

**INFORMAL  
SESSION TO  
ENGAGE**

FO/DIS/22/127

September 7, 2022

To: Members of the Executive Board

From: The Secretary

Subject: **Proposal for a Staff Monitored Program with Executive Board Involvement**

Board Action: **Informal session to engage** Executive Directors

Tentative Board Date: **Monday, September 12, 2022**

Additional Information: The attached paper on the Proposal for a Staff Monitored Program with Executive Board Involvement, is being reissued to replace FO/DIS/22/124 (9/2/22), as a previous version was inadvertently circulated owing to an administrative error. In particular, the text of paragraphs 3 and 4 have changed relative to the previous version.

Issues for Discussion: Page 6

Publication: Not proposed, as this is a preliminary discussion.

Questions: Mr. Rother, SPR (ext. 34256)  
Mr. Kim, SPR (ext. 34916)  
Ms. Rosenberg, LEG (ext. 37790)  
Mr. Hatanpaa, FIN (ext. 35484)





September 7, 2022

## PROPOSAL FOR A STAFF MONITORED PROGRAM WITH EXECUTIVE BOARD INVOLVEMENT

### EXECUTIVE SUMMARY

This paper sets forth staff's proposal for 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 an SMP's stated objectives and in monitoring its implementation. The amendment would not create a new instrument but a subset of SMPs that allow for the limited Board involvement (such SMPs would be called "Program Monitoring with Board Involvement" or "PMB"). Use would be only available to those (requesting) members who, in addition to desiring to build a track record for Upper Credit Tranche (UCT) Use of Fund Resources (UFR), require 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) having significant outstanding Fund credit. Members meeting criterion (i) or (ii) above would be strongly encouraged to request such an PMB. Such an amended policy has the benefit of being sufficiently narrow to allow for Executive Board involvement in opining on/monitoring of a member's policies (which may fall short of UCT-quality) in limited circumstances. As such, it 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.

## CONTEXT

**1. Staff is considering the design of a SMP with Executive Board involvement (“Program Monitoring with Board Involvement”, or “PMB”) for members that currently do not have the capacity to engage in a UCT-quality program but would benefit from Executive Board involvement in the interim in narrowly tailored circumstances.** The PMB would allow for a regular structured engagement with the Executive Board for purposes of building a track record toward a UCT-quality arrangement and to help ensure joint ownership of the Fund’s engagement with the member among the Executive Board, management, and staff. Under the Fund’s current toolkit, there is no instrument that would allow for the Executive Board to monitor a member’s program that may fall short of UCT quality.<sup>1</sup> Such members have the sole option of the SMP, which is approved by Management, and sent for information to the Executive Board. Currently, only in the limited context of HIPC may an SMP be “endorsed” by the Executive Board at the time of SMP adoption, in which case the Executive Board agrees with staff’s assessment that the policies in the SMP meet UCT-quality standards.<sup>2</sup> The Executive Board currently may monitor a member’s policies that are UCT-quality in the context of the Policy Coordination and Policy Support Instruments (PCI/PSI); these require, inter alia, that debt be sustainable and that the member’s program be fully financed.

**2. The Executive Board has historically been reluctant to provide its seal of approval for non-UCT quality policies.** While the Executive Board for years engaged in “enhanced surveillance” with the aim of providing creditors more robust assessments of member’s policies,<sup>3</sup> in recent decades it has limited its monitoring to UCT-quality policies, such as the PCI and the PSI, and the narrow HIPC-SMP “endorsement” discussed above. This generally reflects concerns regarding the “signaling” effect of Executive Board endorsement, as the Fund should only be seen as providing an endorsement of a member’s policies when they met the strong UCT-quality standard. In that regard, in 2003, the Executive Board eliminated “signaling” SMPs—limiting them solely for track-record

<sup>1</sup> The UCT quality standard refers to a member’s policies that are sufficiently strong to correct external imbalances and enable repayment to the Fund within the specified maturity period. Non-financing instruments, such as the Policy Coordination Instrument and the Policy Support Instrument (for LICs), also require UCT-quality policies.

<sup>2</sup> 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) and paragraph 5 of the SMP Guidance Note. This approach was used in Liberia, Somalia and Sudan.

<sup>3</sup> 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.

building purposes—for fear of diluting the signal of policy strength that only Executive Board endorsement is designed to provide.<sup>4</sup>

### 3. In that regard, the design of the proposal considered the following key policy issues:

- Scope:** Creating a policy that has relatively narrow scope of Executive Board involvement would have the benefit of preserving the broad-based use of the SMP for track-record building and would also limit the “dilution” of the Executive Board’s signaling effect that would occur if the Executive Board were to engage in monitoring of policies that may fall short of UCT-quality. However, the policy should be sufficiently broad to allow for Executive Board involvement in situations where such involvement would serve the member and the broader membership. Therefore, on balance, staff is of the view that the scope of the amendment to the SMP policy should be limited to those situations where there currently appears to be a substantial need both for the member to have a policy dialogue with the Fund to unlock donor financing and for the international creditor community to have the Executive Board opine on/monitor of member’s policies more closely. These would be limited to, as discussed further below, (i) cases 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 opinions by the Executive Board of policy strength, even if policies may fall short of the UCT-quality standard; or (ii) where the member has significant Fund credit outstanding.
- Interaction with the SMP/PCI/PSI:** The SMP has for years been the primary modality for track-record building for members who wish to eventually seek a UCT-quality program engagement. In most cases, member’s policies under the SMP fall short of the UCT-quality standard, although there may be cases when an SMP consists of UCT-quality policies, but issues such as unsustainable debt, overdue obligations to the Fund, and/or lack of financing assurances prevent access to Fund financing. An amendment to the SMP policy which allows the Executive Board to opine on the robustness of the SMP to meet its stated objectives and to monitor the implementation of a member’s policies that may fall short of UCT-quality risks diminishing the role of the standard SMP. Moreover, the Executive Board already has well-established policies for non-financing monitoring arrangements (the PCI/PSI) which signal UCT-quality strength. Therefore, staff proposes that under the amended SMP policy the Executive Board would not set conditionality or policy measures, as the Executive Board only does this for UCT-quality instruments (financing or non-financing), and to distinguish the new policy from the “signaling” instruments of the PCI/PSI.
- Signaling Effect:** The design of the PMB will need to consider how to minimize the dilution of the “signaling” effect that Executive Board’s endorsement of member’s policies is designed to provide, given that it may be opining on/monitoring the implementation of policies that are not of UCT-quality. The key differences in the Board’s role in a PMB, relative to that in a Fund-

<sup>4</sup> See 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.

supported program would be that, the Executive Board, in approving Fund support for a member's program, endorses the program, and sets conditionality proposed by management, while management would approve a PMB program and set conditionality. In a PMB, the Executive Board's role would be limited to opining on whether the policies, including the conditionality, as presented to the Board, are robust enough to meet the stated PMB objectives and to monitoring program implementation (See paragraph 4 below). Clear communication will be critical, particularly to emphasize the more limited role of the Executive Board in a PMB.

**4. Given the above considerations, staff recommends that the Executive Board adopt an amendment to the SMP policy to allow for limited Executive Board involvement in narrowly tailored circumstances. The policy could have the following elements:**

- **Role of the Executive Board:** As under the current SMP policy, the PMB would continue to be approved by management and monitored by staff for purposes of building a track record, and program design would continue to be in line with existing SMP guidance. However, drawing from the HIPC precedent, an amended SMP policy would allow the Executive Board to opine on/monitor of the implementation of policy measures approved by management and ensure that the member is on track to achieve the objectives under the PMB. 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 by management of the PMB. The Executive Board would, in a summing up, indicate at PMB approval its assessment that the member's policy program is sufficiently robust to meet the stated objectives of the PMB, and, in the context of reviews, whether the member is on track to achieve the objectives of the PMB.
- **Availability:** Such a PMB would only be available to members that, in addition to requiring a track record for UCT-UFR, 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 and who require more regular Executive Board opinions on/monitoring of a member's policies, or (ii) have significant Fund credit outstanding.<sup>5</sup>
- **Voluntary but encouraged:** While such a 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 meeting 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.<sup>6</sup>

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<sup>5</sup> Staff will make a proposal on an adequate threshold for significant credit, and how it would interact with the policy on Post Financing Assessment, in the follow-up paper.

<sup>6</sup> However, the PMB could have a bearing on the willingness of the creditors and donors to provide new financing/debt relief.

5. **This proposal has the benefit of being sufficiently limited in scope to help preserve the broad-based use of the SMP, as well as enable the Executive Board to opine on the robustness of a member’s policies to meet the SMP’s stated objectives without undermining the strength of the “signaling” effect of Executive Board endorsement.** In terms of process, the policy amendment would require an amendment to the SMP policy through an Executive Board Summing Up (with a majority of the votes cast).

## ISSUES FOR DISCUSSION

**6. Staff would welcome Executive Directors views and comments on the following questions:**

- (i) Do Directors agree that a PMB would be beneficial, in limited circumstances?
- (ii) Do Directors agree with the proposed circumstances under which the proposed PMB would become available?
- (ii) Do Directors agree with the proposed limited role of the Executive Board in a PMB?