

SM/06/395

December 13, 2006

To: Members of the Executive Board

From: The Secretary

Subject: **Ex Post Assessments of Members with a Longer-Term Program  
Engagement—Revised Operational Guidance Note**

Attached for the **information** of Executive Directors is a paper providing revised operational guidance to the staff on ex post assessments of members with a longer-term program engagement.

It is not intended to publish this paper on the Fund's external website.

Questions may be referred to Mr. Arvanitis (ext. 36054) and Mr. Feler (ext. 35627) in PDR.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

Other Distribution:  
Department Heads



## **Revised Operational Guidance Note on Ex Post Assessments of Members with a Longer-Term Program Engagement**

December 12, 2006

1. This note provides guidance on key operational aspects of the policy on Longer-Term Program Engagement (LTPE) and on procedures for the preparation of Ex Post Assessments (EPAs). It reflects definitional and procedural changes adopted by the Board on May 15, 2006 at the discussion of the paper on the review of EPAs.<sup>1</sup> It replaces previous guidance notes.<sup>2</sup>

### **A. Members subject to an EPA and timing of EPAs**

2. An EPA is required for all members considered as having LTPE. Members have LTPE if they have spent at least 7 of the past 10 years under Fund arrangements.<sup>3</sup> Time spent under the Policy Support Instrument (PSI) and precautionary arrangements that remain undrawn throughout the arrangement does not count towards LTPE. If a member ultimately draws upon an arrangement that had been considered precautionary at the time of approval, the entire length of the arrangement would count towards LTPE. For cancelled arrangements, only the time until their cancellation is counted.

3. PDR will establish twice a year in consultation with area departments the list of members with LTPE and the list of members for which an EPA is expected to be considered by the Board during the following six-month period. These lists will be included in the semi-annual report of the incidence of LTPE issued for Board information and posted on the Fund's external website.

4. For members that have been identified to meet the LTPE definition in the semi-annual report of the incidence of LTPE and for whom a successor arrangement is contemplated, EPAs should be prepared in time to be considered by the Board prior to a request for a new arrangement.<sup>4</sup> EPAs should preferably be prepared (in draft form) and circulated to departments prior to the briefing paper for an Article IV consultation when the existing arrangement is substantially complete and before negotiations begin on a successor

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<sup>1</sup> See *Review of Ex Post Assessments and Issues Related to the Policy on Longer-Term Program Engagement* (SM/06/115, 3/21/06), and *The Acting Chair's Summing Up on Review of Ex Post Assessments and Issues Related to the Policy on Longer-Term Program Engagement*, (BUFF/06/95, 05/17/06).

<sup>2</sup> See *Operational Guidance for Assessments of Countries with Longer-Term Program Engagement*, (SM/03/233, Revision 1, 8/20/03), and *Procedural Guidance for Assessments of Members with a Longer-Term Program Engagement*, (5/27/04, posted on PDR's website).

<sup>3</sup> This definition applies to all members that have received GRA or PRGF/ESAF resources, or any blend of the two.

<sup>4</sup> This applies to all new arrangements, including those precautionary upon approval and a PSI.

arrangement.<sup>5</sup> Where this is not possible, a draft EPA should be prepared prior to the preparation of the briefing paper for the final review of the existing arrangement. In exceptional cases where Board discussion of the EPA together with the Article IV or last program review proves not feasible, the EPA could be considered in a stand-alone Board meeting. If no successor arrangement is contemplated, an EPA should be undertaken so as to be considered by the Board with the first post-program Article IV consultation. All members that have been identified to meet the LTPE definition in the semi-annual report of the incidence of LTPE should have a EPA, even if the member has fallen below the 7 out of 10 year threshold, between the expiration of the arrangement and Board consideration of the EPA.

5. For any member that continues to meet the LTPE definition, there should be an interval of at least five years between successive EPAs. For countries that graduate from Fund-supported programs within the 5-year period after completing an EPA, a second EPA is not required. However, if a member remains above the 7-out-of-10 year threshold at the end of the five year interval, and intends to request a new arrangement, then an EPA would need to be completed.

## **B. Content of EPA reports**

6. EPAs are intended to provide an opportunity for the Fund to step back from continuing program relations with a member country to consider “an analysis of the economic problems facing the country, a critical and frank review of progress during the period of Fund-supported programs, and a forward-looking assessment that takes into account lessons learned and presents a strategy for future Fund engagement” (BUFF/03/51). The EPAs are not expected to provide a comprehensive review of all aspects of the Fund’s program relations with a country. They should be concise, analytically oriented, and selective.<sup>6</sup> They should focus on a few issues critical for program design and performance, and on the policy priorities for successor programs. To this end, they should assess the appropriateness of the Fund’s overall approach and soundness of its advice and discuss the prospects for graduating from Fund programs, including, where appropriate, an explicit exit strategy.

7. To this end, among the issues to be considered are the following:

Reflecting on the past,

- Why has the country had a LTPE with the Fund? What was the rationale for Fund engagement?

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<sup>5</sup> In most cases, the EPA should not be initiated at the staff level until the last year of the existing PRGF arrangement and the last six months for an arrangement under the GRA. In a few cases, the timing of the EPA may diverge from these best practice guidelines to take account of special country-specific circumstances, such as when market pressures require a swift Fund response.

<sup>6</sup> The text of EPA reports should remain below a guideline of 8,000 words (excluding tables of content, list of acronyms, tables and appendices).

- What were the goals of the programs and to what extent were they achieved?
- Has LTPE interfered with or contributed to (i) building technical capacity; (ii) strengthening domestic institutions; (iii) domestic policy ownership and formulation?
- How accurate were program projections of key assumptions and objectives, and were the risks correctly identified?
- In hindsight, were the macroeconomic and structural policy content of the programs appropriate to meet the program's objectives? Was Fund conditionality appropriately set in terms of addressing critical macroeconomic issues and engendering the appropriate sequencing and speed of reforms? Were economic policies modified in response to exogenous shocks or to other changing circumstances ?
- Was program implementation in line with expectations? To the extent that implementation capacity and ownership considerations affected implementation, were these appropriately taken into account in program conditionality and technical assistance?
- How did Bank-Fund collaboration affect the achievement of program objectives?

Looking forward,

- What are the lessons learned from this analysis, including for program design and future engagement?
- What is the rationale for continued program engagement, and what are the risks? How would we judge whether continued program engagement was succeeding or failing?
- What are the future priorities for the program?

### **C. Choice of team leader and composition of EPA team**

8. The EPA should be undertaken by an interdepartmental team and led by a mission chief from a department other than the home area department. The team should include representatives from the area department and one each from PDR and at least one other functional Department (in most cases FAD, FIN, MCM, RES, and/or STA).

9. The team leader is nominated by the area department. The PDR representative will generally be nominated by the PDR Senior Personnel Manager but should not include the review officer or the economist assigned to the country (unless the assignment has been for less than one year). The other functional department will be nominated by the area department but the choice of representative will be made by the functional department and will not normally include the department's review officer or economist assigned to the country unless the assignment has been for less than one year.

10. The EPA teams would be expected to consider the views of the resident representative and the World Bank. It is not required that they would be full-fledged team members, nor that the World Bank would "sign off" on the report. The EPA team could also draw on outside experts, in cases in which this is considered useful by the departments involved or by Management, with due regard to safeguarding the confidentiality of information.

11. The reports would normally be prepared at headquarters. EPA teams are encouraged to reach out and consult with donors, outside experts, and country authorities, taking account of country circumstances and budgetary resources permitting. In this context, consideration could be given to allowing the EPA team leader to visit the country before the report is finalized on an as needed basis.

#### **D. Review and presentation**

12. The EPA should be contained in a stand-alone report (rather than as an appendix or supplement to another staff report). In cases, however, where a member with LTPE also had exceptional access and an Ex Post Evaluation (EPE) is required, consideration could be given to presenting the EPA together with the EPE in a single document. In that case, care should be taken to ensure that the specific issues that need to be addressed under the two exercises are covered adequately.<sup>7</sup>

13. The draft EPA report would be reviewed by departments. Final decisions on the content of the EPA report are the responsibility of the EPA chief. The report should be sent to Management prior to (or at least concurrently with) the brief for the mission during which the EPA will be discussed. The cover note conveying the EPA report to management is signed by the head of the area department and the PDR review officer. It should set the main conclusions and any dissenting views.

14. The draft EPA report is discussed with the authorities. Although its analysis and conclusions should not be subject to negotiation with the authorities, factual corrections and other revisions as appropriate could be made before the report is circulated to the Board, subject to the usual review process. Any change to the draft report would need to be flagged to the area department and PDR and be approved by management.

15. The authorities' response to the staff's assessment should be reflected in the accompanying Article IV or program review staff report. In cases of stand-alone EPA discussions, the authorities' response should be included in the EPA report, preferably as an Annex. In addition, following all EPA discussions, the authorities can provide a statement regarding the EPA staff report and Executive Board Assessment, which may be published together with all related documents.

16. The EPA report would generally be discussed by the Board jointly with either the Article IV consultation or the last program review. In rare cases where such joint consideration is not possible, a stand-alone Board meeting could be held to discuss the EPA.<sup>8</sup>

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<sup>7</sup>Separate guidelines apply to Ex-Post Evaluations. See *Ex Post Evaluations of Exceptional Access Arrangements—Guidance Note*, (SM/05/303, 08/08/05).

<sup>8</sup> For instance, in cases where market pressures require a swift consideration by the Board of a member's request for a new Fund-supported program.

17. After the EPA report has been issued to the Board, and before its publication, any changes should adhere to the existing policy on corrections and deletions.<sup>9</sup>

18. The publication of the EPA report is voluntary, but presumed. With the authorities' consent, a PIN will be issued after the Board meeting.

- a) In cases where the EPA discussion is combined with an Article IV consultation, only one PIN will be issued covering both the Article IV and the EPA discussion. The background section of the PIN will contain 1-2 paragraphs, preferably at the end of this section, providing background to the EPA. The summing-up will include short references to the EPA discussion, mostly on forward-looking policy lessons.
- b) After meetings combining UFR and EPA discussions, both a PIN and a press release containing the Chairman's Statement are issued. The Chairman's Statement will refer to the UFR discussion; it will not contain any reference to the EPA discussion. The PIN on the EPA will be concise, with a short background section and the summing up of the discussion focused on the Board's assessment of the country's past policies and the lessons for meeting future challenges.
- c) In the exceptional cases where there is a stand-alone EPA meeting, a PIN will be issued, covering the ground as in (b) above.

19. In all cases, a brief sentence stating the Board's views on possible future Fund involvement may be included in the PIN, especially if the EPA report itself contains references to a potential successor arrangement. If the authorities do not consent to the publication of a PIN, a brief factual statement will be issued to inform the public that the discussion took place.

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<sup>9</sup> See *Guidance Note on the Fund's Transparency Policy*, (SM/06/144, 4/19/06).