



## IMF Executive Board Concludes Review of Ex Post Assessments

Public Information Notice (PIN) No. 06/96

August 10, 2006

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On May 15, 2006, the Executive Board of the International Monetary Fund (IMF) discussed the [Review of Ex Post Assessments and Issues Relating to the Policy on Longer-Term Program Engagement](#).

### Background

The Fund's policies on longer-term program engagement (LTPE) were established in 2003 in response to the report by the Independent Evaluation Office on Prolonged Use of Fund Resources. These policies reflect the concern that, in some cases, LTPE may indicate inadequate progress in dealing with members' economic problems and may suggest a lack of effectiveness of Fund-supported programs. Part of the response to concerns about LTPE is an emphasis on good program design and well-targeted conditionality in Fund-supported programs, and effective surveillance of member countries' policies during the Article IV process.

The Fund also introduced new ex post assessment (EPA) reports to strengthen "due diligence" for countries with LTPE. Through May 15, 2006, 57 members had been identified as having LTPE, of which more than 80 percent are low-income countries, and 42 EPAs had been completed. The 2006 staff paper reviewed the EPAs that have been prepared, and issues that have emerged in the implementation of the LTPE policies.

### Executive Board Assessment

Executive Directors welcomed the first opportunity to review the policy on Longer-Term Program Engagement in light of the experience gained since its introduction in 2003. As highlighted in the Report of the Independent Evaluation Office on Prolonged Use of Fund Resources, in some cases, LTPE may signal that there has been inadequate progress in dealing with members' economic problems, and that LTPE might hinder the development of domestic institutions and could adversely affect the Fund's credibility, as well as the availability of its resources to support other members. At the same time, LTPE could be appropriate under certain circumstances, particularly when economic and structural problems are deep-seated and require many years to resolve.

Directors noted that ex post assessments have become an integral component of the Fund's overall strategy to minimize inappropriate LTPE. Underpinned by an explicit definition of LTPE, EPAs strengthen the Fund's due diligence for members identified as having long-term program relationships with the Fund. In addition to EPAs, Directors emphasized that sound program design and well-specified, targeted conditionality are key elements in ensuring that Fund-supported arrangements can meet their objectives. Effective surveillance, access policy, the Fund's charge structure, and early repurchase policies all have a role to play in ensuring the revolving character of Fund resources.

Directors welcomed the recent decline in the incidence of LTPE among countries using GRA resources. While this reflects partly the positive worldwide economic conditions, Fund policies are also an important contributing factor. Directors observed that the large majority of members having LTPE are low-income countries—where LTPE has been the norm rather than the exception. Although this should not necessarily be perceived as a serious problem, given the long-term needs of these countries for Fund support in undertaking macroeconomic and structural adjustments, Directors stressed the importance of ensuring that both GRA and PRGF resources are used in the most effective manner.

Directors had a fruitful discussion of the summary findings from the 32 EPA reports included in the exercise. They took note that, in most cases, EPAs found that the design of policies in Fund-supported programs had been consistent with the multiple macroeconomic and structural challenges that LTPE members faced, and that Fund involvement had not undermined members' institutional development. Directors noted, however, that several EPAs had been critical of the design of structural reforms, in terms of both the scope and the number of structural conditions. They underscored that, notwithstanding recent progress, efforts should continue to streamline conditionality, focusing on measures that are critical to the program's success. They emphasized that one of the key priorities of EPAs is to draw lessons on program design, including the appropriate balance between adjustment and financing, to help guide future Fund engagement. Directors also noted that issues related to ownership and World Bank-Fund collaboration remain important factors affecting program implementation.

Directors considered that, by and large, EPAs have served their purpose and have delivered balanced reflections on the Fund's longer-term program relations with its members, explaining the macroeconomic and structural issues that confronted members over the review period, and presenting a medium-term policy program and a plan for continued Fund engagement. Directors took note that country authorities, with a few exceptions, thought that EPAs described past policies and programs accurately, drew the right conclusions, and provided valuable lessons for future policies.

Noting that EPAs remain an important institutional mechanism to distill lessons and to enhance the learning culture of the Fund, Directors supported continuing the practice of preparing them. They nevertheless saw scope for some operational modifications, with a view to enhancing their quality, credibility, and effectiveness as a policy tool for the Fund and to improving their usefulness for country authorities, while at the same time streamlining the process. Directors noted that EPAs enable the staff, management, and the Executive Board to step back from the more immediate demands of program operations and assess the effectiveness of the Fund's program engagement. However, their quality and effectiveness have been uneven. Directors agreed that the value of EPA reports could be enhanced by better selectivity and focus on a few critical issues. This would improve the analytical content of the reports and also shorten them. Directors also suggested that systematic discussions in EPAs of the reasons for program success or failure and of potential exit strategies would provide further useful lessons. They generally agreed that, the Fund's budget situation permitting, the staff should expand efforts to reach out and consult with donors, outside experts, and country authorities, taking account of the specific country situation. In this context, consideration could be given to allowing the EPA-team leader to visit the country before the report is finalized on a need basis, and, in selected cases, to hiring an external consultant, while safeguarding the confidentiality of information.

Directors generally supported the proposed two changes in the definition of LTPE. First, Directors agreed that, to ensure uniform treatment of members, the definition of LTPE should be unified for Poverty Reduction and Growth Facility and General Resources Account users: members will qualify as having LTPE if they have spent seven out of ten years under Fund-supported programs. Second, Directors broadly agreed that time spent under precautionary arrangements that remain undrawn would not count toward LTPE, parallel to the treatment of members using the Policy Support Instrument. They considered that most precautionary arrangements have been used to signal authorities' commitment to a strong policy framework; being defined as having LTPE may undermine that signal. Directors agreed that, if the member draws upon a precautionary arrangement, then the period during which the arrangement is effective would count toward LTPE. The view was expressed, however, that precautionary arrangements constitute contingent liabilities and, if repeated and prolonged, raise issues regarding the revolving character of the Fund's resources.

Noting that the preparation of EPAs had been more resource intensive than originally expected, Directors discussed steps to increase their cost effectiveness. They considered that frequent EPAs on a single country are less likely to offer new insights, and therefore supported introducing an interval of at least five years between EPAs, with a few regarding this as a benchmark rather than a rule. Reducing the size of an EPA team was also suggested as another cost-saving measure.

Directors emphasized the important role EPAs should play in providing an independent and fresh perspective on Fund operations in program countries. Most Directors considered that EPAs should be a stand-alone document, prepared by an interdepartmental team, and that the team should be led by a mission chief from a department other than the home area department, while being mindful of the need to contain the cost of the overall EPA process. These Directors viewed

this approach as providing the greatest insights into program design and enhancing the independence of EPAs—a view supported by empirical evidence. However, a number of Directors, pointing to the potential cost saving, agreed with the staff proposal to give discretion to area departments and management to decide whether to prepare stand-alone EPA reports—where a reassessment of policies is needed—or to merge them with Article IV or program review reports—where Fund-supported programs have largely achieved their objectives.

Based on this discussion, the staff will prepare revised guidelines for implementation of the policy on longer-term program engagement. These guidelines will be circulated to the Board in due course.

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