

INTERNATIONAL MONETARY FUND

**Implementation Plan in Response to Board-Endorsed Recommendations Arising from
the Independent Evaluation Office Report on
The IMF and Aid to Sub-Saharan Africa**

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Contents

I. Introduction 2

II. IEO Recommendations and Board Reactions 3

III. Implementation Plan 7

Table

Table 1. IEO Recommendations on Fund and Aid to Sub-Saharan Africa, Executive Directors' Responses, and Modalities for Implementation 4

I. INTRODUCTION

1. **This paper sets out an implementation plan that responds to the IEO report on the Fund and Aid to Sub-Saharan Africa** (the IEO Report).¹ It sets out the recommendations made in the IEO Report and the view of the Executive Board on them (Section II), and outlines the various work streams that are being undertaken to respond substantively to the recommendations endorsed by the Board (Section III). The paper also estimates the cost of the first stage of the Fund's response to the IEO Report, while costings for proposals in the implementation phase will be provided in the context of forthcoming Board papers. Finally, the paper solicits Directors' feedback.

2. **The IEO report has to be considered in the context of the changing circumstances of low-income members and an already evolving Fund engagement.** Low-income members' circumstances and needs have changed in recent years. Improved macroeconomic outcomes, multilateral and bilateral debt relief initiatives and the prospect of increased aid flows, along with globalization and sustained trade and capital flows have all contributed to an improved environment for many low-income countries. In other cases, conflict and negative terms-of-trade shocks have increased vulnerabilities. As a result, debate about the Fund's role in low-income countries has been extremely active both within the Fund and beyond. The Fund responded to this debate through the Medium-Term Strategy (MTS), which provided a new framework within which to support better its low-income members.

3. **The MTS focused the Fund's engagement in low-income countries.** In responding to the changing circumstances of our members in recent years, the MTS identified a number of areas for improvement, and began to address a number of issues subsequently raised in the IEO Report, which surveyed the period from 2000 to 2005. As such, implementation of the MTS, along with the recently initiated Fund-Bank country-level pilots on financial sector issues, natural resources, and public financial management, and work on Bank-Fund collaboration,² will also serve to address the Board-endorsed recommendations of the IEO Report. Building on previous discussions on the role of the Fund in low-income members³, the MTS seeks to improve the effectiveness of the Fund's engagement in low-income countries, in particular by developing a deeper, but more focused form of engagement. The IEO Report is a

¹ *The IMF and Aid to Sub-Saharan Africa*, Independent Evaluation Office, 2007. This paper is in line with the framework established following the *External Evaluation of the Independent Evaluation Office (IEO)*, see *PIN/06/67*.

² In response to *The Report of the External Review Committee on Bank-Fund Collaboration*, February 2007 (<http://www.imf.org/external/np/exr/erc/index.htm>).

³ See in particular, *PIN/04/110—The Role of the Fund in Low-Income Member Countries*.

valuable input into the Fund’s ongoing efforts to adapt and clarify its support of low-income members. It provided timely and thought provoking insights into key issues, and the discussions on it have been helpful in shaping the nature and substance of our proposed approaches in a number of areas.

II. IEO RECOMMENDATIONS AND BOARD REACTIONS

4. **The IEO Report made a number of recommendations regarding the Fund’s work in dealing with issues related to aid flows in Sub-Saharan Africa** (see Table 1). The IEO cited the “...critical importance of operationalizing institutional change...” as being the overarching lesson of the evaluation. Consistent with this, its recommendations focused on the need for:

- A. a reaffirmation of, and clarity on, various Fund policies relating to the handling of aid inflows;
- B. transparent monitoring and evaluation of the implementation of policies in this area; and
- C. clarification of the role, and resourcing, of resident representatives’ and mission chiefs’ outreach activities.
- D. In addition, the IEO Report stressed the need for both stated Fund policy and its implementation to be consistent and clearly communicated within the institution and to the outside.

5. **In discussing the IEO Report, Directors welcomed its findings.**⁴ They considered the IEO Report to be especially timely in light of the work on the role of the Fund in low-income countries, emanating in part from the MTS. They also concluded that the IEO Report’s findings and recommendations would provide important inputs into efforts to “...clarify the institution’s mandate and policies for helping Sub-Saharan Africa, and low-income countries more generally, achieve growth and poverty reduction.” They were encouraged by the finding that macroeconomic performance in Sub-Saharan African countries had improved over the past decade. While recognizing the centrality of the authorities’ own efforts in delivering better outcomes, they also noted the role played by exogenous factors and that the Fund had contributed through its policy advice and actions. Directors generally agreed that, notwithstanding this positive contribution, there remained considerable scope to make further improvements in the Fund’s work in these countries.

⁴ See *The Acting Chairman’s Summing Up in An Evaluation of The IMF and Aid to Sub-Saharan Africa* (<http://www.ieso-imf.org/eval/complete/pdf/03122007/6-sumup.pdf>).

6. **Directors also generally supported the IEO Report’s recommendations.** Table 1 sets out the IEO Report’s recommendations, Directors’ responses to them and the modalities for implementation. The modalities for implementation are expanded upon in the next section and progress in implementation will be reported specifically in the “periodic monitoring report” required following the discussion of the external evaluation of the IEO.⁵

Table 1. IEO Recommendations on Fund and Aid to Sub-Saharan Africa, Executive Directors’ Responses, and Modalities for Implementation		
IEO Recommendations	Executive Directors’ Responses	Follow-up and Modalities for Implementation
<p>A The Executive Board should reaffirm and/or clarify IMF policies on the underlying performance thresholds for the spending and absorption of additional aid, the mobilization of aid, alternative scenarios, PSIA, and pro-poor and pro-growth budget frameworks.</p> <p>Based on these reaffirmations and/or clarifications, management should provide clear guidance to staff on what is required, encouraged, permitted, and/or prohibited—including in working with the World Bank and other partners—and ensure effective implementation and results.</p>	<p>A.1 Directors generally agreed that considerable scope remains for further improvements...and that any improvements in the Fund’s engagement in low-income countries should, in line with the MTS, continue to be focused on its core mandate</p>	⇒ All strands
	<p>A.2 Directors confirmed the importance of accommodating higher aid flows through higher spending and net imports, provided that this would not jeopardize macroeconomic stability.</p>	⇒ The Role of the Fund in Managing Aid Inflows and Impact on the Design of Fund-supported Programs.
	<p>A.3 ...they considered that this approach should continue to be implemented on a case-by-case basis.</p>	⇒ All strands
	<p>A.4 ...most Directors confirmed that distributional policies generally lie outside the Fund’s core mandate and that poverty and social impact analysis (PSIA) should be conducted by other agencies in the context of the PRSP process</p>	⇒ The Role of the Fund in Managing Aid Inflows and Impact on the Design of Fund-supported Programs. ⇒ Follow-up to Malan Report.
	<p>A.5 Directors noted that PSIAs have not systematically supported PRGF program design, and emphasized the importance of improving Fund collaboration with development partners, in particular the World Bank, to take these issues into account</p>	⇒ The Role of the Fund in Managing Aid Inflows and Impact on the Design of Fund-supported Programs, ⇒ The Role of the Fund in the PRSP and Donor Coordination Processes ⇒ Follow-up to Malan Report.

⁵ See footnote 1.

	<p>A.6 On other aid related issues Directors offered a range of views on:</p> <ul style="list-style-type: none"> - developing alternative aid scenarios - preparing scenarios that illustrate the macroeconomic challenges of scaling up aid in the context of the PRSP and, when available, based on estimates by others of additional resources needed for the MDG - though these should be limited to assessing the consistency of additional aid flows with macroeconomic stability <p>In addition, Directors supported the report's recommendation on the need for further clarification of Fund policy on several aid-related issues: e.g., aid mobilization, alternative scenarios, PSIA, and pro-poor budget frameworks.</p>	<p>⇒ The Role of the Fund in the PRSP and Donor Coordination Processes</p> <p>⇒ The Role of the Fund in Managing Aid Inflows and Impact on the Design of Fund-supported Programs,</p> <p>⇒ Fiscal Policy Response to Scaled-up Aid.</p> <p>⇒ Follow-up to Malan Report.</p>
	<p>A.7 Directors generally considered that the World Bank and other MDBs should be the lead agencies in providing advice related to expenditure composition issues.</p>	<p>⇒ Fiscal Policy Response to Scaled-up Aid.</p> <p>⇒ Follow-up to Malan Report.</p>
	<p>A.8 Directors concurred on the need for improved transparency and clear communications by the Fund on its stance regarding the use of aid, and on the trade-offs involved.</p>	<p>⇒ The IMF's Communication Strategy.</p>
	<p>A.9. Directors agreed that the Fund's engagement with development partners would benefit from ensuring that institutional communications—both internal and external—are consistent with Board-approved operational policies.</p>	<p>⇒ The Role of the Fund in the PRSP and Donor Coordination Processes</p> <p>⇒ The IMF's Communication Strategy.</p>
<p>B Management should establish transparent mechanisms for monitoring and evaluating the implementation of the clarified policy guidance.</p> <p>The IMF's ex post assessments should explicitly cover staff actions and contributions to the implementation of existing and clarified policies.</p> <p>But in view of widespread external concerns about IMF staff accountability in SSA, a more periodic and transparent</p>	<p>B.1 Directors welcomed the report's recommendation to establish transparent mechanisms for monitoring and evaluating the implementation of the clarified policy guidance.</p> <p>B.2 ...existing mechanisms for follow up, such as ex-post assessments of past Fund arrangements, might be strengthened and broader stocktaking in the context of periodic Board reviews of the PRGF.</p>	<p>⇒ All strands</p> <p>⇒ Review guidance note on ex-post assessments</p> <p>⇒ 2010 Review of PRGF</p>

<p>stocktaking across country programs is needed, possibly in the context of Board reviews of the PRGF—or in future reviews of the MTS.</p>		
<p>C Management should clarify expectations—and resource availabilities—for resident representatives’ and missions chiefs’ interactions with local donor groups and civil society.</p> <p>It should monitor trends in the institution’s country-level operating environment, including for aid, periodically assessing the cross-country implications for IMF policies and strategies.</p>	<p>C.1 Directors also welcomed the final recommendation in the IEO report to clarify expectations under Fund policies—and resource availabilities—for resident representatives’ and missions chiefs’ interactions with local donors and civil society groups</p>	<p>⇒ The Role of the Fund in the PRSP and Donor Coordination Processes ⇒ The IMF’s Communication Strategy. ⇒ Medium-Term Budget</p>
	<p>C.2 ...attention should be paid to changing aid modalities and increasing decentralization of donor operations, while also taking into account the Fund’s budget and staffing constraints. Directors recognized the particular importance of the role played by resident representatives in this context, but stressed that any further consideration of their role should be informed by a careful cost-benefit analysis</p>	<p>⇒ The Role of the Fund in the PRSP and Donor Coordination Processes ⇒ Medium-Term Budget</p>
	<p>C.3 Directors emphasized that, in particular, the concerns raised by donor groups called for improved coordination and communication</p>	<p>⇒ The Role of the Fund in the PRSP and Donor Coordination Processes.</p>
<p>D The External Relations Department should ensure the consistency of institutional communications with Board-approved operational policies and IMF-supported operations.</p>	<p>D.1 Directors noted that a common theme in the IEO recommendations is the need for improved and more realistic Fund communications. They were concerned over the disconnect between the Fund’s communication on aid and poverty reduction policy and what is the actual experience at the country level.</p>	<p>⇒ The IMF’s Communication Strategy.</p>
	<p>D.2 Directors supported the report’s call for greater clarity in the Fund’s external relations on what the Fund can and cannot do in its low-income country work. They also underscored the importance of a stepped-up internal communications effort across the Fund to align better staff’s ongoing work with institutional priorities.</p>	<p>⇒ The IMF’s Communication Strategy.</p>
	<p>D.3 Improvements in coordination and communication would need to be implemented in a strategic manner</p>	<p>⇒ All strands</p>

III. IMPLEMENTATION PLAN

7. **Given the breadth of the recommendations made in the IEO Report, the proposed implementation plan builds on a number of distinct, but complimentary, work streams.**

Table 1 gives a detailed mapping between recommendations, Board endorsement and work streams. The current work plan already includes work streams that touch on many issues raised in the IEO Report. By building on these efforts, the Fund seeks to respond substantively, and in a timely fashion, to the specific recommendations endorsed by the Board.

8. **Board-endorsed recommendations focused on the need for clarification in four broad areas, including the need for improved communication regarding the Fund's policies and implementation in low-income members** (see Table 1 for detail):

A. Fund policies relating to the handling of aid inflows. Board-endorsed recommendations in this area will be taken forward primarily in the context of two related sets of papers on program design and fiscal policy, both of which benefited from the discussions on the findings of the IEO Report:

- i. *The Role of the Fund in Managing Aid Inflows and Impact on the Design of Fund-supported Programs* (slated for Board discussion in June/July) will seek to clarify the Fund policy on issues related to the spending and absorption of additional aid, the mobilization of aid, alternative scenarios, and pro-poor and pro-growth budget frameworks;
- ii. *Fiscal Policy Response to Scaled-up Aid* (and accompanying background papers⁶), (slated for Board discussion in June/July alongside the paper above) will provide the framework for the Fund's approach to the fiscal challenges of increasing aid flows.

B. Monitoring and evaluation of the implementation of clarified policy guidance. Board-endorsed recommendations in this area will be taken forward in the context of:

- i. A review of the staff guidance note on ex post assessments to ensure that they adequately reflect the need to cover staff actions and contributions to the implementation of existing and clarified policies;
- ii. The next review of the PRGF, which is currently scheduled for 2010. This review could be brought forward if necessary, though

⁶ *Fiscal Policy Response to Scaled-Up Aid: Strengthening Public Finance Management and Fiscal Policy Response to Scaled-Up Aid: Macro-Fiscal and Expenditure Policy Challenges.*

consideration would need to be given to the resource cost of such an acceleration.

C. The role and resourcing of resident representatives' and missions chiefs' interactions with local donor groups and civil society. Board-endorsed recommendations in this area will be taken forward in the context of:

- i. *The Role of the Fund in the PRSP and Donor Coordination Processes.* This paper, which is slated for Board discussion in the coming months, will make recommendations relating to the role of resident representatives and mission chiefs in interacting with donors and civil society groups. It will consider the appropriate means of involving Fund staff in PRSP and donor coordination and identify more clearly the areas of responsibility and accountability. It will clarify the parameters of the Fund's involvement with LICs in the PRSP and donor collaboration processes and in supporting their efforts to reach the MDGs; in managing aid inflows and resource fluctuations more generally; and in supporting macroeconomically critical structural reforms;
- ii. The IMF's Communication Strategy [see D (i)] will address broader issues related to the Fund's outreach activities in low-income members.

D. The need for Fund policy and its implementation to be consistent and communicated clearly within the institution and outside. Board-endorsed recommendations in this area will be taken forward in the context of:

- i. *The IMF's Communications Strategy:* This strategy, which will be discussed by the Board in June, will address various communications issues including ways to better integrate communications with operations and to align better internal communications with institutional priorities and policies (two key communications areas identified by the IEO Report). The Board discussions of the above mentioned papers (see paras. 8 a, b, and c) will provide guidance on the IMF's advice on aid flows, which will contribute to efforts to communicate more clearly on the Fund's policies in low-income countries. Going forward, particular attention will be placed on ensuring that our communication is aligned not only with policies but also with their implementation. Internal communication will be further enhanced through the refinement, as appropriate, of staff guidance in light of the aforementioned policy discussions.

9. **The work outlined above will be complemented by other initiatives in taking forward recommendations endorsed by the Board.** For example, recent efforts by Fund and Bank Managements seek to pilot new country-level initiatives on financial sector issues, natural resources, and public financial management. Plans are being developed to stage a joint Bank-Fund staff retreat to further the dialogue on collaboration issues. This dialogue will help to clarify the work of the Bank and Fund teams at the country level, including with regard to poverty and social impact analysis (PSIA). Work on Fund assistance to post-conflict countries and fragile states will help clarify Fund policy in such sensitive cases. Enhanced training and guidance for mission teams and resident representatives on fiscal issues such as PFM systems and reforms should help ensure that the lessons of the work on Fiscal Policy Response to Scaled-Up Aid are effectively disseminated.

10. **It is estimated that the cost of responding to the IEO Report is some US\$1.3mn (approximately 6 staff years).** This represents mostly the cost of producing the four policy papers (and associated documents) identified in paragraph 8 above, but also includes some US\$0.25 million attributable directly to the cost of producing the initial staff and management response to the IEO Report, along with this paper and outreach efforts. The costs fall mainly to PDR, FAD, EXR, and AFR. As initiation of work on some of the policy papers above predates Board consideration of the IEO Report, it is not possible to isolate precisely the additional costs attributable to implementing Board-endorsed recommendations, and hence the estimate represents an upper bound. Taken together, these elements represent the first stage in the Fund's response to the IEO Report. The second stage, which will follow Board decisions on the papers outlined above, will be the actual implementation phase. Costings for the implementation phase, i.e., for each of the specific recommendations endorsed by the Board, will be provided in the forthcoming papers, though these costings will be tentative. Given that these different strands will inevitably be discussed at different times, care will be needed to ensure that the overall resource impact of the proposals that are supported by the Board are consistent with the Fund's medium-term budget framework.

11. **Finally, Directors' feedback on the implementation plan set out above would be welcome.**⁷

⁷ Seeking such feedback, and costing Board-endorsed recommendations (paragraph 10), are both required in the framework established following the *External Evaluation of the Independent Evaluation (IEO)*.