# Appendix 1 Terms of Reference of the IEO

## Purpose

The Independent Evaluation Office (IEO) has been established to systematically conduct objective and independent evaluations on issues, and on the basis of criteria, of relevance to the mandate of the Fund. It is intended to serve as a means to enhance the learning culture within the Fund, strengthen the Fund's external credibility, promote greater understanding of the work of the Fund throughout the membership, and support the Executive Board's institutional governance and oversight responsibilities. IEO has been designed to complement the review and evaluation work within the Fund and should, therefore, improve the institution's ability to draw lessons from its experience and more quickly integrate improvements into its future work.

## Structure and Accountabilities

IEO will be independent of Fund management and staff and will operate at arm's length from the Fund's Executive Board. Its structure and modalities of operation must protect its operational independence—both actual and perceived.

A Director, to be appointed by the Executive Board, will head IEO. The Director's term of appointment will be for a nonrenewable term of six years. The Director's appointment may be terminated at any time with the approval of the Executive Board. At the end of the term of service, the Director will not be eligible for appointment or reappointment to the regular staff of the Fund. The Director will be responsible for the selection of IEO personnel (including external consultants) on terms and conditions to be determined by the Board with a view to ensuring that the office is staffed with independent and highly qualified personnel. The majority of full-time IEO personnel will come from outside the Fund.

## Responsibilities

The Director of IEO will be responsible for the preparation of the work program. The content of the work program should focus on issues of importance to the Fund's membership and of relevance to the mandate of the Fund. It should take into account current institutional priorities, and be prepared in light of consultations with Executive Directors and management, as well as with informed and interested parties outside the Fund. The Director will present IEO's work program to the Executive Board for its review.

IEO, through its Director, will report regularly to the Executive Board, including through the preparation of an Annual Report. It is also expected that the IMFC will receive regular reports on the activities and findings of IEO.

With respect to individual evaluations, staff, management, and—when appropriate—the relevant country authorities will be given an opportunity to comment on the assessments being presented to the Executive Board. The Director of IEO, in consultation with Executive Directors, will prepare a budget proposal for IEO for consideration and approval by the Executive Board. Its preparation will be independent of the budgetary process over which management and the Office of Budget and Planning have authority, but its implementation will be subject to the Fund's budgeting and expenditure control procedures. IEO's budget will be appended to that of the Executive Board within the Fund's Administrative Budget.

If requested by the Executive Board, IEO will provide technical and administrative support for any external evaluations launched directly by the Executive Board.

## Consultation, Publication, and External Relations

In carrying out its mandate, including in the preparation of its work program, IEO will be free to consult with whomever and whichever groups it deemed necessary, both within and outside the Fund.

IEO will have sole responsibility for drafting IEO evaluations, Annual Reports, press releases and other IEO documents, or public statements.

IEO's work program will be made public and there will be a strong presumption that IEO reports will be published promptly (within the constraints imposed by the need to respect the confidentiality of information provided to the Fund by its members), unless, in exceptional circumstances, the Executive Board were to decide otherwise.

Publication of evaluations will be accompanied by comments from management, staff, and others, including relevant country authorities, where appropriate, along with the conclusions reached by the Board in considering the evaluation report.

## Relations with Fund Staff and Management

In conducting its work, IEO should avoid interfering with operational activities, including programs, or attempting to micro-manage the institution.

## Review of Experience with IEO

Within three years of the launch of IEO operations, the Executive Board should initiate an external evaluation of IEO to assess its effectiveness and to consider possible improvements to its structure, mandate, operational modalities, or terms of reference. Without prejudging how that review would be conducted, it should be understood that the review would include the solicitation of broad-based input from outside the official community.

# Appendix 2

### Budget of the Independent Evaluation Office for FY2004 and FY2005[1]

*(In U.S. dollars)*

| | FY2004 | | FY2005 |
|---|---|---|---|
| | Budget | Actual | Approved Budget |
| Regular staff | 2,615,420 | 2,436,460 | 2,800,380 |
| Total discretionary budget | 1,261,997 | 960,048 | 1,373,100 |
| Experts and contractuals | 715,722 | 575,325 | 860,600 |
| Business travel | 343,775 | 317,058 | 350,000 |
| Outreach seminars | 190,000 | 60,572 | 150,000 |
| Other | 12,500 | 7,093 | 12,500 |
| Total | 3,877,417 | 3,396,508 | 4,173,480 |
| *Memorandum item:* | | | |
| Publications[2] | 140,000 | 82,193 | 126,667 |

[1]The fiscal year runs from May 1 to April 30.
[2]Centrally managed resources (that is, not part of the IEO budget).

# Appendix 3 Potential Candidate Topics for Future IEO Work Programs

The IEO is in the process of identifying a menu of potential topics to guide its work programs over the coming years. A preliminary list of such topics is provided in this appendix to serve as a basis for discussion. It has been derived drawing upon initial suggestions from external observers, members of the IMF Executive Board, and IMF staff. It also includes several items from the initial short list of 15 possible evaluation topics identified in 2001 that have not yet been taken up (see Chapter 1, "The IEO Work Program and Future Menu of Topics"). Following normal IEO practice, feedback on this list is being invited from a wide range of stakeholders within and outside the IMF before the final work program for each year is decided.

The size of the annual work program is decided as part of the regular discussions with the Executive Board on the IEO budget, but we have assumed for purposes of this note that the total workload will remain unchanged at its current level (that is, four evaluation projects a year, of which one will be somewhat smaller in size). We expect that the specific work program would be announced for only one year ahead (beginning with FY2006). This would allow for adjustments in priorities should circumstances change.

The choice of topics will be guided by a number of criteria, including: (i) substantial learning potential exists, especially on issues where the IMF is in the process of considering its longer-term strategies; (ii) the topic is of interest to a wide range of the IMF membership; (iii) the issue has been the subject of controversy and criticism; and (iv) the IEO has a comparative advantage in undertaking the evaluation. Selection of topics must also bear in mind the requirement, set out in the IEO's terms of reference, that it "should avoid interfering with operational activities, including programs, or attempting to micro-manage the institution."

Possible topics have been grouped by four categories, namely, the IMF's main types of activities and IMF organization. However, some evaluations would cut across several categories. Several of the suggested topics cover overlapping ground and, therefore, could be viewed as alternatives. This list does not attempt to make any judgment on the most suitable timing of possible projects. Some topics may be strong candidates for eventual evaluation but would be best taken up in several years' time after further experience has been gained with ongoing internal initiatives or when relevant country experience would be available for evaluation.

## Surveillance

- Modalities and effectiveness of bilateral surveillance in large industrial countries.
- The IMF's advice on exchange rate policy.
- Approaches to crisis prevention (or a project that focuses on assessing IMF approaches to debt sustainability).
- The IMF's role in the dissemination and assessment of various standards and codes. (The IMF's role concerning standards and codes in the financial sector is already being addressed in the ongoing FSAP evaluation. A subsequent evaluation could cover all other Reports on Standards and Codes (ROSCs) in the IMF's areas of primary responsibility or could focus on specific areas such as the effectiveness of the IMF's role in promoting enhanced Data Dissemination Standards, fiscal transparency, and so on.)
- The IMF's approach to governance issues.

## IMF Financing Instruments and Program Activities

- The IMF's role in countries emerging from conflict.
- The IMF's role in African countries, based on a small number of case studies. (This evaluation could either review all aspects of the IMF's role in selected African countries or could focus on more specific issues, such as post-HIPC completion cases or aspects of program design.)
- The role of the IMF in debt restructuring.
- Single country cases with important learning potential, including:
  - —Turkey.
  - —A low-income transition economy.

## Capacity Development

- IMF external training activities.

## IMF Organization

- World Bank–IMF collaboration. (Various approaches to such an evaluation are possible. For example, it may be useful to focus on assessing the modalities and effectiveness of collaboration in specific areas.)
- Effectiveness of internal assessment and self-evaluation processes (or a broader review of IMF approaches to "knowledge management," including how well the IMF provides relevant cross-country experience to its members).
- A number of commentators have suggested that the IEO might also address various internal organizational issues, with more or less direct bearing on the IMF's governance. Topics suggested include the issue of the diversity of the IMF staff, the role of resident representatives, or the effectiveness of integration between various IMF departments. However, some of these topics might take the IEO into areas that risk interfering in the management of the institution, which is against the IEO terms of reference, or are beyond the IEO's comparative advantage.[26] Some of these issues, including various aspects of the IMF's decision-making processes and governance, are likely to emerge in the context of other evaluations. In any event, issues involving the range of potential topics for evaluation could be revisited at the time the IEO itself is evaluated, which is expected to be toward the end of 2005.

The final list of topics will be determined on the basis of consultations with various stakeholders and taking account of the IEO's assessment of the potential benefits of each project for the institution, in light of the criteria indicated earlier. It is expected that the final list will be posted on the website in the first half of 2005.

[26]For an interesting earlier discussion on the possible division of labor between an independent evaluation office and internal assessment units such as the Office of Inspection and Audit (OIA), which conducts a variety of managerial reviews, see *Making the IMF's Independent Evaluation Office Operational,* prepared by the Evaluation Group of Executive Directors, August 7, 2000 (www.imf.org/external/np/eval/evo/2000/Eng/evo.htm).

# Appendix 4 IEO Outreach Seminars and Workshops

The IEO seeks to reach as broad an audience as possible in its outreach efforts. For budgetary reasons, for events in developed countries, the IEO has generally relied upon offers made by various partners to organize such events. In addition, a number of events in developing countries have been organized and financed by the IEO; some events discussing the PRSP evaluation were undertaken jointly with the World Bank's OED.

The following is a list of events in which IEO staff has participated.

*September 16, 2003, Tokyo, Japan*
Symposium and experts seminar on the Capital Account Crises evaluation, jointly hosted by the Institute for International Monetary Affairs and the IMF Regional Office for Asia and the Pacific.

*September 22–23, 2003, Berlin, Germany*
International Experts Meeting on IEO evaluation projects, jointly hosted by Capacity Building International, Germany (InWEnt) and the IEO. Focus was on the Prolonged Use, Capital Account Crises, and Fiscal Adjustment evaluations, with representatives invited from countries covered by the case studies for these projects.

*September 24, 2003, London, United Kingdom*
Seminar on the Fiscal Adjustment evaluation organized by the U.K. Department for International Development.

*September 25, 2003, Paris, France*
Seminar on the Fiscal Adjustment evaluation organized by the IMF Paris Office.

*November 3, 2003, Beijing, China*
Seminar on the Capital Account Crises evaluation held at the China Center for Economic Research, Peking University.

*November 11, 2003, Tokyo, Japan*
Seminar on the Capital Account Crises evaluation held at Hitotsubashi University.

*December 1, 2003, Seoul, Korea*
Symposium on the Capital Account Crises evaluation, jointly hosted by the Korea Economic Research Institute and the IEO.

*December 1–2, 2003, Addis Ababa, Ethiopia*
Mid-pipeline workshop on the PRSP/PRGF evaluation, hosted by the United Nations (UN) Economic Commission for Africa.[27]

*January 8, 2004, Washington, D.C., United States*
Workshop on future evaluation topics held at the Institute for International Economics.

*January 26–27, 2004, Santiago, Chile*
Presentation of the Fiscal Adjustment evaluation at a Latin American Conference on Public Finances, organized by the UN Economic Commission for Latin America.

*February 6, 2004, Dublin, Ireland*
Presentation on the IMF's role in the PRS approach at a seminar on "Poverty Reduction Strategies" attended by government officials and civil society representatives, and hosted by Trocaire as part of their European Union Presidency Seminar series.

*June 8, 2004, Washington, D.C., United States*
Presentation of the evaluation of Fiscal Adjustment in IMF-Supported Programs at the IMF Book Forum.

*June 24–25, 2004, Antwerp, Belgium*
Presentation of the PRSP/PRGF evaluation at a conference on "Development Cooperation and PRSP Challenges for Belgian Development Agencies" held at the University of Antwerp.

*September 9, 2004, New York City, United States*
Presentation of the PRSP/PRGF evaluation at a seminar on "The Role of PRSPs in Financing for Development," held at the UN, and jointly hosted by the Friedrich Ebert Foundation and the UN Financing for Development Office.

*September 9, 2004, New York City, United States*
Seminar on the Fiscal Adjustment evaluation organized by the UN Development Program.

[27]The Commonwealth Secretariat helped finance the participation of representatives from a number of Commonwealth countries in the workshop. Its assistance is gratefully acknowledged.

*September 19, 2004, London, United Kingdom*
Participation in high-level seminar on "The Role of the Fund," jointly organized by the U.K. Treasury and the U.K. Department for International Development.

*September 21–22 2004, Brussels, Belgium*
Presentation of the PRSP/PRGF evaluation at a workshop of officials and civil society representatives, hosted by the European Network on Debt and Development.

*September 27, 2004, Washington, D.C., United States*
Presentation of the PRSP/PRGF evaluation and discussion of the IEO work program attended by civil society representatives.

*October 4, 2004, Washington, D.C., United States*
Presentation of the PRSP/PRGF evaluation at a workshop on "Taking Stock of the PRSP Process and Looking Toward the Future" organized by InterAction.

*October 21–22, 2004, Berlin, Germany*
International Experts Meeting on IEO evaluation projects, jointly hosted by Capacity Building International, Germany (InWEnt) and the IEO. Focus was on the PRSP/PRGF and Argentina evaluations, attended by selected country representatives invited from relevant countries; a mid-pipeline discussion of the Technical Assistance evaluation was alsoheld.

*October 25, 2004, OECD, Paris, France*
Presentation of the PRSP/PRGF evaluation at the OECD Development Assistance Committee.

*October 26, 2004, London, United Kingdom*
Presentation of the PRSP/PRGF evaluation and participation in the Steering Group on Bilateral Evaluation of General Budgetary Support.

*October 26, 2004, Rome, Italy*
Symposium on the Argentina evaluation, held at the University of Rome—Tor Vergata.

*October 27, 2004, The Hague, Netherlands*
Seminar on the PRSP/PRGF and Argentina evaluations attended by European officials and private sector representatives and held at the Dutch Ministry of Finance.

*October 31, 2004, Paris, France*
Presentation of the PRSP/PRGF evaluation, at a seminar on human development hosted by the French Ministry of Foreign Affairs.

*November 4, 2004, Washington, D.C., United States*
Workshop on Structural Conditionality attended by nongovernmental organization representatives.

*November 5, 2004, San Jose, Costa Rica*
Presentation of the PRSP/PRGF evaluation at Latin American and Caribbean Economic Association meetings.

*November 9, 2004, New York City, United States*
Seminar on the PRSP/PRGF evaluation, organized by the UN Department of Economic and Social Affairs.

*November 17, 2004, Berne, Switzerland*
Seminar on the PRSP/PRGF evaluation hosted by The Berne Declaration (a Swiss nongovernmental organization).

*December 2, Tokyo, Japan*
Seminar on the Argentina evaluation, hosted by the Bank of Japan.

*December 4–6, Nairobi, Kenya*
Joint IEO/OED presentation of the PRSP/PRGF evaluation at a meeting of the African Economic Research Consortium.

*December 8, 2004, Hanoi, Vietnam*
Joint IEO/OED seminar on the PRSP/PRGF evaluation attended by representatives from Indochina.

# Appendix 5

## 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] |
|---|---|---|---|
| ***Institutional arrangements and rationale for IMF involvement*** | | | |
| 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. | 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. | 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.<br><br>For concessional resources, enhanced assessment and strategy procedures would be triggered after a country has gone through two multiyear arrangements under concessional facilities. | Definition adopted.<br><br>Semiannual reporting of the incidence of prolonged use is taking take place on this basis. |
| 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. | 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. | 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. | 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. |
| Aim to provide the international community with credible alternatives to IMF lending arrangements as a condition for other official flows. | 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. | The IMF should have effective ways to signal its views on policies to a country's donors and creditors outside a Fund-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 the IMF's role in low-income countries. Donors' and other lenders' concerns about burden sharing should not lead to inappropriate lending decisions by the IMF. | 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. More recently the Board again discussed signaling in the context of the 2004 Biennial Surveillance Review, and has discussed suggestions for a specially designed nonfinancial signaling instrument—policy monitoring arrangements—against the background of a review of the IMF's experience with signaling mechanisms. No consensus was reached, but Directors encouraged staff to continue to explore the merits of a new signaling mechanism and its possible features, and to pursue consultations with potential users, donors, and private market participants. |

## Appendix 5 *(continued)*

| IEO Recommendation | Executive Board Response[2] | Staff Task Force Recommendations and Board Response[3] | Follow-Up[4] |
|---|---|---|---|
| Programs for identified prolonged users should include an explicit exit strategy. | Directors stressed the desirability, where appropriate, of the elaboration of corrective measures as part of a conscious "exit strategy." | 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. | Policy adopted, with an explicit definition of prolonged use as the trigger (see above). |
| Introduce a differentiated rate of charge for prolonged users as a signaling device. | The Board did not support a differentiated rate of charge for prolonged users. | Not recommended. | Recommendation rejected. No follow-up necessary. |
| ***Program design*** | | | |
| Specific operational procedures should be developed to ensure greater emphasis in program design on the domestic policy formulation process, in order to maximize ownership: (i) modify procedures toward the authorities having the initial responsibility for proposing a reform program; (ii) encourage a process whereby core program elements are subject first to a policy debate within the member's own political institutions; (iii) surveillance should help create a better understanding of what would be expected if a program should become necessary; and (iv) more explicit discussion of major uncertainties and how policies would be adapted if things turn out differently. | 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. | 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. | The regular conditionality reviews will be the main vehicle for monitoring progress on this and other recommendations on program design. |
| Programs should emphasize key institutional changes and further strengthening of implementation capacity. | Directors underscored the importance of increasing the effectiveness of technical assistance in support of institutional capacity building. | 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. | Regular conditionality reviews will monitor progress. |
| Greater selectivity in program content with: (i) further strengthening collaboration with the World Bank; (ii) a more differentiated use of conditionality; (iii) greater efforts to tailor the time frame of program design to foreseeable length of reform and adjustment; and (iv) more in-depth analysis of real economy responses to key policy elements and less attention to fine-tuning financial programming. | Directors were encouraged that recommendations on the streamlining of IMF conditionality and the need for more effective collaboration with the World Bank were already being internalized as part of the review of conditionality. | The Task Force agreed with the IEO recommendations, many of which were already incorporated into the revised conditionality guidelines. Directors stressed the 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; | Principal case-by-case follow-up will be through the internal review process and Board review, with periodic assessments of progress as part of the regular conditionality reviews. |

| | | | |
|---|---|---|---|
| | | on the analytic framework for program design; on trade-offs between macroeconomic and structural policies; and on the parameters for assessing program success. | |
| 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. | Directors endorsed the recommendations. | 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. | The operational guidance note on assessment of countries with a longer-term program engagement has been posted on the Internet. As of end-June 2004, 11 ex post assessments were completed. A number of these assessments were led by staff from outside the area department.<br><br>The MONA database is being upgraded. |
| ***Surveillance*** | | | |
| 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. | Regular IMF surveillance of program countries should reassess economic developments and strategy from a fresh perspective. | 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 the timing of consultations is such as to enable them to influence policy.<br><br>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. | Progress will be monitored as part of regular biennial reviews of surveillance. At the 2004 review, Directors concluded that the quality of surveillance in program countries had improved since 2002.[6] |
| ***Internal governance issues*** | | | |
| The ability of staff to analyze political economy issues should be strengthened. | Most Directors encouraged the staff to enhance its analysis and reporting of political economy issues in staff reports. Some Directors cautioned that the 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. | 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. | Training courses in political economy have now been established. |

## Appendix 5 *(concluded)*

| IEO Recommendation | Executive Board Response[2] | Staff Task Force Recommendations and Board Response[3] | Follow-Up[4] |
|---|---|---|---|
| Procedures should be evolved to help avoid the appearance of political interference in determining whether programs deserve support. All programs should be prefaced 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. | Directors underscored the importance of distinguishing clearly between technical and political judgments and that staff should be candid in its assessment of risks. | 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. | Some indication that greater candor on risks is being adopted in presentations to the Executive Board. For example, the Managing Director's statement for the 2003 transitional program with Argentina emphasized the risks to the IMF, including the political risks to implementation. |
| 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. | Recommendations are largely management responsibility. They have important implications for internal governance and deserve careful consideration. | 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 re-establish spare staff capacity to absorb changing demands. | The Human Resources Department, at the request of management, is developing a more centralized approach to mobility. As part of an effort to ensure appropriate incentives, the Human Resources Department, in collaboration with departmental senior personnel managers, provides career counseling that emphasizes the acquisition of new competencies rather than frequent mobility. |

[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.

[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).

[3]"Conclusions of the Task Force on Prolonged Use of Fund 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/2003/020403.pdf.

[4]The column on follow-up is meant to provide factual information on additional steps taken after the Board discussion of the Task Force report. It is not intended to be an evaluation of any follow-up by management or the Executive Board.

[5]"Guidelines on Conditionality," September 8, 2002. Available at www.imf.org/External/np/pdr/cond/2002/eng/guid/092302.htm.

[6]See Public Information Notice at www.imf.org/external/np/pdr/surv/2004/082404.pdf#pin.

# Appendix 6

## 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] |
|---|---|---|
| ***Pre-crisis surveillance*** | | |
| 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. | 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 cautioned that this could be counterproductive if it causes staff to lose focus and press for policies and reforms that are not macrocritical. 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. | 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. |
| 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. | 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 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.<br><br>Many Directors were not in favor of shifting from voluntary to presumed publication of staff reports, but a number strongly supported presumed publication. | The Operational Guidance Note on Document Publication issued for staff in March 2004 notes that staff reports should be drafted independently of the authorities' publication intentions and should include the staff's candid assessment of risks, its frank views on the authorities' policy stance, and its policy advice on all areas deemed relevant.<br><br>According to the new policy that came into effect on July 1, 2004, publication of staff reports for Article IV consultations and use of IMF resources 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. |
| 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. | Directors encouraged the provision of institutional incentives to the staff to facilitate candor. | 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.<br><br>Biennial reviews of surveillance will remain the main vehicle for assessing progress. |

## Appendix 6 *(concluded)*

| IEO Recommendation | Executive Board Response[1] | Follow-Up[2] |
|---|---|---|
| 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. | 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. | There was no consensus in the Board on escalated signaling or second opinions. |
| 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. | 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. | |
| ***Program design*** | | |
| A comprehensive review of the IMF's approach to program design in capital account crises should be undertaken. In particular (i) greater attention should be paid to balance sheet interactions and their consequences for aggregate demand; (ii) program design should allow for a flexible response, in case unfavorable outcomes materialize; (iii) conventional financial programming-based conditionality should be reviewed, and possibly adapted for capital account crisis circumstances; (iv) 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 (v) there should be an agreed communications strategy, characterized by a high degree of transparency. | 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. | The forthcoming review of conditionality will include a review of program design, including the issue of parsimony and focus in structural conditionality. For the Board discussion, staff is preparing three papers on program design, which discuss, among other things, objectives and experience of various types of IMF-supported programs, recent enhancements to the IMF's analytical tool box, and policy instruments to achieve the various objectives. |
| ***The IMF as crisis coordinator*** | | |
| 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 (i) packages should not rely on parallel official financing unless the terms of access are transparently linked to IMF-supported strategy; and (ii) terms for the involvement of other institutions providing parallel financing should be specified at the outset. | 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. | |

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| ***Internal governance issues*** | | |
| The IMF should be proactive in its role as crisis coordinator. In particular (i) management should provide a candid assessment of the probability of success to the Executive Board and shareholders; (ii) management should ensure that the technical judgment of staff is protected from excessive political interference; and (iii) 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. | The Board endorsed the recommendations. Political judgments and decisions should be the exclusive domain of the Board. 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. Directors attached particular importance to the early involvement of the private sector as an integral element of crisis resolution. | The new framework for exceptional access decisions 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. |
| 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 (i) 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; (ii) resident representatives should play a more central role in surveillance and program design; and (iii) internal procedures should protect those who raise uncomfortable issues through proper channels, but consequently attract complaints from the authorities. | 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. | The Monetary and Financial Systems Department was reorganized, with steps taken to provide a center of expertise on banking crisis resolution issues.<br><br>An Internal Task Force is reviewing broad strategic issues related to the IMF's resident representative program.<br><br>The Board paper for the August 2004 Biennial Review of Surveillance 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. Recent data reported in the paper suggest that excessive staff turnover is still a problem. |

[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).

[2]The description of follow-up is intended to provide a factual indication of any additional steps taken since the Board discussion of the evaluation report. It is not intended to be an evaluation of any follow-up by management or the Executive Board. Where staff internal assessments have been made of relevant issues, these are reported but have not been subject to any independent confirmation by the IEO.

# Appendix 7

## Evaluation of Fiscal Adjustment in IMF-Supported Programs: Recommendations, Board Response, and Subsequent Follow-Up

| IEO Recommendation | Executive Board Response[1] | Follow-Up[2] |
|---|---|---|
| ***Program design and internal review*** | | |
| 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. | 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. | The Fiscal Affairs Department has prepared a guidance note to staff on how reports might best present the appropriate size, pattern, and composition of fiscal adjustment. Papers on program design to be discussed by the Board in late 2004/early 2005 will analyze the issue of growth projections. |
| 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. | Directors supported this recommendation. They welcomed management's recent initiative aimed at enhancing the effectiveness of the review process, which, inter alia, encourages early consultation between departments. | Following a recent assessment of the internal review process by a staff task force, management endorsed several changes to the process, including more systematic discussions of key issues prior to the preparation of briefing papers. |
| 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. | 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.<br><br>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 Fund in Recent Capital Account Crises 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 focus conditionality on those reforms judged critical while at the same time ensuring 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. | See below. |

***Surveillance***

The surveillance process should be used more explicitly to provide a longer-term road map for fiscal reforms and to assess progress achieved.

- 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, which 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.

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.

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 ROSC 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.

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.

The Fiscal Affairs Department is preparing revised fiscal strategy briefs in 16 pilot countries where special efforts will be made to identify critical structural and institutional fiscal issues that can then be discussed in Article IV consultations. One example is the recent 2004 Article IV staff report on Lebanon.

In many other countries the Fiscal Affairs Department is preparing revised fiscal strategy briefs.

## Appendix 7 *(concluded)*

| IEO Recommendation | Executive Board Response[1] | Follow-Up[2] |
|---|---|---|
| ***Role of the IMF in social protection*** | | |
| 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.<br><br>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.<br><br>• 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.<br><br>• 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.<br><br>• 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.<br><br>• Surveillance would routinely report on these initiatives and their progress over time. | 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-Fund 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. | During the discussions of the Biennial July 2004 Review of IMF Surveillance, the Executive Board concluded that, "in members where shocks could have a sizeable 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." An operational guidance note to reflect the conclusions of the review is under preparation. |

[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.

[2]The column on follow-up is meant to provide factual information on additional steps taken after the Board discussion. It is not intended to be an evaluation of any follow-up by management or by the Executive Board.

# Appendix 8

## 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] |
|---|---|---|
| ***Aligning incentives and objectives*** | | |
| 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.<br><br>Countries would be put more firmly in the driver's seat by determining the following for themselves:<br><br>• 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.<br><br>• What the output of these processes will be in terms of documents, with IMF process requirements minimized. | 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. | 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 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, the Annual Progress Reports will not be discussed by the IMF and World Bank Boards and will be distributed for their information only.<br><br>The requirement that the PRS strategy and the PRGF be fully consistent has been eased, with the aim of eliminating the need for minor, last-minute formal adjustments to the strategy document that only served to ensure such detailed consistency. |
| Shift the emphasis of the initiative from the production of documents to the development of sound domestic policy formulation and implementation processes.<br><br>This would involve the following elements:<br><br>• Build in greater results orientation.<br><br>• Shift the emphasis of the incentives structure to achieving substantive changes in domestic policies and processes that are objectively measured. | 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. | 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. |
| Clarify the purpose of the JSA and redefine the vehicle accordingly. | Directors called for a reformulation of the JSA with an emphasis on graduated rather than binary assessments. | 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.<br><br>The JSAN is no longer required for some country documents (e.g., PRSP preparation report). |

## Appendix 8 *(concluded)*

| IEO Recommendation | Executive Board Response[1] | Follow-Up[2] |
|---|---|---|
| ***Clarifying the IMF's role and improving its effectiveness*** | | |
| 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:<br>• IMF engagement in the PRS process.<br>• PRGF-related activities, including classifying the IMF role where the PRSP does not yet provide an operational road map.<br>• Streamline IMF documentation and Board scrutiny. | 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.<br><br>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. | The management-led Task Force on Low-Income Country Work is coordinating work on various aspects of the IMF's strategic role in low-income countries.<br><br>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. |
| 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 resources match commitments. | 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. | |
| The IMF should encourage a strengthening of the framework for establishing the external resources envelope as part of the PRS approach. | 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. | The IMF and World Bank are working with a number of countries to develop alternative macroeconomic framework that reflect the larger amount of aid needed to meet MDGs. |

[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/ieo/2004/prspprgf/eng/index.htm.

[2]The description of follow-up is intended to provide a factual indication of any additional steps taken since the Board discussion of the evaluation report. It is not intended to be an evaluation of any follow-up by management or the Executive Board.

# Appendix 9

## 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] |
|---|---|---|
| ***Crisis management*** | | |
| 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. | 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, most felt that defining and implementing such rules would be difficult or impractical. | No consensus emerged in the Board meeting. |
| 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. | 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 sustainability assessments are made. Directors indicated that they looked forward to an opportunity to assess whether further changes may be needed. | 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.<br><br>Debt sustainability analyses 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.<br><br>Some progress is being made in the Board to define the role of the IMF in solvency problem cases, with emphasis on the use of Collective Action Clauses. |
| ***Surveillance*** | | |
| 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. | 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. | The Executive Board in the August 2004 Biennial Review of Surveillance called for sharpening the focus of Article IV consultations, including deepening the discussion of exchange rate issues. In particular, it called for clear identification of the de facto exchange rate regime and use of a broad range of indicators and analytical tools to assess external competitiveness. |

## Appendix 9 *(concluded)*

| IEO Recommendation | Executive Board Response[1] | Follow-Up[2] |
|---|---|---|
| ***Program relationship*** | | |
| 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. | 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. | 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. |
| 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. | 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. | |
| ***The decision-making process*** | | |
| In order to strengthen the role of the Executive Board, procedures should be adopted to encourage (i) effective Board oversight of decisions under management's purview; (ii) provision of candid and full information to the Board on all issues relevant to decision making; and (iii) open exchanges of views between management and the Board on all topics, including the most sensitive ones. | 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. | |

[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/ieo).

[2]The description of follow-up is intended to provide a factual indication of any additional steps taken since the Board discussion. It is not intended to be an evaluation of any follow-up by management or the Board.