and/or timing of closures, would neither be useful nor appropriate.**³⁶ The survey results indicate a wide spread of views regarding the time horizon within which posts will no longer be necessary in individual cases (Annex Table 2 and Section V of Supplement 1), although there is a high degree of consensus that posts should, in principle, be viewed mostly as transitional rather than long-term instruments. Typical views regarding the appropriate timing of post closures include: (1) that closure should not immediately follow macroeconomic stabilization but would be appropriate only after local macroeconomic institutions had developed to the point at which stabilization could be sustained; and (2) that closure would be appropriate once broad consensus within a country regarding the macroeconomic policy strategy had been sustained for a period of 5-10 years (Section V of Supplement 1). Across-the-board expectations that representatives will be withdrawn at the time of (or "x" years after) the conclusion of Fund-supported arrangements would have arbitrary consequences in the face of the various exogenous factors that can extenuate countries' adjustment strategies. It may be more effective for the Fund to maintain a field presence in countries for extended periods while institutions mature and the policy environment stabilizes, than to risk premature withdrawal from situations that remain vulnerable to reversals, only to find that a later return is necessary. Relative resource scarcity should act as sufficient incentive for departments to

³⁶At end-1996, one third of all resident representative posts had been open continuously for 10 years or more, and 10 percent of posts had remained open continuously for 20 years or more. See Section V of Supplement 1 for further discussion of issues related to post duration.

leave posts vacant or to close posts in situations where the country environment has deteriorated in a way that reduces a resident representative's potential to add value. To the extent possible, decisions on closures should be communicated to authorities well in advance and, in many cases, it may be helpful for the Fund's presence in a country to be phased out gradually (via, for example, use of a visiting regional representative) rather than abruptly withdrawn (Section V of Supplement 1).

100. **In this regard, in order to improve transparency and accountability for decisions regarding posts, "terms of reference" should shift from essentially being related to an incumbent resident representative to being related to the post and to being the basic vehicle for specification of posts' objectives.** In conjunction with greater targeting of the role of field staff, greater transparency and accountability at the level of the Executive Board regarding the function of resident representatives, and higher selection standards, explicit post objectives would improve the focus of both staff and authorities on ensuring that tangible results are achieved.³⁷

101. **While the experience with regional posts is, as yet, too recent and/or too situation-specific to draw firm, general conclusions about effectiveness, regional coverage arrangements present an attractive option for further experimentation by area departments, and may be a particularly relevant option where it is desirable to maintain coverage of large or systemically important developing countries (surveillance or post-program cases) that remain vulnerable.**³⁸ The critical areas where resident representatives can add value (e.g., "early warning") have yet to be fully tested. Many of the unique advantages offered by use of a resident representative (e.g., the day-to-day ability to influence the actions and decisions of policy-makers, the establishment of uninterrupted working relationships with national counterparts, and the ability to provide ongoing support to local efforts to strengthen macroeconomic institutions and capacity) may remain achievable, albeit in a commensurately diluted form, *under certain circumstances* in arrangements where a resident representative post covers more than a single country. Such circumstances would be likely to include (i) ease and speed of travel between the locations being covered; (ii) the absence of political tensions or other difficulties that adversely affect relations between the countries in question; (iii) the limitation of regional coverage arrangements to no more than

³⁷If departments believe that staff members assigned to resident representative positions should continue to have specific individual "terms of reference", a draft should be provided to the Review Committee at the time a candidate is nominated. Like briefing papers, such individual terms of reference would remain internal Fund documents.

³⁸See Section V of Supplement 1. Arrangements where a resident office covers two or more countries in a region currently exist in four cases: the posts in Argentina, Benin, Honduras, and Latvia cover, respectively, Uruguay, Togo, Costa Rica, and El Salvador, and Estonia. It is not yet clear what role the recently established regional office in Tokyo will play in coverage of individual countries in the region.

two countries per resident representative; and (iv) the availability of resident representative candidates who are especially strong performers.

102. **On the number of Fund staff assigned to individual posts, a clear message to emerge from the review is that the Fund's current "one person" approach to resident representative operations is perceived to be one of the keys to the high effectiveness of Fund posts relative to others.**³⁹ In this regard, it is OIA's view that there would be little rationale for the Fund to follow the World Bank down a broad-based decentralization path. The Fund does not have the Bank's need to support field-based implementation of large numbers of project-based operations spread across many diverse sectors of the economy. The Bank's decentralization strategy is likely to make even closer collaboration between Fund and Bank field staffs desirable, but there is little reason at this stage to believe that closer field collaboration with decentralized Bank offices will require, for example, the assignment of more senior Fund staff to resident representative positions. The Fund's field philosophy should continue to be centered on the individual representative approach, which is working effectively, while increasing the emphasis on staff quality and explicit delegated authority.

103. **The survey and the wider review point to a number of considerations that suggest sharing office facilities with World Bank resident missions would involve overwhelming operational drawbacks for Fund posts.** Most importantly, Fund resident representatives' exceptional access to national economic decision-makers is greatly assisted by the location of Fund offices within ministries of finance or central banks in the majority of cases (Annex Table 9 and Section V of Supplement 1). The World Bank's resident missions are almost invariably located outside (and in many cases at some distance from) official premises and, due to the size of Bank resident missions, they could not be accommodated in the locations that the Fund has found to be so helpful. Also, such sharing would result in significant cost charges back to the IMF.

104. **The targeting and effectiveness of the resident representative program should be regularly reviewed on a Fund-wide basis, perhaps on a five year cycle.** If a decision were taken to modify the current program along the lines suggested in this report, there would be merit in an earlier brief review (perhaps in 1999) that focussed narrowly on assessing how agreed modifications to the program had been implemented and on whether any problems had been experienced. Two specific issues that may warrant review at that time are the functioning

³⁹See Annex Table 2 and Section V of Supplement 1. The only present exceptions to the norm of assigning a sole resident representative are China (two positions), Russia (four positions), and Ukraine (two positions). The survey results also indicate little support for increasing the number of local administrative staff employed in resident offices or for maintaining "liaison offices" manned by local staff even if the alternative is outright closure of a post (indeed many argued that the latter could present particular pitfalls including costly "mailbox" problems), but greater support for increasing the number of cases where a local professional is employed to assist the representative with routine data gathering and transformation activities.

of any additional flexibility margin in the size of the program, and any evolving implications of the World Bank's decentralization strategy. A first regular review could then take place, for example, in 2003 (after five years under any modified arrangements).

E. Budgetary Framework

105. The current budgetary treatment of the resident representative program is based on accounting costs. **While accounting costs are the appropriate measure for budget purposes, they are not the appropriate measure on which to base decision-making regarding post openings and closures -- economic cost measures are appropriate for this purpose.** A comparison of the current budgetary accounting costs for the program and OIA's estimate of the economic costs is shown in the text table that appears on the following page.⁴⁰ Care needs to be taken to guard against misunderstandings arising from the utilization of accounting cost data for economic decision-making purposes. Misunderstandings occasionally arise: for example, in the recent discussion of the Medium-Term Outlook for the Administrative and Capital Budgets, a speaker noted that: *"The (budgetary) figures (for the resident representative program) suggest that, in financial terms, at least 70 people in the field would be equivalent in cost to having 200 to 250 people at work in Washington ..."*.⁴¹ A more accurate economic cost estimate of the number of headquarters-based staff that would cost the equivalent of 70 resident representatives is approximately 117. Economic costs give a truer picture of the costs the Fund faces on average over time in locating an economist either at headquarters or in the field.

106. **The budgetary framework for the resident representative program should continue to ensure that the cost of the program as a whole is contained within overall budgetary limits approved annually by the Executive Board. Certain changes in the current budgetary approach would be necessary, however, in order to realize the efficiency gains expected from the modified program arrangements outlined in this report.** Because the Fund does not employ a devolved dollar budgeting approach to departmental personnel costs, the establishment of a budgetary framework that both preserves effective overall budgetary control and introduces greater flexibility with regard to individual post opening and closure decisions presents a challenge. Such a system has to incorporate control elements relating to both of the "units of account" that are currently employed in relation to the resident representative program: staff positions and dollar costs. In addition, in order for departments' judgements regarding post openings and closures to be driven by considerations of maximizing operational effectiveness, the budget framework needs to ensure

⁴⁰More detailed information on resource costs and the current budgetary framework for the resident representative program are contained in Sections III and IV of Supplement 1, respectively.

⁴¹EBM/97/4; January 17, 1997.

**Comparison of Accounting Costs and Economic Costs in the Resident Representative Program
(In thousands of U.S. dollars, FY 1996 data)**

	<u>I</u>	<u>II</u>	<u>III</u>
	Total Cost per Resident Representative	Cost of Average Head-Quarters Staff Member	Difference
1. Accounting Cost			
Budget Presentation	450 ¹	175 ¹	275
<u>Includes</u> all overhead costs in Column I and <u>excludes</u> all overhead costs in Column II.			
2. Economic Cost	Typical Cost of A14 Resident Representative	Typical Cost of A14 Headquarters Econ.	Difference
OIA Presentation	400 ²	250 ²	150

Includes all identifiable overhead costs in Column I and in Column II. Excludes atypical costs from Column I (cost of Moscow office) and averages capital expenses over three years; if these were included in the same way as the in the budget data, the "typical" economic cost of a resident representative would equal the average accounting cost.

¹ Source: EBAP/96/31.

² Source: Section III of Supplement 1.

that departments face a broadly "level playing field" regarding whether an individual staff position is deployed in a member country at a resident representative post, or deployed in headquarters work on that country or in some other capacity by the department. A budget framework that was based on the following broad principles would provide departments with clearer opportunities to deploy overall staff resources in a way that maximizes operational effectiveness, while at the same time maintaining overall budgetary control over the dollar costs expended in relation to resident representative operations:

(i) the 70 resident representative budget positions that are currently ring-fenced in the central staff pool for FY 1998 should be unified with area departments' headquarters-based A11 and above staff budget positions (i.e., the central staff pool would disappear, resident representative positions would shift to area departments, and each department's staff ceiling on A11 and above authorized positions would shift upwards by the appropriate number). Ceilings on the total number of A11 and above authorized staff budget

positions for each department would continue to be set in the normal manner during the annual budget round. A separate Fund-wide ceiling on the total number of authorized resident representative positions would no longer be necessary since these positions would already be subsumed within departmental ceilings;⁴²

(ii) when a department wants to open a post, the necessary staff position would have to come from within the department's existing authorized staff ceiling, and the department would thus be required to re-assign a position from elsewhere within the department where the operational priority was lower. When a department contemplates closing a post because it could obtain greater operational value from using the position elsewhere within the department, or because no suitably qualified candidate is available to fill the field position, it would be encouraged to do so because the position freed by the closing of the post would remain within the department's authorized staff ceiling;

(iii) given the Fund's current budgeting system, costs in the resident representative program should continue to be budgeted in a central dollar pool. During the course of the annual budget round, an overall budget ceiling would be placed on the funds available in this central pool to meet total costs incurred Fund-wide in the resident representative program. Access to this central dollar pool should remain subject to OBP approval: when a department wants to open a post, it would request the necessary appropriation for this purpose. *However, the key consideration in respect of appropriations from the central dollar pool is that, in economic terms, a budgetary request for a resident representative position represents a request for the incremental cost of the position – approximately \$150,000 per annum on average in FY 1996 – a small amount in the context of the Fund's annual operations with member countries;*

(iv) given (i) and (ii) above, changes in the number of resident representative positions would be reflected *only* in the level of incremental resident representative costs incurred by the Fund and would not translate into changes in the total number of A11 and above staff;

(v) *in view of the critical importance of safeguarding a clear incentive for departments to make efficient decisions regarding the allocation of the Fund's scarce staff and dollar resources, and in view of the additional control over total staff numbers, the ceiling on the central dollar pool for resident representative costs should provide room each year for an additional flexibility margin. This flexibility margin should be budgeted at the cost equivalent of 10 percent of the resident representative positions utilized in the previous year. Without this margin, sclerosis in the distribution of posts would continue and (net) post closures would be unlikely to take place; and,*

⁴²Under procedures agreed in 1975, the number of resident representative positions is limited to a ceiling approved each year by the Executive Board in the administrative budget (EBAP/75/267, October 22, 1975; EBM/76/9 and EBM/76/10, January 28, 1976).

(vi) in view of (1) the additional controls (especially on personnel selection and overall staff numbers) built into the proposed arrangements for resources employed in the program, and (2) the low incremental cost of resident representative positions, *as long as sufficient funds remain in the central dollar pool, there should be a presumption in favor of approval of requests for appropriations. Department directors would have the delegated authority to open or close posts provided OBP confirmed that sufficient dollar resources remained in the program budget to support the opening or closure.* Otherwise, a system of multiple controls motivated by relatively small dollar amounts would be driving operationally important decisions, with an attendant potential for over-management. Instead of strengthening the system, such multiple controls would undermine the effectiveness of a framework based on incentives and clear accountability mechanisms for the resident representative program, and risk creating a “penny-wise, pound-foolish” environment.

107. Operating flexibility is essential to the effectiveness of the proposed modified program framework. Because the modified arrangements proposed for the resident representative program make the demand for posts much more directly dependent on a range of operational considerations and on the availability of suitably qualified staff, the precise number of posts that will be open cannot be fixed at the outset of the financial year; nor should the Fund wish to fix the number of posts in advance. This approach is the operational equivalent of placing a binding administrative ceiling on the number of Fund-supported programs that may be negotiated during any given financial year. *The Fund should not be concerned if the number of posts rises since this has no effect on overall staff numbers.* Given the constrained environment for overall staff resources, the margin will probably not be fully utilized. Nonetheless it should exist and a meaningful margin (10 percent) should be maintained each year. Whether the initial functioning of the proposed flexibility margin has been broadly satisfactorily could be assessed in the proposed brief review of the modified program’s implementation in 1999 (see paragraph 104 above).

108. Equally, the optimal distribution of posts cannot be fixed in advance. Some departments have argued that OIA should recommend changes in the current distribution of posts. OIA does not believe that changes brought about by *fiat* are any more likely to be optimal than the current distribution. The solution is to unify the existing -- probably sub-optimal -- allocation of representative positions with the relevant area departments’ regular staff positions and then, as the distribution of posts evolves over time, to deal with any potential need to rebalance the departmental distribution of *total* staff resources in the usual way -- during the annual budget round.

109. Under the proposed budget framework for the program, the focus of OBP and management should be on ensuring that departments’ expenditures in relation to the resident representative program are held within the overall ceiling on the central dollar pool and that costs are effectively monitored and controlled. *The focus should not be on the departmental distribution of resident representative positions.*

110. Under the proposed budget framework, the focus of management and the Executive Board should be on *total* staff numbers of each area department when there is a need to adjust the resources available to changing priorities. *The focus should not be on the total number of resident representatives.* The Fund's interests do not lie in micro-managing the mix of staff resources (headquarters- and field-based) that are applied by departments in individual situations, but in more demanding review of, and more directed feedback on, the results delivered over time.

111. The low incremental cost of well-functioning posts relative to their impressive contribution to the Fund's country work makes the resources employed in the resident representative program money that is well spent. The early warning of potential program/policy interruptions that is provided by resident representatives is an invaluable form of "preventative maintenance". A budgetary philosophy for the program that embodied the principles outlined in this section would be amply justified by the high satisfaction of national authorities with those Fund resident representative posts that are staffed by high quality personnel, by the efficient one-person operation of Fund field offices, and by the provision for greater transparency at the level of the Executive Board in the functioning of resident representatives.

V. EXPECTED RESULTS

112. Strengthening the key elements of the resident representative program in the comprehensive manner recommended by this review would be likely to result in a flexible and more effective program. **If improved results are to be achieved, it is critical that the recommendations of this review be implemented as the package of mutually reinforcing measures that they are intended to form.** Were the recommendations to be implemented partially or sequentially, the intended results would not materialize. Ideally, the recommendations should be introduced as a package on May 1, 1998, at the outset of FY 1999.

113. Within clear resource ceilings, the size of the program would become an endogenous result of the framework, with decision-making located at the appropriate operational and organizational level. **In the short term, the number of resident representative posts may contract since departments would face an adjustment effort in some cases to the requirement that posts be filled only with trusted high quality staff who must always have a minimum level of delegated authority.** In the absence of a determined drive by departments to expand the supply pool, short-term constraints on the size of the pool of qualified staff available for field assignments would likely become rather binding. At the same time, the enforcement of more rigorous selection standards would remove the option of accepting lower quality in order to keep posts staffed (a strategy — available under the current system — that may reduce the risk of "losing" an unfilled resident representative slot to another department).

114. Beyond the immediate requirements of any transition, departments would face clear incentives, which they do not now face, to close ineffective posts and to employ the associated staff positions at headquarters on any country in the department where the incremental benefit of an extra economist at headquarters would be greater. **Over the medium term, these incentives could be expected to constrain the total number of resident representative posts.** In order to be willing to transfer a valuable staff position to the field, departments' immediate offices would expect to be completely persuaded that the likely benefits outweighed the loss of the position from headquarters. Greater reliance on appointing resident representative staff from within the post department and greater emphasis on targeting the "right" person for the situation could be expected, reducing the "failure" rate. Immediate offices would also face incentives to set out with mission chiefs rather specific time frames and concrete expected results from the use of positions in the field. Competition by mission chiefs within each department to be allocated resident representative positions for their countries, and associated "self-monitoring" by immediate offices of their effective use, could be expected to increase.

115. These forces would tend to make the program self-targeting at those situations in which resident representatives can clearly add value, raising the contribution of the program to successful policy outcomes and to a legacy of enhanced local macroeconomic capacity. Over time, these factors should lead to a reduction in the average horizon over which posts are necessary, to resource savings for Fund members, and to an increase in the Fund's effectiveness in the medium term. Clearer delegation of responsibility to the department and mission chief level for the use of economist resources in the field would stimulate a legitimate demand for greater transparency and accountability regarding the functioning of resident representative posts in the context of the Fund's country work. Greater transparency would, in turn, facilitate more demanding review by management and the Executive Board, and more directed feedback to departments on use of the program. Increased stock-taking of what "works" and what does not work in resident operations would also facilitate periodic reassessments of the contribution of the program as a whole to the work of the Fund. **Enhanced flexibility and greater ease of management and Executive Board oversight of the program would strengthen the Fund's ability to adapt rapidly and effectively to a variety of country situations and needs in an evolving international environment.**

CONDUCT OF THE EVALUATION

116. The review was initiated in August 1996. Over August-September, Executive Directors, area departments, and other relevant departments were consulted on the nature and scope of the review. Views on the design of the review were provided by a focus group of Fund staff from a range of departments and grades, including a number of current and former resident representatives, mission chiefs, desk economists and representatives of functional departments. During the Annual Meetings in October 1996, OIA interviewed national authorities from 13 countries, representing a range of geographical regions and income levels, to gain an initial assessment of member countries' views on the resident representative program.⁴³

117. A wide-ranging and confidential survey of views on the resident representative program provided critical information for the evaluation. Specially tailored questionnaires were developed for different respondent groups with the assistance of an external expert in survey design and industrial psychology. Executive Directors and departments were consulted on the content of questionnaires, and draft questionnaires were pilot-tested on two separate occasions.

118. The survey was initiated in December 1996. Questionnaires were sent to about 600 respondents, comprising four groups: (1) Central Bank Governors and Ministers of Finance of 63 countries in which resident representative posts were then located (126 respondents in total); (2) resident representatives who were in the field in December 1996 or who had returned to headquarters from assignments since August 1996 (78 respondents in total); (3) IMF staff mission teams, including mission chiefs, desk economists, PDR and FAD economists, for the relevant countries (258 respondents in total); and (4) Executive Directors, Fund management, heads of departments, B-level staff in area and functional departments whose work centers on countries with intensive Fund involvement, and former resident representatives (143 respondents in total).⁴⁴ ⁴⁵ This was the first occasion on which the Fund

⁴³The countries were Costa Rica, Côte d'Ivoire, Egypt, Guinea, Hungary, Indonesia, Moldova, Nicaragua, Pakistan, Philippines, Sri Lanka, Uganda, and Zambia.

⁴⁴The following countries with resident representative posts were not included in the survey because either the post differs in nature from regular Fund resident representative posts, or the post was too recent at the time the survey was undertaken to enable meaningful participation: Bosnia-Herzegovina, Mozambique, Netherlands' Antilles, and Venezuela.

⁴⁵Since it would have been neither possible nor appropriate for OIA to specify any particular choice of individual national respondents, Central Bank Governors and Ministers of Finance were invited by the Managing Director either to complete the questionnaire themselves or to designate a relevant senior official within their institutions to do so, in the expectation that most Governors and Ministers would choose to delegate the task. In the event, over

(continued...)

has reached beyond its staff to seek confidential feedback formally and directly from a large sub-group of member countries on an aspect of Fund operations.

119. The overall response rate of almost 75 percent compares very favorably with response rates of around 30-40 percent that are typical for surveys on a subject of this complexity.⁴⁶ Approximately 95 percent of resident representatives and over 70 percent of national authorities' respondents participated. In total, responses from at least one national authorities' respondent from 54 of the 63 countries covered in the survey are included in the final survey results reported in this paper, a country coverage rate of over 85 percent for national authorities' views.⁴⁷

120. Following analysis of the survey results and other data, OIA staff visited a representative sample of five countries between March and May 1997 to conduct follow-up discussions with national authorities, resident representatives, and other organizations.⁴⁸ These discussions provided a "reality check" on the survey results and on the operation of resident representative posts under local conditions. The meetings focussed on a closer examination of the reasons for certain views held generally by national authorities, and provided the opportunity to discuss with senior officials a number of tentative conclusions and prospective innovations on which the review was zeroing-in. In addition to these country visits,

⁴⁵(...continued)

70 percent of those who responded described their current position as Governor, Deputy Governor, or Executive Director, in the case of central banks, or as Minister, Permanent Secretary, or Deputy Minister/Secretary, in the case of ministries of finance.

⁴⁶An assessment of the survey response rate was requested from an external expert in the design and conduct of organizational surveys.

⁴⁷In fact, responses were received from 57 of 63 countries (a country coverage rate of 90 percent), but five completed questionnaires from national authorities' respondents were received too late to be included in the final survey data.

⁴⁸The staff teams comprised Mr. Brau and Ms. Doughty (for the staff visits to India, Tanzania, and Peru), and Mr. Brau and Mr. Mongelli (for the staff visits to Estonia and Latvia). In each case, the staff met with the current IMF resident representative and with some or all of the following senior national officials: Central Bank Governors or Executive Directors, Ministers/Deputy Ministers of Finance or their Permanent Secretaries/Chief Economic Advisers, and Economic Advisers to the Prime Minister or President. In addition, the missions met with representatives of some or all of the following: the World Bank, UNDP, UK ODA, US AID, and the embassies of Denmark, Germany, Japan, the Netherlands, and the United States; as well as with a former Fund Executive Director now heading an economic consulting company.

discussions were held in Washington with visiting senior officials from three further countries.⁴⁹

121. An external consultant conducted an independent content analysis of respondents' free-form responses to survey questions, and the results of this analysis have been drawn on in interpreting participants' views on issues raised in the survey. In addition to this content analysis and to tabulation of the quantitative survey data, an external consultant carried out correlation analysis of survey responses within and across various respondent groups and among a range of questionnaire items. The results of both the content and correlation analysis are discussed in more detail in Supplement 1.

122. Prior to finalizing the results of the evaluation, OIA held round-table discussions with representatives from several departments, including the Administration Department, the area departments and Policy Development and Review Department, and the Office of Budget and Planning. The purpose of these sessions was to debate in an open-ended manner the merits and shortcomings of potential alternative reforms of the resident representative program.

⁴⁹Bolivia, Cameroon, and the Czech Republic.

THE CURRENT PROGRAM

123. A profile of the countries in which resident representative posts were located at end-1996 that were covered by the survey for this review, and of the staff assigned to the field in late 1996 who were covered by the survey as current resident representatives, is contained in Annex Box 1 and Annex Figures 1 through 7.

A. Key Administrative Features

124. The resident representative program is presently administered as follows:

- Staff positions in the resident representative program are a separate item in the administrative budget and are subject to a ceiling set annually by the Executive Board. The opening and closure of each post is subject to management approval.⁵⁰
- Area departments select resident representative candidates, management approves these choices, and national Governors for the Fund formally request—and thus concur in—the posting of the resident representatives. Staff are appointed for annual periods, subject to renewal with the national authorities' approval.
- Resident representatives receive a general “briefing” before taking up the assignment and normally travel to the country for a pre-assignment visit.
- Terms of reference are established by the area department for each posting and are approved by management. They cover such matters as objectives, responsibilities, and reporting relationships.
- Each resident representative post is allocated an annual operating budget to defray local staff costs and other local administrative costs.
- Country contributions mainly take the form of office space in the central bank or ministry of finance and sometimes take the form of secretarial assistance or provision of a car and driver. Country contributions are estimated to amount to about 7 percent of the average annual cost of operating a post.⁵¹
- Local professional and support staff are employed, at Fund expense, by a number of resident representatives, subject to the post operating budget.

⁵⁰See Section IV of Supplement 1 for a description of the current budgetary framework.

⁵¹EBAP/94/69; September 2, 1994.

Annex Box 1. Current Program: Country and Personnel Profile

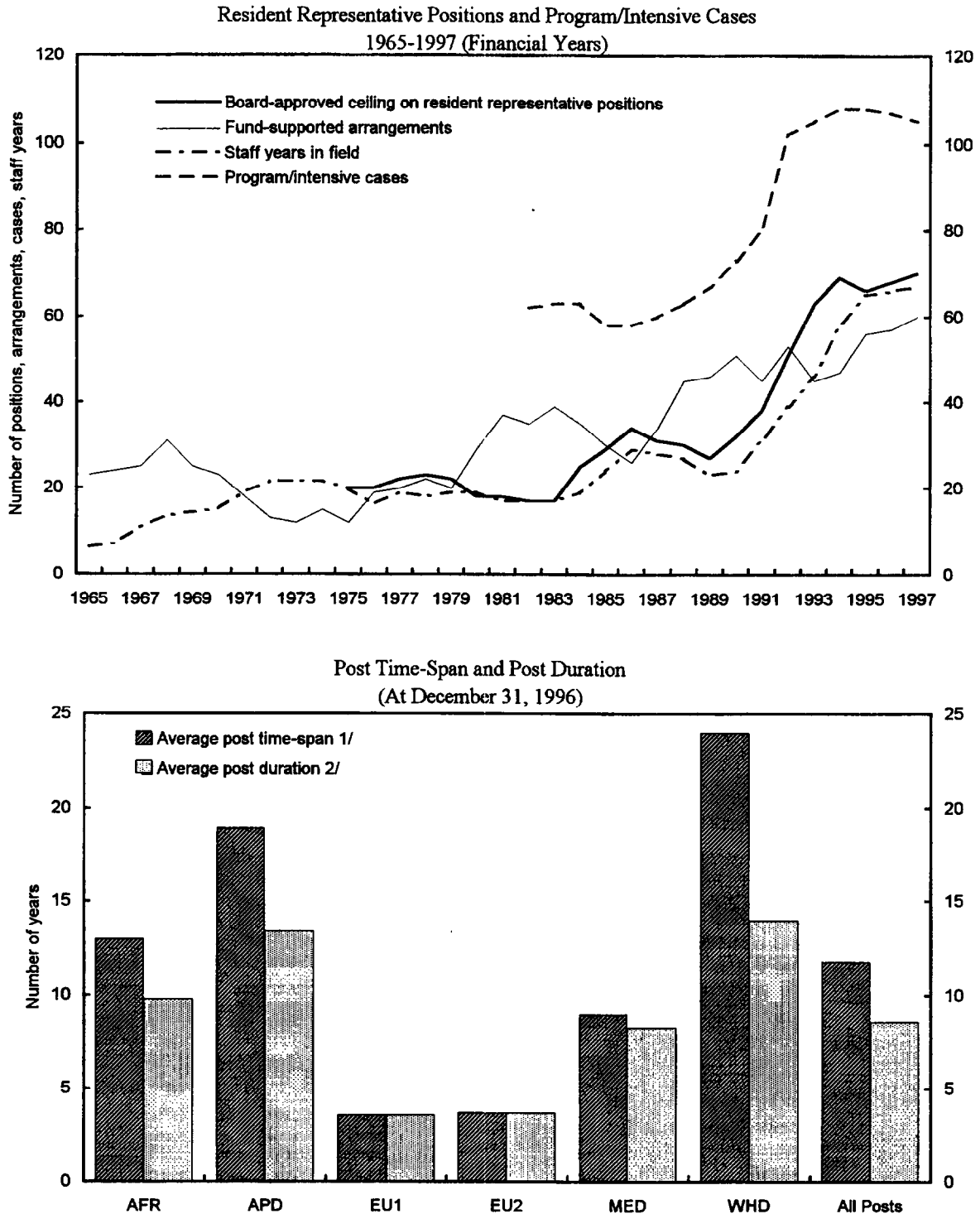
Countries

- The rise in the number of countries in which Fund resident representative posts are located has closely paralleled the rise in the number of member countries with "program/intensive" Fund involvement (Annex Figure 1). Fund-wide, at end-1996, the average post time-span was almost 12 years, and the average post duration approximately 8.5 years, but there is wide variation across regions in the length of time for which member countries have been interacting with Fund resident representatives (Annex Figure 1).
- The extent to which program/intensive countries have posts varies across regions, but countries with relatively higher outstanding use of Fund resources have posts to a greater extent than other members (Annex Figure 2). The program mix of post countries varies across regions, but the post coverage of ESAF programs is slightly higher overall than that of SBA/EFF arrangements which, in turn, is slightly higher than that of countries with other relations with the Fund (Annex Figure 2).
- Growth in the number of posts related to the transition economies has not generally been accompanied by a decline in the use of posts in non-transition cases (Annex Figure 3). Use of long-term resident TA experts across regions has very broadly tracked growth in the number of posts, with the exception of the transition cases where a sharp rise in the use of long-term experts in 1994-95 now appears to have peaked and to be easing (Annex Figure 3).
- The resident representative program is catering to a diverse market of Fund members: there is wide variation across regions in the populations, income levels, education rates, and degree of access to private capital markets of the countries in which Fund resident representatives are operating (Annex Figures 3 and 4).

Personnel

- The typical Fund resident representative is 36-45 years of age; tends to be of an English-speaking national background, although around a quarter are continental Europeans; and, in the vast majority of cases, is married and accompanied by his/her spouse (Annex Figure 5). Approximately 95 percent of Fund resident representatives were male and 5 percent were female at end-1996. Fund-wide, the average length of an individual resident representative assignment was 2.3 years over 1995-96.
- Over the past five years, the proportion of resident representatives who are B-Level staff has remained relatively constant at about 20 percent (Annex Figure 6). At end-1996, resident representatives typically had been in their positions for between 6 months and two years. While experience levels vary across departments, two profiles predominate: those with more than 10 years' prior experience at the Fund, and those taking up a post after between four and eight years' experience. The majority of representative staff have not held a previous resident assignment. Resident representatives' experience has been mostly in area departments, and almost one half were appointed from within the area department to which they are currently assigned (Annex Figure 6).
- Resident representatives are typically grade A14-A15 staff, and approximately 50 percent have had prior experience of leading a Fund staff visit or mission at some point during their Fund careers (Annex Figure 7). There is little variation across departments in the length of time that the end-1996 resident representative population spent in the "A" grades, but both the prior performance profile of resident representative staff and the rating record of departments for field assignments vary across departments. In general, however, the rate at which "1" ratings have been awarded for field performance has typically fallen well below the 15 percent ceiling for staff Fund-wide (Annex Figure 7).

Figure 1. Resident Representative Program, Program/Intensive Cases, and Post Longevity

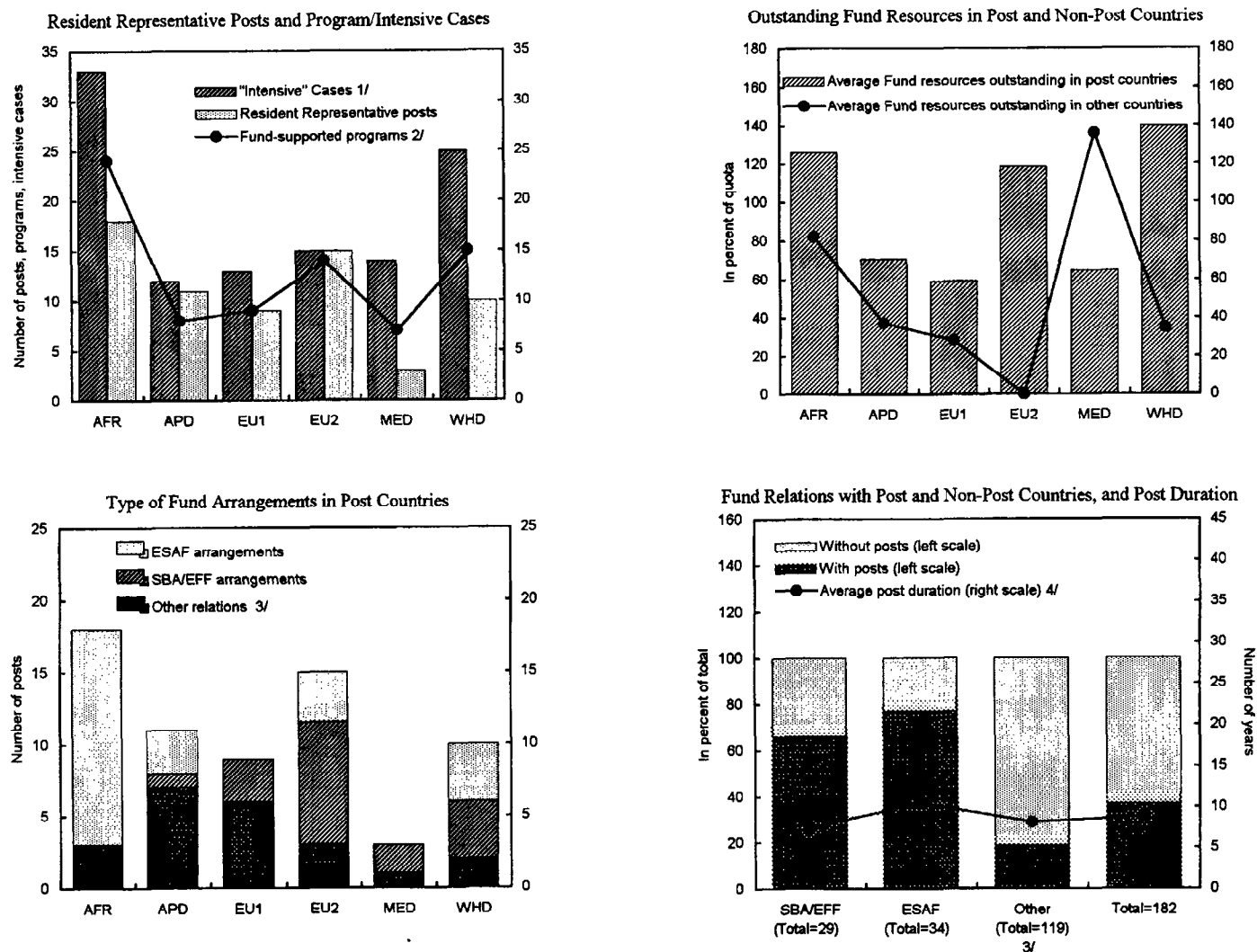


Sources: Treasurer's Department, Office of Budget and Planning, and Executive Board documents.

1/ Post time-span is the number of years between the time a post first opened and end-1996 (including intervening closures), for posts open on December 31, 1996.

2/ Post duration is the total number of months a post has been open (excluding periods of closure), for posts open on December 31, 1996.

Figure 2. Program/Intensive Cases, Use of Fund Resources, and Type of Fund Relations
(At December 31, 1996)



Sources: Area Departments, Treasurer's Department, and Office of Budget and Planning.

1/ "Intensive" cases include countries with a Fund-supported program (as defined in footnote 2), countries in which a program was under negotiation or where Fund staff monitoring with or without a shadow program was taking place, countries for which enhanced surveillance procedures were operating, and countries with arrears to the Fund, during calendar 1996.

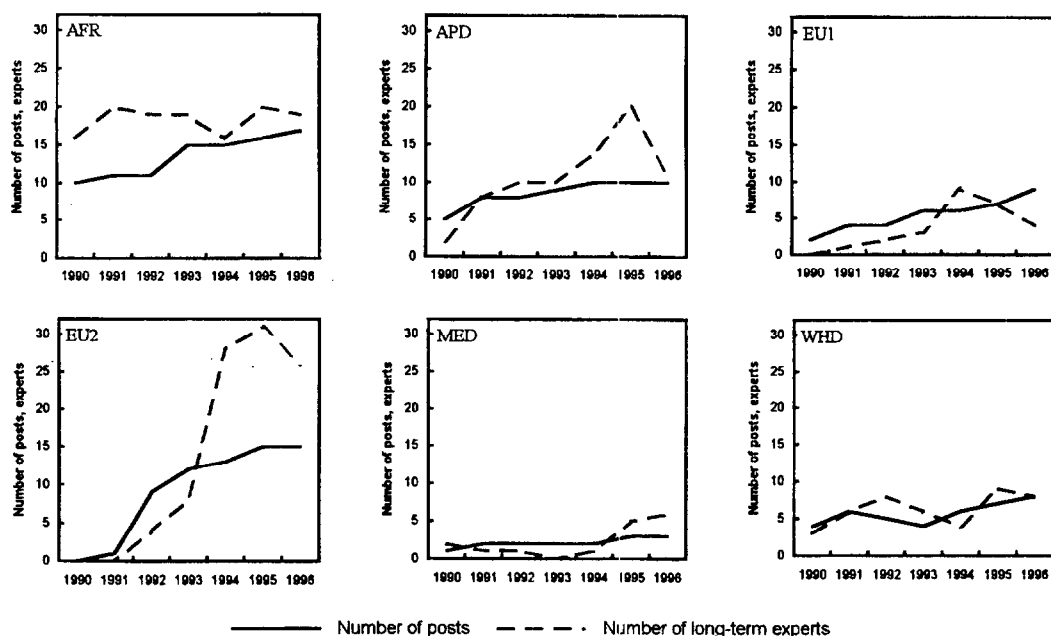
2/ Defined to include any country with an SBA, EFF, SAF/ESAF arrangement, a RAP, or a CCFF/EA purchase during calendar 1996.

3/ "Other" relations include those intensive cases (footnote 1) that did not have a Fund-supported program in calendar 1996, and surveillance-only countries.

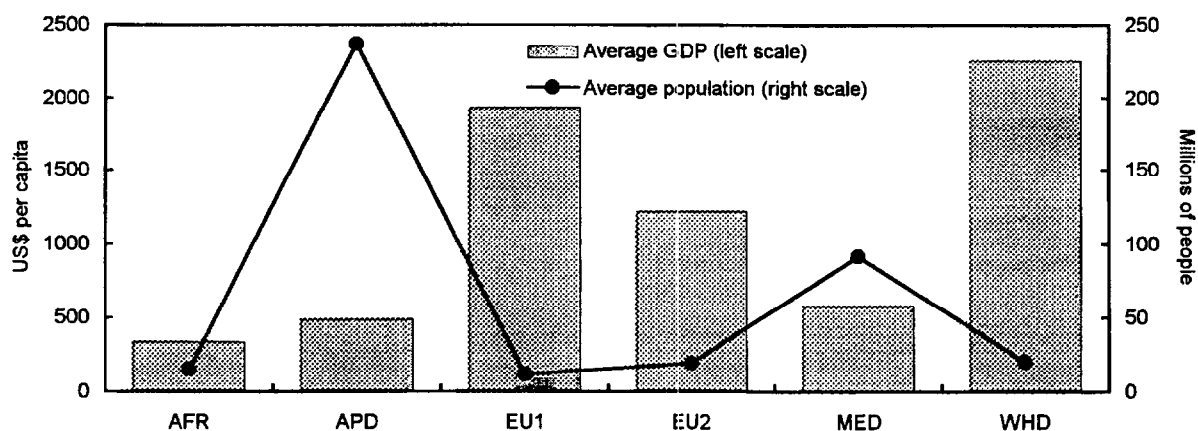
4/ Post duration is the total number of years a post has been open (excluding periods of closure), for posts open on December 31, 1996.

Figure 3. Technical Assistance and Development Indicators in Post Countries

Resident Representative Posts and Resident Long-Term Experts 1/
(1990-1996)



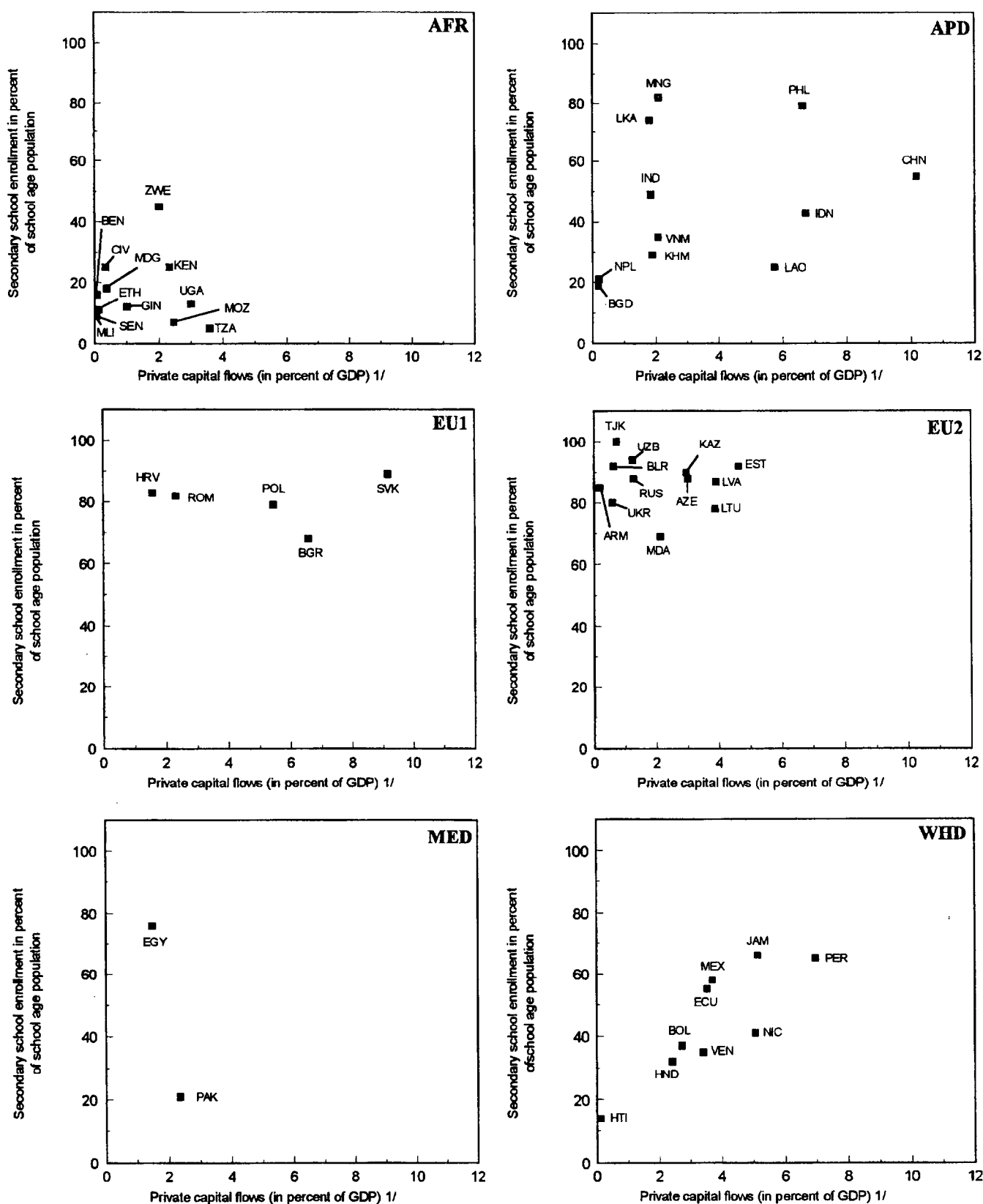
Income Level and Population of Post Countries, 1994



Sources: Fiscal Affairs Department, Monetary and Exchange Affairs Department, Statistics Department, Office of Budget and Planning, World Bank Social Indicators Database.

1/ Resident long-term experts are those resident for a minimum of six contiguous months and are measured here in terms of number of Fund-provided experts resident at December 31 of each year in those countries which had resident representative posts at December 31, 1996.

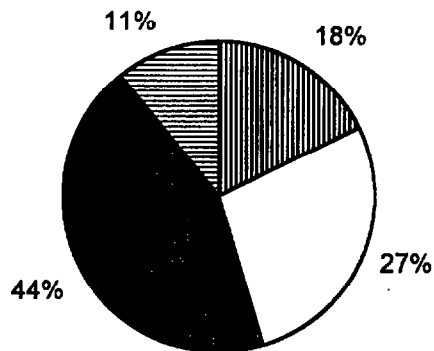
Figure 4. Indicators of Social & Financial Development in Post Countries, 1994-1995



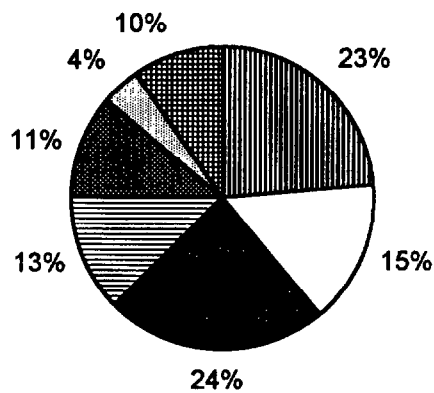
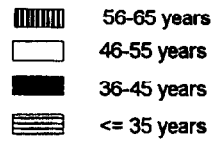
Sources: World Bank Social Indicators Database, Debtor Reporting System, and World Bank Tables 1995; IMF WEO Database, and IMF staff estimates.

1/ Private capital flows include medium and long-term commercial borrowing, and foreign direct investment.

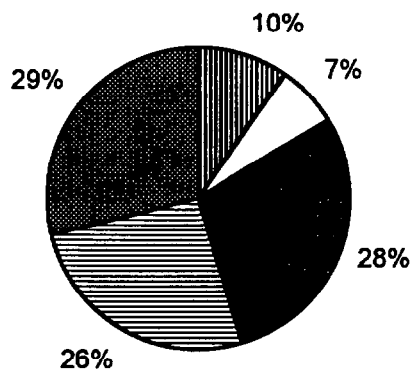
Figure 5. Resident Representatives' Demographic Characteristics
(Staff on assignment at December 31, 1996)



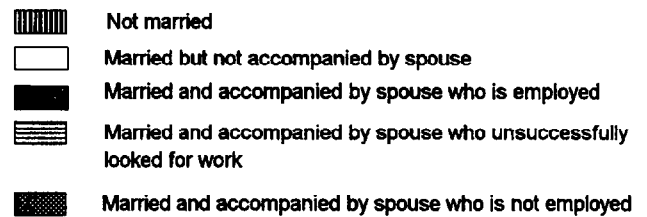
Age



Nationality

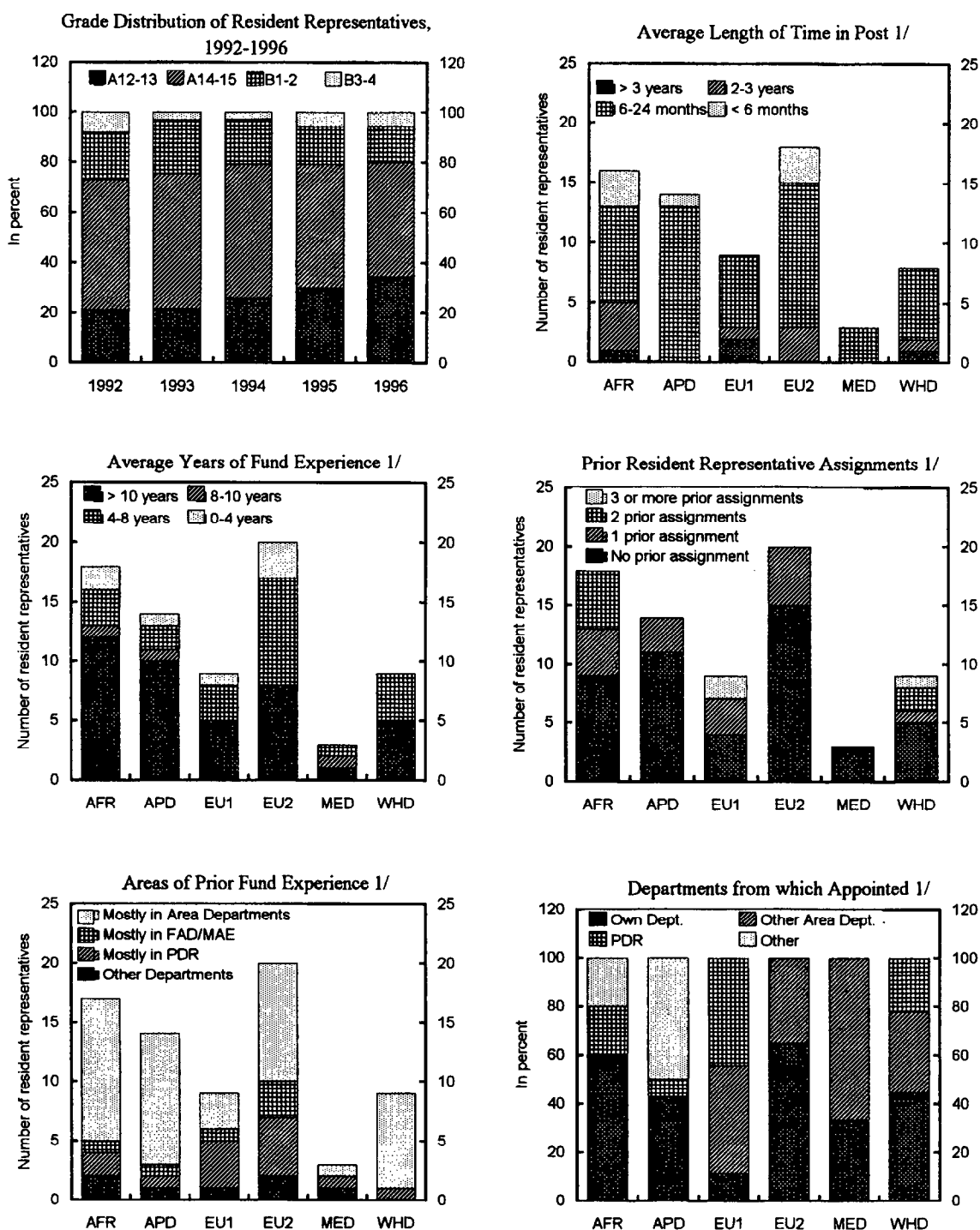


Marital Status



Sources: OIA Survey Database on the Resident Representative Program.

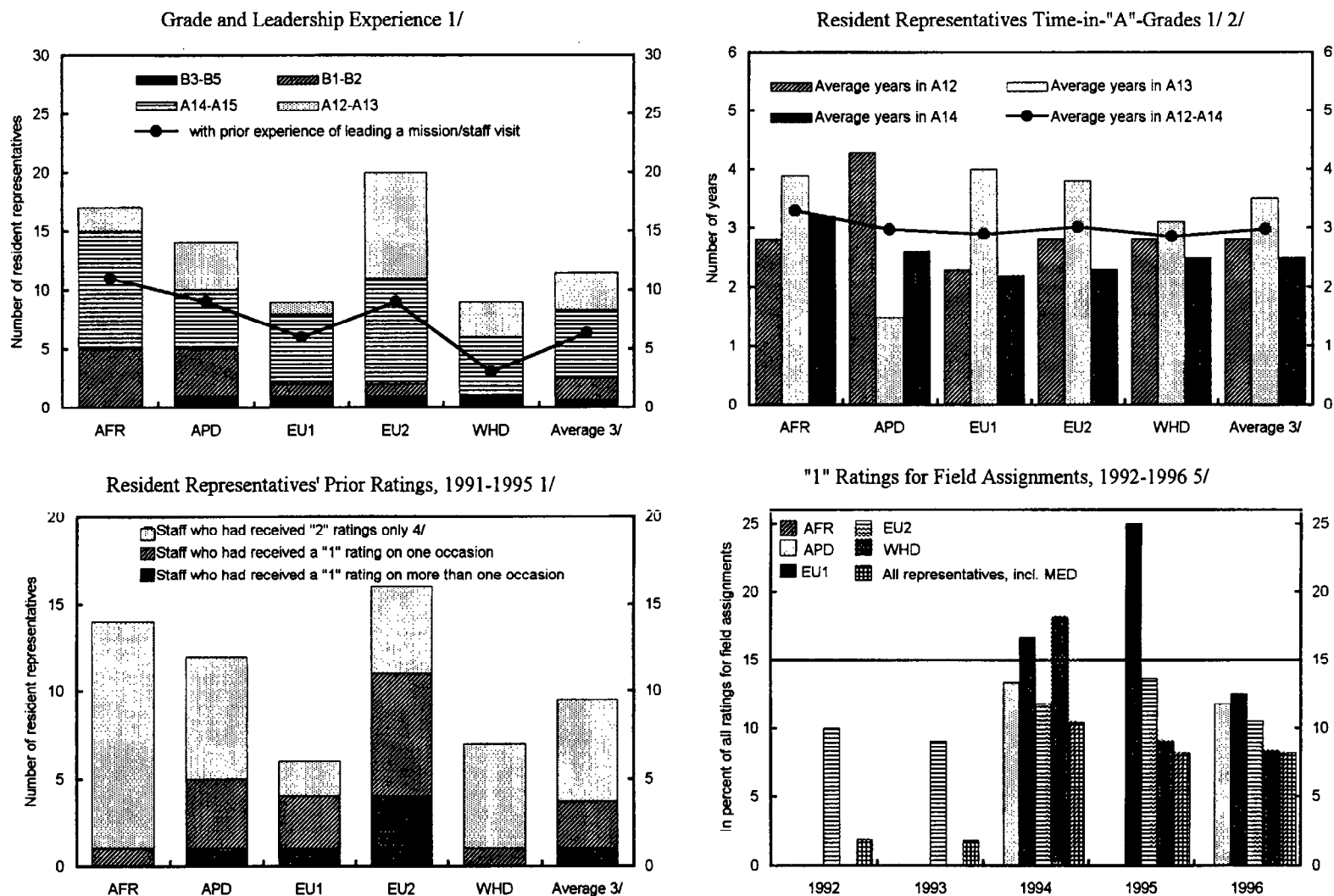
Figure 6. Resident Representatives' Experience and Background



Sources: Peoplesoft Database, OIA Survey Database on the Resident Representative Program.

1/ Staff on assignment at December 31, 1996.

Figure 7. Career Indicators in the Resident Representative Program



Sources: Peoplesoft Database, Office of Budget and Planning, and OIA Survey Database on the Resident Representative Program.

1/ Staff on assignment at December 31, 1996.

2/ Time spent in "A" grades during the period 1986-1996

3/ Average across all departments including MED.

4/ No staff in the field on December 31, 1996 had received a "3" rating over the period 1991-1995.

5/ No "1" ratings have been given by non-area departments to returning resident representative staff.

Resident representatives receive additional benefits that are intended to reimburse staff for the additional cost and hardship incurred in the field, to recompense staff for the higher “success risk” under which they operate in these roles, and to provide a financial incentive to take up field assignments.

- These benefits comprise an overseas allowance equivalent to 30 percent of salary per annum capped at the mid-point of grade B1; a hardship allowance modeled on the system employed by the U.S. Department of State with benefits ranging from zero to US\$27,000 per annum for a posting in a country with the highest hardship ranking; a cost-of-living allowance, based on U.S. Department of State indices, which are reviewed on a quarterly basis, that compensates staff for higher cost of goods and services in the country of assignment and that currently ranges from zero to about US\$30,000 per annum; an allowance for the shipment of 500-2,000 lbs. of food and other consumables depending on household size; full payment of housing expenses in premises leased by the Fund and subject to periodic supervision and inspection by Fund security officials; and various smaller specific allowances. In addition, the Fund and the World Bank jointly have a standing contract for emergency medical evacuation of field staff and their families where necessary.
- Resident representatives are expected to travel to headquarters at least once a year for consultations and on other occasions, as necessary, subject to area departments’ business travel budgets.
- A staff unit in the Administration Department is charged with assisting resident representatives on administrative, housing, logistical, family, and other matters.

B. Strengths

125. Satisfaction with the overall effectiveness of resident representative posts is generally high. Survey results indicate that 70 percent of national authorities are highly or “very” satisfied with the overall effectiveness of posts (Annex Box 2; Annex Table 3 of Supplement 1). Lower proportions of mission team respondents (50 percent) and other IMF headquarters-based respondents (46 percent) are as highly satisfied as national authorities, but across all respondents a majority (56 percent) rate their level of satisfaction with overall effectiveness as high or very high (Annex Box 2; Annex Table 3 of Supplement 1).

126. The effectiveness of IMF posts is perceived very favorably by national authorities relative to other organizations’ field offices, and by other organizations’ field representatives. A majority of national authorities’ respondents believe that there is generally little that the Fund can learn from other organizations’ field operations (Section V of Supplement 1). In interviews held during the course of country visits, other multilateral organizations’ representatives and leading official bilateral representatives expressed very favorable views regarding the effectiveness of Fund resident offices and representatives (Section V of Supplement 1).

Annex Box 2. Key Results from the Survey

* A majority (52 percent) of respondents believe that resident representative posts should be viewed as transitional instruments which have, as one of their major goals, the function of building up the institutions/mechanisms on the ground so that relations between the member and the IMF can ultimately be managed effectively without a resident representative post (Annex Table 1 of Supplement 1).

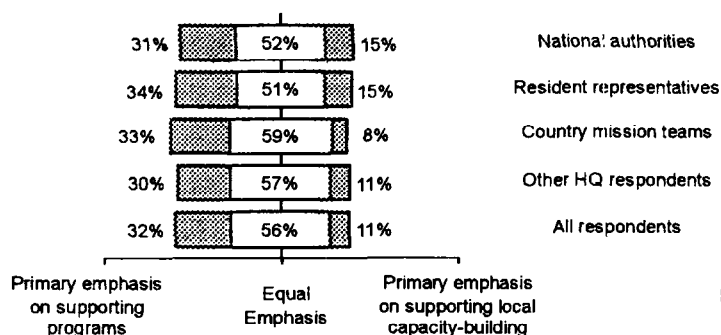
* A majority (56 percent) of respondents believe that resident representative posts should place approximately equal emphasis on (1) supporting the implementation of IMF-supported economic programs (including pre- and post-program activity) or series of economic programs in the member country; and (2) supporting the building of local capacity in the areas of macroeconomic policy formulation and implementation (Annex Table 1 of Supplement 1).

* Over 60 percent of respondents believe that posts have a high or "major" impact on the overall quality of the IMF's country work, and about 60 percent of respondents believe that the resident representative program achieves one half to two-thirds of its maximum potential value-added (Annex Table 3 of Supplement 1).

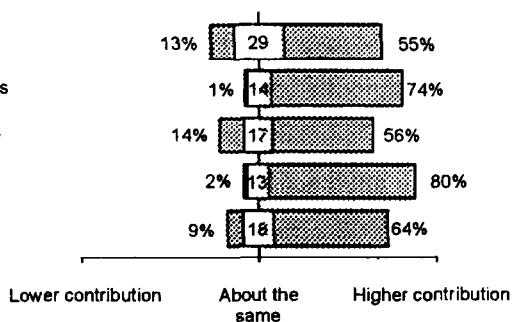
* A majority (54 percent) of respondent have been highly or "very" satisfied overall with the quality of staff assigned as resident representatives to their country or to the country on which they work, but the remaining 46 percent of respondents have been only satisfied or worse (Annex Table 4 of Supplement 1).

* Survey respondents' views on several key issues are illustrated below.

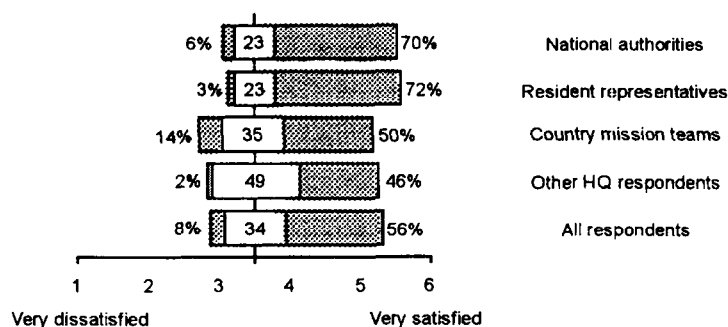
Q: Should resident representative posts mainly support programs or local capacity-building?



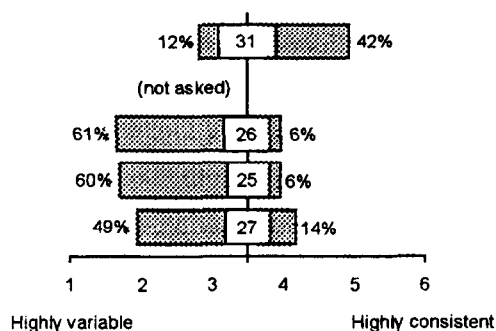
Q: Contribution of resident representative posts (relative to staff missions) to early warning regarding program slippages?



Q: Overall satisfaction with resident representative posts' effectiveness?



Q: How variable is the quality of staff assigned as resident representatives?



127. **The level of formal and informal access to senior national economic policy-makers that is provided to IMF resident representatives is exceptional.** A majority of resident representatives' counterparts at the levels of Minister, Deputy Minister, and top-ranking officials have weekly or more frequent contacts with resident representatives, usually in the form of bilateral meetings (Annex Box 3; Annex Table 9 of Supplement 1). Resident representatives' contacts with officials at technical levels generally take place daily (Annex Table 9 of Supplement 1). Three out of four resident offices are located on official government premises and 63 percent are located inside central banks and ministries of finance—a form of access rarely afforded to other agencies, and one that is recognized as contributing to the quality of Fund representatives' interaction with national authorities in a majority of cases (Annex Table 9 of Supplement 1).

128. **Executive Board and senior IMF staff respondents believe that the Fund has too few posts, and most respondents believe that more economists should be located in the field.** A majority of Executive Board and senior IMF staff respondents believe that there are currently too few resident representative posts, and about two thirds of Executive Board and senior IMF staff respondents believe that the Fund should locate more rather than fewer economists in the field (Annex Table 2 of Supplement 1):

129. **Posts have a substantial impact on the overall quality of the Fund's work with member countries.** Over 60 percent of all survey respondents believe that resident representative posts have a significant or "major" impact on the overall quality of the Fund's country work (Annex Table 3 of Supplement 1).

130. **Across a range of general result areas, there is broad-based agreement that the contribution of posts matches or exceeds that of staff missions.** A majority of all survey respondents believe that the contribution of resident representative posts *exceeds* the contribution of staff missions to improving the IMF's understanding of domestic policy-makers' views, constraints, reasons, and plans, and to improving local understanding of the IMF, its objectives, policies and procedures (Annex Table 3 of Supplement 1). A majority of IMF respondents judge that the contribution of posts to pinpointing and overcoming local obstacles *exceeds* that of staff missions (Annex Table 3 of Supplement 1). Between two thirds and 90 percent of all survey respondents believe that the contribution of resident representative posts *matches or exceeds* that of staff missions in the areas of: strengthening the policy dialogue between the IMF and national authorities; promoting well-informed domestic economic debate; influencing domestic expectations regarding the feasibility, sustainability, and benefits of economic reforms; improving progress and constraining slippages in the area of structural reforms; macroeconomic capacity-building; and improving the extent of implementation of technical assistance recommendations (Annex Table 3 of Supplement 1). Over 70 percent of IMF respondents believe that posts' contribution *matches or exceeds* that of staff missions to the IMF's ability to adapt policies to meet local conditions, and to maintaining local policy-makers' momentum and resolve (Annex Table 3 of Supplement 1).

Annex Box 3. Critical Elements for Success

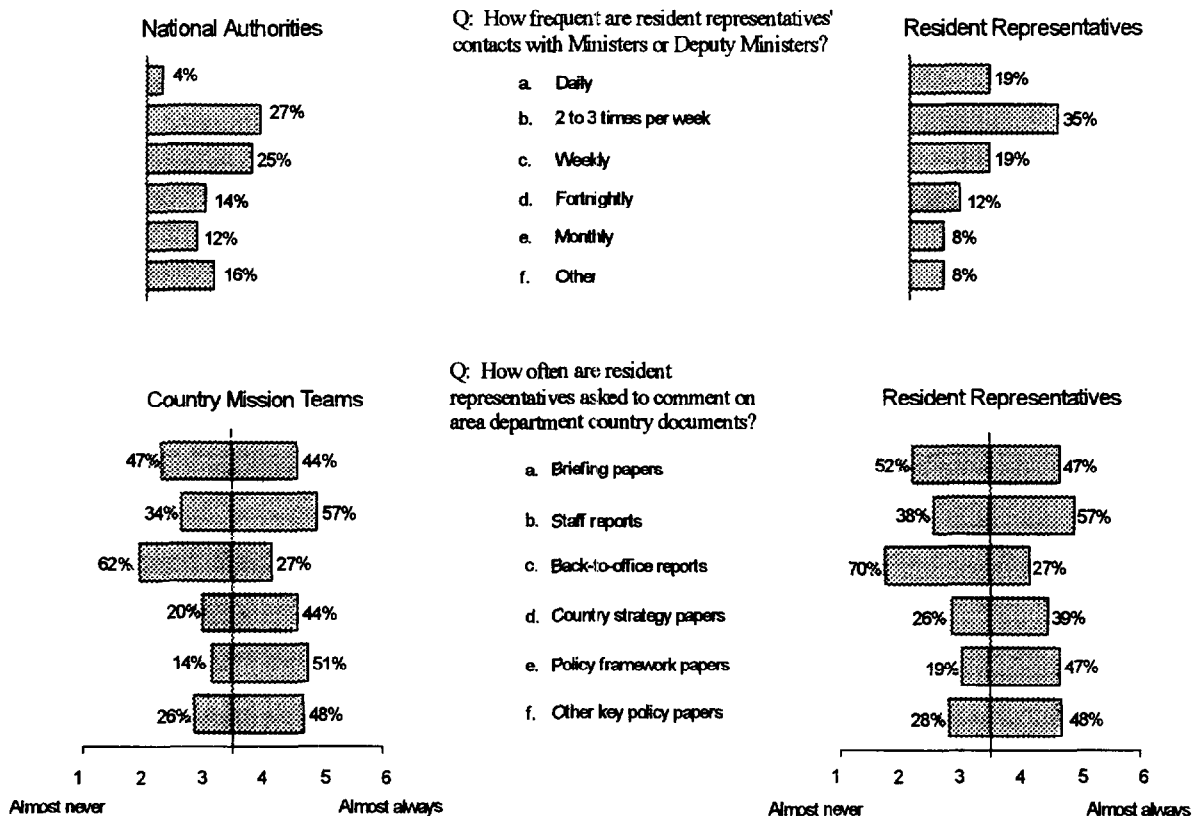
* The *primary influence* on the effectiveness of posts is the quality of resident representative staff. The specific behavioral and skill characteristics most significantly correlated with effectiveness are the frequency with which representatives initiate contact with authorities to provide policy views, technical/policy-related skills, and interpersonal effectiveness (see Annex Box 4).

* A range of "*country receptiveness*" factors are significantly correlated with post effectiveness, including: the authorities' receptivity to having a post; how influential representatives' views are with key government members; the frequency with which authorities initiate contact with representatives to seek policy advice, with which representatives are asked to comment on draft policy documents, and of instances of less than full cooperation on important matters; the extent of representatives' role in the intra-governmental policy dialogue and of their access to key decision-makers; and heavy use of representatives by authorities (Section VII of Supplement 1).

* A range of "*area department integration*" factors are significantly correlated with post effectiveness, including: representatives' influence on the policy stance, and on key strategic shifts in the policy stance, of area departments vis-a-vis post countries; their influence on the policy content of key country documents; the effectiveness of the interaction between representatives and headquarters-based staff; the weight placed on representatives' policy recommendations by headquarters-based staff; and the extent of representatives' involvement in missions' in-country work (Section VIII of Supplement 1).

* A range of resident representative "*discretion*" factors are significantly correlated with the effectiveness of posts (see Annex Box 5).

* Two aspects of these critical elements are illustrated below.



131. **In the area of “early warning”, the contribution of resident representative posts stands out.** Sixty-five percent of all respondents believe that resident representative posts make a substantial contribution to providing early warning of potential policy/program slippages and to minimizing program “surprises”, and the same proportion judge that this substantial contribution *exceeds* that of staff missions (Annex Box 2; Annex Table 3 of Supplement 1). In this area, a majority of even resident representatives’ most exacting assessors—their mission colleagues— acknowledge that the contribution of resident representatives *surpasses* their own (Annex Table 3 of Supplement 1).

132. **Across a range of other areas directly related to the success of Fund-supported programs, there is wide agreement that the contribution of posts matches or exceeds that of staff missions.** 70 percent or more of all survey respondents believe that the contribution of posts to improving both short-term monetary and credit control, and the overall implementation of Fund-supported economic programs, *matches or exceeds* that of staff missions (Annex Table 3 of Supplement 1). There is broad-based agreement amongst IMF respondents that posts’ contribution *matches or exceeds* that of missions to timely compliance with program prior actions (76 percent) and performance criteria (76 percent); to timely achievement of structural benchmarks (72 percent); and to reducing the frequency of (informal and formal) interruptions and suspensions of Fund-supported economic programs (63 percent) (Annex Table 3 of Supplement 1).

C. Weaknesses

133. **Executive Board and senior IMF staff respondents believe that significant potential exists to increase the value added by the resident representative program.** Two thirds of these survey respondents believe that the program has a substantial level of untapped potential (Annex Table 3 of Supplement 1).

134. **Corroboration of this assessment is provided by the sizable minority of those who work with Fund resident representatives who are only “satisfied” or less-than-satisfied with the effectiveness of posts.** Almost 30 percent of national authorities’ respondents fall into this category, almost 50 percent of country mission team respondents, and over 40 percent of survey respondents overall (Annex Box 2; Annex Table 3 of Supplement 1).

135. **The extent and the perception of consultation with national authorities regarding the objectives of resident representative posts are uneven.** Survey respondents overall are evenly split regarding whether or not national authorities are consulted on the role and/or objectives of resident representative posts located in their countries (Annex Table 9 of Supplement 1). Consultation is closely linked to the strength of cooperation with resident representatives by authorities, a prerequisite for the effectiveness of posts (Section VII of Supplement 1).

136. **“Quality gaps” in relation to resident representative staff have been experienced in a significant minority of cases.** The survey results indicate that almost 35 percent of national authorities’ respondents believe that the average quality of resident representative staff is only satisfactory (Annex Table 6 of Supplement 1). Country mission team respondents are more critical: two out of three hold this view, and about 60 percent of this group believe that the average quality of resident representative staff is significantly or “highly” variable (Annex Box 2; Annex Table 6 of Supplement 1). Almost 60 percent of survey respondents overall believe that average personnel quality should be higher (Annex Box 4; Annex Table 6 of Supplement 1).

137. **“Influence gaps” in relation to resident representatives are pervasive.** One in two country mission team respondents believe that resident representatives have little or no influence on either the area department’s policy stance *vis-à-vis* the post country, or on the policy positions taken in briefing papers and staff reports (Annex Box 5; Annex Table 5 of Supplement 1). Over 50 percent of national authorities’ respondents believe that lack of attention by staff in Washington to resident representatives policy recommendations is an obstacle to resident representatives maximizing their potential value-added (Annex Table 3 of Supplement 1). Relatedly, about 50 percent of national authorities say that resident representatives have only moderate influence with key national policy-makers (Annex Table 5 of Supplement 1).

138. **Problems regarding the level of “authority” of resident representatives are evident.** At the heart of these problems is a lack of consensus among IMF staff in Washington regarding whether resident representatives have the authority to give *ad referendum* policy advice within the bounds of existing agreed policy positions: close to 50 percent of these respondents in aggregate say that resident representatives do not have *ad referendum* authority (Annex Box 5; Annex Table 5 of Supplement 1). Only one quarter of headquarters-based respondents believe that resident representatives have sufficient authority in general to be effective (Annex Table 5 of Supplement 1). Both in the survey and in interviews, national authorities are very clear that resident representatives who perform little more than a “messenger” or “mail-box” function between the authorities and IMF staff in Washington are not useful to member countries (Section VI of Supplement 1). Almost 40 percent of national authorities’ respondents identify insufficient delegation of authority to resident representatives as a significant or “major” obstacle to resident representatives maximizing their potential value-added, and the majority believe that the effectiveness of resident representative posts would be enhanced by assigning staff who have greater discretion to operate *ad referendum* than is the case at present (Annex Box 6; Annex Tables 3 and 5 of Supplement 1).

139. **The present budgetary framework for the program provides departments with incentives that are inconsistent with maximizing efficiency with respect to the resources employed in the program.** OIA’s analysis of the budgetary framework suggests that the location of resident representative positions in a central pool (rather than within area department authorized staff ceilings) provides area departments with incentives to maximize

Annex Box 4. Personnel Skills and Quality

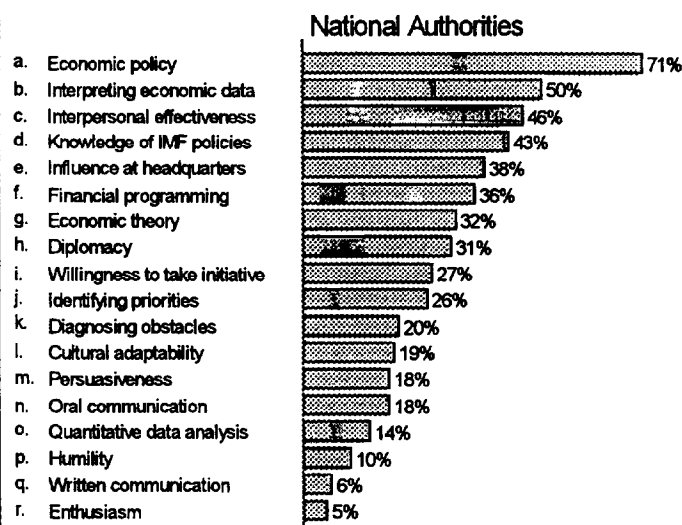
* Views on the most critical skills, abilities and qualities needed by resident representatives are highly correlated across all respondent groups indicating a substantial degree of agreement on the characteristics important for effectiveness. The top five skills or qualities on which national authorities, mission teams, and resident representatives are in agreement are: economic policy skills; ability to interpret economic data; knowledge of IMF policies; interpersonal effectiveness; and willingness to take initiative (Section IX of Supplement 1).

* There are some differences in perception between IMF staff and national authorities. IMF staff tend to place a higher weight on a number of "people" skills (interpersonal effectiveness, oral communication ability, and persuasiveness) than do authorities who tend to place a higher weight on a range of "technical" factors (influence at headquarters, financial programming skills, and economic theory skills) than do IMF staff. The weight placed by national authorities on representatives' influence at headquarters may be one factor explaining why national authorities' are more likely than IMF staff to believe that an individual's seniority is a strong predictor of effectiveness (Section IX of Supplement 1).

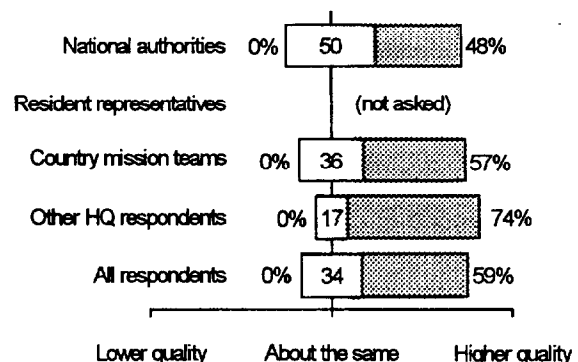
* National authorities tend to rate the quality of staff assigned as representatives at a higher level than do IMF staff: 61 percent of national authorities' respondents believe that staff quality is high or "very high" on average, while only 22 percent of mission team respondents share this view (Annex Table 4 of Supplement 1).

* Relatedly, IMF respondents are strongly of the view that the quality of staff assigned as representatives should be higher on average, while national authorities are evenly split over whether quality should be about the same or should be higher (Annex Table 4 of Supplement 1). Respondents' views on this issue, and authorities' views on the skills needed by representative staff, are illustrated below.

Q: What are the most critical skills, qualities, or abilities needed by resident representatives?



Q: Should the average quality of staff assigned as resident representatives be higher or lower?



Annex Box 5. Resident Representatives' Influence and Authority

* A range of resident representative "*discretion*" factors are significantly correlated with the effectiveness of posts, including: representatives' influence on the dialogue between the mission team and the authorities; representatives' discretion to conduct the on-site policy dialogue with national authorities, to give on-site policy advice, and to undertake macroeconomic capacity-building activities; and the extent of resident representatives' authority to carry out the role (Section VIII of Supplement 1).

* A number of factors relating to resident representatives' influence on the views and policy positions of headquarters-based staff are also significantly correlated with the effectiveness of resident representative posts (see Annex Box 3).

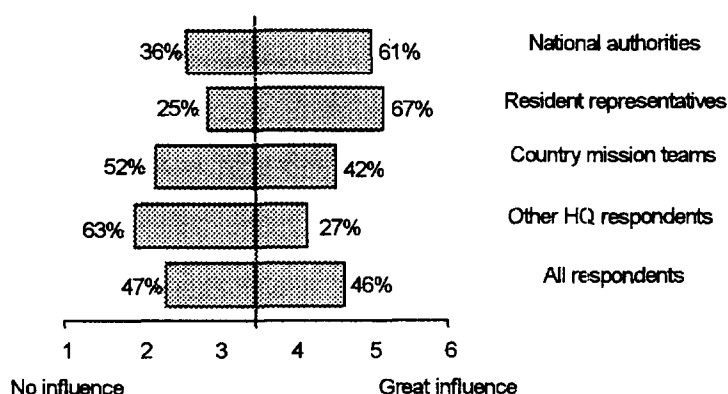
* Mission team respondents believe that resident representatives have relatively less influence over the policy content of briefing papers and staff reports than over policy framework papers and country strategy papers (Annex Table 5 of Supplement 1).

* Three out of four respondents believe that resident representatives are given insufficient authority to perform the job effectively (Annex Table 5 of Supplement 1).

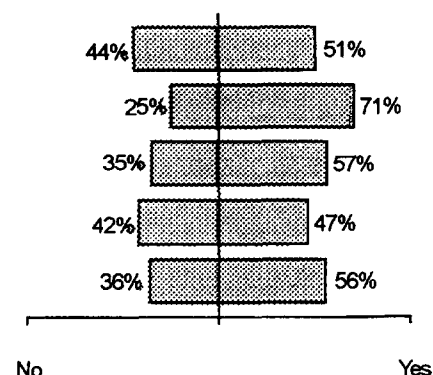
* National authorities are the respondent group most likely to believe that representatives should be given more authority, followed by IMF respondents who are not mission team members, with mission team respondents the least likely to agree that resident representatives should be given more authority (Annex Table 5 of Supplement 1).

* Respondents' views on two important influence/authority issues are illustrated below.

Q: How much influence do resident representatives have on key strategic shifts in area department's policy stance vis-a-vis their post country?



Q: Do resident representatives have the authority to give ad referendum policy advice?



Annex Box 6. National Authorities' Perspectives

* The most important factors contributing to the value-added of resident representative posts in the view of national authorities are effective interaction between resident representatives and authorities; effective interaction between representatives and headquarters-based staff; the high motivation level of representatives; and the high technical skill level of representatives (Annex Table 3 of Supplement 1).

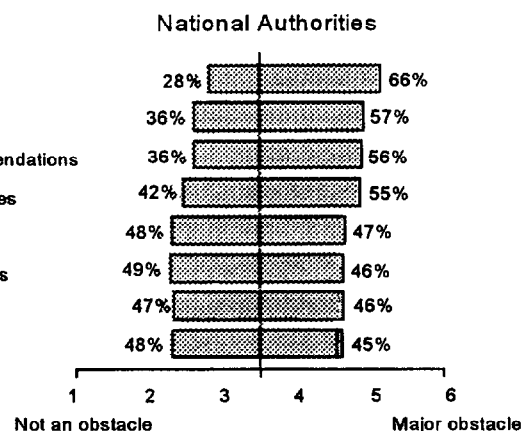
* The greatest achievements of resident representative posts most frequently cited by national authorities' respondents are strengthened dialogue between the Fund and national authorities, improved Fund image, and greater policy acceptance (Section VI of Supplement 1).

* The key "change" areas most frequently identified by national authorities' respondents as likely to have the greatest leverage on the effectiveness of the resident representative program are those of clearer delegation of authority to representatives and clearer job descriptions/terms of reference (Section VI of Supplement 1).

* National authorities' views on obstacles to posts' effectiveness and on the direction in which the role of resident representatives should move for posts' effectiveness over the medium-term are illustrated below.

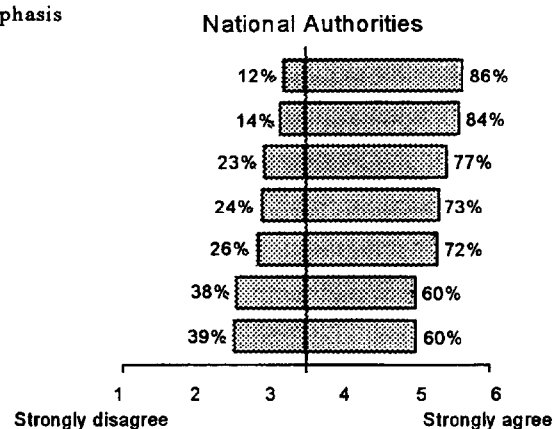
Q: What factors are obstacles to posts maximizing their potential value-added?

- a. Insufficient delegation of authority to resident representatives
- b. Emphasis by HQ staff on short-term priorities
- c. Lack of attention by HQ to resident representatives' policy recommendations
- d. Lack of sufficient skills/experience on part of resident representatives
- e. Poor communication/diplomatic skills of resident representatives
- f. Overburdening of resident representatives with administrative duties
- g. Poor relations between resident representatives and authorities
- h. Poor relations between missions and authorities



Q: For medium-term effectiveness, in what direction should the role of resident representatives move? Toward greater emphasis on:

- a. Monitoring IMF-supported economic programs
- b. On-site policy advice
- c. Public relations and explaining role of Fund
- d. Policy diagnosis and design of country policy strategy
- e. Local macro-capacity building activities
- f. Local coordination among donors and agencies
- g. Economic information and data gathering



their “consumption” of these “free” goods.⁵² Not only is this system likely to result in over-consumption in aggregate, it also presents an obstacle to optimizing the inter-departmental allocation of resident representative posts over time. Moreover, since the budgetary framework limits possibilities for intra-departmental substitution between resident representative positions and headquarters-based economists, departments’ ability to adapt their overall allocation of resources to reflect changing circumstances and priorities is circumscribed.

D. Resource Costs⁵³

140. **In FY 1996, the total cost of the resident representative program amounted to approximately \$32 million, of which the value of national authorities’ contributions is estimated to have amounted to about \$2.5 million.** The steady expansion in the size of the program has been reflected in the costs to the Fund rising from some \$5 million in 1989 to approximately \$30 million in FY 1996, or by about 350 percent in real terms (Annex Box 7). Higher real costs over this period reflect, in addition, the specific effects of the large number of post openings (which entail some one-time costs), higher than average opening and operating costs in the transition economies, and the impact of changes in field benefits. Posts in the transition economies accounted for 38 percent of posts and 47 percent of program costs in FY 1996.⁵⁴ The share of resident representative staff’s salaries and benefits in total costs has risen from 44 percent of total costs to around 47 percent of total costs since enhancements in the benefits package for resident representatives were introduced in FY 1994.

141. **OIA has examined the costs of the program from three perspectives:** (i) the cost of a “typical” resident representative position; (ii) the cost of an equivalent staff member when that person is employed at headquarters; and (iii) the costs of a broadly equivalent field representative employed by other international organizations.

142. **OIA estimates that the cost of a typical Fund resident representative position amounted to approximately \$400,000 per annum in FY 1996, including all identifiable overhead costs associated with being located in the field.⁵⁵**

⁵²See Section IV of Supplement 1 for a description of the current budgetary framework.

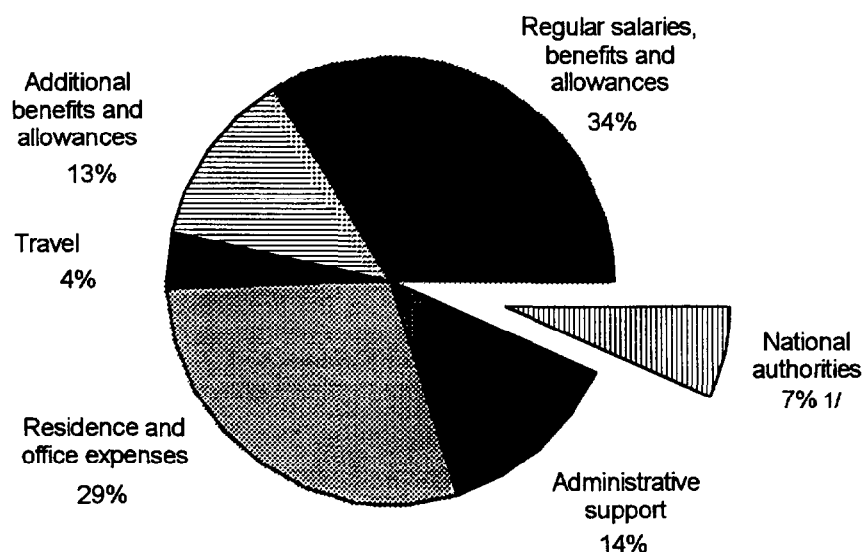
⁵³See Section III of Supplement 1 for further discussion of resource cost issues.

⁵⁴“Transition” economies as defined in the IMF’s WEO (i.e., excluding a number of Asian and African countries experiencing a measure of systemic transition in addition to more general development challenges).

⁵⁵This estimate is lower than the budget figure of approximately \$450,000 for the *average expenditure per effective staff year* in FY 1996 (EBAP/96/31). See Section IV.E above for an explanation of the two different concepts being measured, and Section III of Supplement 1 for how overhead and other costs were measured.

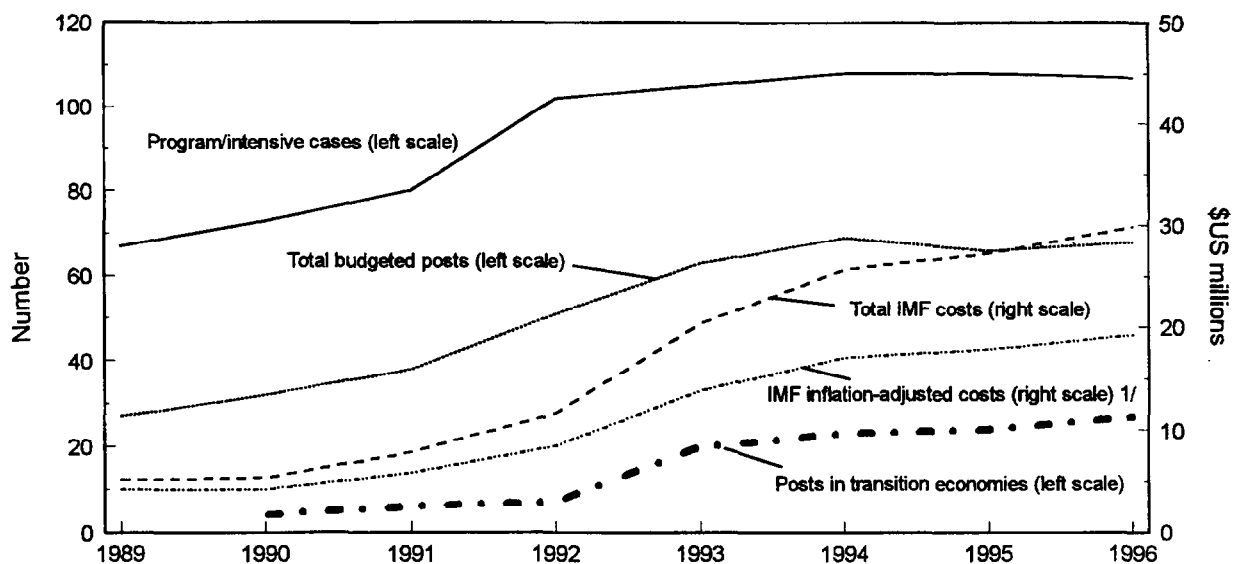
Annex Box 7. Resource Costs in the Resident Representative Program

Total Costs of Program, FY 1996: US \$32 million



1/ An estimate of the value of contributions (office space, secretarial assistance, cars and drivers) provided by national authorities, based on EBAP/94/69.

IMF Costs, 1989-96



1/ IMF dollar costs adjusted for inflation using the CPI-Urban Consumers for Washington (FY 1982-84 base period).

Sources: Office of Budget and Planning, and Administration Department.

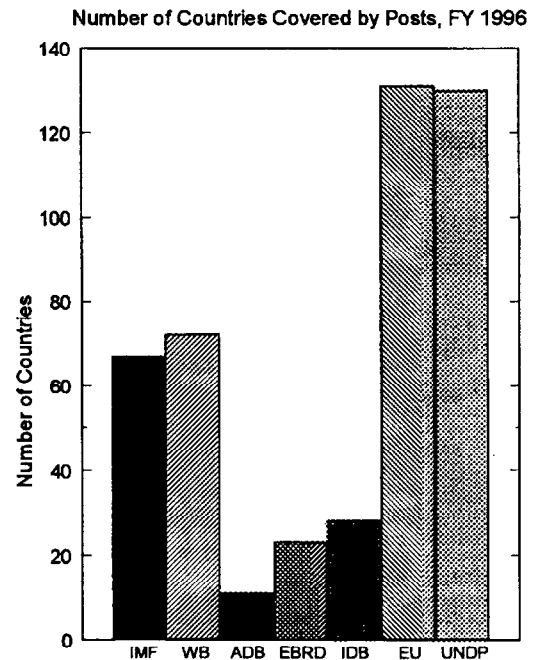
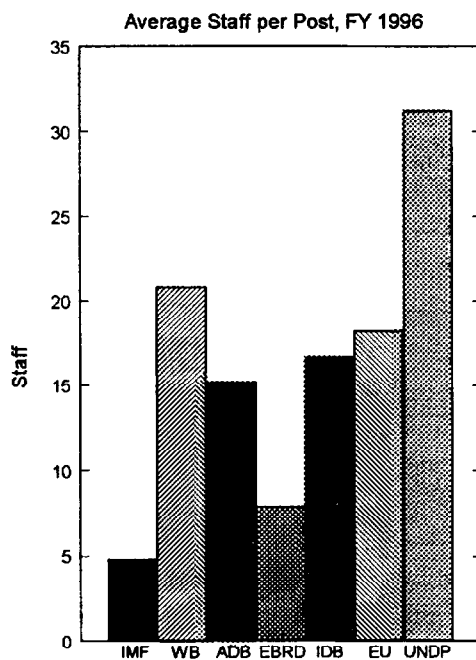
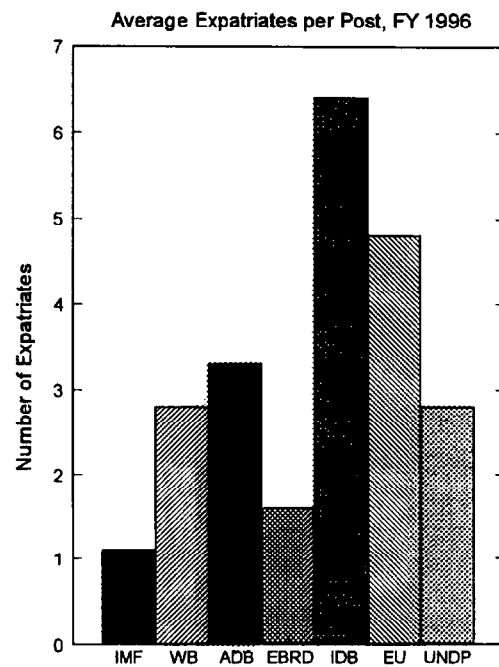
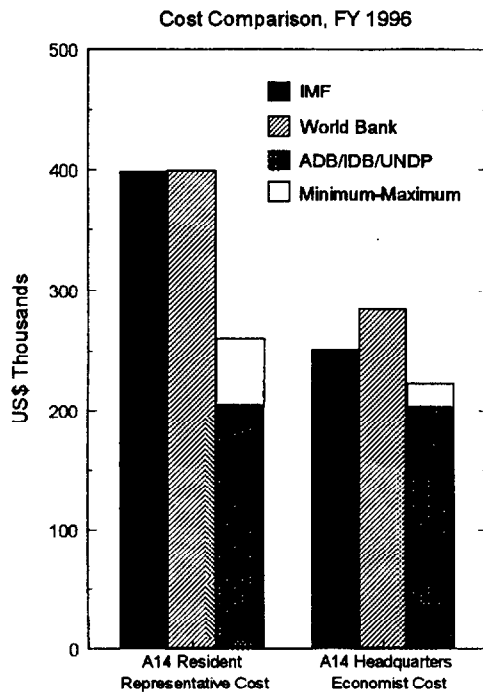
143. Unavoidably, due to the obstacles in placing a dollar value on the “benefits” flowing from the activities of resident representatives (like the obstacles arising in valuing the benefits of most other Fund activities), judgements concerning the cost effectiveness of the resident representative program must be based ultimately on a qualitative assessment. In order to inform even a qualitative cost-benefit appraisal, however, it is necessary to have an accurate understanding of the costs that would be associated with the use of the equivalent resources for an alternative purpose. In the case of resident representatives, the appropriate comparison is with the cost of these staff members when they are deployed at headquarters. OIA estimates that **the cost of the average resident representative when that person is located at headquarters amounted to approximately \$250,000 per annum in FY 1996 including all reasonably identifiable overhead costs.**

144. **Based on the above estimates, the incremental cost of an average resident representative position relative to the equivalent position at headquarters (this essentially comprises certain additional benefit and post overhead costs) amounted to approximately \$150,000 per annum in FY 1996, or about 60 percent of the cost of an equivalent headquarters-based staff member.** This estimate of the increment ratio applying to a resident representative position is significantly lower than the range of informal estimates (100-250 percent) that are often quoted in relation to the cost of resident representative positions relative to headquarters-based positions.⁵⁶ The principal source of inaccuracy in such informal estimates is the significant under-estimation of the overhead costs associated with the employment of an economist staff member located at headquarters.

145. **A comparison of costs in the Fund’s resident representative program with costs in the field programs of other international institutions suggests that Fund costs are broadly in line with those of the World Bank, and that the costs of both the Bank and the Fund are higher than those of, for example, the Asian Development Bank (ADB), the Inter-American Development Bank (IDB), and the United Nations Development Programme (UNDP) (Annex Box 8).** There are inherent difficulties in comparing the Fund’s resident representative program with the field programs of these other organizations owing to the different nature of these organizations’ field operations (project-based in most cases) and to related differences in staff employment policies and the level of staffing of field offices (Section II of Supplement 1). Staff in these organizations are typically hired on the explicit understanding that they will spend significant periods of time based outside headquarters (in terms of both average assignment length—which exceeds that of Fund resident representatives—and number of field assignments during the course of one’s career). These factors lead to a lower premium being paid for field work and to a greater tendency overall to “localize” the treatment of expatriate staff. In addition, total (versus unit) costs tend to be higher in these organizations because larger numbers of expatriate staff are employed on average: for example, the World Bank employs an average of three expatriate staff per post, while the

⁵⁶See, for example, the discussion of the Medium-Term Outlook for the Administrative and Capital Budgets (EBM/97/4; January 17, 1997).

Annex Box 8. Comparator Organizations' Field Programs



Sources: World Bank, Inter-American Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, European Union, United Nations Development Programme, and IMF Office of Budget and Planning.

ADB, IDB, and UNDP range from an average of three to six expatriates per office, relative to a Fund average of 1 expatriate staff member per post. A further factor underlying cost differences is the higher average level of Fund expenditure on field staff's security.

CONSOLIDATED LIST OF RECOMMENDATIONS

The recommendations of this review are intended to form a package of mutually reinforcing measures. A consolidated list of the recommendations described in the text of the report is set out below.

Role of Resident Representatives

- The role of resident representatives should be tightly focussed on the areas in which representatives have a comparative advantage over missions: timely on-site policy advice/program support and promoting the strengthening of macroeconomic institutions/transparency. In each of these two areas of principal comparative advantage, departments should identify the highest-priority country-specific outputs to be achieved during the period an individual representative will be in the field.
- A serious need exists to scale back the use of representative staff for unproductive and low value-added tasks. For routine information gathering and other tasks, posts should normally employ a local professional economist in a research assistant capacity.
- *Ad referendum* authority should be delegated from mission chiefs to resident representatives within the boundaries of existing agreed policy positions set out in briefing papers and memoranda of economic policies. Where the representative is suitably qualified and experienced, the breadth of *ad referendum* delegation should be wide; in cases where the representative's experience or skills are more narrowly based, the extent of delegation should be similarly limited, with his/her authority to operate *ad referendum* outside these areas constrained to take place in close consultation with headquarters.
- Resident representatives should function as the trusted "*alter ego*" of the mission chief *vis-à-vis* the authorities, and should wherever possible work with mission chiefs on staff teams prior to taking up resident assignments.
- Resident representatives should be consulted on the appropriateness of the proposed timing of missions/staff visits and on the authorities' state of preparedness for the work of the staff team, and should be provided with an explicit window within which to comment on draft briefing papers, staff reports, and country notes to management. Where concerns exist about security of information transmission to the post, signal encryption technology should be installed by the Fund. When consequential country documents are transmitted to management, the cover note should confirm that they have benefitted from the representative's comments. In the case of staff reports for annual arrangements, resident representatives should provide input to the discussion of the mechanisms put in place by the authorities to implement the program, the effectiveness of those mechanisms, and the areas in which Fund-provided or other technical assistance would be helpful to overcome weaknesses in implementation capacity. In the case of staff reports for Article IV consultations with countries in which a

post is maintained, representatives should provide input to the discussion of measures taken by the authorities that have a bearing on the transparency (or otherwise) of national macroeconomic policies, processes, and outcomes, and of areas in which transparency remains weak.

- Virtually all substantive staff contacts of a non-technical nature with authorities (and also most management contacts) should take place via, or involve the participation of, the representative. While circumstances may occasionally arise that necessitate direct contacts with national authorities within the country and without the resident representative's participation, such instances should be rare. Recurrent circumvention of representatives represents a practice that constitutes grounds for serious doubts about the operational effectiveness of maintaining a post. Resident representatives should be present at meetings outside the country that involve substantive negotiations or important financing sessions
- Suitably qualified A14 (and above) resident representative staff should be given appropriate opportunities to undertake leadership roles for selected non-sensitive missions or staff visits during the course of a field assignment. Key negotiating and review missions should continue to be led by headquarters-based mission chiefs.
- Resident representatives should be one of the staff representatives present at the Board table on the occasion of the country's principal annual Executive Board meeting in order to assist the mission chief, as called upon, to respond to questions of Executive Directors. Attendance at this meeting should be the normal expectation to be observed in all but exceptional cases where for unavoidable reasons the representative is unable to travel to Washington for the meeting.
- Area departments should take steps to remedy weak economic "back-stopping" services provided to resident representatives by headquarters-based staff. The administrative burden placed on resident representatives in their professional role as staff heading resident offices, and in their personal situation as Fund staff located at a distance from headquarters, should be minimized.

Personnel Targeting and Program Administration

- The Fund should assign only high quality staff members with the appropriate skills and judgement to resident representative positions. Where sufficient economist resources of the appropriate quality are not available, posts should be left vacant or be closed by departments.
- All resident representative positions should be formally advertised. Selection should be targeted at policy/technical competence, communication skills/interpersonal effectiveness, self-confidence, a capable/take-initiative style, and at matching an individual country's particular needs over the coming one to three year period with the prior experience and background of a candidate.

- Responsibility for endorsing the recommendation of a candidate should formally be vested in the (Senior) Review Committee which may wish to delegate the task to a sub-group. Area departments should continue to select from among the applicants their preferred choice for the position, a process in which mission chiefs should be closely involved. A department's preferred choice, together with the full list of applicants, should be forwarded to the Committee or its sub-group which would be charged with endorsing (or otherwise) the department's selection and recommending those selections that they can endorse to Fund management.
- Resident representative positions should be unified within area departments' A11 and above staff ceilings and should become indistinguishable from departments' regular economist positions. The ceilings on departments' A15 positions should automatically rise by the appropriate extra number of A15 positions when resident representative positions are transferred to departments. Representatives should become regular area department staff members and taking up a resident assignment should become no different to joining the regular staff of an area department in any other position (or to relocating from one position to another within the same area department). The "home department rule" should be abolished, but nothing would prevent departments and individuals voluntarily agreeing on return arrangements.
- Much greater convergence should be expected over time between the proportions of "1" ratings awarded for field-based and headquarters-based work by departments in the annual performance evaluation process, and this issue should be monitored by Administration Department.
- Ideally, staff advancing to B-level in work on operational cases should have undertaken a resident representative assignment at some stage during their Fund careers, but this should not be a formal requirement for progression. It would be helpful for management to state that it wishes the Review Committee to attach higher weight than hitherto to successful field performance in considering placing candidates on the list of eligible B-level candidates.
- The current one, two, three years formula for the length of individual resident representative assignments should be retained, but the four year option should be removed. Resident representative staff should be required to return to headquarters annually for consultations with their colleagues. Consideration should be given to discontinuing the practice of requiring national authorities to request formally in writing the renewal of an incumbent resident representative's term between the first and second year of an assignment, with the effect that the requirement would only apply in cases of renewal for a third (and final) year. If any one of the three parties (the area department, the resident representative, or the authorities) wishes to truncate a particular assignment during the first nine months, then this should be done.
- The Fund should attempt to minimize the obstacle to recruiting staff for field assignments that is presented by spouse employment difficulties in field locations, by

considering measures aimed at some (partial) replacement of family income and by pursuing “cross-hiring” initiatives with other international organizations.

■ The Fund should take care to ensure that its approach to field benefits is closely targeted to the particular nature of the Fund’s field assignments. The field benefits package should be reviewed in depth on a regular cycle (e.g., four yearly). The first such review should consider, *inter alia*, the current housing package, the level of hardship allowances relative to across-the-board allowances, and the issue of measures aimed at (partial) replacement of spouse income. In view of the prospective modifications in the Bank’s arrangements, there would be merit in the first such review awaiting the results of the Bank’s review (expected to become available in 1998).

■ A full-time B-level staff member should be dedicated to overall administration of the resident representative program, initially for a period of up to two years with an evaluation of the position’s continued need at the end of that time. This person should be charged with: (1) revamping the program’s administrative support arrangements; (2) assisting departments in the implementation of any modifications to the program that may be made following the conclusion of this review; (3) establishing a mechanism for periodic reassessment of the Fund’s field benefits package and conducting the first such review; (4) reviewing, proposing and implementing solutions in the areas of spouse employment and family income; (5) revamping the Fund’s approach to providing necessary training for resident representatives and their support staff; and (6) designing a set of simplified standard guidelines to facilitate departments making short-term field assignments related to specific one-off projects.

Partnership Arrangements

■ The framework governing the resident representative program should embody a basic requirement for posts to be accompanied by explicit partnership arrangements with national authorities.

■ Departments should consult national authorities at the time the objectives for posts are being established and over time as post objectives are reviewed. The early involvement of national authorities should be sought in identifying and agreeing the priority area in which the resident representative will assist the authorities to strengthen local macroeconomic capacity. Following consultation with the authorities on a post’s objectives, a copy of the final terms of reference for the post should be formally provided to the authorities.

■ Formal written understandings should normally be reached by departments with national authorities regarding: the authorities’ willingness to work closely with the resident office; the assignment of staff resources on the authorities’ part to joint capacity building projects; and—in program cases—the establishment of a high-level program implementation committee which meets regularly and in which the resident representative participates as advisor.

- Executive Directors and national authorities should be provided with an opportunity to meet the candidate for the resident representative position, the latter normally in the course of a regular staff mission to the country.
- The formal understandings between the Fund and national authorities should in all cases specify the nature of the resource contribution that the authorities have agreed to make. The provision of office space within the central bank or ministry of finance should be a standard expectation, and ongoing efforts should be made to relocate all posts to these sites unless there strong country-specific policy-related reasons for not doing so.

Targeting of the Program

- No “single model” such as, for example, limiting the use of resident posts to program countries, should be imposed. Because an “optimal” size for the program cannot be independently determined and is anyway likely to vary over time, *flexibility* should be the critical characteristic of the framework for post opening and closure decisions. Both the size of the program and the location of posts *should* vary over time if efficiency of staff and dollar resource use is to be maximized.
- The philosophy that should drive the Fund’s approach is that high quality staff will be sent to countries in cases where this is an operationally effective allocation of resources, even if this philosophy results in the Fund not maintaining posts in some countries in which other international organizations operate resident offices.
- In view of the critical role that the ability of the number of posts to increase and decrease plays in relation to the efficiency of resource use in the program, a flexibility margin equivalent to meeting the costs of at least 10 percent of the resident representative positions utilized in the previous year should be built into the budgetary framework for the program.
- Within two constraints -- the departmental ceilings on personnel and the budgetary ceiling on dollar costs in the program -- post opening/closure decisions should essentially be devolved to departments. Area departments should each be responsible for making these decisions on a case-by-case basis taking into account what the department judges to be operationally most effective in the context of the totality of priorities and resource pressures facing the department.
- The introduction of generalized “norms” regarding the optimal duration of posts and/or timing of closures, would neither be useful nor appropriate. Departments should leave posts vacant or close posts in situations where the country environment has deteriorated in a way that reduces a resident representative’s potential to add value. To the extent possible, decisions on closures should be communicated to authorities well in advance and, in many cases, it may be helpful for the Fund’s presence in a country to be phased out gradually (via, for example, use of a visiting regional representative) rather than abruptly withdrawn.

- “Terms of reference” should shift from being related to an incumbent resident representative to being related to the post more generally. If departments feel that staff members assigned to resident representative positions should have a specific individual “terms of reference” document, a draft should be provided to the Review Committee at the time a candidate is nominated. Like briefing papers, such individual terms of reference should remain internal Fund documents.
- Regional coverage arrangements present an attractive option for further experimentation by area departments, and may be a particularly relevant option where it is desirable to maintain coverage of large or systemically important developing countries (surveillance or post-program cases) that remain vulnerable. Regional arrangements probably require (i) ease and speed of travel between the locations being covered; (ii) the absence of political tensions or other difficulties that adversely affect relations between the countries in question; (iii) the limitation of regional coverage arrangements to no more than two countries per resident representative; and (iv) the availability of resident representative candidates who are especially strong performers.
- The Fund’s field philosophy should continue to be centered on the individual representative approach, which is working effectively, while increasing the emphasis on staff quality and explicit delegated authority. While the Bank’s decentralization strategy is likely to make even closer collaboration between Fund and Bank field staffs desirable, there is little rationale for the Fund to follow the World Bank down a broad-based decentralization path.
- The targeting and effectiveness of the resident representative program should be regularly reviewed on a Fund-wide basis, perhaps on a five year cycle. There would be merit in an earlier brief review (perhaps in 1999) that focussed narrowly on assessing how any agreed modifications to the program had been implemented and on whether any problems had been experienced. Two specific issues that may warrant review at that time are the functioning of any additional flexibility margin in the size of the program, and any evolving implications of the World Bank’s decentralization strategy. A first regular review could then take place, for example, in 2003 (after five years under any modified arrangements).

Budgetary Framework

- While accounting costs are the appropriate measure for budget purposes, economic cost measures should be used for decision-making purposes regarding post openings and closures.
- The budgetary framework for the resident representative program should continue to ensure that the cost of the program as a whole is contained within overall budgetary limits approved annually by the Executive Board.
- The budgetary arrangements for the program should accommodate rather than frustrate the needed operational flexibility regarding the number of resident representative

posts, and should ensure that departments face a broadly “level playing field” regarding whether an individual staff position is deployed in a member country at a resident representative post, or deployed in headquarters work on that country or in some other capacity by the department.

- The 70 resident representative budget positions that are currently ring-fenced in the central staff pool for FY 1998 should be unified with area departments’ headquarters-based A11 and above staff budget positions. The departmental ceilings on A11 and above positions would continue to be set in the normal manner during the annual budget round, but a separate Fund-wide ceiling on the total number of authorized resident representative positions would no longer be necessary.

- When a department opens a post, the necessary staff position should come from within the department’s existing authorized staff ceiling and, when a department closes a post, the position freed should remain within the department’s authorized staff ceiling.

- Costs in the resident representative program should continue to be budgeted in a central dollar pool. An overall budget ceiling should be placed on the funds available in this central pool to meet total costs incurred Fund-wide in the resident representative program and the ceiling should provide room each year for an additional flexibility margin equivalent to meeting the cost of 10 percent of the resident representative positions utilized in the previous year.

- Department directors should have the delegated authority to open or close posts provided OBP confirms that sufficient dollar resources remain in the program budget to support the opening or closure. When a department wanted to open a post, it would request the necessary appropriation for this purpose and as long as sufficient funds remain in the central dollar pool, there would be a presumption in favor of approval of requests for appropriations. Access to the central dollar pool should thus remain subject to OBP control.

- The focus of OBP and management should be on ensuring that departments’ expenditures in relation to the resident representative program are held within the overall ceiling on the central dollar pool and that costs are effectively monitored and controlled. The focus should not be on the departmental distribution of resident representative positions.

- The focus of management and the Executive Board should be on total staff numbers when there is a need to adjust resources to changing priorities, rather than on the total number of resident representatives.

- The recommendations of this review are intended to form a package of mutually reinforcing measures and successful results would depend on implementation of the package as a whole. Any modified arrangements for the resident representative program that are agreed as a result of this review should be introduced on May 1, 1998 in order that they apply from the outset of FY 1999.

