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**Independent Evaluation Office of the
International Monetary Fund**

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Abbreviations

APR	Annual progress report
BCP	Basle Core Principles
BSR	Biennial Review of Surveillance
CCB	Committee on Capacity Building
CIGI	Centre for International Governance Innovation
CSO	Civil society
ECG	Evaluation Cooperation Group
EPA	Ex post assessment
FAD	Fiscal Affairs Department (IMF)
FSA	Financial Sector Assessment
FSAP	Financial Sector Assessment Program
FSLC	Financial Sector Liaison Committee
FSSA	Financial System Stability Assessment
G-7	Group of Seven
G-20	Group of Twenty
GBS	General budgetary support
GDDS	General Data Dissemination Standards
<i>GFSR</i>	<i>Global Financial Stability Report</i>
HRD	Human Resources Department (IMF)
ICM	International Capital Markets Department (IMF)
IEG	Independent Evaluation Group (World Bank)
IEO	Independent Evaluation Office (IMF)
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
IOSCO	International Organization of Securities Commissions
JSAN	Joint Staff Advisory Note
LTPE	Long-Term Program Engagement
MCM	Monetary and Capital Markets Department (IMF)
MD	Managing Director
MDG	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MFD	Monetary and Financial Systems Department (IMF)
MIP	Management implementation plan
MONA	Monitoring arrangements
MTS	Medium-Term Strategy
OECD	Organization for Economic Cooperation and Development
OTM	Office of Technical Assistance Management (IMF)
PPM	Post-Program Monitoring
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper

PSIA	Poverty and Social Impact Analysis
QEDS	Quarterly External Debt Statistics
ROSC	Report on the Observance of Standards and Codes
RSN	Regional Strategy Note
SSA	Sub-Saharan Africa
TA	Technical Assistance
TACSN	TA Country Strategy Notes
TAIMS	TA Information Management System
TOR	Terms of reference
WEO	World Economic Outlook

MESSAGE FROM THE DIRECTOR

This fourth *Annual Report* describes the activities of the Independent Evaluation Office (IEO) during the year to April 30, 2007. This period saw the implementation of a number of initiatives aimed at addressing the recommendations made in 2006 by the External Evaluation Panel—charged with investigating whether the IEO is meeting its goals. These initiatives are discussed in Chapter I of this *Annual Report*. They, together with others on which the IEO, the Executive Board and IMF Management and staff are currently working, will help to strengthen further the effectiveness of the IEO.

Chapter II of the *Annual Report* summarizes the findings and recommendations of the evaluation The IMF and Aid in Sub-Saharan Africa, which was discussed by the Board on March 5, 2007. A report for a second evaluation, IMF Exchange Rate Policy Advice, 1999–2005, was circulated on April 18, 2006 but was not discussed by the Board until after the cutoff point of April 30, 2007 for this *Annual Report*.

Chapter III presents messages that are common to many of our evaluations. Important lessons arose from our two most recent evaluations that are particularly noteworthy as the IMF proceeds with the implementation of its Medium Term Strategy. Of most significance perhaps, is the finding of difficulties in the process of managing and achieving institutional change at the IMF. A combination of factors has prevented some policy decisions originating at the Executive Board, from being effectively implemented. Overcoming this problem will require strong leadership from Management and support from the Executive Board. Other cross cutting lessons include the need for greater clarity about the goals of various IMF initiatives and properly aligned external communications; the importance of strengthening partnerships with other IFIs and donors; and the desirability of clear metrics to facilitate the assessment of the impact of IMF's policy advice.

Finally, Chapter IV discusses ongoing projects and the process leading to the identification of topics of future evaluations.

The Independent Evaluation Office is small by design and therefore to be effective, it must be very strategic. As our choice of topics and reports show and as set out in this annual report, I believe we are increasingly succeeding in this challenge.

Tom Bernes
Director
Independent Evaluation Office

I. OVERVIEW OF DEVELOPMENTS IN FINANCIAL YEAR 2007

This chapter discusses key developments in FY2007, including the institutional efforts at implementing the Board-endorsed recommendations made by an independent panel of experts charged with evaluating the activities of the IEO.

Implementing recommendations from the external evaluation of the IEO

When the Independent Evaluation Office (IEO) was established in July 2001, it was envisaged that the IEO would be subject to periodic external evaluations.¹ In 2005, an independent panel of experts was appointed and, in April 2006, the Executive Board discussed the panel's report—henceforth, the External Evaluation Report.² The report assessed whether the IEO was meeting its goal to (1) serve as a means to enhance the learning culture within the IMF; (2) strengthen the IMF's external credibility; (3) promote greater understanding of the work of the IMF throughout its membership; and (4) support the Executive Board's institutional governance and oversight responsibilities. During the Board discussion of the report, IMF Executive Directors agreed that the IEO had served the IMF well and had earned strong support across a broad range of stakeholders, and that the IMF continued to need an independent evaluation office to contribute to the institution's learning culture and facilitate oversight and governance by the Board. In its most recent Communiqué, the IMFC reiterated its appreciation for the contributions of the IEO.

At the same time, Directors also welcomed the report's recommendations for further strengthening the IEO's effectiveness, and agreed that a more focused and strategic orientation, together with strong support from the Board and Management, would help ensure the IEO's continued usefulness and relevance.

Significant progress was made during FY2007 in this area, particularly in the setting of rules or procedures for the scheduling of Board discussion of IEO reports, the monitoring of implementation of Board-endorsed IEO recommendations, and the IEO's outreach and communications strategy.

In late 2006, the Executive Board and Management agreed on a guideline stipulating that Board consideration of an IEO report should generally be scheduled within six weeks of its circulation to the Board, and that Executive Directors should receive any comments on the IEO report by Management and staff at least two weeks prior to the Board discussion. It was noted that, within the constraints within which Management and the Executive Board

¹ Key information on the IEO such as its terms of reference, organization, and procedures, can be found in <http://www.ieo-imf.org/about>.

² The evaluation report can be found at www.imf.org/external/np/pp/eng/2006/032906.pdf.

operate, every effort would be made to ensure that this guideline is observed; should specific circumstances require a departure from the guideline, Management would explain the reasons to the Executive Board in a timely fashion following the consultation with the Chairman of the Evaluation Committee, who would also have an opportunity to present his views.

The External Evaluation Report had recommended a more systematic approach for following up on and monitoring the implementation of IEO recommendations approved by the Board. To this end, in January 2007 the Executive Board approved a framework requiring that:

- Soon after the discussion by the Executive Board of each IEO report, Management is to provide the Board with a forward-looking implementation plan (MIP) for the recommendations endorsed by the Board.
- Management is to present the Board a periodic monitoring report on the state of implementation contained in the MIP.

It was agreed that the first periodic monitoring report will be prepared following the delivery of this *Annual Report* and that it will also review the implementation of recommendations made in past evaluations.

As part of its efforts to follow up on the External Evaluation Report's recommendations, the IEO revamped its outreach and communications strategy. It adopted a new logo for its communication and other public material, and strengthened communication channels beyond the evaluation reports. Most importantly, the IEO launched a new website—www.ieo-imf.org—prior to the 2007 Spring Meetings. The new website provides a more user-friendly interface with easy access to completed evaluations, issues papers for ongoing evaluations, *Annual Reports*, the IEO Work Program, and other IEO documentation. In addition, the IEO started a more active management of its e-mail subscriber database and initiated the publication of a biannual newsletter to its stakeholders.

Additional work in response to the External Evaluation Report is being carried out within the IMF, including in the areas of human resources policy, the publication policy for IEO reports, and guidelines for the disclosure of information to the IEO.

Budget and staffing

In FY2007 the budget was spent nearly in full (Appendix II), with the execution rate reaching over 99 percent of the approved budget (similar to the outturn for FY2006). In FY2007 the IEO employed 12½ regular staff (in full-time equivalent terms), five of whom were seconded from IMF staff; the use of consultants and contractual staff was equivalent to some 9.2 staff years.

The budget approved for FY2008 stands at \$4.6 million, a 2 percent nominal increase in line with Fund-wide guidance for offices (a cut in real terms of about 1¼ percent). The IEO will

maintain 13 staff positions and further reduce discretionary expenditures by over 1½ percent (about 4½ percent in real terms). The work plan underlying the approved budget assumes, consistent with the experience to date, that the office will work on three evaluations at any point in time; however, the number of projects actually completed over a period of time will depend on the complexity and scope of the evaluations and budgetary resources.

The budgetary reductions registered since FY2006, together with the medium-term (three-year) implications of the recently approved budget, will have a potentially significant impact on IEO resources going forward, with discretionary expenditures set to experience a large fall.

Outreach activities

The IEO engages in external outreach activities to disseminate its evaluations findings to a wide audience. Various outreach events are organized to discuss each report after publication. To increase accessibility of the evaluation messages, a number of country case studies are translated into relevant languages as are report summaries.³

In the year to April 2007, the IEO participated in a number of outreach seminars and mid-pipeline workshops, often at the invitation of third-party organizers. These included a visit to Accra in late June 2006 to seek the views of the national authorities, donors and stakeholders on the IEO evaluation of IMF and Aid in Sub-Saharan Africa (SSA); meetings in Beijing and Shanghai to meet with country officials and other financial sector representatives as part of the evaluation of exchange rate policy; and a seminar in Singapore during the last Annual Meetings on “Strengthening IMF Surveillance”. A complete list of outreach activities can be found in Appendix 1.

II. RECENTLY COMPLETED EVALUATIONS

One evaluation was completed in FY2007—The IMF and Aid to SSA. A report for a second evaluation—The IMF’s Advice on Exchange Rate Policy—was circulated to Board but not yet discussed by the end of FY 2007. A description of the former’s main findings and recommendations is provided below. For the latter, a brief account is made of the main findings.⁴

A. The IMF and Aid to Sub-Saharan Africa

The IEO evaluated the IMF’s role and performance in the determination and use of aid to low-income countries in SSA. Using evidence from 29 SSA countries’ experience with the

³ A full list of IEO publications is available on the IEO website at www.ieo-imf.org/pub.

⁴ In its most recent Communiqué, the IMFC welcomed both evaluations.

IMF's Poverty Reduction and Growth Facility (PRGF) between 1999 and 2005, the evaluation found ambiguity and confusion about IMF policy and practice on aid and poverty reduction, both outside and inside the institution. Underlying these ambiguities, the report found differences of views among members of the Executive Board about what role the IMF should play in low-income countries. Management—along with the Board—should have done more to resolve these differences. How the differences are to be narrowed remains a central policy challenge for the institution. The overarching message of the evaluation is that the IMF should be clearer and more candid about what it has committed to do, and more assiduous, transparent, and accountable in implementing its commitments in low-income Africa.

Three longstanding criticisms of the IMF's work in SSA provided a point of departure for the evaluation. The first is that IMF-supported programs have blocked the use of available aid to SSA through overly conservative macroeconomic programs. The second is that such programs have lacked ambition in projecting, analyzing, and identifying opportunities for the use of aid inflows to SSA countries, which may in turn have tempered donors' actual provision of aid. The third is that IMF-supported programs have done little to address poverty reduction and income distributional issues despite institutional rhetoric to the contrary.

Board-approved policies underpinned the assessment framework used by the evaluation team in examining staff performance. Also relevant was Management's translation of Board decisions into operational guidance to staff. IMF communications, through Management and senior staff speeches, press releases, articles, and correspondence with newspapers were germane as well. These communications constitute an important channel for articulating IMF positions and informing external audiences about what the IMF has undertaken to do; they create expectations against which IMF performance is judged externally.

Key findings

A recurring theme of the evaluation concerned the disconnect in external perceptions between the IMF's rhetoric on aid and poverty reduction and what it actually did at the country level. Underlying this disconnect is a larger issue of attempted—but ultimately unsuccessful—institutional change. When the PRGF was introduced, it was meant to be more than a name change. It set out a new way of working, grounded in the PRS process, with programs based on specific country-owned measures geared to poverty reduction and growth, and an ambitious vision of the IMF's role on the analysis and mobilization of aid, working in close partnership with the Bank. But in the face of a weakening consensus in the Board and a staff professional culture strongly focused on macroeconomic stability—and, most important, changes in Senior Management and a resulting lack of focused institutional leadership and follow-through—the IMF gravitated back to business as usual.

At the same time, country performance has improved in a number of SSA countries over the period—thanks in part to the advice and actions of the IMF, including through the HIPC

Initiative and the Multilateral Debt Relief Initiative (MDRI), and in larger part to the actions of the countries themselves—and donor performance as well. In such cases, PRGF-supported macroeconomic program design has eased and become more accommodative of aid. The combination of improved country and donor performance and the associated adaptation of PRGF program design have materially improved SSA’s prospects for growth and poverty reduction.

The evaluation’s specific findings follow:

- PRGF-supported macroeconomic policies have generally accommodated the use of incremental aid in countries whose recent policies have led to high stocks of reserves and low inflation; in other countries additional aid was programmed to be saved to increase reserves or to retire domestic debt. Reserves in the 2–3 months of imports range were found to be the threshold for determining whether the increased aid should be used to expand the current account deficit or to increase reserves. The estimated inflation threshold for determining whether the country got to spend or save additional aid lies within the 5–7 percent range. These findings are consistent with Board-approved policy on the accommodation of aid and Management guidance to staff. However, they are not well communicated to the donor community nor to civil society. They help to explain why outside observers perceive the IMF as “blocking” the use of aid: PRGFs in countries with inflation above the threshold are likely to program the saving of at least part of additional aid.
- PRGFs have neither set ambitious aid targets nor identified additional aid opportunities—where absorptive capacity exceeds projected aid inflows. They have indirectly catalyzed aid—through their macroeconomic assessment and support for country efforts to improve the underlying macroeconomic environment and fiscal governance. Their medium-term aid forecasts have shown signs of adapting to the increased persistence of aid to SSA—after having been overly conservative at the start. But IMF staff have done little to analyze additional policy and aid scenarios and to share the findings with the authorities and donors. They have not been proactive in mobilizing aid resources, a topic where the Board remains divided and IMF policy—and operational guidance to staff—are unclear.
- Of the key features distinguishing the PRGF from the ESAF, fiscal governance has been the most systematically treated. These strong PRGF efforts on *fiscal governance* reflect clear, consistent, and continuing support from the Board; the issue’s centrality to the IMF’s core macro objectives through its links to budget execution; and effective Fund/Bank collaboration, grounded in professional capacity in both institutions. The consistent HIPC-related pressure from both Boards was a factor in PRGFs’ support for pro-poor budgets. Executive Directors’ support for Poverty and Social Impact Analysis (PSIA), though strong, has been more measured; the tailoring of PSIA to PRGF needs was initially stymied by unrealistic expectations of how Fund/Bank collaboration might work on the issue, with more recent efforts focused

on in-house analysis. Weak Fund/Bank collaboration has also been a factor in the IMF's failure to pay more attention to infrastructure-related growth and competitiveness linkages and their possible macroeconomic implications for the programmed spending and absorption of additional aid.

- IMF communications on aid and poverty reduction have contributed to the external impression that the IMF committed to do more on aid mobilization and poverty reduction analysis. The resulting disconnect has reinforced cynicism about, and distrust of, IMF activities in SSA and other low-income countries. It was especially large in the early years of the evaluation period, when Management communications stressed the two-way linkages between growth and poverty reduction. But it remains a concern even today, in the context of external communications on IMF support for alternative scenarios, MDG strategies, and the mobilization of aid that overstate what the IMF is doing in the context of PRGFs.
- The IMF has missed opportunities for communicating with a broader audience in SSA. The IMF has a network of resident representatives in SSA. Demands on their time have increased in recent years with the changing aid environment, and donors' increased decentralization and use of budget support instruments. But staff resources and skills have constrained their ability to fully engage with local partners in this changing environment. Meanwhile, they remain a largely untapped source of information on what is happening on the ground among donors and civil society; their observations do not systematically inform institutional positions.

Recommendations

Going forward, the evaluation makes three recommendations for improving the coherence—actual and perceived—of the institution's policies and actions relating to aid to SSA. They may also be relevant to several undertakings included in the Medium Term Strategy (MTS).

- The Executive Board should reaffirm and/or clarify IMF policies on the underlying performance thresholds for the spending and absorption of additional aid, alternative scenarios, the mobilization of aid, PSIA, and pro-poor and pro-growth budget frameworks. Based on these reaffirmations/clarifications, Management should provide clear guidance to staff on what is required, encouraged, permitted, and/or prohibited—including in working with the World Bank and other partners—and ensure effective implementation and results. The External Relations Department should ensure the consistency of institutional communications with Board-approved operational policies and IMF-supported operations.
- Management should establish transparent mechanisms for monitoring and evaluating the implementation of the clarified policy guidance. The IMF's Ex-Post Assessments should explicitly cover staff actions and contributions to the implementation of existing and clarified policies. But in view of widespread external concerns about

IMF staff accountability in SSA, a more periodic and transparent stocktaking across country programs is needed, possibly in the context of Board reviews of the PRGF—or in future reviews of the MTS.

- Management should clarify expectations—and resource availabilities—for resident representatives’ and missions chiefs’ interactions with local donor groups and civil society. It should monitor trends in the institution’s country-level operating environment, including for aid, periodically assessing the cross-country implications for IMF policies and strategies.

Executive Board discussion

The IMF Executive Board broadly supported the evaluation’s recommendations at its March meeting on the report. Executive Directors asked IMF staff to come back with specific and costed proposals on how to implement them.

B. IMF Exchange Rate Policy Advice, 1999–2005

The report of the evaluation of IMF Exchange Rate Policy Advice was sent to the Executive Board on April 18, 2007, but was not discussed until May 9—beyond the FY2007 covered by this report.⁵ The description that follows focuses on the evaluations’ main findings; next year’s *Annual Report* will present the report’s recommendations and the reactions of the Executive Board.

The IMF was charged by its Articles of Agreement and a landmark 1977 Executive Board Decision to exercise surveillance over the international monetary system and members’ exchange rate policies. The overriding question addressed by the IEO’s evaluation of IMF Exchange Rate Policy Advice is whether, over the 1999–2005 period, the IMF fulfilled this core responsibility. The main finding is that the IMF was simply not as effective as it needs to be in both its analysis and advice, and in its dialogue with member countries. The IEO thus diagnoses an “effectiveness gap” in the IMF’s main line of business.

The reasons for the IMF’s failing to fully meet its core responsibility are many and complex. Among these reasons are: a lack of understanding of the role of the IMF in exchange rate surveillance; a failure by member countries to understand and commit to their obligations to exchange rate surveillance; a strong sense amongst some member countries of a lack of even-handedness in surveillance; a failure by Management and the Executive Board to provide adequate direction and incentives for high quality analysis and advice on exchange rate issues; and the absence of an effective dialogue between the IMF and many—though certainly not all—of its member countries.

⁵ In its latest Communiqué the IMFC stressed the importance of the Board discussion of this report in informing their work leading to the update of the 1977 Decision on Surveillance over Exchange Rate Policies.

To assess the quality of the IMF's analysis and advice and the effectiveness of its policy dialogue with the authorities, the evaluation reviewed documents for the last two Article IV consultations for the entire membership through 2005, undertook a review of internal and Executive Board documents for 30 selected economies over the full review period, surveyed IMF staff and country authorities, and held a series of interviews with government officials, market participants, academics, IMF Executive Directors or their Alternates, and IMF staff.

Main findings

The IMF's role in exchange rate policy advice

The IMF's role in exchange rate surveillance and related advice derives from formal obligations on both the IMF itself and on member countries. In practice, however, there are different perceptions about the exact nature of the IMF's role. While reasonably clear at a broad legal level, there are gaps in the more specific guidance provided by the Board and with regard to many operational aspects of staff's work—a situation complicated by the lack of firm professional consensus on many of the issues concerned. Survey evidence suggests that there is lack of clarity—among the authorities and staff—about various aspects of the IMF's work in exchange rate surveillance, reflecting different expectations of what the IMF is supposed to do, as well as different perceptions about what it is doing. Such differences make it difficult for the IMF to discharge its responsibilities effectively, and for staff to secure the necessary Board support for some aspects of their responsibilities.

The quality of staff analysis and advice

The IEO's review of a number of quality indicators found that progress had been made over the evaluation period, though not necessarily in the right areas of analysis or to the extent necessary to address the IMF's "effectiveness gap." The increasing number of FSAP exercises, for example, has aided staff knowledge of financial sector issues and the availability of data, improving the integration of such analyses into exchange rate surveillance. Analytical support for IMF advice on regime choice, however, has been weak, and country-specific implementation issues (including in the area of intervention policies) have too often been neglected by IMF staff.

Despite increased attention to global imbalances and capital flows in recent years, multilateral considerations and related spillovers did not figure prominently in most bilateral surveillance discussions. In the IEO desk reviews, analytical depth has often been found lacking, with references to multilateral or regional developments not fully integrated into the staff report or supported by formal analysis. With policy advice being formulated largely on the basis of cyclical, country-level considerations that would provide "first best" recommendations for the country in isolation, interdependencies between individual country policies and the responses of other countries were not sufficiently integrated into staff analysis. As a result, scope for active policy coordination was insufficiently exploited; and a

large group of both the authorities and staff agreed that treatment of policy spillovers remained a key area for improvement in IMF analysis.

Policy dialogue and IMF impact

Policy dialogue between staff and the authorities is a key part of the IMF’s surveillance process; and evidence suggests that, while good in many cases, there are important questions about the effectiveness of this dialogue. Survey responses indicated that the large majority of the authorities generally perceived their discussions as two-way, with staff being seen as both respectful and willing to approach these discussions with candor. In interviews, while not all country officials were satisfied with the basis underlying staff advice, most nevertheless appreciated the opportunity to interact. However, the bigger issue appeared to be the tepid enthusiasm expressed privately in several countries, and resulting limits to the IMF’s ability to influence policy formulation. Overall, the IMF was too often considered by the authorities to have provided little value, particularly among the advanced economies and—increasingly—large emerging markets. By contrast, a majority of respondents from smaller emerging market and developing countries regarded IMF involvement as instrumental, particularly in the context of IMF programs.

Reasons for ineffective policy dialogue and limited impact are manyfold. Specifically, they appear to have arisen from a lack of attention to country-specifics and insufficient analytical underpinnings in key areas (such as regime choice and policy spillovers). The authorities, in turn, have limited impact to the extent that sensitive policy issues have been taken “off the table.” In addition, data provision appears to have been a pervasive problem. The evaluation encountered cases that should have materially affected Executive Board discussions on exchange rate issues, and the IEO survey of IMF staff suggests that problems with data availability or quality may have impaired staff’s ability to conduct exchange rate analysis in about one-third of the IMF membership.

The relative importance of other channels of IMF influence on policy formulation varies by country and context, but has remained limited overall. The influence of Executive Board discussions differed according to country grouping, with positive views particularly strong among program countries. No direct evidence was found of peer pressure from the Board or other authorities as a result of IMF advice, and a large minority of staff respondents in the IEO survey felt that the expectation of publication or concerns about their relationships with authorities tended to dilute coverage in staff reports—limiting the influence that can reasonably be exercised by the Board. Use of public channels of IMF influence has also been constrained. While generally welcoming staff analysis of topical exchange rate issues, authorities have often been wary of sparking a public debate that might unsettle markets.

III. CROSS-CUTTING ISSUES

A number of common messages emerging from earlier evaluations have been identified in previous IEO *Annual Reports*. The evaluations of the IMF and Aid in SSA and IMF Advice

on Exchange Rate Policy highlight the need for improvements in managing the process of institutional change within the IMF. The former also stresses some of the messages that had been brought up by previous evaluations that focused on low-income country issues—Prolonged use of IMF Resources, The IMF’s Role in the PRSP and PRGF, Fiscal Adjustment in IMF-Supported Programs, and IMF Technical Assistance. These include the need to clarify the role of the IMF in various areas and the importance of strengthening partnerships with other IFIs and donors. The evaluation of the IMF Advice on Exchange Rate Policy also reached conclusions similar to those made in previous evaluations, such as the need to provide clear yardsticks to facilitate the assessment of the impact of IMF advice. These common messages are discussed below.

The need to better manage institutional change at the IMF. The evaluation of the IMF and Aid to SSA points to gaps between Executive Board policy decisions and Management’s guidance to and follow-through with staff aimed to ensure that practices were adapted and aligned effectively with new directions. The evaluation found that the initially ambitious plans for the PRGF, in terms of analysis and mobilization of aid, were not followed through due in part to a loss of momentum. The Multilateral Surveillance evaluation pointed out that because of a “silo” structure at the IMF there was insufficient cooperation among departments, which, inter alia, hindered fuller integration between macroeconomic and financial sector surveillance (as well as between bilateral and multilateral surveillance).

There is a need for greater clarity about the goals of various IMF initiatives and a properly aligned external communications policy. The evaluation of the IMF and Aid to SSA found that there was ambiguity and confusion about IMF work in low-income countries, a point that had also been highlighted by the evaluation of the IMF’s role in the PRSP and PRGF. The IMF had, in both its public pronouncements and publications, “overpromised” on what it could deliver to the PRSP process. Ultimately, the IMF failed to follow-through on the initiatives, such as those elaborated in the “key features of PRGF-supported programs,” and the PRSP did not inform PRGF program design as required for the new approach to be effective in poverty reduction. The exchange rate policy evaluation found that there is inadequate appreciation of the formal role of the IMF in exchange rate surveillance, and that this has a deleterious effect on the effectiveness of the IMF’s advice. The negative impact of insufficient clarity of the IMF’s role on the dialogue with member countries had also been voiced in the earlier evaluations *The IMF and Recent Capital Account Crises* and *The IMF’s Approach to Capital Account Liberalization*.

The IMF needs to strengthen partnerships with other IFIs and donors. The previous evaluations focusing on low-income countries, notably *Fiscal Adjustment in IMF-Supported Programs*, the IMF’s role in the PRSPs and the PRGFs, and *IMF Technical Assistance*, as well as the recent one on aid to SSA, have highlighted the importance of effective partnerships. They have noted that successful IMF engagement in low-income countries requires collaboration with other IFIs and donors, and in particular, the World Bank. Although the evaluation of the IMF and Aid in SSA has found areas where Fund-Bank

collaboration has worked well—notably fiscal governance—World Bank inputs in many other areas, such as PSIA, have not been effectively sought and incorporated. It was suggested that an effective partnership between the IMF and the World Bank must be based on clear understandings of each institutions responsibilities for the delivery of inputs.

The absence of clear metrics impedes the assessment of the impact of IMF's policy advice and whether the IMF is meeting its commitments to countries. Earlier evaluations have noted that while the IMF has responded rapidly to the demands of a changing global environment by introducing new products—notably the PRGF—there has been less emphasis on monitoring and assessing the IMF's performance. The PRSP and PRGF evaluation attributed this to the failure to define what the IMF's deliverables in the PRSP process were vis-à-vis those of other players. The recent Evaluation of the IMF and Aid to SSA has recommended that Executive Board should reaffirm/clarify IMF policies underlying performance thresholds for the spending and absorption of additional aid, mobilization of aid, alternative scenarios, PSIA, pro-poor and pro-growth budget frameworks.

IV. ONGOING PROJECTS AND THE FUTURE MENU OF TOPICS

The IEO is currently engaged in the preparation of three evaluation projects: Structural Conditionality in IMF-Supported Programs; Aspects of IMF Corporate Governance—Including the Role of the Board; and The IMF's Interactions with its Member Countries.⁶ The first evaluation is expected to be completed before the 2007 Annual Meetings. The other two projects would likely be completed in FY2008 or the first half of FY2009. Two other evaluations added to the pipeline in FY 2006—The IMF's Research Agenda and The IMF's Approach to International Trade Issues—are expected to commence sometime in-FY 2008—Table 1 shows the status of the various evaluations completed, in progress or in the work program of the IEO. In September/October 2007 the IEO will initiate a consultation process with the IMF's Executive Board, Management and staff as well as external stakeholders to identify a set of topics to be added to the office's pipeline in FY2009.

A. Structural Conditionality in IMF-Supported Programs

The use of structural conditionality by the IMF rose significantly in the 1980s and 1990s, as the IMF became more deeply involved in issues pertaining to growth, the institutional underpinnings of macroeconomic adjustment and the containment of financial vulnerabilities. The proliferation of structural conditions was met with strong criticism outside the IMF. It was argued that many structural conditions were not needed for the achievement of program goals, and that there was not a clear division of labor between the IMF and the World Bank. It was also argued that there were areas where the IMF had become too “ideological,” such as privatization and trade reforms, and that these conditions undermined the “ownership of policy making” by national authorities and that in some cases they infringed on the member

⁶ Issues Papers for the first two evaluations can be found in <http://www.ieo-imf.org/pub/issues.html>.

country's sovereignty. Largely in response to this criticism, the IMF launched in 2000 a "streamlining initiative" aimed at reducing the volume and scope of structural conditionality and issued new conditionality guidelines in 2002.

The evaluation aims at answering two broad sets of questions: (i) how effective has structural conditionality been at promoting structural change; and (ii) what has been the effect of the streamlining initiative and the 2002 Conditionality Guidelines. On the first question, the evaluation examines how compliance with conditionality varies across sectors and with country circumstances. It then addresses the question of whether conditionality has been conducive to reform and how this is related to its design. As for the streamlining initiative and the 2002 Conditionality Guidelines, the evaluation mainly examines how they affected the number and sectoral composition of conditions.

To address these questions the evaluation did statistical analysis of data from the PDR database for monitoring arrangements (MONA) for all programs approved in 1995-2004, which included 6,500 Structural Conditions. To explore design and effectiveness issues, 43 case studies were prepared for countries with arrangements between 1999 and 2004—including a subset of 13 in-depth studies, of which 5 entailed visits to the countries. These programs represent a fairly large fraction of the 102 programs approved during that period, and account for 1,567 conditions out the 3,652 conditions in those programs. Along with a study of trends and patterns of SC based on MONA, the impact of the streamlining initiative was reviewed through in-depth studies of the documentation submitted to the Board as well as Greys, Minutes, and Summing ups, for 10 programs approved in 2004 (4 SBAs and 6 PRGFs), and an additional 8 PRGFs approved in 2005. A Staff survey and focus groups with staff involved in programs over the past 5 years examined their views of streamlining initiatives, program design and IMF-WB cooperation. Finally, the views of the authorities on various aspects of program design were canvassed during country visits or through teleconferencing.

B. Aspects of IMF Corporate Governance—Including the Role of the Board

This evaluation will review the IMF's governance arrangements, i.e., the institutional structure and the formal and informal relationships that govern the IMF's activities and decision-making. In the six decades since its founding, the IMF has seen important changes in its membership and roles, but it is often claimed that its governance arrangements have not kept up with these changes. For example, critics have argued that the Board is too absorbed in micro-management to provide effective oversight and strategic guidance. They have also raised concerns about unclear lines of accountability and about the lack of transparency in decision-making and in the selection of the Managing Director (MD). The evaluation will address the validity of some of these criticisms by focusing on the IMF's efficacy, efficiency, voice and accountability—the core issues of governance that seem most relevant to these concerns. It will assess the degree to which existing governance arrangements at the IMF are

consistent with widely-accepted principles of good governance, and it will seek to identify areas where they can be strengthened to help it better fulfill its mandate.

The evaluation will focus primarily on the relationships between Management, the Executive Board, and the IMFC—the bodies are at the center of the IMF’s governance. Issues related to the Board of Governors, staff, and country groupings will be covered in the context of their interactions with the bodies mentioned above. The evaluation will not address issues of voting power or the ownership structure of the IMF, as these are currently under active consideration.

The evaluation proposes to compare actual governance practices with three standards. First, governance practices will be compared against the arrangements set in the Articles of Agreement and other IMF documents. The second comparison will be with the governance structures and practices of other inter-governmental organizations. These are probably the most closely comparable organizations to the IMF, but they may not necessarily embody best practice. The third comparison will be against principles of good governance developed in the private and public sectors, which would be adapted to make them relevant to the IMF. Together, these three standards for comparison should provide a robust set of insights, even if each of them on its own would have serious weaknesses as a benchmark for IMF governance.

The evaluation will be based on several building blocks which, together with a series of surveys, will inform a *chapeau* report with the main findings and recommendations. The building blocks will include a detailed description of the current IMF governance and its legal authorizing environment, a historical overview of the evolution of IMF governance since its inception, comparisons of the IMF’s governance arrangements with those in a sample of inter-governmental organizations that share some functional commonalities with the IMF and with organizations in the public and private sectors. A series of in-depth case studies will be prepared to exemplify how key governance functions, e.g., strategic thinking, policy implementation, and oversight and accountability, are performed in practice.

C. The IMF’s Interactions with its Member Countries

The effectiveness of the IMF depends in large part on a successful relationship between the IMF and its member countries. The IMF comprises the Executive Board, Management, and staff, and while most of the interaction with member countries takes place between the staff and the country authorities, messages delivered by the Executive Board and other channels of interaction have become increasingly important in recent years. In particular, greater efforts have been made to establish contacts between staff (either headquarters-based or resident representatives) and non-government institutions (parliamentarians, civil society, market participants, the press, etc.) in member countries. The evaluation would focus on how the relationship between staff and country authorities is working, but would also investigate how other channels of contact have affected that key relationship.

A starting point would be to establish how well the nature of the relationship is understood by various parties, including an understanding of the appropriate interactions given the unique set of rights and obligations inherent in IMF membership. Thereafter the study would examine the nature of the interactions. In some cases the relationship is perceived to be working very well and the study would attempt to identify underlying best practices, including why some regions have been more receptive to the IMF's efforts. In other cases there is frequent criticism that the IMF too often conveys advice and views to country authorities without adequately taking account of country circumstances, or without listening carefully enough to the views of the authorities. As a result, critics contend, the IMF does not form an accurate assessment of the true needs and priorities of the membership, or, even when broadly correct, is insufficiently specific to be helpful. It thereby misses opportunities to be effective, or, even worse, misdiagnoses problems or recommends inappropriate policy advice.⁷

A second type of criticism is that even when the IMF's views are carefully considered and well worth listening to, they are conveyed in a way that is unlikely to be effective. Either the written documents are too long and inaccessible to be widely used, or contacts are not made with sufficiently senior officials, who, in some instances, are simply unaware or misinformed about the IMF's purpose and the nature of its activities. Relatedly, it is sometimes claimed, the IMF, while being much more transparent in recent years, has not proactively used the opportunities to shape opinion in member countries that could facilitate debate and reform of economic policies.

The study would rely on various sources, including (i) a perception survey of senior officials in member countries and, in a sample of countries; (ii) interviews with officials as well as with parliamentarians, representatives of the private sector and nongovernmental organizations; and (iii) a survey of relevant staff, Management, and Executive Directors. Based on the views of country authorities and others, such a project could evaluate whether the IMF's engagement with member countries could be more effective. It would examine aspects of IMF country operations across a wide array of instruments, including program relationships, Article IV consultations, and technical assistance and training, and the modalities of interaction, including through missions, resident representatives, and communication with headquarters. The evaluation would attempt to assess how well the IMF's instruments and modalities of operation are aligned with the needs of policymakers, and how well the relationship with member countries is managed.

⁷ Under this type of criticism falls charges that the IMF is arrogant in its views; adopts a one-size fits all approach to problems that are diagnosed in Washington; adopts the latest policy priorities of key members or donors, rather than those of the country it should be advising; or is oblivious to the political and technical constraints that are critical in designing and implementing policies.

D. The IMF's Research Agenda

Seven years ago, a group of independent experts evaluated the IMF's economic research activities.⁸ At that time, the Executive Board agreed with the group's finding that there was "substantial room for improvement in the overall quality of the IMF's research." Among other conclusions, Directors endorsed the recommendation that the mix of research conducted at the IMF would need to be directed more to areas where it could add the most value and agreed that it could be integrated to a greater extent into policy work—an assessment that has also been shared by external critics of the IMF. The evaluation would be a follow up exercise and look at two areas.

- First, the evaluation would examine the way in which research topics are selected and priorities imposed across the IMF, and the extent to which the recommendation has been carried out to direct research more to areas where it could add the most value and be better integrated into policy work. In order to do this, an analysis of the research conducted by all departments in the IMF would be undertaken, using as a starting point the work performed by the existing interdepartmental Research Committee. The evaluation would attempt to identify which pieces of research had been particularly relevant and influential for the country and policy work of the IMF. In addition, a survey of staff and country officials would try to elicit whether some topics could have received greater priority. Given the attempt to streamline and focus IMF activities in recent years, and to seek ways to save costs—issues that will be of even greater importance in the years to come—the evaluation would explore the extent to which decisions on research topics are guided by the opportunities to rely on research conducted outside the IMF, either at other institutions such as the World Bank and the OECD, or in academia.
- Second, the evaluation will investigate aspects of the quality (as opposed to the scope and relevance) of IMF research. The process by which IMF research is supervised and vetted would be examined. The views on a sample of research would be sought from a panel of external experts. Issues such as the degree of innovation, and the consistency with first best methodology would be studied.

E. The IMF's Approach to International Trade Issues

A stated purpose of the IMF is to facilitate the expansion and balanced growth of international trade.⁹ A recent internal staff review of the "IMF Work on Trade"¹⁰ concluded that the IMF has consistently advocated open trade regimes as a means to improve economic

⁸ See www.imf.org/external/pubs/ft/extev/res/index.htm.

⁹ See Articles of Agreement of the IMF available at www.imf.org/external/pubs/ft/aa/aa.pdf.

¹⁰ See www.imf.org/external/np/pp/eng/2005/020705.htm.

efficiency, combat rent-seeking and corruption, and promote income growth. While providing a broad overview of the IMF's work on trade policy, including conditionality, the internal review did not seek to address far-reaching questions relating to the appropriateness and effectiveness of the IMF's advice on trade reforms. During the review's discussion at the Board, directors generally agreed that it would be desirable to conduct case studies on the impact and design of trade policy reforms recommended by the IMF. They considered such studies helpful for drawing lessons for future country-specific policy advice and program design.

The IMF's approach to trade has always drawn substantial criticism. According to critics, (i) IMF-supported trade liberalization has been too fast, (ii) programs have not included appropriate social safety nets for affected vulnerable parts of the population, (iii) IMF advice on trade liberalization has ignored market imperfections in domestic and world markets, (iv) the IMF has failed to take into account the impact of tariff reductions on the revenue base and fiscal sustainability, (v) trade conditionality has been driven by the agenda of developed country shareholders in the IMF, (vi) IMF requirements to liberalize unilaterally have decreased program countries' bargaining power in the multilateral negotiations, and/or (vii) the IMF has been too soft on tariffs and non-tariff barriers in industrial countries as well as on other policies of industrial countries that amplified global trade imbalances.

The evaluation would entail in-depth case studies of program, surveillance, and technical assistance activities focusing on IMF involvement in trade reforms and their impact. It would assess the quality and effectiveness of the IMF's advice at country, regional, and multilateral levels, as well as on global trade imbalances. It would also look at the IMF's coordination with other organizations such as the World Trade Organization, the World Bank, the United Nations Development Program, and the United Nations Conference on Trade and Development (all of which have their own respective mandates in the area of trade). Finally, the evaluation would include the IMF's contribution to the work of the Integrated Framework since its inauguration in October 1997. The evaluation would complement the evaluation of the World Bank's trade policy advice carried out last year by the Bank's Independent Evaluation Group.¹¹

¹¹ See <http://www.worldbank.org/ieg/trade/report.html>.

Table. Completed and Ongoing IEO Work Program

Project	Status 1/
Initial round of evaluation projects	
Prolonged Use of IMF resources	Completed (September 2002)
The IMF and Recent Capital Account Crises (Indonesia, Korea, Brazil)	Completed (May 2003)
Fiscal Adjustment in IMF-Supported Programs	Completed (August 2003)
Additions to Work Program 2/	
FY2004	
The IMF and Argentina, 1991-2001	Completed (July 2004)
Poverty Reduction Strategy Papers/Poverty Reduction Growth Facility	Completed (July 2004)
IMF Technical Assistance	Completed (January 2005)
FY2005	
IMF's Approach to Capital Account Liberalization	Completed (April 2005)
IMF Assistance to Jordan	Completed (October 2005)
Financial Sector Assessment Program	Completed (November 2005)
Multilateral Surveillance	Completed (February 2006)
FY2006	
IMF Structural Conditionality	Later 2007
The IMF and Aid in Sub-Saharan Africa	Completed (January 2007)
IMF Advice on Exchange Rate Policy	Completed (May 2007)
FY2007	
Aspects of IMF Corporate Governance	In progress
IMF's Interactions with its Member Countries	In progress
IMF's Research Agenda	To commence in FY2008-09
IMF's Approach to International Trade Issues	To commence in FY2008-09

1/ The date refers to the time the completed report was, or is expected to be, circulated to the Evaluation Committee of the Executive Board.

2/ Refers to the fiscal year in which the projects were first added to the work program.

APPENDIX I. IEO DIRECTOR'S VISITS AND OTHER OUTREACH ACTIVITIES¹²

May 5–11, 2006, Paris, France

IEO Director's attendance at GBS dissemination conference

May 11–14, 2006, London, United Kingdom

IEO Director's consultations with authorities, academics and CSOs on the IEO work program.

June 7–8, 2006, Bellagio, Italy

Seminar sponsored by Center for Global Development

June 8–10, 2006, Ottawa and Waterloo, Canada

IEO Director's attendance at Centre for International Governance Innovation (CIGI) workshop and consultations with authorities on IEO role and activities

June 20–23, 2006, Accra, Ghana

To seek views of authorities, donors, and stakeholders on the IEO evaluation of IMF and Aid to Sub-Saharan Africa and other IEO activities

June 24–27, 2006, Johannesburg, South Africa

To meet with authorities and financial sector participants on the IEO evaluation of exchange rate policy

June 27–30, 2006, Maputo, Mozambique

To seek views of authorities, donors, and stakeholders on the IEO evaluation of IMF and Aid to Sub-Saharan Africa and other IEO activities

July 16–18, 2006, Tokyo, Japan

To meet with authorities, financial sector participants, media and think tanks on IEO evaluation of exchange rate policy

July 19–22, 2006, Hong Kong SAR, China

To meet with authorities and financial sector participants, media, and think tanks on IEO evaluation of exchange rate policy

August 26–31, 2006, Beijing and Shanghai, China

To meet with authorities and other financial sector participants on IEO evaluation of exchange rate policy

¹² Excluding travel of evaluation teams on specific projects.

September 14–19, 2006, Singapore, Singapore
Annual Meetings and IEO seminar at IMF/World Bank Program of Seminars entitled
“Strengthening IMF Surveillance”

October 17–18, 2006, Berlin, Germany
InWent Policy Workshop

October 19–20, 2006, Paris, France
IEO Director’s consultations with authorities on IEO role and activities, and evaluation of
IMF Advice on Exchange Rate Policy.

November 13–17, 2006, Paris, France
ECG and DAC evaluation meetings

December 9–10, 2006, Cairo, Egypt
To meet with authorities on the IEO evaluation of exchange rate policy

December 11–14, 2006, Riyadh, Saudi Arabia
To meet with authorities on the IEO evaluation of exchange rate policy

March 23, 2007, Tunis, Tunisia
IEO outreach on evaluation of “The IMF and Aid to Sub-Saharan Africa”

March 26–27, 2007, Berlin, Germany
Joint IEO/InWent outreach seminar

March 27–28, 2007, Geneva, Switzerland
Meetings with officials of international organizations on IEO evaluation of corporate
governance

March 28–31, 2007, Paris, France
IEO outreach at OECD/DAC and EUO

April 2–3, 2007, London, United Kingdom
IEO outreach at ODI

April 13, 2007, Washington, D.C., USA
IEO outreach with NGOs

April 13, 2007, Washington, D.C., USA
Event with African Governors

Appendix II. Administrative Budget: Independent Evaluation Office
(In current U.S. dollars)

	FY2006		FY2007		FY2008
	Budget	Outturn	Budget 1/	Outturn	Approved Budget
Total	4,459,850	4,429,162	4,530,786	4,502,680	4,621,402
Regular staff allocation	2,902,420	2,840,952	3,074,600	2,974,050	3,182,800
Discretionary Budget	1,557,430	1,588,210	1,456,186	1,528,630	1,438,602
Contractual services (incl. overtime)	891,203	1,016,522	825,067	1,022,147	815,104
Business travel and seminar program	523,000	476,166	483,299	423,024	477,463
Publications	131,227	86,084	135,820	66,844	134,180
Other fungible budgets	12,000	9,438	12,000	16,615	11,855

1/ FY2007 budget excludes transfer of \$1,580 from FAD not part of original budget from OBP.

APPENDIX III. EVALUATION OF PROLONGED USE OF IMF RESOURCES: RECOMMENDATIONS, BOARD RESPONSE, AND SUBSEQUENT FOLLOW-UP 1/

IEO Recommendation	Executive Board Response 2/	Staff Task Force Recommendations and Board Response 3/	Follow-Up 4/
<p><i>Institutional arrangements and rationale for IMF involvement</i></p> <p>Adopt an operational definition of prolonged use, as a trigger for enhanced “due diligence” (i.e., ex post assessments and forward-looking consideration of “exit” strategies). The criterion could distinguish between general and concessional resources.</p> <p>Make greater efforts to judge whether countries are ready to implement credible programs and be more selective in extending financial support. Use of IMF resources proposals should contain an explicit and frank assessment of the readiness of borrowers to implement programs.</p> <p>Aim to provide the international community with credible alternatives to IMF lending arrangements as a condition for other official flows.</p>	<p>Directors saw merit in a definition to trigger greater due diligence. Many Directors noted that a definition should carefully differentiate low income-countries relying on concessional resources. Several Directors cautioned that a definition should not be interpreted as creating a new classification of member countries and that there should not be an a priori judgment that prolonged use necessarily implies a problem.</p> <p>Directors supported the recommendation that staff papers be more candid in assessing institutional capacity and ownership. They emphasized the importance of explaining downside risks and avoiding any bias toward overoptimism. Implementation of initiatives relating to ownership would be an ongoing process, sometimes involving difficult judgments, in particular regarding more selectivity in the provision of IMF financial assistance, where strong country ownership is lacking. A number of Directors stressed that greater selectivity should not imply giving up on difficult cases.</p> <p>Directors noted that it would be desirable to develop credible alternatives to indicate to the outside world the IMF’s approval of members’ policies and looked forward to a discussion of the signaling function. They noted need for care in preparation and consultation, including with the Paris Club.</p>	<p>For general resources cases, prolonged users should be defined as countries that have spent seven or more of the last ten years under stand-by or extended arrangements, including precautionary arrangements, which was the definition used in the IEO evaluation.</p> <p>For concessional resources, enhanced assessment and strategy procedures would be triggered after a country has gone through two multi-year arrangements under concessional facilities.</p> <p>Efforts to improve program design should be accompanied by greater selectivity in extending IMF financial support, based in part on the assessment of implementation capacity and ownership.</p> <p>The IMF should have effective ways to signal its views on policies to a country’s donors and creditors outside an IMF-supported program. Article IV staff reports, Public Information Notices and “assessment letters” provide important vehicles. This topic should be taken further in the review of IMF role in low-income countries. Donors’ and other lenders’ concerns about burden-sharing should not lead to inappropriate lending decisions by the IMF.</p>	<p>Definition adopted. The Board reviewed the policy on longer term program engagement (LTPE) in May 2006. Directors agreed to make two changes in the LTPE definition. First, all members will now be considered as having LTPE if they have spent at least seven out of the last ten years under programs supported by the IMF. Second, time spent under precautionary arrangements that remain undrawn does not count toward LTPE, parallel to the treatment of members using the Policy Support Instrument.</p> <p>Semi-annual reporting of the incidence of prolonged use is taking place on this basis.</p> <p>Principal case-by-case follow-up will be through the internal review process and Board review of individual country cases, with periodic assessments as part of the regular conditionality review.</p> <p>The issue of signaling was taken up in the Board’s subsequent discussion on Signaling Assessments of Members Policies, although it did not address all the relevant issues brought up in the evaluation. This review resulted in the discontinuation of Staff Monitored Programs for signaling purposes. The Board discussed the issue of signaling on several occasions in 2004–05, culminating in the establishment in October 2005 of the Policy Support Instrument, which provides policy support and endorsement to low-income countries that do not need IMF financing and whose policies meet the standards of upper credit tranche conditionality. As of June 30, 2007, five PSIs were in place (Cape Verde, Mozambique, Nigeria, Tanzania, and Uganda).</p>

APPENDIX III. EVALUATION OF PROLONGED USE OF IMF RESOURCES: RECOMMENDATIONS, BOARD RESPONSE, AND SUBSEQUENT FOLLOW-UP (CONTINUED) I/

IEO Recommendation	Executive Board Response 2/	Staff Task Force Recommendations and Board Response 3/	Follow-Up 4/
<p>Programs for identified prolonged users should include an explicit exit strategy.</p> <p>Introduce a differentiated rate of charge for prolonged users as a signaling device.</p> <p><i>Program design</i></p> <p>Specific operational procedures should be developed to ensure greater emphasis in program design on the domestic policy formulation process, in order to maximize ownership: (1) modify procedures toward the authorities having the initial responsibility for proposing a reform program; (2) encourage a process whereby core program elements are subject first to a policy debate within the member's own political institutions; (3) surveillance should help create a better understanding of what would be expected if a program should become necessary; (4) more explicit discussion of major uncertainties and how policies would be adapted if things turn out differently.</p> <p>Programs should place more emphasis on key institutional changes and strengthening implementation capacity.</p>	<p>Directors stressed the desirability, where appropriate, of the elaboration of corrective measures as part of a conscious "exit strategy."</p> <p>The Board did not support a differentiated rate of charge for prolonged users.</p> <p>Directors broadly agreed with the recommendations. Many Directors underscored that they should be seen as part of a broader effort to ensure greater effectiveness of programs. They saw a need for continuing effort to improve program design, which would draw on the fresh perspectives provided by the report.</p> <p>Directors underscored the importance of increasing the effectiveness of technical assistance in support of institutional capacity building.</p>	<p>The proposed assessment and strategic planning exercises (see below) would include an explicit "exit strategy" where appropriate for ending prolonged use. An element of such a strategy would include helping countries widen their options for external financing.</p> <p>Not recommended</p> <p>IEO's recommendations were consistent with lessons emerging from recent country experience. The revised conditionality guidelines, 5/ incorporate many of the recommendations and provide the appropriate vehicle to put them into practice.</p> <p>The Task Force recommended that ongoing efforts to address these issues in operational work should be enriched by future work on program design, including research efforts, focusing on links between structural reforms and program objectives.</p>	<p>Policy adopted, with an explicit definition of prolonged use as the trigger (see above).</p> <p>Recommendation rejected. No follow-up necessary.</p> <p>The internal 2005 review of the conditionality guidelines found that substantial changes have been made in the direction of increasing national ownership, and made suggestions to enable further progress in this direction. Key cross-country findings were also assessed in the review of ex post assessments (EPAs) discussed by the Board in May 2006.</p> <p>Regular conditionality reviews will monitor progress. The August 2005 Review of PRGF Program Design examined the role of institutions in supporting growth and avoiding crises. The Medium-Term Strategy emphasizes three macro-critical areas for Fund engagement in low-income countries: (1) financial sector development; (2) public financial management reforms; and (3) trade reforms.</p>

APPENDIX III. EVALUATION OF PROLONGED USE OF IMF RESOURCES: RECOMMENDATIONS, BOARD RESPONSE, AND SUBSEQUENT FOLLOW-UP (CONTINUED) 1/

<p>IEO Recommendation</p> <p>Greater selectivity in program content with: (1) further strengthening collaboration with the World Bank; (2) a more differentiated use of conditionality; (3) greater efforts to tailor the time frame of program design to foreseeable length of reform and adjustment; (4) more in-depth analysis of real economy responses to key policy elements and less attention to fine-tuning financial programming.</p> <p>Systematic ex post assessment of programs, with priority to identified prolonged users and key messages reported to the Board. Key internal database on program targets and outcomes (MONA) should be upgraded to facilitate such assessments.</p>	<p>Executive Board Response 2/</p> <p>Directors were encouraged that recommendations on streamlining of IMF conditionality and need for more effective collaboration with the World Bank were already being internalized as part of the review of conditionality.</p> <p>Directors endorsed the recommendations.</p>	<p>Staff Task Force Recommendations and Board Response 3/</p> <p>The Task Force agreed with the IEO recommendations, many of which were already incorporated into the revised conditionality guidelines. Directors stressed importance of continued efforts to improve program design, including improved collaboration with the World Bank. Directors looked forward to further work by the staff on the relationship between external financing, adjustment, and sustainability; on the analytic framework for program design; on trade-offs between macroeconomic and structural policies; and on the parameters for assessing program success.</p> <p>The Task Force proposed that a process of ex post assessment and strategic planning would take place for all prolonged users, with lessons presented to the Executive Board.</p>	<p>Follow-Up 4/</p> <p>The 2005 review of the conditionality guidelines found major shifts in the coverage of structural conditionality, consistent with a greater focus on critical measures.</p> <p>Design of IMF-supported Programs, discussed by the Board in December 2004, examined in detail issues regarding program success, financing, adjustment and debt sustainability, analytical frameworks used in program design, and specific macroeconomic and structural policies.</p> <p>Policy adopted. As of end-June 2007, 47 ex post assessments had been completed. A number of these assessments were led by staff from outside the area departments.</p> <p>The MONA database has been upgraded.</p>
<p>Surveillance</p> <p>Steps should be taken to further strengthen surveillance in program cases. A case exists for greater institutional separation between surveillance and programs, especially in the context of prolonged use.</p>	<p>Regular IMF surveillance of program countries should reassess economic developments and strategy from a fresh perspective.</p>	<p>The Task Force agreed with the overall thrust of the IEO recommendations which it believed would be best addressed through continuing implementation and refinement of recently revised (i.e., 2002) surveillance guidelines. These guidelines proposed that surveillance should assess more carefully social and political realities; reach out more widely to legislative bodies and line ministries and ensure that timing of consultations is such as to enable them to influence policy.</p> <p>Directors concurred with the priority given to increasing effectiveness of surveillance, including the need to combine clarity and candor with recognition of social and political realities. They highlighted the importance of efforts to ensure that Article IV consultations in program countries "step back" from program context.</p>	<p>Progress will be monitored as part of regular triennial reviews of surveillance. At the 2004 review, Directors concluded that the quality of surveillance in program countries had improved since 2002. 6/</p>

APPENDIX III. EVALUATION OF PROLONGED USE OF IMF RESOURCES: RECOMMENDATIONS, BOARD RESPONSE, AND SUBSEQUENT FOLLOW-UP (CONCLUDED) 1/

IEO Recommendation	Executive Board Response 2/	Staff Task Force Recommendations and Board Response 3/	Follow-Up 4/
<p><i>Internal governance issues</i></p> <p>The ability of staff to analyze political economy issues should be strengthened.</p> <p>Procedures should be evolved to help avoid the appearance of political interference in determining whether programs deserve support. All programs should be preface'd by an explicit assessment of implementation risks. When management suggests risks are high, the Executive Board should be given an opportunity to express on the record its own assessment of the trade-offs.</p> <p>A review of internal incentives facing staff should be undertaken with a view to minimizing turnover of staff working on countries and to foster increased candor and accountability.</p>	<p>Most Directors encouraged the staff to enhance its analysis and reporting of political economy issues in staff reports. Some Directors cautioned that IMF should be careful in venturing into this area, given its comparative advantage in technical analysis and the need to avoid intruding on internal political matters.</p> <p>Directors underscored the importance of distinguishing clearly between technical and political judgments and that staff should be candid in its assessment of risks.</p> <p>Recommendations are largely management responsibility. They have important implications for internal governance and deserve careful consideration.</p>	<p>The Task Force recommended an effort to enhance reporting and analysis of political issues, when it has important implications for economic policy. Staff capacities could be strengthened through a modest investment in training.</p> <p>The Task Force noted that there can be no question about the responsibility of management for recommending and the Executive Board for considering and approving, all requests for the use of IMF resources. Staff nonetheless has an important responsibility for providing candid technical assessment of risks and trade-offs, and should continue to strengthen both substance and presentation of this material.</p> <p>While overall personnel policies do not need to be changed, management should consider guidelines and incentives to reduce excessive mobility in country teams. The best way to guard against excessive mobility would be to reestablish spare staff capacity to absorb changing demands.</p>	<p>Training courses in political economy have now been established.</p> <p>Greater candor on risks is being adopted in presentations to the Executive Board. Staff reports increasingly emphasize the risks to the IMF, including the political risks to implementation.</p> <p>The Human Resources Department (HRD), at the request of management, developed a more centralized scheme for economist mobility. In collaboration with departmental senior personnel managers, HRD provides balanced career counseling that emphasizes the acquisition of new competencies while minimizing excessive mobility.</p>
<p>1/ Following the Board discussion of the IEO report on September 23, 2002, management established a Task Force to follow up on the recommendations contained in the evaluation report. The specific proposals of the Task Force were then discussed by the Executive Board on March 7, 2003.</p> <p>2/ This column summarizes the reaction of the Executive Board on each recommendation as reported in the summing up by the Chair. Readers are invited to refer to the full text of the summary of the discussion, which is included in the published version of the report and can be accessed from the IEO website www.imf.org/External/NP/ieo/2002/pu/index.htm.</p> <p>3/ "Conclusions of the Task Force on Prolonged Use of IMF Resources," February 4, 2003. The Task Force report and the Summing Up of the subsequent Board discussion on that report are available at www.imf.org/external/np/pdr/ufr/2003/02/0403.pdf.</p> <p>4/ The column on follow-up was provided by staff at IEO's request and has not been subject to independent review.</p> <p>5/ "Guidelines on Conditionality," September 8, 2002. Available at www.imf.org/External/np/pdr/cond/2002/eng/guid/092302.htm.</p> <p>6/ See Public Information Notice at www.imf.org/external/np/pdr/surv/2004/082404.pdf#pin.</p>			

APPENDIX IV. EVALUATION OF THE ROLE OF THE IMF IN RECENT CAPITAL ACCOUNT CRISES: RECOMMENDATIONS, BOARD RESPONSE, AND SUBSEQUENT FOLLOW-UP

IEO Recommendation	Executive Board Response 1/	Follow-Up 2/
<p><i>Pre-crisis surveillance</i></p> <p>Article IV consultations should take a stress-testing approach to exposure to a potential capital account crisis, extending and systematizing existing approaches. Staff should assess the potential impact of itemized risks. Staff should develop greater understanding of political constraints on policy, in part through wider dialogue. Market views and political economy analysis should be reflected in staff reports.</p> <p>Management and the Executive Board should take additional steps to increase the impact of surveillance, including through making staff assessments more candid and more accessible to the public. In particular, there should be a presumption of publication for Article IV staff reports. A clear presumption of publication for country-related staff working papers should also be established. Biennial reviews of surveillance should focus on assessing the impact of surveillance on key systemic issues in major emerging market economies.</p> <p>The Executive Board should agree on a systematic plan to provide institutional incentives for greater candor in the assessment of country risks and vulnerabilities, possibly including measures to give greater independence to surveillance teams.</p>	<p>Directors concurred with the overriding message of the report for surveillance: to strengthen the effectiveness of IMF surveillance by extending and systematizing current guidelines for assessing vulnerabilities. They supported the call to itemize major potential shocks. Directors emphasized that stress-testing should not be overgeneralized and mechanical, but should focus on key risks facing a particular country. Most agreed that the IMF should develop greater understanding of political constraints on policy while cautioning that this should not lead to interference in domestic affairs. A number of Directors cautioned that this could be counterproductive if it causes staff to lose focus and press for policies and reforms that are not macro-critical. Most Directors saw great value in systematic discussions with the domestic and the international financial and business communities—but emphasized that the staff would need to assess private sector views critically.</p> <p>Directors strongly supported greater candor in the assessment of country risks and vulnerabilities in staff reports, building on the increase in candor that has already occurred. Nevertheless, Directors expressed a range of views regarding the potential conflict between candor and transparency, and the implications of the proposed shift from voluntary to presumed publication of staff reports. Many Directors warned that greater candor could adversely affect both the IMF’s dialogue with countries and market confidence in the context of the publication of staff reports. Some of these Directors felt that what really matters is candor in face-to-face consultations with the key decision-makers in a country, rather than in the staff report. Many other Directors strongly supported presumed publication. These Directors believed that concerns about candor are overstated, and that surveillance would be more effective in building ownership and influencing policy if IMF analyses and recommendations are made public. It was agreed that the Board would return to the issue of presumed publication of staff reports during the discussion on transparency.</p> <p>Many Directors were not in favor of shifting from voluntary to presumed publication of staff reports, but a number strongly supported presumed publication.</p> <p>Directors encouraged the provision of institutional incentives to the staff to facilitate candor.</p>	<p>The Board paper for the August 2004 Biennial Review of Surveillance noted that the IMF had substantially strengthened its capacity to identify vulnerabilities in member countries. In particular, it noted that balance sheet issues had received substantial attention in surveillance of advanced and emerging market economies, although various components of vulnerability assessments were not well integrated when presented in staff reports.</p> <p>Since then, the identification of balance sheet vulnerabilities has been highlighted as a key area in guidance to staff on surveillance, and methodological tools, including statistical frameworks and training, have been developed that will help gradually mainstream balance sheet analysis in IMF surveillance.</p> <p>Some area departments have established active working groups on external and intra-regional linkages and financial sector issues in order to improve the assessment of cross-country and cross-region vulnerabilities, to further strengthen bilateral and multilateral surveillance.</p> <p>The May 2006 version of the Operational Guidance Note for Staff on Document Publication notes that staff reports should be drafted independently of the authorities’ publication intentions and should include the staff’s candid assessment of risks, their frank views on the authorities’ policy stance, and their policy advice on all areas deemed relevant.</p> <p>Since July 1, 2004, publication of staff reports for Article IV consultations is now “voluntary but presumed.” Moreover, the member’s agreement to publish staff reports is now required for management to recommend a program with exceptional access to the Board. This policy was confirmed at the time of the June 2005 review of transparency policies. Rules regarding modifications of reports prior to publication (including deletions) were also tightened at that time. Moreover, publication of country-related staff working papers is not subject to the consent of the member countries concerned.</p> <p>The adoption in June 2007 of a new Surveillance Decision should promote greater focus on, and candor in, the assessment of members’ external vulnerabilities, including those rooted in the capital account. Related interim guidance note to staff was issued also in June 2007 to help its steadfast implementation. Increasing the impact of surveillance is one of the key objectives of the IMF’s Medium-Term Strategy. Staff has been encouraged to develop regional and country-level outreach strategies for this purpose. In February 2007, a Board seminar discussed methodological issues to assess the effectiveness of surveillance (SM/07/35). This discussion will inform the next triennial review of surveillance.</p> <p>Some area departments have experimented with having a different mission chief for Article IV consultations with program countries or have a senior staff member not assigned to the country concerned participate in Article IV consultation missions.</p> <p>Triennial reviews of surveillance will remain the main vehicle for assessing progress.</p>

APPENDIX IV. EVALUATION OF THE ROLE OF THE IMF IN RECENT CAPITAL ACCOUNT CRISES: RECOMMENDATIONS, BOARD RESPONSE, AND SUBSEQUENT FOLLOW-UP (CONTINUED)

IEO Recommendation	Executive Board Response 1/	Follow-Up 2/
<p>Escalated signaling should be used when key vulnerabilities identified over several rounds of surveillance are not addressed. Such a policy would help strike the necessary balance between the role of the IMF as confidential advisor and its role as a vehicle for transmitting peer reviews on members' policies and for providing quality information to markets.</p> <p>Moreover, management and the Board should explore the possibility of seeking "second opinions" from outside the IMF as part of the surveillance process when the authorities disagree with the staff's assessment on issues that are judged to be of systemic importance. This would also serve as a building block for the idea of escalated signaling.</p>	<p>Many Directors considered that escalated signaling might be an idea worth pursuing. A number of these Directors reserved judgment on the suggestion until they had more information about how it would work. A few Directors felt that escalated signaling would undermine the IMF's role as confidential advisor, and doubted that it would help in preventing crises or designing more effective programs.</p> <p>Many Directors were not in favor of inviting second opinions from outside the IMF. Whereas some Directors considered that a second opinion would bring a fresh perspective that could help resolve differences of opinions with the authorities, many were concerned that it could encroach on the role of the Board, and undermine the work of the staff. A few Directors also noted that this approach has been tried and has failed.</p>	<p>No follow-up necessary because there was no consensus in the Board on escalated signaling or second opinions.</p>
<p>Program design</p> <p>A comprehensive review of the IMF's approach to program design in capital account crises should be undertaken. In particular, (1) greater attention should be paid to balance-sheet interactions and their consequences for aggregate demand; (2) program design should allow for a flexible response, in case unfavorable outcomes materialize; (3) conventional financial-programming-based conditionality should be reviewed, and possibly adapted for capital account crisis circumstances; (4) parsimony and focus should be basic principles of structural conditionality and crises should not be used for pushing reforms that are not critical to crisis resolution, however desirable they may be in the long run; and (5) there should be an agreed communications strategy, characterized by a high degree of transparency.</p>	<p>Directors endorsed these recommendations and hoped forthcoming staff papers on program design and balance sheet effects would give due attention to them. They endorsed the report's focus on the restoration of confidence, and the importance of balance sheet effects on key macroeconomic variables. The balance sheet approach should be closely linked to debt sustainability analysis. There should also be more work on twin (banking and capital account) crises. Directors agreed that design should allow for a flexible response to unfavorable developments; that the conventional financial programming conditionality should be reviewed; and that there should be an agreed communications strategy. Nevertheless, a few Directors cautioned against excessive emphasis on risks and alternative scenarios in program documents, since it would be difficult to know all risks upfront and since such emphasis could erode the program's effectiveness in building confidence in the chosen action plan.</p>	<p>The December 2004 review of the design of IMF-supported programs (SM/04/404, SM/04/405, SM/04/406, BUFF/05/08) examined the analytical toolkit for program design, including tools for balance sheet and debt sustainability analysis, and the performance of these tools for macroeconomic projections underlying program design. In April 2006, staff also completed a review of whether there were any systematic differences between precautionary and nonprecautionary programs in terms of policies, conditionality, and macroeconomic outcomes, and whether these differences were attributable to the nature of the arrangement or to the member's economic problems. In the context of designing programs for crisis prevention, a recent staff study found that during periods of heightened vulnerability, IMF financing over the preceding year as a share of short-term debt can be effective in lowering the likelihood of a crisis.</p> <p>The 2005 review of the conditionality guidelines (SM/05/81, BUFF/05/59) found that substantial changes have been made in the direction of greater parsimony in structural conditionality, and made suggestions to enable further progress in this direction.</p> <p>Efforts continue to strengthen focus on financial sector vulnerabilities (including on balance sheets) in line with the Report of the IMF Financial Sector Review Group and the Medium-Term Strategy.</p>
<p>The IMF as crisis coordinator</p> <p>The IMF should ensure that financing packages provided in response to capital account crises are sufficient to generate confidence and be of credible quality. In particular, (1) packages should not rely on parallel official financing unless the terms of access are transparently linked to IMF-supported strategy; and (2) terms for the involvement of other institutions providing parallel financing should be specified at the outset.</p>	<p>The Board agreed with the recommendation, while noting that there are limitations on the IMF's influence on other sources of financing. The Board stressed that the recently revised access policy must be observed and emphasized the importance of program credibility, not large financing packages, as the heart of IMF involvement. Directors fully supported the idea of moving toward more explicit procedures for collaboration with regional development banks and others and clear delineation of responsibilities, while noting that such procedures do not by themselves guarantee effective coordination.</p>	

APPENDIX IV. EVALUATION OF THE ROLE OF THE IMF IN RECENT CAPITAL ACCOUNT CRISES: RECOMMENDATIONS, BOARD RESPONSE, AND SUBSEQUENT FOLLOW-UP (CONCLUDED)

IEO Recommendation	Executive Board Response 1/	Follow-Up 2/
<p><i>Internal governance issues</i></p> <p>The IMF should be proactive in its role as crisis coordinator. In particular, (1) management should provide a candid assessment of the probability of success to the Executive Board and shareholders; (2) management should ensure that the technical judgment of staff is protected from excessive political interference; and (3) the nature of private sector involvement will have to be determined on a case by case basis. The IMF should play a central role in identifying circumstances where concerted efforts can help overcome "collective action" problems, based on meaningful dialogue with the private sector.</p> <p>Human resource management should be adapted to develop and better utilize country expertise, including political economy skills, and to establish "centers of expertise" on crisis management issues. In particular, (1) the length of staff assignments should be monitored to ensure continuity of staff expertise and a critical mass of country expertise in each systemically important emerging market economy should be developed; (2) Resident Representatives should play a more central role in surveillance and program design; and (3) internal procedures should protect those who raise uncomfortable issues through proper channels, but consequently attract complaints from the authorities.</p>	<p>The Board endorsed the recommendations. While Directors were in favor of early involvement of the Board in program discussions, a number of them observed that the Board and major members should not seek to micro-manage the operational details of programs or influence IMF missions in the field. Many Directors attached particular importance to the early involvement of the private sector as an integral element of crisis resolution.</p> <p>The Board generally agreed on the need for institutional change to ensure that the IMF is in a position to respond rapidly to member countries facing crises. Some Directors supported creation of centers of expertise in crisis management, whereas others put greater emphasis on mechanisms for drawing upon available expertise and experience in the event of a crisis. A number of Directors favored longer country desk assignments, while others noted the importance of staff mobility in broadening the experience and perspectives of the staff and maintaining its impartiality. Most Directors favored a greater role for Resident Representatives with a few noting that only relatively senior Resident Representatives would be sufficiently acceptable to the authorities to play such a role. Directors supported modification of internal guidelines and human resource procedures. They also noted that human resource issues are management's responsibility.</p>	<p>The framework for exceptional access decisions (SM/04/99, BUFF/04/81) provides a mechanism for encouraging more systematic early consideration of circumstances in which the success of a program would be enhanced by voluntary efforts to address collective action problems among private creditors and where steps to address an unsustainable debt burden need to be part of a strategy to restore growth and financial viability.</p> <p>The International Capital Markets and Monetary and Financial Systems Departments were integrated with a view to enhance financial sector surveillance, as well as provide a center of expertise on banking crisis resolution issues.</p> <p>A review of broad strategic issues related to the IMF's Resident Representative program has been completed.</p> <p>The Board paper for the August 2004 Biennial Review of Surveillance (BSR) called for a reassessment of mechanisms for staff rotation and mobility to achieve greater continuity in the policy dialogue, enhance mutual trust, and build up country-specific knowledge. Guidance issued to staff following the 2004 Biennial Review of Surveillance highlights a number of steps to foster good policy dialogue with the authorities. The internal review process has also been strengthened to provide greater continuity, for instance through mainstreaming of pre-brief meetings. The introduction of three-year surveillance agendas providing a medium-term framework to guide staff's work should also go a long way in providing the needed continuity.</p> <p>Training for resident representatives has been established and work is currently underway to introduce the training for mission chiefs.</p>
		<p>1/ This column summarizes the reaction of the Executive Board on each recommendation as reported in the Summing Up by the Chairman of the July 16, 2003 Board meeting. Although care has been taken to ensure accuracy, readers are invited to refer to the full text of the summary of the discussion, which is included in the published version of the report and can be accessed from the IEO website (www.imf.org/external/np/ieo/2003/cac/index.htm).</p> <p>2/ The column on follow-up was provided by staff at IEO's request and has not been subject to independent review.</p>

APPENDIX V. EVALUATION ON FISCAL ADJUSTMENT IN IMF-SUPPORTED PROGRAMS: RECOMMENDATIONS, BOARD RESPONSE, AND SUBSEQUENT FOLLOW-UP

<p align="center">IEO Recommendation</p>	<p align="center">Executive Board Response 1/</p>	<p align="center">Follow-Up 2/</p>
<p><i>Program design and internal review</i></p> <p>Program documentation should provide a more in-depth and coherent justification for the magnitude and pace of programmed fiscal adjustment and how it is linked with assumptions about the recovery of private sector activity and growth. It will also facilitate the review process and discussions at the Board, as well as provide external audiences with a more convincing explanation for the rationale for the program and identify possible risks and subsequent corrective measures.</p> <p>The internal review mechanism should place more emphasis on the early stages of the process. A more intensive process of brainstorming is needed at the time of the initial brief, and the brief should also articulate more clearly the basis for the fiscal program, and its links with debt sustainability issues.</p> <p>Programs should give greater emphasis to the formulation and implementation of key institutional reforms in the fiscal area, even if (as is likely) they cannot be fully implemented during the program period. Programs should make stronger efforts to specify those structural reforms that should be carried out during the program horizon as part of a broader road map of priority reforms. This road map, and its prioritization, should ideally have emerged in the course of surveillance and be updated regularly as outlined below.</p>	<p>Directors supported this recommendation, and deemed that this initiative would instill greater discipline in program design, enhance transparency, and provide the public and the private sector with a more convincing rationale for the program, thereby helping to overcome political obstacles to implementation. Nevertheless, they recognized that uncertainties regarding key macroeconomic variables, particularly in countries in crisis, and concern about the implementation of policy measures and reforms complicate this task. A few Directors cautioned against spurious precision in such justifications, and others noted that the magnitude and pace of programmed fiscal adjustment may also reflect political constraints. Several Directors stressed the importance of better integrating debt sustainability analyses into program work. Directors looked forward to further staff analysis of growth projections in the context of program design discussions.</p> <p>Directors supported this recommendation. They welcomed management's recent initiative aimed at enhancing the effectiveness of the review process, which, <i>inter alia</i>, encourages early consultation among departments.</p> <p>Directors agreed that key institutional reforms can be more critical for fiscal sustainability than short-term expenditure and revenue measures. However, they recognized that short-term measures are hard to avoid in many cases, especially if the immediate objective is economic stabilization. Medium-term institutional reform may be of particular relevance in countries that have achieved macroeconomic stability and where "second generation" reforms are necessary to foster growth and reduce longer-term vulnerabilities. Some Directors agreed with the report's suggestion that reforms should be broken down into those that require executive action, legislation, and capacity building.</p> <p>Directors, however, pointed out that in crisis situations, the pressing need to resolve the crisis may pose serious constraints on a medium-term approach. They reiterated the conclusion of the discussion on the Evaluation of the Role of the IMF in Recent Capital Account Crises (BUFF/03/125) that a crisis should not be used as an opportunity to force long-awaited reforms, however desirable they may be, in areas that are not critical to the resolution of the crisis or to address vulnerability to future crises. Careful judgment will continue to be needed to ensure that adequate progress is made in addressing vulnerabilities and achieving the program's goals during the period of the arrangement, thus safeguarding the IMF's resources.</p>	<p>The Fiscal Affairs Department (FAD) in 2004 prepared a guidance note on how reports might best present the appropriate size, pattern, and composition of fiscal adjustment.</p> <p>Following the assessment of the internal review process by a staff task force in 2004, management endorsed several changes to the process, including more systematic discussions of key issues prior to the preparation of briefing papers. In particular, pre-brief meetings that bring together originating and reviewing departments for a discussion of the main policy issues are required for all Article IV consultations and new program briefs. The number of pre-brief meetings has increased by 12 percent in 2007 to a total of 156. The introduction of surveillance agendas serves as an opportunity to define the broader roadmap of reforms.</p> <p>See below.</p>

APPENDIX V. EVALUATION ON FISCAL ADJUSTMENT IN IMF-SUPPORTED PROGRAMS: RECOMMENDATIONS, BOARD RESPONSE, AND SUBSEQUENT FOLLOW-UP (CONTINUED)

<p>IEO Recommendation</p>	<p>Executive Board Response 1/</p>	<p>Follow-Up 2/</p>
<p><i>Surveillance</i></p> <p>The surveillance process should be used more explicitly to provide a longer-term road map for fiscal reforms and to assess progress achieved.</p> <ul style="list-style-type: none"> • In collaboration with the authorities, the IMF should clearly identify in surveillance reports the most critical distortions in a country's public finances from the perspectives of equity and efficiency. • Such an analysis would provide a road map for fiscal reform in the future, with a clear sense of priorities. It would help to provide the basis for identifying critical reforms—particularly in areas where these reforms have been lagging—that would need to be addressed should IMF financing be required in the future. • The identification in advance of areas considered critical will allow the authorities flexibility in the timing and packaging of reforms that is often lost if these reforms are flagged at the last minute in the context of a crisis situation. This approach would also help foster greater domestic debate on key reforms and hence would encourage homegrown solutions and greater ownership. Early and clear prioritization of reforms is also consistent with streamlining objectives—it will avoid last minute bunching of reforms under crisis situations. • The analysis of fiscal reform priorities should be accompanied by an assessment of why certain important distortions were not addressed in the past and what lessons have been learned from past experience. This should include an effort to identify and unbundle the various constraints to critical reforms, including lack of technical capacity, areas where additional legislative action is necessary, and areas where key decisions from the executive branch are required. • Surveillance should include more systematic efforts to estimate the extent of tax evasion and tax exemptions, including the use of cross-country comparisons. • Public debt sustainability could help anchor the road map of fiscal reform priorities proposed above and to assess trade-offs over time. At the same time, debt analysis provides a check of cumulative progress in improving fiscal systems that could also be reported in successive surveillance reports. 	<p>Most Directors agreed that Article IV consultations should play a stronger role in identifying longer-term reform priorities and the causes of past failures in addressing fiscal problems, and that these analyses should inform subsequent program design. In this respect, the various initiatives to distinguish Article IV surveillance from program work are aimed at providing fresh perspectives.</p> <p>Some Directors considered the current framework of surveillance to be adequate for achieving the objectives of the IEO's recommendation. Directors also called for staff reports to set out in more detail the progress in implementing the recommendations of Reports on the Observance of Standards and Codes (ROSCs) and technical assistance missions, as well as key reform priorities. Nevertheless, they underscored that the ultimate responsibility to develop a fiscal reform agenda resides with the individual country authorities, while the IMF should stand ready to provide advice.</p> <p>Directors also stressed that, consistent with the IMF's mandate, surveillance needs to focus on key issues of macroeconomic relevance, which will be different in each country, and should draw on the expertise of other institutions as appropriate. They encouraged the use of cross-country experiences and comparisons, including inputs from regional and multilateral surveillance, to assist in program design. Most Directors viewed Article IV consultations as the appropriate vehicle for staff to identify countries in need of an in-depth fiscal review, stressing that this identification process should be applied uniformly to all member countries of the IMF. In most cases, these needs could be accommodated through technical assistance and ROSCs.</p>	<p>A pilot exercise was conducted in 16 countries with a view to strengthening discussion of structural fiscal issues, building on fiscal strategy briefs, prepared by the Fiscal Affairs Department (FAD) in collaboration with area departments. Following on from this pilot, FAD now maintains and regularly updates fiscal strategy briefs for about 55 countries. These briefs can be used by area departments to inform discussions with the authorities on critical structural and institutional fiscal issues that can be covered subsequently in Article IV and program reports. In a number of countries, staff reports have included enhanced coverage of structural fiscal issues and prioritized agendas for reform.</p> <p>The Medium-Term Strategy emphasizes the importance of cross-country analyses and of strengthened integration between multilateral, regional and bilateral surveillance. The preparation of Regional Economic Outlooks have been an important vehicle in this regard, especially with respect to selected analytical studies.</p> <p>As part of the implementation of the recommendations of the 2005 review of the standards and codes initiative (SM/05/252, BUFF/05/125) and the Fund's Medium-Term Strategy, staff should mention in the staff appraisals of Article IV reports when they judge that a fiscal ROSC is a high priority, without feeling constrained by the authorities' perceived or actual (un)willingness to volunteer for the ROSC (SM/06/219).</p>

APPENDIX V. EVALUATION ON FISCAL ADJUSTMENT IN IMF-SUPPORTED PROGRAMS: RECOMMENDATIONS, BOARD RESPONSE, AND SUBSEQUENT FOLLOW-UP (CONCLUDED)

IEO Recommendation	Executive Board Response 1/	Follow-Up 2/
<p><i>Role of the IMF in social protection</i></p> <p>The IMF should clearly delineate the operational framework in which social issues will be addressed within program design in non-PRGF countries. This should include a clear indication of the IMF's responsibilities and activities in this area.</p> <p>The objective should be to assist middle-income countries to prepare and improve their institutional framework to allocate resources to critical social programs and to establish mechanisms to protect the most vulnerable groups in the face of external shocks and budgetary retrenchment.</p> <ul style="list-style-type: none"> • The IMF could invite the authorities regularly during Article IV consultations to identify the existing critical social programs and social services that they would like to see protected in the event of adverse shocks. Participation on the part of the authorities would clearly be voluntary. • Successful implementation will depend heavily on having better and more transparent expenditure monitoring systems. On the basis of the priorities identified by the authorities, the IMF and the World Bank could join their accelerated efforts to reform public expenditure management (PEM) systems, specifically geared toward the social area, with a view to protecting the specified programs and spending categories. • This concrete application of the PEM initiative is particularly important because in many cases where there is an IMF-supported program the World Bank is also active with adjustment lending supporting the budget. • Surveillance would routinely report on these initiatives and their progress over time. 	<p>Directors agreed that an important aim of program design should be to protect critical social expenditures. However, they stressed, as recognized in the report, that the IMF should not become involved in the detailed selection and design of social policy; this task is outside both the IMF's mandate and its expertise. A number of Directors supported the IEO's call for updating of the 1997 guidelines that direct IMF work in the social area, in order to improve their clarity and effectiveness as an operational tool in protecting the most vulnerable from economic shocks and budgetary retrenchment. Other Directors, however, viewed the existing guidelines as adequate, and a few considered that the annual and medium-term budgets of non-PRGF countries already adequately identify critical social sector programs. These Directors recalled that the new framework for Bank-IMF collaboration on public expenditure issues should enhance countries' public expenditure reform strategies, including measures to protect critical social spending. Most Directors agreed with the recommendation that staff should inquire, during Article IV consultations, whether the authorities have identified social programs that they would like to protect in the event of a crisis, as they believed this would help dispel the criticism that IMF-supported programs unduly curtail social spending. A few others considered this recommendation impractical, as it would create significant costs and pressures for the authorities with little benefit.</p>	<p>During the discussions of the 2004 Biennial Review of IMF Surveillance, the Executive Board concluded that, "In members where shocks could have a sizable impact on social conditions, most Directors were of the view that Article IV consultations and other contacts can offer an opportunity to solicit interested members' views on protection of social safety nets or of other priority expenditures in times of economic stress." The surveillance guidance note issued to staff in early 2005 (SM/05/156) calls for social and related issues—such as poverty, income distribution, social safety nets, and social expenditures—to be addressed, with due regard to principles of focus and selectivity. However, the guidelines do not mention the specific recommendation noted in the first bullet under "Role of the IMF in Social Protection." 3/ The surveillance guidance note is currently being revised in line with the 2007 Surveillance Decision, which reaffirms and sharpens the principles of focus and selectivity.</p>
<p>1/ This column summarizes the reaction of the Executive Board on each recommendation as reported in the Acting Chairman's Summing Up of the August 29, 2003 Board meeting. Although care has been taken to ensure accuracy, readers are invited to refer to the full text of the summary of the discussion, which is included in the published version of the report and can be accessed on the IEO website at www.imf.org/External/NP/ieo/2003/fis/index.htm.</p> <p>2/ The column on follow-up was provided by staff at IEO's request and has not been subject to independent review.</p> <p>3/ See Surveillance Guidance Note, May 2005.</p>		

APPENDIX VI. EVALUATION OF POVERTY REDUCTION STRATEGY PAPERS AND THE POVERTY REDUCTION AND GROWTH FACILITY: RECOMMENDATIONS, BOARD RESPONSE, AND SUBSEQUENT FOLLOW-UP

IEO Recommendation	Executive Board Response 1/	Follow-Up 2/
<p><i>Aligning incentives and objectives</i></p> <p>Introduce greater flexibility in the implementation of the PRS approach to fit better the needs of countries at different stages of the process and with different capacities and political and administrative systems. Countries would be put more firmly in the driver's seat by determining themselves:</p> <ol style="list-style-type: none"> (1) How the policy formulation, implementation, and monitoring processes will be built up over time. Progress would be monitored against an explicit set of country-determined intermediate benchmarks. (2) What the output of these processes will be in terms of documents, with IMF process requirements minimized. <p>Shift the emphasis of the initiative from the production of documents to the development of sound domestic policy formulation and implementation processes. This would involve the following elements:</p> <ol style="list-style-type: none"> (1) Build in greater results orientation. (2) Shift the emphasis of the incentives structure to achieving substantive changes in domestic policies and processes that are objectively measured. <p>Clarify the purpose of the Joint Staff Assessment and redefine the vehicle accordingly.</p>	<p>Directors broadly endorsed the recommendation, agreeing that the PRS approach will need to be implemented flexibly taking due account of country-specific circumstances and the core objectives of the PRS approach.</p> <p>Directors agreed that there should be less emphasis on document preparation and more on improving the capability of countries to develop and implement policies. Some Directors agreed that countries should set explicit criteria for judging progress toward key intermediate objectives, but many Directors cautioned that this should not imply excessive IMF involvement in assessing the country's decision-making process and should not establish an unwarranted direct linkage between such assessments and the IMF's lending decisions. Directors noted that further discussion was needed on how the IMF should react in cases where it believes that the pace of progress chosen is not ambitious enough.</p> <p>Directors called for a reformulation of the JSA with an emphasis on graduated rather than binary assessments.</p>	<p>Several changes have been made to introduce greater flexibility. In addition to the shift in focus from the JSA to the Joint Staff Advisory Note (JSAN) (see below), the Annual Progress Report (APR) can now be more closely aligned with domestic processes, giving the country an opportunity to assess progress and set the agenda for the period ahead. In most cases, APRs will not be discussed by the IMF and World Bank Boards and will be distributed for their information only.</p> <p>The requirement that the PRS and the PRGF be fully consistent has been eased, with the aim of eliminating the need for last-minute formal adjustments to the strategy document.</p> <p>JSANs (see below) are to provide constructive feedback to the authorities, focusing on a limited number of suggested key improvements that could be made to the strategy. This increased selectivity is intended to focus efforts on substantive changes in policies and processes.</p> <p>The Board subsequently accepted the staff proposal to replace the JSA with a JSAN that focuses on providing feedback to the authorities on the PRSP and that drops the binary (yes or no) assessment of the suitability of the PRSP as a basis for concessional lending.</p>

APPENDIX VI. EVALUATION OF POVERTY REDUCTION STRATEGY PAPERS AND THE POVERTY REDUCTION AND GROWTH FACILITY: RECOMMENDATIONS, BOARD RESPONSE, AND SUBSEQUENT FOLLOW-UP (CONCLUDED)

IEO Recommendation	Executive Board Response 1/	Follow-Up 2/
<p><i>Clarifying the IMF's role and improving its effectiveness</i></p> <p>Clarify what the PRS approach implies for the IMF's own operations and strengthen the implementation of the agreed role. This would affect the following areas:</p> <ol style="list-style-type: none"> (1) IMF engagement in the PRS process. (2) PRGF-related activities including clarifying the IMF role where the PRSP does not yet provide an operational road map. (3) Streamline IMF documentation and Board scrutiny. <p>Strengthen prioritization and accountability on what the IMF itself is supposed to deliver within the broader partnership framework, built around the priorities emerging from the PRS process, and ensure that resources match commitments.</p> <p>The IMF should encourage a strengthening of the framework for establishing the external resources envelope as part of the PRS approach.</p>	<p>Directors agreed that the IMF needs to set out more clearly its role in the PRS approach in each country, based on the IMF's core mandate in macroeconomic and related structural policy issues.</p> <p>Many Directors also supported a more active role for the IMF in the public debate on macroeconomic policy design and implementation. Where PRSPs are not yet operationally viable, the IMF should not insist on immediate tight alignment between the PRSP and PRGF-supported program. Instead, IMF staff should work with these members to strengthen their macroeconomic frameworks in PRSPs. However, increased flexibility should not imply delinking the PRGF from the PRSP, and the IMF would still seek to apply the PRSP principles in its program work.</p> <p>Directors welcomed the emphasis on better defining priorities for the IMF's work in low-income countries and indicated that the prioritization of budget resources must be guided by the IMF's overall mandate. They called for a careful assessment of the resource implications of adapting the IMF's role along the lines of the report's recommendations.</p> <p>Directors indicated that the IMF should play a supportive role with donors and low-income members to help ensure adequate provision of aid to achieve the MDGs. In this regard, the IMF needs to consider how its signals can be clear and useful to its members.</p>	<p>Additional work on the PRSP process will be done in the context of the Managing Director's Report on the IMF's Medium-Term Strategy and a Board paper on the role of the IMF in the PRS process and in donor collaboration is under preparation for Board discussion.</p> <p>Board scrutiny has been simplified, as PRS documents and corresponding JSANs will no longer be put automatically on the Board agenda. Instead, they will be issued for information and discussed only at an Executive Director's request.</p> <p>Where PRS documents do not provide an operational strategy, this can be set out in the context of PRGF-supported programs. Where the strategy has weaknesses that are critical to the success of PRGF-supported programs, the Letter of Intent/Memorandum of Economic and Financial Policies and staff report for the PRGF request or review is expected to set out how the weaknesses have been addressed.</p> <p>A separate JSAN is no longer required for PRSP preparation status reports; instead, a brief discussion of the status report is included in the PRGF staff report.</p> <p>See response to "Clarifying the IMF's role and improving its effectiveness" above.</p> <p>The IMF and World Bank (AFR and World Bank Africa Region) are currently implementing a pilot aimed at enhanced collaboration to support country reforms in the areas of financial sector development, public financial management, and the management of natural resources</p> <p>Following on from the Malan Report, a joint Fund-Bank Management Action Plan will outline new measures to further enhance collaboration between Fund and Bank country teams including in low-income countries.</p> <p>The Medium-Term Strategy proposes that staff signal to donors when more aid can be accommodated without endangering macroeconomic stability. This proposal is also put forward in the paper on the Fund's role in the PRS and donor collaboration process.</p>
<p>The IEO should encourage a strengthening of the framework for establishing the external resources envelope as part of the PRS approach.</p>	<p>Directors indicated that the IMF should play a supportive role with donors and low-income members to help ensure adequate provision of aid to achieve the MDGs. In this regard, the IMF needs to consider how its signals can be clear and useful to its members.</p>	<p>The Medium-Term Strategy proposes that staff signal to donors when more aid can be accommodated without endangering macroeconomic stability. This proposal is also put forward in the paper on the Fund's role in the PRS and donor collaboration process.</p>
<p>1/ This column summarizes the reaction of the Executive Board on each recommendation as reported in the Acting Chairman's Summing Up of the July 21, 2004 Board meeting. Although care has been taken to ensure accuracy, readers are invited to refer to the full text of the summary of the discussion, which is included in the published version of the report and can be accessed on the IEO website at www.imf.org/External/NP/ico/2004/prsprgf/eng/index.htm.</p>		

APPENDIX VII. EVALUATION OF THE ROLE OF THE IMF IN ARGENTINA, 1991–2001: RECOMMENDATIONS, BOARD RESPONSE, AND SUBSEQUENT FOLLOW-UP

IEO Recommendation	Executive Board Response 1/	Follow-Up 2/
<p><i>Crisis management</i></p> <p>The IMF should have a contingency strategy from the outset of a crisis, including in particular “stop-loss rules”—that is, a set of criteria to determine if the initial strategy is working and to guide the decision on when a change in approach is needed.</p> <p>Where the sustainability of debt or the exchange rate is in question, the IMF should indicate that its support is conditional upon a meaningful shift in the country’s policy while remaining actively engaged to foster such a shift. High priority should be given to defining the role of the IMF when a country seeking exceptional access has a solvency problem.</p>	<p>Most Directors viewed contingency planning as useful, but many noted that in a crisis or precrisis setting, it is not always possible to assess the various contingencies that might occur. Concern was also expressed that any indication that the IMF was developing contingent strategies could undermine confidence in the program. As regards specific stop-loss rules, while some Directors supported their consideration, most felt that defining and implementing such rules would be difficult or impractical.</p> <p>Directors agreed with the IEO’s recommendation. At the same time, they noted that assessing exchange rate or debt sustainability will necessarily entail judgment, and it is essential that the Board be provided with up-to-date and comprehensive information and analysis. Steps have already been taken since the Argentine crisis to strengthen the basis on which debt and exchange rate sustainability assessments are made. Directors indicated that they looked forward to an opportunity to assess whether further changes may be needed.</p>	<p>No consensus emerged in the Board meeting.</p> <p>In June 2002, the Board adopted a framework for more objective and standardized debt sustainability analysis; refinements to this framework were endorsed by the Board in July 2003.</p> <p>Debt sustainability analyses, including a specialized framework for low-income countries, are now regularly included in staff reports for Article IV consultations and use of IMF resources. They play a central role in considering exceptional access and in the Evian approach of Paris Club creditors.</p> <p>Progress has been made to define the role of the IMF in solvency cases and this is an issue that continues to be under active consideration. The introduction of the exceptional access policy recognized the special circumstances of countries where solvency is an issue. A review of the Fund’s policy on lending into arrears is currently scheduled for 2008. The Board has also considered the issue of managing systemic banking crises in the context of debt restructuring (SM/05/249). Analytical work has been carried out which specifically examined sovereign debt restructuring and debt sustainability (OP 255).</p>
<p><i>Surveillance</i></p> <p>Medium-term exchange rate and debt sustainability should form the core focus of IMF surveillance. To fulfill these objectives (which are already current policy), the IMF needs to improve tools for assessing the equilibrium real exchange rate that are more forward looking and rely on a variety of criteria, examine debt profiles from the perspective of “debt intolerance,” and take a longer-term perspective on vulnerabilities that could surface over the medium term.</p>	<p>Directors concurred with the IEO’s recommendation that medium-term exchange rate and debt sustainability should form the core focus of IMF surveillance. They cautioned that finding an appropriate operational measure of exchange rate sustainability would be difficult, but a few suggested that the development of such a measure by the staff should be a priority. Directors saw a continued need for greater candor in the treatment of exchange rate policy in the context of Article IV discussions. In order to avoid triggering a potentially destabilizing market reaction, some suggested that the scope for establishing procedures for handling sensitive topics during surveillance exercises should be explored by staff. As to debt sustainability, recent events have led to a reassessment of what level of debt is sustainable for emerging market countries, which is already reflected in the IMF’s work. Directors asked staff to continue to sharpen its analytical tools, and a few called for examining ways to strengthen the organization and independence of debt sustainability analysis work.</p>	<p>Upon completing the 2004 Biennial Review of Surveillance, the Executive Board established sharper exchange rate surveillance and improved analysis of debt sustainability as priority objectives. Since then, both areas have been receiving special emphasis in staff guidance, training, research and in the internal review process.</p> <p>The Medium-Term Strategy includes a number of initiatives to strengthen the analysis of exchange rates, including the extension of the work of CGER (SM/06/283) to major emerging markets. Some area departments have established active working groups on exchange rate issues.</p> <p>The 2007 Surveillance Decision uses the concept of external stability—a concept linked to both equilibrium exchange rates and debt sustainability—as the organizing principle of the Fund’s bilateral surveillance. The Decision provides further guidance to members on the conduct of exchange rate policies and clarifies expectations as to how surveillance should assess exchange rate policies.</p>

APPENDIX VII. EVALUATION OF THE ROLE OF THE IMF IN ARGENTINA, 1991–2001: RECOMMENDATIONS, BOARD RESPONSE, AND SUBSEQUENT FOLLOW-UP (CONCLUDED)

IEO Recommendation	Executive Board Response 1/	Follow-Up 2/
<p><i>Program relationship</i></p> <p>The IMF should refrain from entering or maintaining a program relationship with a member country (in the form of a precautionary arrangement) when there is no immediate balance of payments need and there are serious political obstacles to needed policy adjustment or structural reform.</p>	<p>Directors noted the possible risks associated with precautionary IMF arrangements, especially where there are serious political obstacles to needed policies and reforms, but most did not support the implication that the IMF should not enter into a program relationship with a member country when there is no immediate balance of payments need. They reiterated the value of precautionary arrangements as an important tool for supporting sound policies, while agreeing that there is a need to ensure that program standards and requirements are the same as those for all other arrangements.</p> <p>Directors stressed that all cases of the use of IMF resources, particularly cases of exceptional access, should entail a presumption of close cooperation. Many Directors agreed that there should be a requirement of mandatory disclosure to the Board of any critical issues which the authorities refuse to discuss.</p>	<p>The Board did not support the recommendation, so no explicit follow-up is expected. However, in response to the expiration of the Contingent Credit Line, there is an ongoing debate on the need for, and desirability of, a new policy that would clarify the use of exceptional access under precautionary arrangements. Many Directors support the existing IMF policies as adequate.</p>
<p>Exceptional access should entail a presumption of close cooperation between the authorities and the IMF, and special incentives to forge such close collaboration should be adopted, including mandatory disclosure to the Executive Board of any critical issue or information that the authorities refuse to discuss with (or disclose to) staff or management.</p>	<p><i>The decision-making process</i></p> <p>Directors noted that the procedures for exceptional access adopted since the Argentine crisis have generally worked to strengthen the Board's involvement and ensure that decisions to continue program engagement under exceptional access are adequately informed. A number of Directors, however, saw a need for further discussion of approaches to strengthen the role of the Board. Further efforts to enhance decision making by the Board would include improvements in the provision of full information on all relevant issues and open exchanges of views between management and the Board on all topics, including the most sensitive ones.</p>	
<p>In order to strengthen the role of the Executive Board, procedures should be adopted to encourage (1) effective Board oversight of decisions under management's purview; (2) provision of candid and full information to the Board on all issues relevant to decision making; and (3) open exchanges of views between management and the Board on all topics, including the most sensitive ones.</p>	<p>Directors noted that the procedures for exceptional access adopted since the Argentine crisis have generally worked to strengthen the Board's involvement and ensure that decisions to continue program engagement under exceptional access are adequately informed. A number of Directors, however, saw a need for further discussion of approaches to strengthen the role of the Board. Further efforts to enhance decision making by the Board would include improvements in the provision of full information on all relevant issues and open exchanges of views between management and the Board on all topics, including the most sensitive ones.</p>	
	<p>1/ This column summarizes the reaction of the Executive Board on each recommendation as reported in the Summing Up by the Chair. Although care has been taken to ensure accuracy, readers are invited to refer to the full text of the summary of the discussion which is included in the published version of the report and can be accessed from the IEO website (www.imf.org/External/NP/ieo/2004/arg/eng/index.htm).</p>	<p>2/ The column on follow-up was provided by staff at IEO's request and has not been subject to independent review.</p>

APPENDIX VIII. EVALUATION OF IMF TECHNICAL ASSISTANCE

IEO Recommendations	Executive Board Response 1/	Task Force Recommendations 2/	Follow-Up 3/
<p>Prioritization and resource allocation</p> <p>The IMF should develop a medium-term country policy framework for setting TA priorities, incorporating country-specific strategic directions and linked to more systematic assessments of factors underlying past performance.</p>	<p>Directors endorsed this recommendation and generally supported the managerial approaches suggested for carrying it forward. In particular, most Directors agreed that in low-income countries, the PRSP should increasingly serve as a vehicle for identifying medium-term TA needs and improving coordination among agencies, although in a number of cases, the focus of PRSPs will need to be sharpened to carry out this role effectively. In other countries, Directors stressed the importance of developing country-centered frameworks for identifying TA needs and noted that a variety of approaches—possibly including greater use of Article IV consultations to assess needs—may be appropriate.</p>	<p>Short TA Country Strategy Notes (TACSNs) should be prepared for “intensive IMF TA users” and systemically important TA countries. With a strategic perspective developed in their surveillance or Use of Fund Resources activities, area departments would identify the issues/problems to be addressed by TA. TACSNs would present the IMF’s TA strategy to the authorities, and seek their input into that strategy. TACSNs should provide area and functional departments with a solid information base to further their dialogue on TA prioritization decisions. In view of the possible significant resource implications of this proposal and an inconclusive earlier experience with Technical Consultations, the proposal would be launched on a pilot basis.</p>	<p>Area departments already include TA monitoring on their Resident Representative terms of reference when applicable. 4/</p> <p>Similar issues were raised in the Malan Committee report which further stressed better coordination between the Bank and the Fund in delivery of technical assistance, and the Crockett Committee report which recommended charging for bilateral services (such as technical assistance).</p> <p>The TACSN pilot was completed in April 2006. Following an evaluation of experience with the TACSNs and guided by the Committee on Capacity Building (CCB), the TACSNs have been replaced by Regional Strategy Notes (RSNs), which provide the area departments’ strategic perspectives for their regions as well as the key priorities for countries receiving intensive TA. The RSNs serve as a key input into departments’ Business Plans and the formulation of the Resource Allocation Plan (RAP) which is done jointly by functional and area departments. The first round of RSNs were completed in April 2007.</p>
<p>Tracking progress and reasons for shortfalls</p> <p>The IMF should develop more systematic approaches to track progress on major TA activities and to identify reasons behind major shortfalls.</p>	<p>Directors supported the recommendation that at the outset of major TA activities, staff and authorities should agree on measurable indicators of progress covering all major stages of the TA life cycle. Better tracking includes careful explanation of shortfalls in execution, and candid staff reporting on obstacles to progress. However, on these endeavors staff should avoid imposing conditions on members without their consent. While supporting the view that implementation records should be an important guide in weighing TA requests, a number of Directors cautioned against using tracking indicators mechanically for TA resource allocations.</p>	<p>The Task Force notes the IEO’s view on the TA Information Management System (TAIMS) that was being developed as “an opportunity to systematically improve tracking and monitoring of TA on a IMF-wide basis,” and a “vehicle through which enhanced monitoring practices become unified and more transparent across the institution.” Agreeing with that view, it notes that TAIMS is expected to systematically include clear ex ante set of progress indicators and identified risk factors, to record outputs and other measurable indicators, and to provide for their monitoring.</p>	<p>In the context of the Task Force on Performance Indicators, staff is seeking to identify different types of TA outputs for the purpose of tracking and monitoring performance.</p> <p>TAIMS now generates monthly mission activity reports. It also assists project managers to monitor identifiable TA indicators for tracking performance.</p> <p>TAIMS is being extended to the IMF’s regional TA centers, and further work is ongoing on enhancing TAIMS as a monitoring tool.</p>

APPENDIX VIII. EVALUATION OF IMF TECHNICAL ASSISTANCE (CONTINUED)

IEO Recommendations	Executive Board Response 1/	Task Force Recommendations 2/	Follow-Up 3/
<p>Interaction with authorities and local experts</p> <p>Greater involvement by the authorities and counterparts in the design of TA activities and arrangements for follow-up should be emphasized as a signal of ownership and commitment.</p>	<p>Directors concurred that greater involvement and ownership by the recipient authorities and discussion of options are crucial to greater TA effectiveness. They welcomed the proposals for more participation by country authorities in drawing up terms of reference (TORs) while systematically seeking their tangible commitments to the contemplated TA strategy or advice early on. However, a number of Directors cautioned that these indications of commitment should not be treated as conditionality for access to TA.</p>	<p>TA departments should further strengthen the dialogue with country authorities when drafting TORs for short- and long-term experts, and systematically seek their inputs. For enhancing the likelihood of implementation, fostering lessons to be learned, and disseminating best practices, those departments should systematically seek the authorities' consent to disseminate TA reports among the country's technical staff, IMF Executive Board, and selected donors. Broader circulation and availability of the TA reports could help in building consensus around proposed reforms and strengthen the authorities' resolve to follow up on recommendations.</p>	<p>Actions suggested by the Task Force are being implemented by all departments. TA departments have made efforts to enhance the dialogue with the authorities, including efforts to clearly lay out the authorities' and TA departments' expectations for TA operations. The work plans by the Regional TA Centers are developed in collaboration with country authorities and are also endorsed by the respective steering committees, comprising representatives of member countries. Following the first round of RSNs, it is planned to discuss them with country authorities, to contribute further to the fulfillment of this objective.</p>
<p>Enhancing identification of options</p> <p>Stronger efforts should be made by TA experts to identify options and discuss alternatives with local officials prior to drafting TA recommendations.</p>		<p>When relevant, TA reports should record discussions with the authorities on alternative policy options, the considerations leading to them, and when there were differences of views summarize the authorities' views on key issues and recommendations.</p>	<p>Actions recommended by the Task Force are being implemented by TA departments. Departments engage with authorities in discussions of preliminary findings and alternative responses before drafting reports. In finalizing the reports, departments also incorporate the views of the authorities.</p>
<p>Ex post evaluations</p> <p>The program of ex post evaluations of TA should be widened and more systematic procedures for disseminating lessons put in place.</p>	<p>Directors highlighted the importance of ensuring that the scope of ex-post evaluations be carefully considered and integrated into a broader strategy to make TA delivery more effective. They concurred that external evaluations are a useful tool to enhance accountability and provide a fresh perspective, and that the Office of Technical Assistance Management (OTM), in collaboration with other departments, should continue to prepare and update its program of ex post evaluations and to assess shifts in TA demands across subject areas.</p>	<p>For larger TA projects, it is recommended that functional departments produce standardized self-assessments within three months of the conclusion of the project and include them in TAIMS. These self-assessments could be used as input to institutional lesson-learning and for ex post evaluations. To assist in this effort, it is proposed that OTM manage a TA self-assessment/evaluation knowledge base that could be incorporated into future TA and made available to all IMF staff to maximize its potential benefits.</p>	<p>As a first step to designing a standardized approach to evaluations, TA departments have listed their existing evaluation practices and completed evaluations. The IMF-wide TA Evaluation Program has been completed for 2006, and the respective Board papers have been issued (see www.imf.org/external/np/pp/eng/2006/071206.htm). Linked also to departments' policy development work, evaluations are increasingly focusing on TA activities delivered across countries (e.g., regional) and on topical issues.</p> <p>The Committee on Capacity Building has initiated work on strengthening the TA evaluation function.</p>

APPENDIX VIII. EVALUATION OF IMF TECHNICAL ASSISTANCE (CONCLUDED)

IEO Recommendations	Executive Board Response 1/	Task Force Recommendations 2/	Follow-Up 3/
<p>Strategic decisions and trade-offs</p> <p>The prioritization filters should be discontinued or replaced by ones that would more effectively guide TA allocation. Either course of action involves strategic decisions on trade-offs that need to be taken explicitly.</p>	<p>While Directors concurred that the case for discontinuing the current filters was strong, several of them observed that elements of this approach might usefully be preserved. Prioritization of TA resources should flow from a shared vision of the IMF's overall medium-term objectives—reflecting its core competencies—while at the same time retaining the flexibility to respond to the urgent needs of members. Directors agreed that the IEO's recommendations would entail more staff-intensive approaches to providing TA, including greater collaboration with country authorities and other TA providers. Going forward, Directors welcomed management's proposal to ask staff to make concrete proposals on how to implement the IEO recommendations, taking into account budgetary costs, and implications for work practices and TA delivery, and looked forward to future discussion of these proposals, including on prioritization, before their implementation.</p>	<p>It is recommended that the current set of prioritization filters—deemed ineffective—be discontinued as the proposed remedial actions encompass the key ingredients for an effective prioritization of TA resources. If fully implemented, they would form a basic accountability framework for all the stages of the TA life cycle—prioritization, delivery, and monitoring and evaluation—against which the effectiveness of IMF TA can be gauged. To make it viable, however, a number of management and organizational challenges must be overcome, while its linkage to the efficient allocation of TA resources—the budget perspective—needs to be developed. The provision of adequate incentives for staff to implement the proposals, in particular for area department staff and Resident Representatives is critical.</p> <p>It is important that these proposals also feed into mechanisms that result in an efficient allocation of TA resources across countries, sectors, and policy initiatives on an evolving basis. Thus, beyond the annual exercise, resource allocations for TA through the Medium-Term Budget Framework will need to be informed by strategic decisions, which in turn, will require that emerging trends across departments be identified in a timely way.</p>	<p>Prioritization filters were discontinued. In their place, the Committee on Capacity Building (CCB) has endorsed recommendations to ensure a closer integration of the resource allocation plans (RAPs) with the budgetary processes of both functional and area departments. Beginning with the planning for FY2009, an integrated timeline has been devised for the preparation of the departments' budget and business plans, the RSNs and the RAPs. This is expected to strengthen the alignment of TA resources with other Fund core activities and the strategic priorities established in the Medium-Term Strategy. In addition, in FY2008, a Central TA Reserve has been established. The reserve will be allocated to functional departments at mid-year FY2008 by the CCB. The aim of the reserve is to provide flexibility to respond to unanticipated TA needs cutting across functional and regional areas.</p>
<p>1/ This column summarizes the reaction of the Executive Board on each recommendation as reported in the Summing Up by the Acting chair. Although care has been taken to ensure accuracy, readers are invited to refer to the full text of the summary of the discussion, which is included in the published version of the report and can be accessed from the IEO website (www.imf.org/external/np/ieo/2005/ta/eng/013105.htm).</p>			
<p>2/ The Task Force was created by management on March 31, 2005 in response to the Executive Board discussion of the IEO's evaluation. The Task Force report was discussed by the Executive Board on July 27, 2005.</p>			
<p>3/ The column on follow-up was provided by staff at IEO's request and has not been subject to independent review.</p> <p>4/ Terms of reference for Resident Representatives in countries that are major TA recipients should list among their responsibilities an active involvement in TA implementation, follow-up on TA activities by other providers in areas of interest to the IMF, as well as coordinating activities where those providers are receptive to this approach.</p>			

APPENDIX IX. EVALUATION OF THE IMF'S APPROACH TO CAPITAL ACCOUNT LIBERALIZATION

IEO recommendations	Executive Board response 1/	Follow-Up 2/
<p>Recommendation 1. There is a need for more clarity on the IMF's approach to capital account issues:</p> <ul style="list-style-type: none"> • The place of capital account issues in IMF surveillance could be clarified. • The IMF could sharpen its advice on capital account issues, based on solid analysis of the particular situation and risks facing specific countries. • The Executive Board could issue a statement clarifying the common elements of agreement on capital account liberalization. <p>Recommendation 2. The IMF's analysis and surveillance should give greater attention to the supply-side factors of international capital flows and what can be done to minimize the volatility of capital movements.</p>	<p>Some Directors saw merit in further clarifying the scope of IMF surveillance to recognize explicitly the central importance of capital account policies; Directors also saw scope for sharpening the IMF's advice on capital account issues, urging the staff to base its policy advice on solid analysis of individual country situations. However, a variety of views were expressed on "the merit of an Executive Board statement clarifying the elements of agreement on capital account issues." Directors noted that they would have an opportunity to come back to this issue in the context of the IMF's ongoing strategic review.</p> <p>Directors welcomed the various initiatives under way in the IMF to strengthen research, analysis, and surveillance of the supply side of capital flows, and encouraged staff to continue to build on the work already being undertaken at the IMF in order to further its understanding of supply-side factors and their operational and policy implications.</p>	<p>Staff has been working on multiple research projects on various dimensions of capital account liberalization. A paper presented to the Board in June 2007 (SM/07/193) reports empirical results broadly supportive of the Fund's "integrated approach" toward capital account liberalization, and shows that the impact of financial globalization depends on the strength of countries' policies and institutions. Staff have also recently produced a comprehensive study providing a unified conceptual framework to organize the vast literature on the benefits and costs of financial globalization.^{3/}</p> <p>Staff initiated further analytical work, with a special focus on the interaction of prudential measures and capital controls that updates the integrated approach for the sequencing of capital account liberalization.</p> <p>A paper presented to the Board in July 2006 analyzed how countries can use domestic policies to reduce their vulnerability to shocks and, in particular, to sudden stops in capital flows or to external debt crises.^{4/} Beginning with the 2009 edition, the Annual Report on Exchange Arrangements and Exchange Restrictions will be modified to facilitate the analysis of capital account liberalization, and to reflect the interaction of prudential measures and capital controls.</p> <p>The IMF and the World Bank have launched a joint project to extend the publicly available quarterly external debt statistics (QEDS) to participants of the IMF's General Data Dissemination Standards (GDDS), particularly low-income countries. The project is to focus on disseminating public and publicly guaranteed external debt stock data for participation in QEDS, in line with the GDDS data category.</p> <p>Chapters of the Global Financial Stability Report (April and October 2007) cover the supply side of capital inflows and what can be done from a financial development perspective to minimize their volatility, respectively.</p>
<p>1/ This column summarizes the reaction of the Executive Board on each recommendation as reported in the Summing Up by the Chairman of the May 11, 2005 Board meeting. Although care has been taken to ensure accuracy, readers are invited to refer to the full text of the summary of the discussion, which is included in the published version of the report and can be accessed from the IEO website www.imf.org/External/NP/ieo/2005/call/eng/index.htm.</p> <p>2/ The column on follow-up was provided by staff at IEO's request and has not been subject to independent review.</p> <p>3/ See M. Ayhan Kose, Eswar Prasad, Kenneth Rogoff, and Shang-Jin Wei, "Financial Globalization: A Reappraisal," IMF Working Paper No. 06/189 (Washington: International Monetary Fund).</p> <p>4/ See "Country Insurance: The Role of Domestic Policies" (www.imf.org/external/np/pp/eng/2006/061906.pdf), also issued as Occasional Paper no. 254.</p>		

APPENDIX X. EVALUATION OF THE IMF SUPPORT TO JORDAN 1989–2004: RECOMMENDATIONS, BOARD RESPONSE, AND SUBSEQUENT FOLLOW-UP

IEO Recommendation 1/	Executive Board Response 2/	Follow-Up 3/
<p><i>Broad lessons suggested by the IMF experience in Jordan</i></p> <p>The underlying rationale for key program design elements should be explained clearly in Board papers. In particular, judgments on the magnitude and composition of targeted adjustment need to be grounded in an explicit assessment of external and public debt sustainability over the medium term.</p> <p>In certain circumstances, structural conditionality can have significant value added in terms of encouraging and monitoring progress on reforms. However, underlying issues such as large and abrupt surges in grants require that programs be set in an explicitly longer-term perspective. Timetables need to be designed carefully, taking account of the political economy situation, especially when legislative action is involved.</p> <p>The IMF's program involvement would have been more effective if programs had given greater emphasis at an earlier stage to the formulation of key institutional reforms in the fiscal area.</p> <p>A wider dissemination of IMF TA reports would have contributed to more informed public discourse and shed light on the rationale for IMF policy advice on key issues.</p>	<p>Many Directors agreed that the Jordanian experience reinforces the need for Board papers to provide clearly the underlying rationale for key elements of program design. They also supported the IEO's call for greater candor in staff report assessments, especially of the risks to the program and recommendations on how best to mitigate and manage them.</p> <p>Directors agreed with the report's overall assessment: Jordan's long engagement in IMF-supported programs helped the authorities address macroeconomic stabilization challenges successfully, although structural rigidities remain to be addressed.</p> <p>While agreeing that structural conditionality had been well designed, many Directors also pointed to the lessons for the timing of these conditions offered by the Jordanian experience. In particular, they noted the importance of ambitious but realistic timetables that take into account a country's implementation capacity as well as the prevailing political and social environment.</p> <p>Directors considered that a longer-term perspective, with greater emphasis at an earlier stage on the formulation of key institutional reforms in the fiscal area, would have increased the effectiveness of IMF-supported programs</p> <p>Directors concurred with the IEO's lesson that a wider dissemination of IMF TA reports could have contributed to more informed public discourse and shed light on the IMF policy advice on key issues. At the same time, Directors noted that decisions on disseminating such reports are ones for the authorities to take.</p>	<p>Jordan has been under Post Program Monitoring (PPM) since July 2004. The macroeconomic framework and adjustment profile is based on the fiscal and external debt sustainability analysis. Staff reports under PPM have become more candid (see in particular, EBS/05/154, EBS/07/17).</p>
<p><i>The IMF's future role in Jordan</i></p> <p>Help Jordan manage the projected decline in grants in a manner that preserves the gains made in the areas of macroeconomic stability and longer-term fiscal sustainability. This will be done by (1) assisting the authorities to design a macroeconomic framework that will achieve a smooth transition and (2) focusing on helping to design strategies to tackle Jordan's key remaining fiscal rigidities, including exploring alternative policy options to achieve the necessary structural reforms in the fiscal area.</p>	<p>The Board shared the view that Jordan still faces the challenges of adjusting to a sharply lower level of foreign grants and reducing fiscal rigidities. Most Directors noted that these challenges would have been less daunting if more progress had been made on critical reforms during Jordan's longer-term program engagement.</p>	<p>Staff remains in close consultation with the authorities through surveillance, PPM through the end of 2007, and the provision of technical assistance.</p>
<p>1/ The Jordan evaluation report made no explicit recommendations, presenting instead a number of lessons arising from IMF experience in Jordan.</p> <p>2/ This column summarizes the reaction of the Executive Board on the lessons presented in the Jordan evaluation as reported in the Summing Up by the Acting Chair. Although care has been taken to ensure accuracy, readers are invited to refer to the full text of the summary of the discussion, which is included in the published version of the report and can be accessed on the IEO website (www.imf.org/external/NP/ieo/2005/jor/eng/pdf/sumup.pdf).</p> <p>3/ There was no explicit follow-up strategy. However, Jordan's Ex-Post Assessment was done about the same time as IEO's evaluation of IMF support to Jordan (and presented to the Executive Board on the same day); there was cooperation between the teams carrying out these evaluations.</p>		

APPENDIX XI. EVALUATION OF THE FINANCIAL SECTOR ASSESSMENT PROGRAM: RECOMMENDATIONS, BOARD RESPONSE, AND SUBSEQUENT FOLLOW-UP

IEO Recommendation	Executive Board Response 1/	Follow-Up 2/
<p><i>Incentives for participation, clarifying priorities, and strengthening the links with surveillance</i></p> <p>Recommendation 1. The IMF Board and management should refine the criteria for setting priorities on IMF resource inputs into financial sector surveillance, including the FSAP. Based on these priorities, IMF staff should indicate, as part of its medium-term planning, what components are needed for strengthening financial sector surveillance in each country, drawing upon a range of possible modalities. These strategies would form the basis for more explicit accountability on results.</p>	<p>While some did not see sufficient evidence that current mechanisms are inadequate, many Directors agreed on the need for clearer guidance—including on the trade-off between assessments of vulnerability and development issues—as part of a medium-term strategy aimed at efficient resource allocation in line with the IMF’s core mandate.</p>	<p>Consideration being given to the three pillars of recommendations in the context of implementing the Medium-Term Strategy and recommendations of the Task Force on Integrating Finance and Financial Sector Analysis into Article IV Surveillance (FSIF, SM/07/57). As part of initial implementation of FSIF recommendations, country financial sector briefs are being developed. These briefs will be a vehicle to more systematically assess appropriate financial sector surveillance activities (modalities as well as coverage) in a multi-year context, as an input into the broader multi-year surveillance agendas introduced by the Medium-Term Strategy.</p> <p>More generally, modalities of financial sector surveillance in individual countries, including an initial assessment or FSAP update, are assessed in Article IV briefing papers and staff reports, and other country-specific discussions between MCM and area departments.</p> <p>For FSAPs specifically, prioritization is carried out annually (with semi-annual updates) based on criteria approved by the Fund and Bank Boards. It is coordinated through the Bank-Fund Financial Sector Liaison Committee (FSLC) and is approved by the managements of the Fund and Bank (see below).</p>
<p>Recommendation 2. To strengthen incentives and drawing upon these country-specific plans, IMF management should clearly signal to the Board those countries that it sees as the highest priorities for FSAPs and Updates, irrespective of whether these countries have volunteered. These lists should be the basis for periodic discussions by the Board of country-specific priorities.</p>	<p>Most Directors agreed with the IEO proposal that, to better align FSAP coverage with the needs of surveillance, management should indicate to the Board which countries it considers the highest priorities for FSAP assessments and Updates. Annual reporting on participation could provide useful information to guide discussion of priorities.</p>	<p>Scheduling of FSAPs is already based on the prioritization process established by staff. This process has been strengthened by distinguishing more clearly between the intrinsic country priorities—in a program that over time should cover all countries—and the likely work program that is affected by authorities’ willingness to participate in any particular period.</p> <p>Results of the prioritization process are used to encourage participation of priority countries and to prepare the FSAP work program. Encouraging participation involves staff and management as well as the Board, in particular in Article IV consultations, but also on other occasions such as Annual Meetings.</p> <p>The Annual Report on FSAP Participation (introduced in the 2005 Board review of the FSAP, and launched in 2006) is also being used to provide the Executive Board with overall information on program coverage.</p>

APPENDIX XI. EVALUATION OF THE FINANCIAL SECTOR ASSESSMENT PROGRAM: RECOMMENDATIONS, BOARD RESPONSE, AND SUBSEQUENT FOLLOW-UP (CONTINUED)

IEO Recommendation	Executive Board Response 1/	Follow-Up 2/
<p>Recommendation 3. Strengthen the links between the FSAP and surveillance by mainstreaming FSAPs and follow-up work into regular surveillance activities.</p>	<p>Directors concurred with the recommendation to strengthen links between FSAPs and surveillance. They underscored the need to follow up on key vulnerabilities and gaps and integrate such issues into Article IV surveillance reports. Directors stressed that in cases where financial stability issues, including any potential global repercussions, are judged to be of high importance, they should be a major focus of Article IV consultations.</p>	<p>Following the Medium-Term Strategy, and the Report of the Task Force on Integrating Finance and Financial Sector Analysis into Article IV Surveillance (FSTF) area departments have identified a senior staff member who will be responsible for the department's financial sector surveillance (FSS) and coordination of the FSS work program with MCM; and MCM and area departments are increasing efforts to work together in FSS, including through further MCM support to Article IV teams. FSS training will be provided to staff at all levels as needed, with new training under development. The introduction (by the Medium-Term Strategy) of country-specific three-year surveillance agendas and the related FSTF recommendation for multi-year financial surveillance planning, should help ensure adequate follow through of financial sector surveillance priorities.</p> <p>A Financial Sector Steering Group including representatives of area and relevant functional departments has been set up by the Managing Director to ensure high-level coordination of the work of all departments involved in financial sector surveillance.</p> <p>The internal review process of FSAP-related documents and Article IV reports is being strengthened to ensure that the Executive Summary summarizes the main macro-relevant findings using candid language, the FSSAs clearly highlight and summarize macro-relevant findings, and that these findings are adequately reflected and incorporated in the analysis of the Article IV report.</p>
<p><i>Improving the quality and impact of the FSAP and organizational changes</i></p>		
<p>Recommendation 4. Implement steps to improve further the quality of the FSAP and strengthen its impact.</p>	<p>Directors encouraged the staff to follow up on IEO recommendations to improve further the quality of FSAPs and strengthen their impact. They noted that recommendations should be clearly prioritized and the potential consequences candidly discussed. Directors emphasized in particular the importance of treating financial sector and cross-border linkages more systematically in FSAP analysis.</p>	<p>Initial revisions were made to FSAP procedures to stress that recommendations need to be candidly discussed and clearly prioritized by macro-relevance, and missions should cover all major risks, including those that may be politically sensitive. In cases where data are inadequate, potential major risks should nevertheless be identified and limitations transparently discussed. The revised procedures will also stress the need to have more informative and candid discussions on methodological and data limitations in FSSAs. Further, specific guidance is being developed to strengthen implementation of these principles. Staff is developing the stress testing methodology and establishing "minimum standards" for stress tests, to ensure that stress test methodologies are applied more consistently across countries.</p> <p>Work on regional financial sector assessments and cross-border issues has been stepped up and off-shore financial center reports are now expected to include a section on cross-border cooperation and information exchange. Specific guidance to FSAP teams is also being developed in these areas.</p> <p>To improve the quality and consistency of standards assessments, an internal review was conducted to evaluate assessments of the Basel Core Principles, the International Organization for Securities Commission (IOSCO) Objectives and Principles of Securities Regulation, and the Insurance Core Principles. A BCP assessors workshop has been convened for later this year. A joint IMF/WB/IOSCO assessors workshop was conducted in 2006 and a follow-up workshop will take place early 2008. Additional guidance to assessors has also been included in the assessment toolkits..</p>

APPENDIX XI. EVALUATION OF THE FINANCIAL SECTOR ASSESSMENT PROGRAM: RECOMMENDATIONS, BOARD RESPONSE, AND SUBSEQUENT FOLLOW-UP (CONCLUDED)

IEO Recommendation	Executive Board Response 1/	Follow-Up 2/
<p>Recommendation 5. Introduce changes in the organization of IMF mission activities to utilize scarce financial sector technical expertise (especially in MFD and ICM) more effectively in the surveillance process.</p>	<p>Many Directors welcomed the IEO's recommendation to introduce changes in the organization of IMF mission activities to utilize more effectively scarce financial sector expertise within the IMF. Directors noted that this will be considered in the broader context of improving financial sector surveillance, as part of the medium-term strategic review.</p>	<p>The modalities to do this are being assessed as part of the Medium-Term Strategy and as part of the follow-up to the Financial Sector Task Force.</p>
<p align="center"><i>Joint IMF–World Bank Nature of the FSAP</i></p>		
<p>Recommendation 6. Maintain the current joint approach, but clarify further the distinctive contributions the IMF and Bank can make, with the IMF taking the lead where significant domestic or global stability issues are present, and the Bank taking the lead where financial sector development issues are more paramount. Such clarity should include a clear delineation of primary responsibilities for setting priorities (and contributing resources).</p>	<p>Directors were in broad agreement with the recommendations regarding Bank-IMF collaboration. They concurred that the current joint approach, including the central role for the Bank-IMF FSLC, should be maintained. At the same time, further efforts should be made to take full advantage of the distinctive contributions that the two institutions can make—with the IMF focusing on stability issues and the Bank on financial sector development and institution building.</p>	<p>The External Review Committee on Bank-Fund Collaboration (the Malan Committee) issued in December 2006 a report examining areas of collaboration and proposing improvements. In the financial sector sphere, the Malan Report endorsed the principle that the Fund focus on stability issues and the Bank on development issues. Nonetheless, it observed that the responsibilities could not be precisely demarcated.</p> <p>Specific recommendations are being developed to take forward the issues raised in the Malan Report. This work will culminate in a joint Bank-Fund Management Action Plan to be issued ahead of the Annual Meetings.</p>
<p>Recommendation 7. The IMF, in conjunction with the World Bank and other technical assistance providers, should seek to establish a clearer framework for coordinating follow-up capacity-building technical assistance activities, based on the country's own action plans.</p>	<p>Directors concurred that there is room to improve the coordination of FSAP-related technical assistance activities, based on the country's own action plan. At the same time, Directors cautioned against overburdening the FSAP with additional expectations regarding the technical assistance needs.</p>	<p>FSLC has in the past sponsored meetings of Bank-Fund teams to discuss TA follow-up for countries recently completing FSAP assessments. This practice is being renewed to help promote broader collaboration on TA strategies.</p> <p>Staff will also include in the transmittal letter for the FSAP package, when appropriate, a suggestion that a follow-up meeting or "providers forum" on TA be organized. The decision on whether to include such a suggestion will be based on discussion with the area departments and the World Bank, and following the Board's guidance not to overburden the FSAP with additional expectations and excessively formal approaches to follow-up.</p>
<p>1/ This column summarizes the reaction of the Executive Board on each recommendation as reported in the Summing Up by the Chair. Although care has been taken to ensure accuracy, readers are invited to refer to the full text of the summary of the discussion which is included in the published version of the report and can be accessed from the IEO website (www.imf.org/External/NP/ieo/2006/Fsap/eng/index.htm).</p> <p>2/ The column on follow-up was provided by staff at IEO's request and has not been subject to independent review.</p>		

APPENDIX XII. EVALUATION OF THE IMF'S MULTILATERAL SURVEILLANCE: RECOMMENDATIONS, BOARD RESPONSE, AND SUBSEQUENT FOLLOW-UP

IEO Recommendation	Executive Board Response 1/	Follow-Up 2/
<p>Recommendation 1. Strengthen the IMF's role at the center of a more robust global peer review system by establishing a more proactive engagement with relevant intergovernmental groups.</p> <p>Recommendation 2. Enhance the roles of the Executive Board and the IMFC in multilateral surveillance.</p>	<p>Most Directors concurred that, while the Executive Board and the IMFC remain the most appropriate forums for discussing policy spillovers and possible responses, the IMF should also participate more actively in other forums—such as, but not limited to, the G-7 and the G-20—which provide opportunities for a frank exchange of views on multilateral issues.</p> <p>Directors noted that multilateral surveillance would have a larger effect on the global policy debate if they were better targeted to their core audiences, streamlined, and focused on key issues.</p>	<p>The first multilateral consultation (SM/07/232, SUR/07/90) which focused on addressing global imbalances while maintaining global growth demonstrated that the multilateral consultation approach had been useful for addressing global issues through discussion and cooperation among members, and should prove to be a valuable instrument for enhancing the effectiveness of Fund surveillance</p> <p>As part of the Fund's engagement with various international fora, including the G7, G20, and the APEC, surveillance notes/papers are drafted with greater focus on key themes, with a view to furthering policy debate in these fora.</p>
<p>Recommendation 3. Streamline and better focus the products of multilateral surveillance, present shorter and clearer messages, and deliver them more strategically to target groups.</p>	<p>Directors agreed that it would be beneficial to clarify the operational goals of multilateral surveillance, but were not persuaded about the need for broad organizational changes. Priority should be given to strengthening the integration between multilateral and bilateral surveillance, particularly for countries that have an impact on global financial stability.</p>	<p>The World Economic Outlook (WEO) is being reconfigured to highlight key cross-country messages and strengthen risk analysis. Work is ongoing to focus post-WEO outreach on issues of particular concern in specific regions.</p> <p>A new procedure has been implemented in 2007 by which interim WEO updates are published—twice a year—between the publications of the Spring and Fall WEO. These update the staff's view of the global outlook on the basis of recent developments and provide greater continuity for the Fund's surveillance and outreach.</p> <p>The Global Financial Stability Report (GFSR) now includes a "global risk map" to help make the staff's overall judgment about global financial stability easier to convey. More public outreach is being coordinated with the External Relations Department to bring GFSR messages to a greater global audience, perhaps outside financial centers.</p>
<p>Recommendation 4. Define more clearly the goals of multilateral surveillance and the mechanisms to achieve them. Particular effort should also go into better integrating multilateral perspectives into bilateral surveillance.</p>		<p>Consistent with the Medium-Term Strategy, Article IV reports for systemically important countries will be expected to include analysis and discussion of regional or global spillover effects, and all Article IV consultations are expected to make a greater use of cross-country analysis and to bring to bear other countries' experience in addressing similar problems. To aid integration of bilateral and multilateral surveillance, the results of the WEO will be presented to staff in an internal seminar.</p> <p>The GFSR has been, and will continue to be, presented to each area department before publication in an effort to both inform bilateral surveillance of global trends and have multilateral surveillance be informed about country-specific and regional financial trends requiring greater attention.</p>
<p>1/ This column summarizes the reaction of the Executive Board on each recommendation as reported in the summing up by the Chair. Although care has been taken to ensure accuracy, readers are invited to refer to the full text of the summary of the discussion, which is included in the published version of the report and can be accessed from the IEO website (www.imf.org/external/np/ieo/2006/ms/eng/index.htm).</p> <p>2/ The column on follow-up was provided by staff at IEO's request and has not been subject to independent review.</p>		

APPENDIX XIII. EVALUATION OF THE IMF AND AID TO SUB-SAHARAN AFRICA AND FOLLOW-UP MATRIX

IEO Recommendations	Executive Board Response	Management Implementation Plan 1/	Follow-Up 2/
<p>The Executive Board should reaffirm and/or clarify Fund policies on the underlying performance thresholds for the spending and absorption of additional aid, alternative scenarios, the mobilization of aid, PSIA, and pro-poor and pro-growth budget frameworks. Based on these reaffirmations/clarifications, Management should provide clear guidance to staff on what is required, encouraged, permitted, and/or prohibited—including in working with the World Bank and other partners—and ensure effective implementation and results.</p>	<p>Direct reference: Directors supported the report's recommendation on the need for further clarification of Fund policy on several aid-related issues, including the mobilization of aid, alternative scenarios, poverty and social impact assessments of macroeconomic policies, and pro-poor and pro-growth budget frameworks. Directors asked the staff to come back with specific and costed proposals on how to clarify relevant policies and implement the report's recommendations.</p> <p>Related references: [Directors] considered that any improvements in the Fund's engagement in low-income countries should, in line with the MTS, continue to be focused on its core mandate of providing advice and support for sound macroeconomic policies as a prerequisite for sustained growth and poverty reduction. In this context, most Directors confirmed that distributional policies generally lie outside the Fund's core mandate and that poverty and social impact analysis (PSIA) should be conducted by other agencies in the context of the PRSP process, although others saw a continuing role for the Fund. Directors noted that PSIA's have not systematically supported PRGF program design, and emphasized the importance of improving Fund collaboration with development partners, in particular the World Bank, to take these issues into account when helping countries formulate their macroeconomic policies.</p> <p>Directors confirmed the importance of accommodating higher aid flows through higher spending and net imports, provided that this would not jeopardize macroeconomic stability. They considered that this approach should continue to be implemented on a case-by-case basis and in the context of a multi-year strategy—with the general objective being to bring all low-income members to a situation in which aid can be fully absorbed and effectively spent.</p> <p>Directors concurred on the need for improved transparency and clear communications by the Fund on its stance regarding the use of aid, and on the trade-offs involved.</p> <p>On the role of the Fund in developing alternative aid scenarios, many Directors indicated that, in the context of the PRSP, the staff should be available to prepare scenarios that illustrate the macroeconomic challenges of scaling up aid, including, in the view of some Directors, those based on estimates by others of additional resources needed for the MDGs when available. Most Directors emphasized, however, that the Fund's role should be limited to assessing the consistency of additional aid flows with macroeconomic stability and the absorption capacity of the country, with more normative advice and the preparation of less likely aid scenarios falling outside the Fund's mandate.</p> <p>On budget frameworks, Directors generally considered that the World Bank and other MDBs should be the lead agencies in providing advice related to expenditure composition issues.</p> <p>Directors noted that a common theme in the IEO recommendations is the need for improved and more realistic Fund communications. Directors were concerned over the disconnect between the Fund's communication on aid and poverty reduction policy and what is the actual experience at the country level in low-income countries; the resulting expectations gap might put the Fund's credibility at stake. Thus, Directors supported the report's call for greater clarity in the Fund's external relations on what the Fund can and cannot do in its low-income country work. Directors welcomed management's intention to take further steps to build on the efforts to strengthen the communications process that is already under way. They also underscored the importance of a stepped-up internal communications effort across the Fund to align better staff's ongoing work with institutional priorities. At the same time, Directors emphasized that, given the budgetary constraints, improvements in coordination and communication would need to be implemented in a strategic manner.</p>	<p>Board-endorsed recommendations in the area of Fund policies relating to the handling of aid inflows will be taken forward primarily in the context of:</p> <p>i) The Role of the Fund in Managing Aid Inflows and Impact on the Design of Fund-supported Programs, and ii) Fiscal Policy Response to Scaled-up Aid and accompanying background papers. 3/</p>	<p>Board discussion of these issues clarified Fund policy on issues related to the spending and absorption of additional aid, the mobilization of aid, alternative scenarios, and pro-poor and pro-growth budget frameworks. Further guidance will be issued to staff in due course.</p>
<p>The External Relations Department should ensure the consistency of institutional communications with Board-approved operational policies and Fund-supported operations.</p>	<p>Board-endorsed recommendations in the area of the need for Fund policy and its implementation to be consistent and communicated clearly within the institution and outside, will be taken forward in the context of: <i>The IMF's Communications Strategy</i>.</p>	<p>Board discussion of these issue confirmed need to improve further Fund communications, including the need to better integrate communications with operations and to align better internal communications with institutional priorities and policies.</p>	<p>Board discussion of these issue confirmed need to improve further Fund communications, including the need to better integrate communications with operations and to align better internal communications with institutional priorities and policies.</p>

APPENDIX XIII. EVALUATION OF THE IMF AND AID TO SUB-SAHARAN AFRICA AND FOLLOW-UP MATRIX (CONCLUDED)

IEO recommendation	Executive Board Response	Management Implementation Plan 1/ Follow Up 2/
<p>Management should establish transparent mechanisms for monitoring and evaluating the implementation of the clarified policy guidance. The Fund's Ex-Post Assessments should explicitly cover staff actions and contributions to the implementation of existing and clarified policies. But in view of widespread external concerns about IMF staff accountability in SSA, a more periodic and transparent stocktaking across country programs is needed, possibly in the context of Board reviews of the PRGF—or in future reviews of the MTS.</p> <p>Management should clarify expectations—and resource availabilities—for resident representatives' and missions chiefs' interactions with local donor groups and civil society. It should monitor trends in the institution's country-level operating environment, including for aid, periodically assessing the cross-country implications for IMF policies and strategies.</p>	<p>Direct reference</p> <p>Directors welcomed the report's recommendation to establish transparent mechanisms for monitoring and evaluating the implementation of the clarified policy guidance. In this context, they agreed that existing mechanisms for follow up, such as ex-post assessments of past Fund arrangements, might be strengthened. They also noted the usefulness of broader stocktaking in the context of periodic Board reviews of the PRGF. They asked for staff proposals in these areas.</p> <p>Related reference</p> <p>Directors looked forward to management's proposals on implementing the IEO's recommendations. Some Directors suggested that the IEO may also usefully provide comments to the Board on implementation plans. Noting that several policy issues raised in the IEO report would benefit from greater clarity regarding delineation of Bank-Fund responsibilities, Directors looked forward to reviewing these issues further in the context of their forthcoming consideration of the report on IMF-Bank collaboration. In particular, they noted that greater clarity of the respective institutions' objectives, responsibility for expected deliverables, and accountability for quality would be crucial to help address several of the issues raised by both the reports</p> <p>Direct reference</p> <p>Directors also welcomed the final recommendation in the IEO report to clarify expectations under Fund policies—and resource availabilities—for resident representatives' and missions chiefs' interactions with local donors and civil society groups. They emphasized that, in particular, the concerns raised by donor groups called for improved coordination and communication, while stressing that the Fund should not itself play the role of coordinator or convener of donor activities and assistance. In addressing these challenges, in their view, attention should be paid to changing aid modalities and increasing decentralization of donor operations, while also taking into account the Fund's budget and staffing constraints.</p> <p>Most Directors recognized the particular importance of the role played by resident representatives in this context, but stressed that any further consideration of their role should be informed by a careful cost-benefit analysis, given the high costs involved and the Fund's current resource pressures.</p> <p>Directors agreed that the Fund's engagement with development partners would benefit from ensuring that institutional communications—both internal and external—are consistent with Board-approved operational policies.</p>	<p>Board-endorsed recommendations in the area of monitoring and evaluation of the implementation of clarified policy guidance will be taken forward in the context of: i) A review of the staff guidance note on ex post assessments; and, ii) The next review of the PRGF.</p> <p>Board-endorsed recommendations in the area of the role and resourcing of resident representatives' and missions chiefs' interactions with local donor groups and civil society will be taken forward in the context of: i) <i>The Role of the Fund in the PRSP and Donor Coordination Processes</i>, and ii) The IMF's Communication Strategy</p>

1/ The Management Implementation Plan was presented to the Board on June 29, 2007.

2/ The column on follow-up was provided by staff at IEO's request and has not been subject to independent review.

3/ Strengthening Public Finance Management and Fiscal Policy Response to Scaled-Up Aid: Macro-Fiscal and Expenditure Policy Challenges.