The Politics of Influence: An Analysis of IMF Surveillance

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Abstract

IMF surveillance is typically thought to have effect because it provides useful information to member countries, because it engages countries in cooperative behaviour, or because it piggy-backs the bargaining power the IMF enjoys in some countries. This article explores IMF surveillance by bringing to bear theoretical explanations as to why and how these effects might work. The simplest explanation is a rationalist-realist one that the IMF has impact in countries over whom it has bargaining power: this is borne out by the evidence regarding IMF surveillance in aid-dependent countries. However, this is not the only condition under which surveillance might work. Rationalist-institutionalists point to the role information plays in shaping competition and cooperation among states, and this effect is borne out to a limited degree by the impact of IMF-supported international standards and surveillance activities on the other economies. Finally, constructivists would describe the possible impact of surveillance in terms of learning or socialization, focusing on the social organization and impact of the IMF's activities. The evidence, however, suggests that neither bilateral nor multilateral surveillance is structured or organized in a way that promotes learning or socialization. The implications are that for IMF surveillance to be more effective across all its members would require restructuring the way the organization engages with its members, as well as a greater delegation of authority by countries to the organization.

Keywords: IMF, surveillance, international standards, international monetary cooperation, peer pressure.

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Introduction

In a world buffeted by shocks and crises, the IMF exists to promote international monetary cooperation and financial stability. A key tool at its disposal is "surveillance," or the process of monitoring and consultation with each of its member countries.[3] Recently, powerful countries in the IMF have been pressing for the institution to reinvigorate its surveillance activities and its role as a multilateral forum of consultation.

Driving them has been a hot political debate about China's exchange rate and its impact on other economies. In recent testimony before the US Congress, Bergsten (2007) argued that global imbalances, as exemplified by the large US current account deficit and Chinese surplus, represent the single most important threat to the growth and stability of the United States and the world economy. In this vein, he has called for the IMF to step up its surveillance of China and hinder the country's manipulation of its exchange rate. Equally, others in the United States have criticized the IMF for being hesitant in pursuing its obligation to exercise "firm surveillance" over the exchange rate policies of Asian members and to enforce the code of conduct embedded in Article IV of the Fund's Articles of Agreement.[4]

The United States and the United Kingdom have each proposed that the IMF focus more effectively on monitoring exchange rates and underlying macroeconomic policies, as well as global economic trends.[5] Within the Fund itself, the Managing Director highlighted in his medium-term strategy report the need to strengthen surveillance, leading the Board, in June 2007, to review the institution's mandate to undertake surveillance.[6]

The argument in favour of strengthening surveillance assumes that the IMF, as a multilateral institution, is capable of influencing the judgments of all of its members. Theories of international relations suggest different explanations for why the IMF might have influence. The simplest explanation is a rationalist-realist one, that the IMF's capacity to coerce at least some of its members results in the institution having direct influence over their behaviour (Stone, 2004; Thacker, 2004). A different strand of rationalism, labelled institutionalism by some, proposes that the IMF could have influence through the exercise of its capacity to resolve the collective action problems of its members. Put simply, by providing information to its members, the IMF can reduce uncertainty about the behaviour of other countries, thereby making cooperation possible, including the acceptance by member countries of mutually agreed-upon rules that alter or influence their behaviour or patterns of competition among them (Keohane, 1982; Simmons, 2000; and Best, 2005).

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[3] An excellent overview of IMF surveillance is Pauly (1997). See also Pauly (2007).

[4] Goldstein (2006) refers to the provisions in Article IV, Sec. 3, empowering the IMF to "oversee the compliance of each member with its obligations" and to "exercise firm surveillance over the exchange rate policies of members," as well as to "adopt specific principles for the guidance of members with respect to these policies." The Articles of Agreement are available online: <http://www.imf.org/external/pubs/ft/aa/index.htm>.

[5] Adams (2006) and King (2006).

[6] IMF (2005a), (2006a), and (2007a).

In contrast to these rationalist approaches, constructivists examine the social context and effects of the IMF's activities, proposing that members of an international organization or institution may be influenced by other members through processes such as learning and socialization, the sociology of knowledge within an organization, and the emergence of norms (Barnett and Finnemore, 2004, chapter 3; Woods, 2006, chapter 2). Decision-makers within states and institutions, on this logic, act not just upon a conception of their interests but according to a "logic of appropriateness," or socially understood norms and standards that are reinforced by the social and institutional context within which they interact.[7]

In this article, we examine the effectiveness of IMF surveillance using these explanations for its possible influence. Our investigation is organized around the three most prevalent assumptions as to how and why the IMF might influence its members: through the provision of information; through peer review and social pressures; and finally, through the leveraging of power relations.[8]

As a *provider of information*, the IMF is often said to be in a unique position to pool, analyse, and disseminate data gathered from its universal membership. In this capacity, it can offer national policymakers advice on their own policies and on the impact of global and regional developments on their economies. The effect of this information on countries can be conceived in one of two ways. Rationalists would argue that information collected and provided by the IMF enables countries to update their preferences in ways that permit new forms of competition and cooperation. IMF surveillance also provides information to markets, influencing policymakers to adopt measures that market participants consider attractive – such as policies aimed at increasing the efficiency of financial markets or at attracting more foreign investment. If surveillance works in this way, we would expect to find evidence that market participants use IMF reports and information in their own decision-making. Constructivists, by contrast, would conceive of the IMF's information-gathering and advising as a social process in which national officials may or may not learn depending upon whether they view the IMF's advice as relevant and useful, authoritative and trusted, and whether it is delivered in a way that permits learning.

Peer review is the second mechanism through which surveillance if often thought to influence policy. It depicts surveillance as (ideally) a machinery of collaboration in which peers – that is, governments – learn from one another. To this end, the IMF was created as a forum and "machinery" – to quote the Articles of Agreement – for international cooperation to provide a framework within which countries can forge common goals and means to achieve such goals.
This explanation of influence relies very much on constructivist arguments whereby cooperation is conceived as a process that may produce social pressures which may in turn shape governments' judgements about what they should and should not do. Such peer pressures may influence a government to adopt certain policy standards to avoid the stigma that their peers would place on them for deviating from socially or internationally accepted norms. Whether or

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[7] The term "logic of appropriateness" is used by March and Olsen (1984); see also the incipient literature on economic constructivism: Blythe (2002), Sharman (2006), and Seabrooke (2006).
[8] We benefited from a similar taxonomy developed by Simmons, Dobbin, and Garrett (2006) to study the international diffusion of liberal economic policies.

not surveillance works in this way can be judged by examining the extent to which the actual process of IMF surveillance is conducive to peer-to-peer learning. Alternatively, one can examine the outcomes of IMF cooperation and whether they demonstrate convergence across countries that participate in surveillance.

Finally, through the manipulation of *power relations*, IMF surveillance is believed by many to amplify conditionality. This view recognizes the power asymmetries among members of the IMF and between the institution and its borrowing members. Effective surveillance is seen as depending upon the asymmetric and hierarchical power relationship between the IMF and member countries that are more likely to be structurally or situationally dependent on it. In respect of such countries – typically borrowers – surveillance may have effects because of related economic benefits that the IMF can grant or withhold. For instance, IMF surveillance serves alongside other instruments to monitor satisfactory implementation of a package of policy measures where unsatisfactory implementation would have direct costs for the borrower. If surveillance is in fact working in this way, we would expect to find that IMF reports and judgements have a stronger effect on poorer borrowing members than they do on others.

In this article, we explore each of these commonly held beliefs about why IMF surveillance might have an impact, drawing on theories of international relations and policy diffusion to probe what mechanisms could be at work in each. We also examine whether or not there is evidence that surveillance is in fact working in any of the ways theorized. Finally, we conclude with the implications for the contemporary debate about IMF surveillance.

1. Surveillance as the Provision of Information

The IMF has a large, highly trained technical staff that monitors trends in the global economy, follows developments in member countries, and then feeds this information into discussions among governments about how they might better cooperate in monetary affairs. It is not alone in this. The Organisation for Economic Co-operation and Development (OECD), private ratings agencies, the Bank for International Settlements, the World Bank, international investment banks, various United Nations agencies (including the Counter Terrorism Committee of the UN Security Council), and regional organizations all provide at least some information that overlaps with the surveillance reports of the IMF. Some experts assert that the IMF is uniquely placed to provide information of a quality and depth beyond what these other institutions can offer, but they rarely analyse whether or why this is the case (Rodrik, 1995). One obvious reason for its unique position is that the IMF has access to a truly universal membership of 185 governments, all of which are mandated, as a requirement of membership, to consult regularly with the organization.

The surveillance activities of the IMF in theory permit it to inform policy-makers, giving them better quality information on the basis of which they can make decisions. This can alter or influence government policies in one of two different ways. Rationalists would highlight that information permits the updating of preferences in light of new information, or "Bayesian updating". The IMF gathers, analyses, and disseminates information. This permits governments to reduce uncertainty and therefore to pursue wider forms of cooperation or competition.

By contrast, constructivists ask how, why, and under what conditions new information might induce policy change. They highlight that learning is not a passive activity whereby technical information is passed on and absorbed by others. As expressed by Levy (1994), learning involves a change in beliefs (or the degree of confidence in one's beliefs) that results from the observation and interpretation of experience. Interpretation, in this view, is as important as observation and information. Indeed, as sociologists Levitt and March (1988) argue in exploring how lessons of history are absorbed, what a decision-maker learns is influenced "less by history than by the frames applied to that history". For this reason, actors make great efforts to influence how others interpret experience.

For constructivists, then, the questions about IMF surveillance and learning should not be confined to whether or not the IMF provides information and to what effect but rather should focus on how the IMF frames and delivers information. Does the IMF influence how its members interpret experience? It may be that the institution generates what some would call an "epistemic consensus" – a set of beliefs about cause and effect that derives authority from the shared consensus of recognized elites (Goldstein and Keohane, 1993). In public policy, where such shared norms and beliefs command sufficient consensus, they serve as a reference for the policy-making community (Adler and Haas, 1992). Below we address IMF attempts to forge such a consensus through its research as well as through its work in member countries in multilateral surveillance and in bilateral surveillance work.

i) Multilateral Surveillance

Multilateral surveillance is an obvious way in which the IMF creates and disseminates new information. Drawing on its universal membership, the IMF provides assessments of trends in the world economy, ascertaining mutually beneficial policies as a basis for securing the cooperation to implement them. This role of providing collective solutions is a classic one for international institutions. High-quality information is a crucial underpinning of the process of cooperation, and the IMF, as a multilateral institution, is well-placed to collate and analyse information pooled from all of its members.

At the core of multilateral surveillance are two major reports on the global economy prepared by the IMF staff: the World Economic Outlook (WEO) and the Global Financial Stability Report (GSFR). With the aim of strengthening the focus on international financial markets, the Executive Board has also been discussing the latest developments in international financial markets in sessions called World Economics and Markets Developments (WEMD). Along with these core reports produced by the staff, the IMF has expanded its multilateral surveillance in two other directions. Development financing is one. In 2003, the IMF jointly launched the Global Monitoring Report (GMR) with the World Bank. The joint monitoring exercise (led by the World Bank) is intended to inform the IMF-World Bank Development Committee and provide a strategic context for its discussions, just as the WEO is intended to inform discussions held by the IMF's International Monetary and Financial Committee (IMFC). Regional economic effects are the other extension of IMF surveillance: spurred by recent initiatives in regional integration, the IMF is seeking to better understand spill-overs and linkages and to provide an analysis of developments and policies within regions through, for instance, the production of regional reports. Table 1 summarizes the range of instruments currently used by the IMF.

[Insert Table 1 Here]

The aim of IMF reporting on the global economy is ostensibly to inform and stimulate Board-level discussions among members and thereby to facilitate cooperation among governments that belong to the IMF. The reports might point to specific ways members should cooperate in monetary affairs to achieve goals that would otherwise not be attainable. In this way, multilateral surveillance aims to enable members to identify collective action problems, internalizing the externalities that would arise if each country were to set its policies independently. The IMF's decision-making Executive Board, for which the reports are prepared and whose representatives serve in a dual capacity as country officials and administrators of the institution, lies at the heart of such a process.[9] In practice, however, this dynamic form of learning does not appear to occur.

Current practices highlight the limited involvement of the Executive Board. The WEO, for instance, represents the final stage of a highly structured process. Following the meeting of the IMFC twice a year, the WEO cycle begins with a draft outline prepared by staff, which is circulated throughout the research department and in other departments for comments. Once the outline has been cleared by management, the economists of the research department implement the research plan. Various country desks provide the research department with their forecasts, which are in turn aggregated and checked against those formulated through the department's multi-country econometric model. Through a series of iterations among the various country desks, a set of forecasts is then finalized in a manner that ensures its intrinsic consistency and that takes into account, by building on bilateral surveillance activities, relevant policy developments across member countries. Preliminary drafts of the WEO chapters are circulated to the staff for comments. Eventually, following clearance by management, the WEO goes to the Board for discussion. The Board has, at that time, a chance to provide comments that feed into a related summing-up of its discussion. Yet, about three-quarters of the Board's oral interventions concern merely factual clarifications, drafting suggestions, and other procedural comments, according to the findings of the IMF's Internal Evaluation Office (IEO).[10] The WEO is eventually published with a disclaimer that the views expressed are those of the staff and should not be attributed to the Board, whose appraisal is contained in a summing up enclosed with the publication. Consistent with that statement, the WEO is presented as a staff document in the press conference that precedes its publication.

The multilateral surveillance process described above seems to put a premium on preserving and promulgating a particular consensus among the staff of the IMF. In an evaluation of the process, the IMF's IEO found broad overlap in the topics dealt with by G7 and G20 meetings and those raised in the WEO (IMF, 2006b). For only a small number of emerging policy issues did the WEO precede relevant G7 or G20 discussions. The IEO also found that the coverage of exchange rate issues by the WEO was limited and not particularly timely. For example, China's

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[9] See Woods and Lombardi (2006) on the role of the Executive Board in the governance of the IMF.
[10] See IMF (2006b).

exchange rate was not analyzed until the September 2005 WEO, well after the topic had become an important issue for policymakers and financial markets.

The evidence suggests that the multilateral surveillance of the IMF is not focused on generating debate about urgent problems and possible cooperative solutions – or "focal points" that could shift government policies. The WEO report, due to the process by which it is produced, is almost guaranteed to eliminate the possibility of disagreement or debate. The limited involvement of the Executive Board, in turn, implies that the exercise has become focused on the production of the report itself, rather than on the process of coordinating national member states' policies. In 2005, the Executive Board devoted 13 meetings equivalent to 18 hours, or 4.6 per cent of its time, to multilateral (and regional) surveillance. A comparison with bilateral surveillance activities is striking: it spent 89 meetings, equivalent to 81 hours, or 21 per cent of its time, on bilateral surveillance.[11] The Fund's predominant orientation towards bilateral surveillance is also evidenced in the allocation of staff. In 2005, the IEO found that only 2 per cent of staff worked on multilateral surveillance, another 1.6 per cent on regional surveillance, and 29 per cent of staff on bilateral surveillance. In this vein, the biennial reviews of surveillance established in the late 1970s have consistently featured discussions of how to improve bilateral – rather than multilateral – surveillance, typically through procedural adaptation. Equally enlightening, the recently-adopted 2007 Surveillance Decision deals exclusively with bilateral surveillance.[12]

Does multilateral surveillance work by providing information to policymakers? Or better put, does the multilateral surveillance process provide information that actors would not otherwise have or trust, do they treat it as authoritative, and does it affect either their national policies or their international cooperation? Multilateral surveillance may well produce some new information.[13] The IEO evaluation highlights, however, that there is little evidence to suggest that national policy-makers use the WEO or that it affects their policies, whatever discussions take place at the IMF, even at the Board level. While about half of the authorities surveyed acknowledge that they do "read" the report, only about a third actually "discuss" it, and a small fraction (less than 10 percent) admit that they "hardly use" it.[14] This evidence suggests that multilateral surveillance as it is currently practiced at the IMF is more structured to ensure the maintenance of a consensus than the provision of new or challenging information, perhaps serving to underscore consistency in the way data is interpreted rather than to effect shifts in member policies.

ii) Bilateral Surveillance

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[11] IMF (2006b). These figures are stable over time.

[12] The 2007 Surveillance Decision reaffirms that surveillance should focus on promoting countries' external stability. Improving upon the previous 1977 Decision, it provides clearer guidance on issues such as exchange rate manipulation and foreign exchange intervention, while specifying a number of appraising indicators. See IMF (2007a).

[13] See James (1995) for an historical appraisal.

[14] IMF (2006b; 55). Similar results were found for the GFSR.

Bilateral surveillance is a more traditional activity of the IMF. It springs from Article IV, which established the legal foundations of Fund surveillance. That Article creates a formal obligation of member countries – and correlate authority of the IMF – to collaborate with the organization as well as with other members. Along similar lines, Article VIII describes the information that members must provide to the IMF "for the effective discharge of the Fund's duties" and underscores that this is instrumental for the Fund "to assist members in developing policies which further the purposes of the Fund."

Bilateral surveillance brings IMF officials into direct engagement with governments, creating a forum within which learning may occur, in the sense that officials acquire new information as well as new ways of interpreting the information. This process is sometimes described as one in which the IMF "educates" national officials, thereby bringing about convergence towards internationally agreed-upon standards of behaviour (Finnemore and Sikkink, 1998; Barnett and Finnemore, 1999). This is certainly how the IMF staff sees the Fund's role in discussions with member countries. It is a view, however, that the IEO's most recent evaluation of exchange rate policy advice (IMF, 2007b), a core aspect of IMF surveillance, challenges by pointing to a disconnect between the perception of the staff and that of the authorities in respect of the quality and the relevance of the IMF advice.

It is worth considering for a moment the precise way the bilateral surveillance process works within the IMF. Bilateral surveillance begins with a technical briefing prepared by the staff for management which serves as an agenda for the subsequent bilateral consultations. At the end of the bilateral mission, the staff writes a back-to-office report to management, outlining the main findings, from which, following an extensive inter-departmental review, the staff report is finalized and finally circulated to the Board, normally within three months after the end of the mission itself. Notably, the process begins and ends with a staff document prepared and revised within the institution by its professional staff. Any evidence of learning within this structure would have to be found by examining whether or not, in light of information provided by the IMF, governments and officials at the national level changed their policies, their goals, or their targets.

Momani (2006) investigated the perceived utility of IMF consultations with Canadian officials and found that they regarded those consultations as valuable academic or intellectual exchanges due to the technical expertise and sophistication of IMF economists. Canadian officials concurred that the consultations were for them useful, not just ceremonial, a "learning experience," even if the policy advice would rarely, if ever, result in changes in their own economic analysis, as the Fund's advice tends not to be practical. This assessment is borne out by the IEO's recent evaluation of exchange rate policy advice (IMF, 2007b), which reports that about two-thirds of the authorities interviewed characterized the IMF as a sounding board or intellectual partner for discussing their exchange rate policy. In various interviews and surveys conducted with country authorities, the IEO noted the frequent lack of formal, country-specific analysis backing IMF advice on exchange rate policies, coupled with the Fund's insufficient appreciation for the challenges of implementation. Indeed, some senior officials reported that the usefulness of IMF advice decreases as its implementation becomes more complex and country-specific. The IEO concluded that the "IMF was acting against the background of the lack of clear-cut guidance from the academic literature on regime choice, which has tended to discuss regime decisions in the context of a limited number of economic characteristics, but without developing operational tools to aid practical choice."[15]

All in all, the IEO's evaluation points to a lack of traction in IMF advice. When it comes to taking major policy decisions on exchange rates, for instance, the IEO found that many members regarded IMF advice as relatively marginal or as having no impact on their decisions at all. More interestingly, the IEO's survey revealed some notable differences across country groupings, with the IMF's advice having only a modest impact in advanced economies and large emerging market countries due to its limited ability to integrate global and regional spill-overs in its analysis and to offer implementable advice. It is in the larger small emerging market and low-income economies that the IMF is perceived by the respective authorities as instrumental to policy change. Even these countries, however, reported that they normally look for complementary advice from sources other than the IMF by hiring consultants or seeking the advice of other governments, while many senior officials said they valued discussions with their peers in the BIS and the OECD (see Section 2).

iii) Providing Information to Markets

A different account of surveillance – a more rationalist one - holds that the provision of information by the IMF affects policy by catalyzing market pressures. To the extent that it provides market participants with high-quality, cross-country information regarding government policies, private sector agents are able to improve on their investment decisions. As a result, according to this line of thought, governments have an incentive to adopt (international) informational standards to enable the better functioning of decentralized market mechanisms (Drezner, 2001).

This logic inspired the international standards initiative at the IMF (to be further discussed in Section 2).[16] In an early paper describing this initiative, the IMF (1999a; 1) stated that "the development of standards has been underway for many years in various areas relevant for the functioning of financial markets"; later, it added that the scope of the initiative was limited to those standards "that may influence the soundness of the financial system, including indirectly through their impact on the operations of the non-financial corporate sector." Another IMF document confirmed that "[t]he development and adoption of standards in areas central to the effective operation of domestic and international financial systems holds the promise of better informed lending and investment decisions, increased accountability of policy makers and better policy making and, ultimately, improved economic performance" (IMF, 1999b; 1). In other

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[15] IMF (2007b; 33).

[16] The standards cover twelve areas related to policy transparency (data transparency through the Special Data Dissemination Standard, or SDDS, and the General Data Dissemination Standard, or GDDS, fiscal transparency, and monetary and financial policy transparency); financial sector regulation and supervision (banking supervision, securities, insurance, payments systems, and anti-money laundering and combating the financing of terrorism); and market integrity (corporate governance, accounting, auditing, and insolvency and creditor rights). Anti-money laundering and combating the financing of terrorism was added in November 2002.

words, the international standards initiative was explicitly designed for the financial markets as an instrument to help private sector agents to improve their allocation decisions.

In a survey of mutual fund managers regarding their use and knowledge about the SDDS initiative, Mosley (2003) finds that 84 per cent of them are, at most, only vaguely aware of the standards, although they reported that information quality and data availability were important concerns. The Financial Stability Forum has also found that market participants' familiarity with the international standards varies widely, though it reports that the data and the accounting standards are the best known and are viewed as useful by market participants (FSF, 2000).

The latest IMF internal review reports the finding that "the use of ROSCs by market participants is low."[17] Furthermore, "use does not appear to have increased in recent years: a survey conducted in 2003 reported similar results" (IMF, 2005b; 24). The review then acknowledges that "the initiative has significantly fallen short of its objective of informing market participants" and that "direct use of ROSCs by market participants cannot be expected to increase significantly without radical changes". Even more surprising is the finding that market participants make greater use of Article IV consultation reports than of the ROSCs themselves, even though such consultations – unlike the ROSCs – are not based on standards primarily designed to deliver information to market participants.

ROSCs summarize progress achieved in implementing standards, point to relevant institutional weaknesses, and include prioritized recommendations. They provide a textured and articulated assessment, however, rather than an "on/off" signal corresponding to a "pass/fail" assessment, and they are published only with the consent of the government concerned. These factors may make it difficult for outsiders to an ROSC process to discern the significance of ROSC-identified shortcomings and their relevance for macroeconomic and financial stability. Market participants note that a number of substantial changes would be necessary for ROSCs to be helpful to them. Among these, ROSCs would need to provide quantitative measures of compliance that could be included in risk models; to offer clearer conclusions, as they are too complicated and difficult to interpret; to be updated regularly, possibly annually; and, finally, to produce summaries of their conclusions and recommendations to be included in IMF country reports.

Multilateral surveillance is another way in which the IMF has potential to inform market participants, pooling information on domestic economic developments and assessing the impact on a group of members of the policies implemented by another set of members. One question the IMF's evaluation office has focused on concerns whether or not the private sector uses the Fund's principal instruments of multilateral surveillance. In the case of the GSFR, the main instrument for conducting multilateral surveillance of international capital markets, market participants find little new market-related information in the report (IMF, 2006b). Again, these reports have come to be viewed simply as public information rather than as building blocks for multilateral discussions. As for the WEO, it was designed primarily – in the view of the IMF staff – for national policymakers, a view supported by further interviews with national

[17] ROSC stands for Report on the Observation of Standards and Codes and is used by the IMF (and the World Bank) to assess a member's compliance vis-à-vis a given international standard.

authorities. In fact, more than 90 per cent of the staff surveyed responded that the WEO and the GFSR were for policymakers and public sector economists. While some 50 per cent also included academics and research institutes, almost no one referred to the private sector in their conception of the reports' audience.

Surveillance, therefore, does not appear to convey information that is highly valued by financial markets. In part, this may simply reflect that market participants are not considered to be the main users of IMF surveillance, as national policymakers and public sector analysts are. But this is not the case for the more recent international standards initiative, which was expressly designed for the benefit of market participants. The ineffectiveness of IMF surveillance to provide useful information to financial markets reflects the institution's difficulties in striking the right balance between internal and external audiences, between reporting and analysis, and between the IMF's traditional macro orientation and financial sector analysis (IMF, 2006c).

2. Surveillance as Peer Review

A second popular view of IMF surveillance holds that the Fund encourages, through surveillance, peer-to-peer exchanges and learning among members. The IMF describes its own responsibility in respect of surveillance as being "to encourage a dialogue among its member countries on the national and international consequences of their economic and financial policies, to promote external stability".[18] Accordingly, the recently adopted 2007 Surveillance Decision underscores that surveillance must be based on "dialogue and persuasion" (IMF, 2007a).

The Fund's 185 members have committed themselves to be part of a universal system of peer review and oversight. The IMF offers a multilateral forum for consultation and agreement among countries, or, to use the language of its constitution, "machinery for consultation and collaboration on international monetary problems".[19] It also offers a mechanism for implementing or fostering standards among members – through bilateral surveillance – that has both voluntary and compulsory elements to it: all members commit to regular Article IV consultations with the Fund; in addition, many members have volunteered to be part of a broader system of peer-reviewed standards and codes, as noted in the previous section.

Does this machinery work? One way to answer this question is to examine how the process of surveillance works and whether or not participants consider it to be a learning process. Pagani (2002) underscores the cooperative, non-adversarial nature of a peer review, in which learning is enhanced by "trust" and "shared confidence" in the process that underpins a "system of mutual accountability". While smaller and more homogenous groups are, admittedly, more likely to have such attributes, a key factor is that any peer review should be a two-way process. This, in turn, is instrumental for the creation of "shared knowledge" that becomes available to the group of countries – typically members of the responsible collective body – through the benchmarking of best practice and policies. In interviews examining the IMF's Article IV consultations with

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[18] IMF Surveillance – A Fact Sheet, August 2006; Available Online: <http://www.imf.org/external/np/exr/facts/surv.htm>.

[19] Article 1.

Canadian officials, Momani (2006) finds that Canadian officials characterize their interactions with the Fund as a singularly "one-way" process whereby the IMF team sets the agenda, requires national authorities to "tick boxes" and signs off only when that agenda has been completed.

Momani then contrasts the IMF surveillance process with that of the OECD. Her interviews suggest that participants felt that "overwhelmingly the OECD process was more useful" because of the "greater emphasis on dialogue and exchange". The OECD process differs in the first place because there is more interaction with relevant national policy officials on the basis of the Secretariat's draft reports (a "back-and-forth" element) in a way that fosters mutual interrogation. Its advice, as a result, is perceived to be more user-friendly and more practical. Furthermore, because the OECD Secretariat has fewer resources to produce country surveys at regular intervals, the OECD process is necessarily more country-driven (Thygesen, 2002). The OECD process also differs because it uses two examining countries to conduct the reviews, which is the closest thing to pure peer pressure that exists in the international system – a practice that enhances the groupness of the group and thereby mutual trust. In fact, the country representatives who sit on the Economic Development Review Committee, to whom the Organization has delegated responsibility for surveillance, are more involved in discussing reports than are members of the Fund's Executive Board. Finally, in the OECD, the subsequent process of revising and approving reports gives some ownership of the final report to the country being reviewed, although the report's redrafting does consume a lot of time. These findings highlight some of the conditions under which peer-to-peer exchanges can be facilitated.

In the case of the IMF, the Executive Board is not involved in considering or commenting on the outline of forthcoming surveillance missions (see Section 1*ii*). It devotes, however, some 130 discussions each year to appraising members' economic policies, though such meetings evidently have little effect on the outcomes of the appraisals made by staff. Ultimately, the only influence the Board has over bilateral surveillance is to place different degrees of emphasis on the various issues raised in the staff appraisal and to voice that emphasis in a summing up, an initial draft of which is prepared by staff prior to the Board meetings.

Other aspects of the workings of the Board also limit its scope as an effective machinery for collaboration. For example, with a view to reducing the time allotted to each agenda item, a practice has developed whereby Directors may submit written statements prior to a meeting. While this may have generated some efficiency gains, it has also hampered the possibility of an open and lively discussion, as most positions are shaped ahead of meetings with the result that Directors have little chance to modify their positions in light of what they learn from the ongoing discussion, especially if the positions expressed in their prepared statements have been cleared by their respective capitals (Boorman, 2007).

Momani (2006)'s focus on the process of IMF surveillance leads her to conclude that it is not working as a forum for peer-to-peer learning. However, other scholars propose a different explanation for the effects of IMF surveillance by focussing on outcomes rather than on processes. Simmons (2000) investigates the impact on outcomes of the formal legal obligations spelt out in Article VIII of the IMF's Articles of Agreement.[20] In essence, these are rules agreed upon among member governments to ensure cooperation. Simmons argues that the driving factor behind a country's compliance with Article VIII is not the formal ability of the IMF to enforce the agreed-upon rules, but rather the informed competition this creates among member states. Countries seek to enhance the credibility of their commitments to liberal policies by submitting them to outside scrutiny, distinguishing themselves from non-reformers. This is particularly obvious within regions where a member is more likely to make a commitment if other regional members have already done so. This results in standard-setting among self-selected groups that are relatively open to trade and have healthier external positions. Simmons's work suggests that the IMF's more recent voluntary standards could have direct effects by providing information that alters or influences competition among peers. To these we now turn.

i) The IMF's Recent Standards-Setting Initiative

Simmons's (2000) conclusions can explain why the IMF seems successfully to have promulgated new standards among its members in recent years. In 1996, for instance, the IMF established the Special Data Dissemination Standard (SDDS) to guide members that have, or that might seek, access to international capital markets in the provision of their economic and financial data to the public. Although subscription to the standard is voluntary, it carries a commitment by a subscribing member to observe the standard and to provide descriptions of economic and financial data, advance release calendars, and other information about dissemination practices. Importantly, the SDDS was developed not as a legal rule to ensure cooperation among governments but as a way to help individual countries access capital markets. The General Data Dissemination Standard (GDDS) was created in 1997 to guide countries in the provision of reliable economic, financial, and socio-demographic data. It is not explicitly aimed at enhancing market access; rather, it was conceived as a prior step, with the aim of helping countries to develop a broader statistical capacity.

Alongside the elaboration of specific standards such as the SDDS and the GDDS, the IMF is also engaged, with the World Bank, in monitoring countries' compliance with these and other standards through ROSCs at the request of a member country. Like the SDDS, ROSCs provide certification to help countries access capital markets, but they are also an instrument for monitoring cooperation – and particular agreements to cooperate – among members of the IMF, including most recently agreements about interdicting flows of terrorist financing. Since 1999, 723 assessments (ROSCs) and updates have been completed in 122 countries (IMF, 2005b). Most of them assess emerging market economies, followed by advanced economies and other developing countries.[21] On average, about seven standards out of twelve were assessed at least once in emerging market economies, five in advanced economies and only four for developing economies.

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[20] Her study focuses on Section 2 of Article VIII prohibiting restrictions on the making of payments and transfers for current international transactions.

[21] Their participation rates stand at 93, 87, and 50 per cent, respectively.

In looking at the evidence regarding whether these new voluntary standards and monitoring procedures produce compliance, we look for effects similar to those described by Simmons (2000) in relation to mandatory standards. Do the SDDS or the ROSCs provide information that alters competition among governments or market pressures? Simmons's work is once again helpful. She documents varying delays in members' "subscribing" to Article VIII upon joining the IMF membership, estimating that, on average, the probability of a member accepting the obligations spelled out in Article VIII is only 50 per cent within 31 years, increasing to 75 per cent only after 40 years. In other words, countries do not rush to subscribe to Article VIII, even if they are compelled to do so upon joining the IMF. Equally important is the evidence that the IMF does not try to enforce such an obligation through the conditionality associated with loan agreements. In the most recent review of the Article VIII acceptance, the IMF noted that "more can be done to improve compliance" (IMF, 2006d; 2). However, it added that sanctions for noncompliance, as foreseen by Article XXVI, have never been applied. Subscription instead operates through strong competition among countries with improving economic conditions. This evidence is borne out by Simmons's (2000) subsequent analysis of compliance with Article VIII, wherein she finds a relatively stronger evidence of peer competition in comparison with variables proxying for economic conditions and market pressures, which exert only a second-order effect. She concludes that "the behavior of other countries, especially in one's own region, has far more influence on commitment and compliance that has generally been recognized" (Simmons, 2000; 832).[22]

ii) Contrasting Sign-up and Compliance with New Standards

By the end of May 2005, 61 countries had subscribed to the SDDS (IMF, 2005b). However, that they have signed up does not imply they are complying with the standard. In a study of SDDS compliance in East Asia, Walter (2006) contrasts the incentives countries face to sign up and implement the SDDS to their actual compliance. He defines implementation as the process of bringing a country's statutes and regulations into line with the agreed-upon standards; compliance occurs when countries' actual behaviour conforms to the prescriptions of the specific rule or standard. Walter argues that peer pressures exist on countries to sign up and implement. He finds much less evidence, however, of pressures to comply with implemented standards, and

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[22] Further evidence of peer pressure in accepting such obligations is found in the most recent document discussed by the Executive Board on the status of compliance with Article VIII (IMF, 2006d). It starts by recalling that in the earlier review, in 1992, the Board "agreed that many members have availed themselves of Article XIV [transitional arrangements] for too long and should take appropriate steps to remove remaining restrictions. Therefore, the staff will intensify its efforts to *encourage* countries to accept the obligations of Article VIII…" (IMF, 2006d; 2; emphasis added). The staff then proudly confirms that "the goals set out in the 1992 report have been met." By May 2006, in fact, 165 out of 184 members had notified the Fund of their acceptance of Article VIII obligations – a rapid shift considering that some members who have availed themselves of the transitional arrangements for over 40 years. When the 1992 review was discussed by the Board, 74 members had accepted Article VIII obligations. Of those which had not, 68 had been Fund members for more than 20 years. The proportion of countries that have notified their acceptance rose from less than 50 percent in 1993 to almost 90 percent in 2005.

he uses this distinction to explain the fact that, while the IMF reports how many countries have signed up for the SDDS, at the end of 2003 actual compliance with SDDS among IMF members was only 29 per cent.

The IMF's (2005b) internal review of the standards initiative admits that "hard evidence on the impact of the initiative on countries' adherence to the standards is not available." It then concludes: "There is neither a mechanism to track systemically members' implementation of ROSC recommendations nor the extent and degree of their observance of the standard in all ROSCs. Also, for most countries, ROSCs have only been done once, so existing ROSCs do not yet provide much information on how observance has evolved over time" (IMF, 2005b; 21). Only in 2007 will the IMF begin to produce mandatory annual reports on SDDS observance.

From the gap between subscription to the SDDS and compliance, we can infer one of two things. If we believe that subscription to SDDS sends a positive signal to capital markets, then perhaps subscription alone fulfils subscribing countries' goals and compliance would bring no added benefits. In the words of Eichengreen (1999): "Subscription status provides an objective indicator of countries' creditworthiness, providing an alternative to the judgments of commercial credit agencies. Investors might become reluctant to lend to countries that fail to subscribe to the standard or might use interest rate spreads to ration credit to them." Alternatively, perhaps countries sign up for the SDDS more to cooperate with the IMF than to signal to markets. To put it another way, perhaps they sign up in order to send a political signal to markets that they have IMF support. Accordingly, financial markets may be relatively indifferent to SDDS, other standards, as well as associated reports, as market participants may be more interested not in the actual standard but in the simple signal of subscription. The latter finding is borne out by the relative indifference shown by market participants in response to the international standards initiative, as noted in Section 1*iii*.

In a study undertaken by the IMF, Cady and Pellechio (2006) test whether subscription to the SDDS and the GDDS lowers borrowing costs for countries. Their econometric findings based on a sample of 26 emerging market and developing countries are that subscription to the SDDS does reduce market launch spreads, with subscription to the GDDS also producing a positive result. The weakness of the study is that they test only the fact of subscription to the standards. They do not test whether market participants are interested in – or respond to – a record of compliance with the standard. This leaves open the question of whether the markets are responding to subscription *per se* as a signal – possibly of willingness to cooperate with the IMF – or whether they are responding to the likelihood that a country, having in fact adopted a given standard, will comply with it.

The question then arises as to why countries request a ROSC. Is it to signal to markets directly or to cooperate with the IMF? Certainly a country that regularly undertakes ROSCs is perceived by the IMF as being more cooperative with the institution than those countries that do not participate. The Fund's Executive Board sees ROSCs as an important way to ensure that member countries engage with the institution. Since the inception of the SDDS, the Board has reviewed the status of the initiative – mainly focusing on how many members have subscribed and how many more could subscribe – at regular intervals of about two years, while every quarter the staff has compiled an update on the subscribers to the initiative, which is regularly circulated to the

Board. Furthermore, international standards constitute part of the policy dialogue with the authorities in the context of bilateral surveillance missions and, as a result, the Article IV staff papers prepared for the Board report details on the extent to which the member has subscribed to – and has requested a ROSC in – the full spectrum of the current standards.

A few other studies undertaken within the IMF itself have attempted to establish some links between adherence to international standards and measures of economic performance, though they face serious limitations due to short time series, limited availability of comparable data, and, especially, the possible endogeneity of the decision to undertake a ROSC with other reforms.[23] What emerges is the conclusion that, even if subscription with standards correlates with better access to capital markets, this outcome could equally be attributed to the alternative competing hypothesis that countries sign up for the IMF's voluntary standards to signal their willingness to cooperate with the IMF itself.

The IMF's internal review (2005b) cites evidence that participation in the ROSC initiative has involved a degree of self-selection by best performers; that is, participating countries tend to be those with a more transparent and stronger policy setting. Rather than undertake an assessment to inform subsequent reforms, countries have preferred to implement reforms at an earlier stage and then use the initiative as a "certification" showing their compliance with a certain standard. This interpretation is consistent with the high rate of publication of ROSCs, at about 75 per cent, a figure that has been stable over time: most of the time, countries that have successfully completed a ROSC wish to signal this fact.

From the perspective of the IMF itself (and of the World Bank), the internal staff review concluded that there is "no strong reason to modify the scope or the governance of the initiative," an assessment broadly shared by the Executive Board (IMF, 2005b; 27). In fact, ROSCs play an increasingly important role in informing the work of the institution by providing, for instance, the main criterion for prioritizing the provision of its free, but limited, technical assistance. All in all, this points to peer pressure among governments – and the desire politically to be seen as willing to cooperate with the IMF – as a relatively stronger factor than market pressures in driving country attitudes towards the IMF's standards initiative. For our purposes, it underscores the potential for surveillance as a form of multilateral cooperation drawing together members around shared commitments and standards. Here, however, a comparison with another inter-governmental standard-setting process is enlightening.

iii) A Comparison with Standard-Setting in the European Union

The EU coordinates standards set by its members in a more overtly political and decentralized way than the IMF. The initial drafting of the standards is carried out by the EU Commission, which produces broad guidelines that are submitted to the Economic and Financial Committee (EFC). The EFC comprises very senior officials from EU finance ministries and central banks, who scrutinize the guidelines and then report their comments and suggested improvements to the

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[23] See Cady (2004), Podpiera (2004), Glennerster and Yongseok (2003), Price (2002), and Sundararajan, Marston, and Basu (2001).

Council of all EU finance ministers (ECOFIN). The Finance Ministers can vote – by qualified majority – to adopt the guidelines and report this to the European Council, the highest EU decision-making body. It is the Heads of European States sitting in the European Council who make the final recommendation, creating an obligation on member states to forward to the Commission information "…about important measures taken…in the field of their economic policy and such other information as they deem necessary."[24] The result of this process is to create standards that are non-prescriptive – as countries generate their own plans – but binding.

The monitoring of the standards is undertaken by the Commission on a continuous basis, in the context of frequent visits made by specialized teams to the country concerned and through informal contacts with national senior officials when they are in Brussels to attend EU engagements, including EFC meetings. The monitoring tends to cover selected aspects of macroeconomic policies, typically fiscal and structural policies, in a highly detailed manner, building on a standardized analytical framework that allows for rich and systematic comparison across member countries, complemented by a so-called "stability" programme submitted by each member.[25] The Commission then formulates an assessment, which, together with the stability programme, is discussed by the EFC and then by the ECOFIN.[26]

In the EU process, there is capacity to enforce obligations countries have undertaken – at least in theory. Where members do not comply with the medium-term objectives stated in their own stability programmes or where the plans themselves are inconsistent with the guidelines, ECOFIN can recommend (by qualified majority) that the members take corrective actions. If a member state fails to act, the Council can then give notice to the member state to take measures within a specified period to remedy the situation.[27] In the most extreme case, it may even sanction the member state (still by qualified majority).[28]

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[24] Treaty of Nice, Article 99(3).

[25] The stability programme covers the following background: the medium-term budgetary objective and the adjustment path towards this objective; main assumptions about economic developments and important variables relevant to the realization of the envisaged programme; a detailed and quantitative assessment of budgetary and other economic policy measures being taken and/or proposed to achieve the objectives of the programme, including a detailed cost-benefit analysis of major structural reforms; an analysis of how changes in the main economic assumptions would affect the budgetary and debt position. Set forth in Article 3 of Council Regulation (EC) No. 1466/97 of 7 July 1997 amended by Council Regulation (EC) No. 1055/2005 of 27 June 2005.

[26] Article 5 of Council Regulation (EC) No. 1466/97 of 7 July 1997 amended by Council Regulation (EC) No. 1055/2005 of 27 June 2005 provides that "based on assessments by the Commission…, [ECOFIN] shall examine the medium-term budgetary objective presented by the Member State concerned, assess whether the economic assumptions on which the programme is based are plausible, whether the adjustment path towards the medium-term budgetary objective is appropriate and whether the measures being taken and/or proposed to respect that adjustment path are sufficient to achieve the medium-term objective of the cycle."

[27] Treaty of Nice, Article 9.

[28] Treaty of Nice, Article 11.

EU surveillance is part of a broader compliance system within the EU itself, whereby member states have delegated authority to EU decision-making bodies, such as ECOFIN, which typically decide by qualified majorities. It is worth noting, however, that the officials' actions are taken in a highly institutionalized setting that regularly brings these policymakers together. In fact, a great deal of the effectiveness of the European Union peer review has been attributed to its extensive reliance on wide networks of officials from national administrations, who provide for integrating and harmonising policies to foster convergence towards, eventually, a single policy process for the EU (Visco, 2002).

The comparison of the IMF with the EU highlights several of the features of contemporary IMF surveillance discussed above. Notably, the process in the IMF is more bureaucratic than politically engaging, and it results in standards that are prescriptive rather than in nationally drawn commitments that, in the end, the IMF has no authority to enforce. For IMF surveillance to facilitate cooperation and collaboration, greater political engagement is required. Paradoxically, this might require greater delegation of authority from the membership to the institution: as the EU experience shows, only if the institution is empowered to take important decisions will senior government officials engage.

In conclusion, IMF surveillance may well be at its most successful in setting standards among members. Intriguingly, however, this may be a sign more of members' commitment to the collaborative machinery of the institution than of commitment to the standards being set.

3. Surveillance as an Amplifier of Conditionality: The IMF as Gatekeeper

The third, more direct means by which IMF surveillance is often thought to influence policy is in passing judgement on members that rely on the institution for funds. This was not part of the original conception of the monitoring and consultation role of the IMF. Rather, the original conception of the IMF had a credit union character whereby all members were deemed to be equally likely to apply for temporary balance of payments support to uphold the fixed exchange rate system. Over time, however, IMF members have become divided into creditors and (potential) borrowers. This may have created a source of leverage for surveillance by what some call the "rule-making states" over the "rule-taking states." Equally, leverage over other benefits that a country might stand to gain from the IMF can create coercive pressures that one group of national policymakers in borrowing countries can use against others (Boughton, 2003; Vreeland, 2003).

How might the IMF leverage surveillance? When the IMF conducts surveillance in a country borrowing from it (or hoping to borrow from it) that is subject to conditionality, surveillance may derive "muscle" from the lending programme, whereby the standards introduced through surveillance piggy-back the conditionality associated with the programme. Surveillance-with-leverage activities were instrumental in promoting debt restructuring in the context of the Latin American debt crisis in the 1980s, with the IMF monitoring the performance of debtor countries under a scheme of enhanced surveillance that featured clear benchmarks against which to assess the performance of debtor members (IMF, 2004). In 1999, when the IMF set up the Contingent Credit Line to help members weather financial contagion, it included subscription to specific standards as a criterion for access to this fast-disbursing facility.[29] More recently, the IEO's evaluation of exchange rate policy advice found that, within the membership, smaller emerging and low-income countries were those whose officials regarded IMF surveillance as affecting their major policy decisions, typically in the context of an IMF-supported program (IMF, 2007b).

Surveillance as an amplifier of conditionality can be most readily observed in the IMF's relations with aid-dependent countries, which depend heavily on government-to-government development assistance. The IMF acts as a "gatekeeper" for most official flows. For example, official debt restructuring is negotiated through the Paris Club – comprising all the main official creditors – which has traditionally required borrowers to be part of an IMF-supported program before creditors would restructure or cancel their debt. Yet more tellingly, a recent survey undertaken by the IMF reports that 97 per cent of donor members use IMF assessments to inform their decisions about assistance to low-income countries. Another 77 per cent asked the IMF to report more regularly to the donor community so that such information could be better incorporated in their decisions, while a further 60 per cent wished for such information to be backed by IMF lending arrangements (IMF, 2005c; Lombardi, 2007 and 2005).

Doubtless because of the important gatekeeping role of the IMF, borrowers and creditors in low-income countries have sought to develop a new instrument – the Policy Support Instrument (PSI) – for countries that do not need or want to enter into a financial arrangement with the Fund but still rely on assistance from donors. In essence, the PSI creates a new level of surveillance but presents it in the form of a lending program: it is an unfunded arrangement based on a quantitative macroeconomic framework. Countries that meet the expectations set out in the framework are given the Fund's stamp of approval. In the case of Nigeria, the first country to apply, the PSI has been instrumental to its receiving debt restructuring from the Paris Club.

Highlighted is the fact that IMF surveillance proper could not be extended to play the role of the PSI. As noted by Lombardi (2007), in many ways the PSI addresses some of the shortcomings of surveillance. Since Article IV consultations are statutory, they do not have a standard for entry, making it difficult for outside observers to appraise a country's performance against a clearly defined benchmark. Article IV consultations provide a fine-grained assessment of the context within which a country's policies are being pursued. For donors and recipients, however, this is not enough. They seek a simple "on/off" signal that can guide other aid flows.

Conditional loans, by contrast, have provided clear signals to donors and official creditors. A country's policies are supposed to pass a clearly defined standard for the country to become eligible. Financial arrangements typically come with more frequent assessments than the standard annual Article IV consultations. Such assessments measure a country's performance against a quantitative macroeconomic framework and offer a multidimensional analysis as well as an on/off signal based on whether a member completes the review in a timely fashion. Building on this model, the new PSI aims to provide a guide for donors' allocation decisions, so that they can tailor the terms of their flows, including the mix between financing and grant

[29] IMF (1999a). The facility, never used, was discontinued in 2003.

volume, to the debt sustainability outlook of a recipient country. It is a “non-lending” and strictly voluntary instrument – a service available to those members who ask for it.

The PSI is seen as necessary by some low-income countries. This underscores the fact that the IMF is gatekeeper to these countries for a number of reasons. Certainly, low-income country governments are well placed to enjoy the greatest benefit from the Fund’s involvement, given their capacity constraints. Furthermore, while a few agencies may provide analysis of other countries’ economies, this is hardly the case for low-income countries. Indeed, given the paucity of international private capital flowing to these economies, they are unlikely to mobilise the efforts of the international private sector. Finally, donor countries that provide the bulk of official development flows are also (influential) members of the Fund and, consequently, are able to enjoy the benefits of its engagement with low-income countries. For the same reason, low-income countries may be more willing to cooperate and engage in a dialogue with the institution if this is likely to appease its influential shareholders and donors. The latter, on the other hand, rather than each assessing the policies of every recipient and their consistency with their agreed-upon aid programs, may find it more efficient to pool their resources and rely on the Fund’s assessment (Rodrick, 1995; Lombardi, 2005).[30]

It follows from this that when the IMF does universal surveillance, its output falls most heavily on low-income countries – partly because borrowing governments take more notice of it, partly because there are no competing sources of information, and partly because donors use it as an authoritative source. Looking forward, the IMF’s experience of surveillance in low-income countries points to some constraints the institution may face in its future surveillance activities, as competition from other sources of information and new donors may grow over time – even in low-income countries.

Conclusions

IMF surveillance is typically thought to have effect because it provides useful information to member countries, because it engages countries in cooperative behaviour, or because it piggy-backs the bargaining power the IMF enjoys in some countries. In this article, we have explored these beliefs about IMF surveillance by bringing to bear theoretical explanations as to why and how these effects might work. At the outset, we distinguished rationalist and constructivist theories. Rationalists would attribute the impact of IMF surveillance either to bargaining power (realists) or to the role information can play in shaping competition and cooperation among states (institutionalists). By contrast, constructivists would describe the likely impact of surveillance in terms of learning or socialization, focussing on the social organization and impact of the IMF’s activities.

What does the evidence suggest? The rationalist-realist explanation that surveillance is likely only to have effect where the IMF has bargaining power is underscored by the IMF’s bilateral surveillance with low-income countries. Countries that cannot afford to be noncompliant with

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[30] In an influential contribution, Burnside and Dollar (2000) have argued that aid is more effective when managed multilaterally than bilaterally.

the IMF, not least because it would affect their other sources of multilateral and bilateral aid, are clearly the most strongly and directly affected by bilateral surveillance.

In countries where the institution does not have leverage, such as economies that enjoy sustainable access to private capital markets, rationalist-institutionalists and constructivists propose that IMF surveillance might also have some effect. The rationalist-institutionalist case seems to have some traction, albeit limited, in explaining the impact of surveillance among the rest of the membership. IMF bilateral surveillance provides information that does seem to influence countries –by affecting competition among peers, for example – as seen by the growing adoption of IMF-supported standards. This does not necessarily mean, however, that surveillance influences countries' substantive policies. It is important to ask whether countries subscribing to IMF standards actually change their behaviour so as to comply with them – a nuance rather ignored by economists. Markets might be reacting more to members' political signals of their willingness to cooperate with the Fund than to these members' actual compliance with the standards. This interpretation is borne out by the evidence that both the IMF and member countries value the recent standards initiative, while market participants are relatively indifferent to it, though they do appear to value Article IV consultations. This result is consistent with the view that the IMF is most effective in surveillance not as a provider of information to markets but as a signal to the markets about the relative standing of a country within the IMF.

Constructivists propose, finally, that bilateral and multilateral surveillance may provide a forum for learning and socialization, altering a government's perceptions as to what it ought to do and at the multilateral level permitting countries collectively to formulate and implement mutually agreed-upon rules. In the case of bilateral surveillance, the available evidence suggests that the process is not structured in ways that, according to theories of learning, are likely to lead to learning and socialization. The IMF's surveillance process offers little by way of peer-to-peer exchanges; it tends to be described as a one-way process. At best, some countries describe it as providing a sounding board for government officials. In the case of the IMF's multilateral surveillance activities, there is equally little evidence of a process that is structured to be likely to lead to learning and socialization. The IMF's multilateral surveillance reports are prepared by the staff, with the Board – and the Fund membership – exhibiting little ownership of the results.

The available evidence suggests that the IMF's surveillance activities have little scope to be effective beyond those countries that directly depend upon the IMF's approval for resources. This reflects the way the IMF engages with member countries as well as the limited degree to which states have delegated authority to the institution. Powerful members of the IMF are pushing for the Fund to do more surveillance, yet these same members have not delegated the institution enough powers to conduct surveillance in ways that might be more effective. They have provided neither adequate authority to the Fund nor effective instruments of enforcement. They have drawn back from endowing the IMF with political capital, making it ineffective as a forum for multilateral solution-finding.

The IMF itself has done little to rectify this, retreating into bureaucratic procedures for conducting consultations at multilateral and bilateral levels and thereby producing standards in a way that does not foster political collaboration. Furthermore, the standards are implemented through negotiations in which learning does not occur and monitored in a way that fails to open up and harness either market or peer pressures to comply.

For the IMF to undertake more effective surveillance would require a reinvigoration of the collaborative machinery of the organization. The IMF Executive Board would need to reclaim greater control over the strategic direction of the institution and replace bureaucratic procedures with more open and informal dialogue. Likewise, the Fund's bilateral surveillance activities would need to be more member-driven, less prescriptive, and more open to peer participation if they are to invite learning and cooperation. The European and OECD models of peer surveillance are instructive. By adopting processes that foster greater engagement among member countries, the IMF could not only better undertake surveillance but could better fulfil its role as a mechanism for multilateral cooperation.

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Internet Resources

Articles of Agreement of the International Monetary Fund
<http://www.imf.org/external/pubs/ft/aa/index.htm>

IMF Surveillance – A Fact Sheet
<http://www.imf.org/external/np/exr/facts/surv.htm>

Table 1: IMF Surveillance Instruments

Spatial Focus		Low-Income	Emerging	Advanced
		WEO		
	Global	GMR	GSFR	
			WEMD	
	Regional	Regional Outlooks, Monetary Unions		
	National	Art. IV Consultations, ROSCs		

Stage of Economic Development