

THE ACTING CHAIR'S SUMMING UP

EVALUATION REPORT OF POVERTY REDUCTION STRATEGY PAPERS AND THE POVERTY REDUCTION AND GROWTH FACILITY BY THE INDEPENDENT EVALUATION OFFICE

Executive Board Meeting
July 21, 2004

General Remarks

Executive Directors welcomed the timely report of the Independent Evaluation Office (IEO). The report has a number of constructive recommendations, which will require careful further follow-up and implementation with a view toward strengthening the PRSP approach, clarifying the Fund's role in this approach, and enhancing the Fund's advice and assistance to low-income countries. More broadly, the IEO report is a valuable contribution to the ongoing review of how to improve the effectiveness of the Fund's engagement with low-income countries.

Most Directors considered that the PRS approach has had a positive impact on economic policy design and implementation in low-income countries. It has helped to improve country ownership, enhance participation, and provide better-quality strategies, and it is generally evolving in the right direction. At the same time, Directors stressed that substantial scope exists for better implementation of the current approach, based on the evolving experience and the directions for change identified in the IEO report. In this context, Directors noted that the report found that PRSPs suffer from a multiplicity of objectives, which contribute to significant weaknesses in their implementation, observing that: the approach is perceived to be externally driven; participation sometimes has been narrow, particularly in formulation of the macroeconomic framework underlying the PRSP; and that PRSPs often have lacked operationally viable strategies. At the same time, Directors cautioned against drawing premature conclusions about the ultimate success of the PRSP approach based on only five years of experience with its implementation. It was noted that resolving the mismatch between the ambitions of this approach and what can realistically be achieved will continue to remain a challenge. In light of this, the

staff should draw on the IEO's recommendations in various aspects of its work on the role of the Fund in low-income countries to deepen and refine its analysis on ways to enhance the effectiveness of the PRSP approach. In particular, the upcoming Annual Bank-Fund PRSP Progress in Implementation Report, and forthcoming discussions on the role of the Fund in low-income countries, will offer such opportunities.

Directors agreed that the report provides a useful perspective on the PRGF. They were encouraged that PRGF-supported programs increasingly are being aligned with the country-owned PRSP, even though such alignment is still somewhat limited. They welcomed the finding that the design of these programs has improved in a number of ways. For example, fiscal targets have become more flexible to accommodate increased expenditures on pro-poor programs, and there is no evidence of an excessive disinflationary bias. At the same time, Directors noted the challenge of basing Fund-supported programs on a full understanding of micro-macro linkages, which are by their nature quite complex. Directors also considered that more should be done to integrate the results of poverty and social impact analysis. They noted that, as is the case with the PRSP process, the Fund's adaptation of its programs and policy advice in low-income countries toward growth and poverty reduction is an evolutionary process. In this context, they looked forward to the recommendations of the management-led Committee on Low-Income Country Work to provide new impetus and focus to Fund work on low-income countries. Directors also considered that further staff analysis will be needed on improving the design of PRGF-supported programs, and gearing them to address macroeconomic policy challenges of achieving the Millennium Development Goals (MDGs).

Directors welcomed the IEO report's discussion of the broader implications of the PRS approach for

the Fund's role in low-income countries. They looked forward to work on refining the role of the Fund in low-income countries, including the paper on instruments and financing in August, and better defining the Fund's strategy to help low-income countries make progress toward meeting the MDGs. The joint paper with the Bank on aid, aid effectiveness, and financing of the MDGs will discuss how aid might be better mobilized. The upcoming discussion on PRGF financing and instruments will consider how to finance PRGF operations beyond 2005 and will discuss proposals for instruments to allow the Fund to respond more effectively to low-income countries faced with shocks. The Board will also have an opportunity after the Annual Meetings to discuss the Fund's role in providing appropriate signals about low-income members' macroeconomic policies in the absence of a need for Fund financing.

Individual Recommendations

Recommendation 1. Introduce greater flexibility in the implementation of the PRS approach to better fit the needs of countries at different stages of the process and with different capacities and political and administrative systems.

Directors agreed that the PRS approach will need to be implemented pragmatically and flexibly, taking due account of country-specific circumstances and capacity constraints as well as the need to ensure that Fund-supported programs continue to be designed to assure macroeconomic stability and help members accelerate the pace of progress towards the MDGs. In this regard, it will be important to have a clear idea of the core objectives of the PRS approach.

Directors noted that the PRGF should be linked tightly to PRSPs that provide a sound operational road map. However, where PRSPs are not yet operationally viable, the Fund should not insist on immediate tight alignment between the PRSP and the PRGF-supported program. Instead, Fund staff should work with these members to strengthen the macroeconomic frameworks in their PRSPs so as to move toward eventual alignment. In this context, Directors noted that the Fund's efforts to build capacity and strengthen institutions through country-driven and properly targeted technical assistance to these members will be particularly important. At the same time, Directors cautioned that increased flexibility should not imply delinking the PRGF from the PRSP process, and noted that the Fund would still seek to apply the PRSP principles in its program work. Moreover, maintaining a link between the PRGF and the PRSP provides a key incentive for members and the Fund to improve the PRSP process.

Recommendation 2. Shift the emphasis of the initiative from the production of documents to the development of sound domestic policy formulation and implementation processes.

Directors agreed that the PRS approach has the potential to encourage the development of country-owned and credible long-term strategies for growth and poverty reduction. To accomplish this objective, there should be less emphasis on document preparation, and more emphasis on improving the capability of countries to develop and implement policies supportive of growth and poverty reduction. Directors underlined that governments are expected to be in control of the development process and policy options.

Directors noted that managing the tension between country ownership of the policies and programs and donor selectivity is central to the design of the PRS approach. Some Directors agreed with the report's recommendation that countries should set explicit criteria for judging progress towards key intermediate objectives related to the domestic policy formulation, implementation, and monitoring process for their PRSPs, and that Fund and Bank staff should provide candid assessments of those benchmarks. Many Directors cautioned, however, that this could imply excessive Fund involvement in assessing the country's decision-making processes, and establish an unwarranted direct linkage between such assessments and the Fund's lending decisions. They believed that the use of such conditionality by the Fund to improve domestic policy processes is inappropriate because it could undermine the legitimacy of domestic institutions and processes. Directors noted that further reflection and discussion will be needed on how the Fund should react in cases where it believes that the member could aim higher, or where the pace of progress chosen is not ambitious enough.

Recommendation 3. Clarify the purpose of the JSA and redefine the vehicle accordingly.

Directors emphasized the need for a reformulation of the Joint Staff Assessment—the instrument used by the Fund and the Bank to assess PRSPs, with an emphasis on graduated rather than binary assessments. Many Directors noted that the purpose of the staff assessment of PRSPs should be to provide candid feedback to countries and to help coordinate with the Bank. They believed that not using the assessment to shape Fund lending decisions and removing the requirement of Board endorsement would help enhance country ownership of PRSPs. In the absence of any other coordination vehicle, Directors favored keeping a joint instrument for the assessment. They noted that any reformulation of the

assessment instrument should reflect and maintain the two institutions' commitment to the PRSP initiative, while reducing the documentation requirements for the PRSP process and utilizing the limited staff resources more effectively. Directors looked forward to discussing specific recommendations by the staff on options for the assessment instrument in the context of the Annual Bank-Fund PRSP Progress in Implementation Report.

Recommendation 4. Clarify what the PRS approach implies for the IMF's own operations and strengthen the implementation of the agreed role.

Directors agreed that the Fund needs to set out more clearly its own role in the PRS approach in each country, based on the Fund's core mandate in macroeconomic and related structural policy issues, and use the tools—including surveillance and other monitoring mechanisms—that are best suited to the individual case. In doing so, the Fund would need to continue to strengthen its collaboration with the World Bank and other donors. While Directors welcomed the streamlining of Fund conditionality, some stressed that aggregate Fund-Bank conditionality needs to be monitored and reduced as well.

Many Directors also supported a more active role for the Fund in the public debate on macroeconomic policy design and implementation—especially regarding assumptions, alternative policy scenarios, and trade-offs. This role could be facilitated through Fund analysis and research, the Article IV consultation process, the provision of technical assistance, and a better-defined and enhanced role of resident representatives. These Directors believed that such a role should be fully compatible with country ownership of programs and policies. However, other Directors were of the view that a more proactive public role could be seen as influencing the political decision-making process, which is not part of the Fund's mandate. Some of these Directors also commented on the limitations of the participatory approach, including a tendency to produce broad and unfocused documents.

Recommendation 5. Strengthen the prioritization and accountability on what the IMF 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 IEO report's emphasis on the need to define priorities for the work of the Fund in low-income countries in the context of its resource constraints. In this regard, the prioritization of budget resources must be guided by the Fund's overall mandate. Directors called for a careful assessment of the resource implications of adapting the Fund's role along the lines of the report's recommendations. Some Directors felt that many of the report's specific recommendations—in particular, more direct and deeper involvement in the PRSP processes—would increase the call on the Fund's staff resources considerably, and would require balancing these additional demands against other priorities. Some others thought that the report's recommendations would not involve an expansion of the Fund's responsibilities beyond what was indicated in the original policy papers establishing the PRSP and the PRGF. They noted the need to discuss the extent to which the original expectations for the Fund's role were too ambitious. Several Directors felt that there is scope for changing the Fund's way of doing business in low-income countries within existing resource constraints. Directors looked forward to staff views on ways to improve the Fund staff's involvement in the PRSP in the forthcoming Annual Bank-Fund PRSP Progress in Implementation Report and in the review of the resident representative program.

Recommendation 6. The IMF should encourage a strengthening of the framework for establishing the external resources envelope as part of the PRS approach.

Directors stressed that adequate, timely, and predictable donor support is crucial to the success of the PRS approach and the Fund 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 Fund needs to consider how its signals can be clear and useful to its members. In particular, Fund signals should not lead to the inappropriate interruption of long-term development and poverty reduction finance. The Fund should also work with the donor community to enhance aid coordination and encourage medium-term support linked more effectively to country-owned poverty reduction strategies.