IMF POLICY PAPER

October 2022

PROPOSAL FOR A STAFF-MONITORED PROGRAM WITH EXECUTIVE BOARD INVOLVEMENT

IMF staff regularly produces papers proposing new IMF policies, exploring options for reform, or reviewing existing IMF policies and operations. The following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its September 30, 2022 consideration of the staff report.
- The **Staff Report**, prepared by IMF staff and completed on September 19, 2022 for the Executive Board's consideration on September 30, 2022.

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International Monetary Fund
Washington, D.C.

IMF Executive Board Approves a new Food Shock Window and an Enhanced Staff-Monitored Program with Board Involvement

FOR IMMEDIATE RELEASE

- The Executive Board of the International Monetary Fund (IMF) approved a new Food Shock Window under its emergency financing instruments.
- This new window will be available for a year to provide additional access to emergency financing for countries facing urgent balance-of-payment need related to the global food crisis.
- The Board also approved a policy change to allow countries to request Program Monitoring with Board involvement in selected Staff Monitored Programs where member countries are seeking to build or rebuild a track record to access an IMF-supported program.

Washington, DC – October 5, 2022: The IMF Executive Board approved on September 30 a new, temporary Food Shock Window (FSW) under its emergency financing instruments (Rapid Credit Facility-RCF/Rapid Financing Instrument-RFI).

A combination of climate shocks and the pandemic has disrupted food production and distribution, driving up the cost of feeding people and families. Russia's invasion of Ukraine has pushed the price of food and fertilizers even higher and exacerbated the shortages in food supplies—hurting food importers and some exporters alike.

The Food Shock Window will provide, for a period of a year, a new channel for emergency Fund financing to member countries that have urgent balance of payment needs due to acute food insecurity, a sharp increase in their food import bill, or a shock to their cereal exports. Access will be consistent with the actual balance of payments needs, and capped at 50 percent of quota, and will be additional to the current annual access limits under the RCF/RFI. The cumulative access limits under the RFI regular window and the RCF exogenous shock window, currently at 150 percent of quota, will be increased to 175 percent of quota for members that will borrow through the FSW. A review is planned by the end of June 2023.

The Executive Board also amended the policy for Staff-Monitored Programs (SMPs), to allow for Program Monitoring with Board involvement (PMB). The Executive Board's role will be limited to assessing the robustness of the member's policies to meet the program's objectives and to monitoring program implementation, including of policies aiming to facilitate the transition to an upper credit tranche (UCT) quality IMF-supported program. Countries considering an SMP would be encouraged to request a PMB if they are the subject of an ongoing concerted international effort by creditors or donors to provide substantial new financing or debt relief, or have significant outstanding Fund credit under emergency financing instruments. The PMB will be reviewed before the end of September 2023.

Executive Board Assessment[1]

Executive Directors welcomed the opportunity to discuss staff's proposals (i) to create a new temporary window under the Fund's emergency financing instruments to address the urgent balance of payments (BOP) needs related to food shock that was exacerbated by Russia's war in Ukraine, and (ii) to amend the policy on Staff Monitored Programs (SMP) to introduce an SMP with Board involvement (PMB) that will allow the Executive Board to opine under narrowly tailored circumstances on a member's program approved by management. They broadly endorsed both proposals.
Directors shared the staff's assessment that the ongoing global food shock has caused hardship and amplified the acute food insecurity in many countries. While noting that the first-best option to address BOP pressures would generally involve an Upper Credit Tranche (UCT) quality program, they agreed that this may not be feasible in some cases or not necessary in others.

Against this background, Directors welcomed the proposal to establish a new temporary food shock window (FSW) under the Rapid Financing Instrument (RFI) and the Rapid Credit Facility (RCF) to provide additional, low access emergency financing to qualifying members experiencing urgent BOP needs related to the global food shock. Access under this window will be consistent with the member's actual BOP need, capped at 50 percent of a member's quota, and available during a 12-month period. This access will be fully additional to the current annual access limits under the RFI and RCF and will increase the cumulative access limit under the regular window of the RFI and the exogenous shocks window of the RCF to 175 percent of quota. Directors also looked forward to strengthening coordination with specialized international organizations to address food insecurity.

Directors broadly supported the proposed qualification criteria that circumscribe access to the FSW to countries experiencing an urgent BOP need associated with acute food insecurity, increased costs of cereal and fertilizer imports, or cereal exports shortfalls. At the same time, a few Directors considered that other spillovers from the war would have warranted extending the qualification criteria for the new window. Directors looked forward to continued staff work to ensure that the Fund's lending toolkit responds to members' needs under current challenging circumstances.

Directors noted that as is the case for all Fund lending, including emergency financing, access under the FSW will be subject to debt sustainability and adequate capacity to repay requirements. Given concern that some countries may not be able to access the FSW, Directors encouraged staff to work with countries in need to help address the challenges they are facing in meeting those requirements. Member countries accessing the FSW would also be expected to commit to measures ensuring transparency and accountability in the spending of emergency resources, tailored to the specific circumstances of each country.

Directors noted that the FSW will raise PRGT lending in the short term—including through additional voluntary SDR channeling—and will also require further subsidy resources. They emphasized the urgent need for timely bilateral pledges of loan and subsidy resources under

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[1] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing ups can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

the ongoing first stage of the PRGT fundraising. Directors looked forward to the Annual Review of the Adequacy of PRGT Resources scheduled for Spring 2023 as an opportunity to consider contingency measures as needed, and possible steps to accelerate or expand fundraising, to accommodate the additional lending.

Directors underscored that members would be encouraged to transition to UCT-quality programs as soon as appropriate and feasible to support structural reforms to address underlying vulnerabilities and larger financing needs. In this context, they noted that concurrent use of the FSW with an SMP or, in certain cases, with a PMB, could be considered to build or re-build a track record towards a Fund arrangement that supports a UCT-quality program.

Directors also supported the proposal to amend the SMP policy to allow for limited Executive Board involvement to opine on whether the policies under the PMB are robust to meet the program's objectives and to monitor its implementation. Directors agreed that the use of the PMB would be only available to those members who (1) seek to build or rebuild a track record for a Fund arrangement that supports a UCT-quality program, and (2) would benefit from limited Executive Board involvement because of either (i) an ongoing concerted international effort by creditors or donors to provide substantial new financing or debt relief in support of the member's policy program, or (ii) significant outstanding Fund credit under emergency financing instruments at the time new emergency financing is received. While a PMB would be strongly encouraged for these members, as a form of technical assistance it would maintain a voluntary nature. As with the FSW, Directors underscored that members would be encouraged to transition to UCT-quality programs as soon as appropriate and feasible.

Directors emphasized that clear communication is critical to convey the nature of the PMB and the limited role of the Executive Board's involvement. The PMB is approved by management and monitored by staff. The Board's involvement will be limited to, in a summing up, (1) at the time of management approval, opining on the robustness of the member's policy program to meet the stated objectives of the PMB and achieve the purpose of building or rebuilding a track record toward a UCT-quality program, and (2) in the context of reviews, indicating whether it agrees with staff that the member is on track to achieve these objectives. Directors underscored that this does not amount to Executive Board endorsement of the program, which is done only if the program meets the UCT-quality standard.

Directors welcomed the proposal to review the impact of the FSW by end-June 2023, in parallel with the Board consideration of the exit strategy for temporary modifications to the Fund's access limits in response to the COVID-19 Pandemic. They also agreed with staff on a review of the PMB policy no later than end-September 2023.

The Chair's Summing Up
Proposal for a New Food Shock Window Under the Rapid Financing Instrument and Rapid Credit Facility; Proposal for a Staff Monitored Program with Executive Board Involvement
Executive Board Meeting 22/83
September 30, 2022

Executive Directors welcomed the opportunity to discuss staff's proposals (i) to create a new temporary window under the Fund's emergency financing instruments to address the urgent balance of payments (BOP) needs related to food shock that was exacerbated by Russia's war in Ukraine, and (ii) to amend the policy on Staff Monitored Programs (SMP) to introduce an SMP with Board involvement (PMB) that will allow the Executive Board to opine under narrowly tailored circumstances on a member's program approved by management. They broadly endorsed both proposals.

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Directors noted that as is the case for all Fund lending, including emergency financing, access under the FSW will be subject to debt sustainability and adequate capacity to repay requirements. Given concern that some countries may not be able to access the FSW, Directors encouraged staff to work with countries in need to help address the challenges they are facing in meeting those requirements. Member countries accessing the FSW would also be expected to commit to measures ensuring transparency and accountability in the spending of emergency resources, tailored to the specific circumstances of each country.

Directors noted that the FSW will raise PRGT lending in the short term—including through additional voluntary SDR channeling—and will also require further subsidy resources. They emphasized the urgent need for timely bilateral pledges of loan and subsidy resources under the ongoing first stage of the PRGT fundraising. Directors looked forward to the Annual Review of the Adequacy of PRGT Resources scheduled for Spring 2023 as an opportunity to consider contingency measures as needed, and possible steps to accelerate or expand fundraising, to accommodate the additional lending.

Directors underscored that members would be encouraged to transition to UCT-quality programs as soon as appropriate and feasible to support structural reforms to address underlying vulnerabilities and larger financing needs. In this context, they noted that concurrent use of the FSW with an SMP or, in certain cases, with a PMB, could be considered to build or re-build a track record towards a Fund arrangement that supports a UCT-quality program.

Directors also supported the proposal to amend the SMP policy to allow for limited Executive Board involvement to opine on whether the policies under the PMB are robust to meet the program's objectives and to monitor its implementation. Directors agreed that the use of the PMB would be only available to those members who (1) seek to build or rebuild a track record for a Fund arrangement that supports a UCT-quality program, and (2) would benefit from limited Executive Board involvement because of either (i) an ongoing concerted international effort by creditors or donors to provide substantial new financing or debt relief in support of the member's policy program, or (ii) significant outstanding Fund credit under emergency financing instruments at the time new emergency financing is received. While a PMB would be strongly encouraged for these members, as a form of technical assistance it would maintain a voluntary nature. As with the FSW, Directors underscored that members would be encouraged to transition to UCT-quality programs as soon as appropriate and feasible.

Directors emphasized that clear communication is critical to convey the nature of the PMB and the limited role of the Executive Board's involvement. The PMB is approved by management and monitored by staff. The Board's involvement will be limited to, in a summing up, (1) at the time of management approval, opining on the robustness of the member's policy program to meet the stated objectives of the PMB and achieve the purpose of building or rebuilding a track record toward a UCT-quality program, and (2) in the context of reviews, indicating whether it agrees with staff that the member is on track to achieve these objectives. Directors underscored that this does not amount to Executive Board endorsement of the program, which is done only if the program meets the UCT-quality standard.

Directors welcomed the proposal to review the impact of the FSW by end-June 2023, in parallel with the Board consideration of the exit strategy for temporary modifications to the Fund's access limits in response to the COVID-19 Pandemic. They also agreed with staff on a review of the PMB policy no later than end-September 2023.

INTERNATIONAL MONETARY FUND

PROPOSAL FOR A STAFF-MONITORED PROGRAM WITH EXECUTIVE BOARD INVOLVEMENT

September 19, 2022

EXECUTIVE SUMMARY

This paper proposes an amendment to the policy on Staff-Monitored Programs (SMPs) that would allow for limited Executive Board involvement in opining on the robustness of a member's policies to meet their stated objectives under an SMP and monitoring its implementation. To differentiate from regular SMPs, such SMPs would be called "Program Monitoring with Board Involvement" or "PMBs". Their use would be only available to those (requesting) members who, in addition to seeking to build or rebuild a track record for Upper Credit Tranche (UCT) Use of Fund Resources (UFR), would benefit from targeted Executive Board involvement because of either (i) an ongoing concerted international effort by creditors or donors to provide substantial new financing or debt relief to the member or (ii) significant outstanding Fund credit under emergency financing instruments at the time new emergency financing is received. Members meeting criterion (i) or (ii) above would be strongly encouraged to request such a PMB. The PMB would support members in designing, implementing, and monitoring policies under often complex circumstances.

The proposed policy reflects considerations regarding the Fund's current toolkit, to ensure that SMPs would remain the IMF's workhorse instrument to build or rebuild a track-record for UCT-UFR, that the Policy Support Instrument (PSI) and Policy Coordination Instrument (PCI) remain the appropriate non-financing instruments for Board-monitoring of members' programs that meet UCT-quality standards, and that the strength of Executive Board endorsement as a "signaling" tool is maintained. To that end, the proposed PMB has the benefit of being sufficiently narrow to allow for Executive Board involvement in opining on/monitoring a member's policies only in limited circumstances. This limited role would avoid undermining the broad-based use of the SMPs for track-record building and diluting the strength of the "signaling" effect that Executive Board endorsement is generally designed to entail. Clear communication regarding the Board's limited role in the PMB will also be crucial.

Approved By
Ceyla Pazarbasioglu, Bernard Lauwers, Rhoda Weeks-Brown

Prepared by the Finance Department, the Legal Department, and the Strategy, Policy, and Review Department. The team comprised Guillaume Chabert, Björn Rother, Daehaeng Kim, Lukas Kohler, Tomohide Mineyama, and Chiara Castrovillari (all SPR); Yan Liu, Gabriela Rosenberg, and Chanda DeLong (all LEG); Zuzana Murgasova, Craig Beaumont, Heikki Hatanpaa, Joseph Thornton, Gilda Fernandez, David Moore, and Beata Jajko (all FIN); Alexandra Panagiotakopoulou and Linda Bisman (SPR) provided administrative support.

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INTRODUCTION AND BACKGROUND

1. **This paper proposes an amendment to the Staff-Monitored Program (SMP) policy to allow for limited Executive Board involvement.** This proposal is tailored to members that currently are not able to engage in a Fund-supported financing program but would benefit from Executive Board involvement in narrowly tailored circumstances. These SMPs, called "Program Monitoring with Board Involvement", or "PMBs," would allow for regular structured engagement with the Executive Board to help members establish or re-establish a track record toward Upper Credit Tranche (UCT) Use of Fund Resources (UFR) and to help ensure enhanced coordination among the Executive Board, management, and staff in the Fund's engagement with the member.[1] Under the Fund's current toolkit, there is no instrument that would allow the Executive Board to monitor a member's program that does not meet the qualifications of the current non-financing monitoring instruments—the Policy Coordination Instrument (PCI) and the Policy Support Instrument (PSI), as discussed further below.[2] The proposed PMB would fill this gap.

2. **Currently, members who are seeking to establish or re-establish a track record for UCT-UFR may request staff monitoring under an SMP.** SMPs are informal agreements between national authorities and Fund staff for staff to monitor the implementation of the authorities' economic program (see Annex). Given their informal nature, SMPs are approved by Management and generally sent only for information to the Executive Board. SMPs are used to help members establish or re-establish a policy implementation track record to pave the way for UCT-UFR. They have generally been used by members with weak capacity (e.g., due to exogenous shocks, conflict, or structural reasons), no prior or limited experience with policy reforms supported by UCT-quality programs, and/or have UCT-quality programs that have gone off-track.[3]

3. **In the limited context of the Heavily Indebted Poor Countries (HIPC) Initiative, an SMP may be "endorsed" by the Executive Board.** In 2008, the Executive Board amended the HIPC Instrument to allow performance under SMPs to be counted as a track record towards reaching the HIPC Initiative Decision Point, in cases where the Board agreed with staff's assessment that the policies under the member's SMP meet UCT-quality standards.[4] The amendment was considered

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[1] The UCT-quality standard refers to a member's policies that are designed to provide a substantial justification that the member's BOP problems are being addressed and resolved, and adequate confidence to the Fund that the improvements in resolving such BOP difficulties will allow the member to repay Fund resources by the time repayments fall due (FO/DIS/21/134 and SM/20/141)

[2] Non-financing instruments, such as the Policy Coordination Instrument and the Policy Support Instrument (for LICs), also require UCT-quality policies. (BUFF/17/59 The Acting Chair's Summing Up - *Adequacy of the Global Financial Safety Net Proposal for a New Policy Coordination Instrument* and BUFF/05/131-*The Chairman's Summing Up- Policy Support Instrument and Signaling for Low-Income Countries*)

[3] See *Staff-Monitored Programs—Updated Operational Guidance Note* (SM/22/157), June 24, 2022.

[4] The IMF Executive Board's agreement with the staff appraisal is recorded in the Acting Chair's Summing Up. See Section III(2)(c) of the HIPC Instrument, Decision No. 11436 (97/10), as amended (the PRGF-HIPC Trust Instrument). See also *Proposals to Modify the PRGT-HIPC Trust Instrument–Further Considerations and Proposed Decisions* (EBS/07/152, December 21, 2007), *The Acting Chair's Summing Up* (EBM/08/04), and paragraph 5 of the

(continued)

critical to allow members who, for factors beyond their control, were unable to obtain adequate financing assurances to qualify for the other instruments listed in the HIPC Instrument that could be used to build a track record, but were implementing strong programs of macroeconomic stabilization and structural reform that were in principle sufficient for establishing a track-record to qualify for Decision Point. In approving this amendment, Directors made clear that it did not change the status of SMPs in the Fund's toolkit, which would continue to be approved by Management and monitored by staff. The Board's agreement with staff's assessment that a given SMP has policies of UCT-quality would only be used to facilitate a member's qualification for debt relief under HIPC. In that regard, the Executive Board agreed that the Board's involvement would be limited to determining that member's policies were of UCT-quality at the time of SMP approval, which would be recorded in the Summing Up.

4. Under the Fund's current toolkit, of non-financing instruments, Executive Board monitoring and endorsement is limited to programs of UCT-quality. The Executive Board currently may monitor a member's policies in the context of non-financing UCT-quality instruments—the PCI and the PSI (see Annex). These instruments are designed to signal the strength of members' policies—which must be of UCT-quality—in the general absence of a BOP need that requires financing from the Fund. The PCI/PSI both require that debt be sustainable, and that the member's program be fully financed. They include conditionality in the form of quantitative targets and structural measures, all set by the Executive Board as well as prior actions as needed. While the Executive Board engaged in monitoring of non-UCT quality policies (e.g., in the context of "enhanced surveillance")[5], in recent decades it has limited its monitoring in a non-financing context to UCT-quality policies, such as the PCI and the PSI, and the narrow HIPC-SMP "endorsement" discussed above.

5. The current approach generally reflects concerns regarding the "signaling" effect of Executive Board endorsement. Specifically, it seeks to ensure that the Fund should only be seen as providing an endorsement of a member's policies when they meet the UCT-quality standard. In 2003, the Executive Board engaged in extensive discussion regarding its role in "signaling" members' policies.[6] At that time, SMPs were used for two very different purposes: (i) general signaling to private and/or public creditors and donors, and (ii) building a track record towards a

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Staff-Monitored Programs—Updated Operational Guidance Note (SM/22/157). This approach was used in Liberia, Somalia, and Sudan.

[5] For a discussion of Enhanced Surveillance and the Fund's history of signaling more generally, see *Signaling By the Fund—A Historical Review*, available here. Enhanced Surveillance was put in place in the early 1980s in response to the need for creditors to receive a signal of Fund's members' policy strength in the absence of a Fund arrangement, for those members who had a strong track record and no foreseeable need for exceptional financing. While referred to as "surveillance", the service was technical assistance provided to members upon request under Article V, Section 2(b). Semi-annual staff reports with staff's views on the member's policy program were permitted to be released to creditors, and while the Executive Board assessed the strength of members' policies in Board discussions, the Summing Up was not provided to creditors so as to avoid any on/off signals for bank lending decisions, including any perception of the Fund's endorsement of the member's program. The procedure was used only six times, the last in 1993.

[6] See Id. See also *The Acting Chair's Summing Up: Signaling Assessments of Members' Policies*, Executive Board Meeting 03/5, January 29, 2003, and *Signaling Assessments of* Members' Policies, SM/03/02.

Fund-supported program. Directors expressed concerns that the SMP's close formal resemblance to Fund supported programs carried the risk that signaling SMPs would be misconstrued as carrying the Fund's seal of approval, and were thus not well suited for situations where members required monitoring by Fund staff to provide assessments of their economic policies to official and/or private creditors. The Executive Board thus decided to eliminate "signaling" SMPs and limited the use of SMPs solely for track record building purposes, reflecting the view that in cases where SMPs are used to build a policy track record toward a Fund arrangement, the risk of misinterpretation is relatively low.

6. **In designing the proposed PMB, staff recognized the importance of preserving the broad-based use of the SMP for track-record building purposes.** The SMP has for years been the primary modality for members to build or rebuild track record toward UCT-UFR.[7] As with the limited carve-out for HIPC discussed above, the proposed PMB would not change the status of SMPs in the Fund's toolkit: SMPs (also PMBs, as an SMP subset) would be approved only for members to build or re-build a track record and would retain their informal nature, with the program design remaining within the sole purview of Management and staff. The PMB, under the broader umbrella of the SMP policy, can provide country members with broad macroeconomic policy support, closely integrated with capacity development assistance, and can support members in designing, implementing, and monitoring policies under often complex circumstances.

7. **The scope of the amendment to the SMP policy would be very limited.** The proposed PMB would only be used in those situations where a member seeks to build or rebuild a track record for UCT-UFR and where:

- The member needs to have a policy dialogue with the Fund to unlock financing from donors and/or the international creditor community. This would account for situations where the international community—in the context of an ongoing international concerted effort—is in the process of providing significant financing/debt relief in support of a member's policy program and requires the Executive Board's assessment of policy strength to achieve the program objectives; or

- The member has significant Fund credit outstanding under emergency financing instruments at the time it obtains further emergency financing, to address potential safeguards concerns.

8. **Staff also recognized the criticality of ensuring the continued use of the PSI and the PCI for those members whose policies meet the UCT-quality standard.** As discussed above, the Fund already has well-established policies for non-financing monitoring instruments (the PCI/PSI) to signal UCT-quality strength of a member's policies. The PMB should not undermine the use of these instruments. Therefore, staff proposes that under the PMB, the Executive Board would not set

[7] An SMP is the preferred option to establish or re-establish a track record prior to moving to, or resuming UFR, while other ways are also possible.

conditionality or endorse a member's policy measures, in line with the current SMP guidance, as the Executive Board only does this for UCT-quality instruments (financing or non-financing).

9. The circumscribed nature of the PMB would thus minimize the dilution of the "signaling" effect intended from the Executive Board's endorsement of members' policies. The Executive Board's role in the PMB would be limited to, in the summing up, opining on whether the member's policies, including the conditionality, as presented to the Board, are robust enough to meet the stated PMB objectives and monitoring program implementation. It would neither set conditionality nor complete reviews as under UCT-quality instruments. To avoid the risk of confusion, clear communication will be critical to emphasize the more limited role of the Executive Board in the PMB and, in particular, that the Executive Board's assessment of a member's policy strength would be against the stated objectives of its program and the overall objective of building or rebuilding a track record towards UCT-UFR, not the UCT-quality standard.

STAFF PROPOSAL

10. Given the above considerations, staff would propose that the PMB have the following key features:

- **Role of the Executive Board:** As with the regular SMP, the PMB would continue to be approved by management and monitored by staff for purposes of building or rebuilding a track record. However, drawing from the HIPC precedent, the PMB would allow the Executive Board to opine on whether the policies under the PMB approved by management are robust to meet the program's objectives, and monitor its implementation. This would entail Executive Board discussion of the PMB at the time of management's approval of the PMB and in the context of periodic reviews. At PMB approval, the Executive Board would, in a summing up, indicate its assessment of the robustness of the member's policy program to meet the stated objectives of the PMB and achieve the purpose of building or rebuilding a track record toward UCT-UFR. In the context of reviews, it would opine on, in a summing up, whether it agrees with staff that the member is on track to achieve the objectives of the PMB.[8]

- **Availability:** A PMB would only be available to members that seek to establish or re-establish a track record for UCT-UFR, and either (i) are benefiting from an ongoing concerted international effort by the international community to provide substantial new financing/debt relief in support of the member's policy program, or (ii) have significant Fund credit outstanding under emergency financing instruments at the time they obtain new emergency financing.

- **Criteria:** Staff proposes to use the following criteria to assess the conditions (i) and (ii) above.
    - With respect to criterion (i), whether there is an "ongoing concerted international effort by the international community to provide substantial new financing/debt relief" would be a matter of judgment for staff and management. In exercising this judgment, consideration

[8] The Executive Board assessment would be incorporated into the Press Release.

would be given to factors such as (i) the extent to which Fund members have expressed their commitment to provide financing/debt relief to a member;[9] and (ii) whether the amount of such financing/debt relief, in total, would be likely to restore debt sustainability and close financing gaps in the context of a future Fund-supported program.

  - With respect to criterion (ii), such criterion would be met if a member receives new emergency financing under the Rapid Credit Facility or the Rapid Financing Instrument, which brings total credit exposure outstanding from emergency financing at or above 100 percent of quota arising. By setting the threshold at 100 percent of quota, the Board can opine on and monitor under the PMB a country that receives significant Fund emergency financing beyond the cumulative access limit before the temporary increase during the COVID-19 pandemic. [10]

- **Program Design:** Program design would continue to be in line with current SMP guidance. As with the SMP, the scope of an PMB would be tailored to the underlying objectives of the authorities' program taking into account a member's specific circumstances, consistent with the overall objective to establish or re-establish a satisfactory track record. In this vein, an PMB could be targeted towards key macroeconomic or financial issues, or it could entail a broader program of macroeconomic and financial reforms across sectors.

- **Voluntary but encouraged:** While the proposed PMB would continue to be technical assistance and would thus be voluntary for both the Fund and the member, it would be strongly encouraged for those members which are seeking an SMP to build a track-record for UCT-UFR and also meet either criterion (i) or (ii) above. Given its voluntary nature, where a member does not wish to request the PMB, it could not be forced to do so in line with other technical assistance.[11]

- **Clear Communication:** As discussed above, clear communication to distinguish the PMB both from the SMP and Board-monitored non-financing instruments (the PCI and the PSI) would be critical. In that regard, communications after the Board discussion of the PMB would clearly indicate (i) the nature of the PMB, including that it is monitored by staff and approved by Management; and (ii) the limited nature of the Board's involvement, namely that it has only assessed the robustness of the policies to meet the objectives of the program and achieve the overall track record building purpose of the PMB, and whether the member is on track to meet

[9] This would take into consideration the strength of their commitments. Drawing on the standards set in the context of other Fund policies, "specific and credible" assurances of financing/debt relief would be considered a strong signal of support.

[10] Under the Fund's framework for Post Financing Assessments (PFA), members are expected to engage in PFA where total outstanding credit exceeds certain thresholds and the member is not implementing, inter alia, a Fund arrangement or an SMP. The Managing Director also has flexibility to not recommend PFA where an SMP is expected to be in place within the next six months. Given that the PMB is a subset of the SMP, the exceptions in the PFA policy for SMPs would apply equally to PMBs.

[11] However, the PMB could have a bearing on the willingness of creditors and donors to provide new financing/debt relief.

the stated objectives of the PMB. Consistent with the current approach to SMPs, publication of PMB staff reports would be voluntary but presumed.

11. Staff would propose that the PMB policy would be effective upon the Executive Board's endorsement and reviewed no later than end-September, 2023. Moreover, members who currently have SMPs but meet the PMB criterion (i) or (ii) could avail themselves immediately of the new policy. The PMB, as a subset of SMPs, would continue to be guided by the SMP Guidance Note. Given the particular nature of the PMB, experience with the policy would be reviewed no later than end-September 2023, to determine whether the PMB continues to be a valuable addition to the Fund's toolkit, and revise or eliminate as needed in light of circumstances at the time.

ISSUES FOR DISCUSSION

12. Staff would welcome Executive Directors views and comments on the following issues:

(i) Do Directors agree with the set of circumstances under which the proposed PMB would become available to members and the limited role of the Executive Board in the PMB outlined in the paper?

(ii) Do Directors agree that to safeguard the Fund's current toolkit, clear communication is critical to distinguish the PMB from other monitoring instruments, as outlined by staff above, and that experience with the PMB should be reviewed no later than end-September 2023?

Annex I. Non-Financing/Monitoring Instruments

Under the Fund's current toolkit, there are three non-financing instruments used to monitor member's policies. The Staff-Monitored Program (SMP) is for track-record building, and is staff-monitored and approved by Management. The PCI and PSI are signaling instruments, approved by the Executive Board. Key features are as follows:

Instrument	**Purpose**	**Eligible Members**	**UCT-Quality**	**Program Approved by:**	**BOP Need**	**Duration**
Staff-Monitored Program	Track-Record Building	All	Non-UCT (*except for HIPC track record)	Management (*Board's endorsement of UCT-quality in the context of HIPC)	None required	Generally 9–18 months (longer durations not precluded)
Policy Coordination Instrument	Signaling	All	Yes	Board	BOP need may exist, but would be expected to be met through financing from non-Fund sources	Normally 2–3 years (min. 6 months–4 years)
Policy Support Instrument	Signaling	PRGT-eligible members	Yes	Board	BOP need may exist, but would be expected to be met through financing from non-Fund sources At time of approval, must be in a *broadly stable and sustainable macroeconomic position.*	1–4 years (can be extended to up to 5 years)

Annex II. Enterprise Risk Self-Assessment

Enterprise Risk Self-Assessment[1/]

Risk Name	Risk Description	Risk Type	Risk Mitigation	Risk Timeframe	Residual Risk Assessment	
Risk according to the Enterprise risk taxonomy	*The nature of the risk*	*Risk to the Fund without the proposal – or – Risks to the Fund that will be incurred as a result of the proposal*	*Description of mitigation of new risks incurred by the proposal*	*Expected timeframe each risk is most likely to materialize*	*Risk assessed according to the Enterprise risk scales*	
					Likelihood	*Impact*
Member engagement	Under the Fund's current toolkit, there is no non-financial instrument that would allow for the Executive Board involvement in opining/monitoring a member's program that does not meet the qualifications of the PSI and PCI.	Risk of inaction		Current (0–1 years)	Near Certain	Critical
Member engagement	Board being seen as endorsing policies that fall short of UCT-quality could dilute the signaling effect of Board endorsement of UCT-quality programs.	Risk incurred by proposal	Mitigation: The Board's role will be limited to opining on the robustness of a member's policies to meet their stated objective under an SMP and monitoring its implementation. The Executive Board's assessment of a member's policy strength would be against the stated objectives of its program and the overall objective of building or rebuilding a track record towards UTC-quality standard.	Current (0–1 years)	Possible	Moderate

Enterprise Risk Self-Assessment[1/] (concluded)

Risk Name	**Risk Description**	**Risk Type**	**Risk Mitigation**	**Risk Timeframe**	**Residual Risk Assessment**	
Risk according to the Enterprise risk taxonomy	*The nature of the risk*	*Risk to the Fund without the proposal* *– or –* *Risks to the Fund that will be incurred as a result of the proposal*	*Description of mitigation of new risks incurred by the proposal*	*Expected timeframe each risk is most likely to materialize*	*Risk assessed according to the Enterprise risk scales*	
					Likelihood	*Impact*
Reputational	Could undermine the utility of the SMP as a workhorse track record building instrument.	Risk incurred by proposal	Mitigation: Clear communication to emphasize the narrowly specified circumstances for the use the PMB and the limited role of the Executive Board will minimize the dilution of the Board's signaling effect.	Current (0–1 years)	Possible	Moderate

1/ This ex-ante risk assessment is performed by staff with guidance from ORM. It is used to identify and assess enterprise risks to the Fund that may arise without the proposal and/or be incurred upon the approval of the proposal.