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EBS/97/137
Correction 1

CONFIDENTIAL

September 18, 1997

To: Members of the Executive Board
From: The Secretary
Subject: **Review of the Resident Representative Program**

The following corrections have been made in EBS/97/137 (7/25/97):

Page 5, last para., line 1: for "The incremental costs" read "The costs"

Page 10, line 2: for "(Sections VI and X...)." read "(Section V...)."

para. 10, line 5: for "(Section VI...)." read "(Section V...)."

para. 12, lines 6 and 7: for "(Section V...)." read "(Section VI...)."

Page 21, para. 40, line 4: for "(Section VI...)." read "(Section V...)."

Page 25, para. 50, last line: for "(Section VI...)." read "(Section VIII...)."

Page 26, line 3: for "(Section VI...)." read "(Section VIII...)."

Page 31, line 1: for "(...Sections VI and IX...)" read "(...Section IX...)."

Page 37, para. 83, last line: for "(...Section VI...)." read "(...Section VII...)."

Page 38, para. 86, last line: for "(Annex Table 9...)" read "(Annex Table 8...)"

Page 40, para. 90, line 8: for "to fill reside approximately resident"
read "to fill resident"

last line: for "staff in area departments"
read "staff in area departments 480³¹. At the current..."

footnote 31 to read: "FY 1997 data for the number of economist staff in
grades A12 through B3, including (continued...)"

Page 46, para. 103, line 6: for "(...Section V...)" read "(...Section VII...)"

Page 70, para. 136, lines 4, 7 and 8: for "(...Table 6...)" read "(...Table 4...)."

Corrected pages are attached.

Att: (11)

Other Distribution:
Department Heads

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 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.

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** (Section V 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 V 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 VI of Supplement 1). The extent of the problems varies across countries and departments (Annex Table 6 and Section VI 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

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 V 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

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 VIII 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 VIII 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

initiative style (Annex Table 7 and Section 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.

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 VII 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 8 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 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 480.³¹ At the current

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.

³¹FY 1997 data for the number of economist staff in grades A12 through B3, including

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 VII 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.

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 4 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 4 of Supplement 1). Almost 60 percent of survey respondents overall believe that average personnel quality should be higher (Annex Box 4; Annex Table 4 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