

BUFF/08/127

August 1, 2008

**The Chairman's Summing Up  
The Role of the Fund in Low-Income Countries  
Executive Board Meeting 08/68  
July 23, 2008**

This has been a useful and constructive discussion. It has allowed us to take stock of the valuable contribution that the Fund has made to the progress of many low-income countries (LICs) toward macroeconomic and financial stability, which is central to sustained growth and poverty reduction. Our discussion has reconfirmed a broadly shared vision on the need for a continued close Fund engagement with its low-income member countries that is tailored to their changing needs and emerging new challenges. The Fund's work on LICs will be shaped by its broader refocusing, and build on close collaboration with partner institutions. Against this background, it is important that the Fund's LIC-related objectives and responsibilities are well-articulated, consistent, and understood both within and outside the institution. Directors looked forward to the role the Low-Income Country Unit that is being set up will play in this regard.

On progress made over the past decade, Directors welcomed the substantial improvements in macroeconomic policies and performance in many LICs, and the gains made toward sustained growth and poverty reduction. Refinements and increased flexibility in the Fund's approach in several key areas have played their part in facilitating these gains. Fund policy advice and program design have entailed greater flexibility in inflation and fiscal targets. The prudent accommodation of larger fiscal and external deficits in the context of scaled-up aid and debt relief—in which the Fund has also played a central role—have allowed increased spending in priority areas while placing a greater emphasis on debt sustainability. Directors underscored that supporting LICs in ensuring debt sustainability and avoiding a new unsustainable debt build-up is a cornerstone of the Fund's work. Shifting conditionality to measures critical for macroeconomic stability has helped focus the Fund's work on its core competences and improve country ownership.

Most Directors considered that the proposed mission statement outlines useful guiding principles for the Fund's engagement in LICs. The statement affirms that the Fund aims to help LICs achieve the macroeconomic and financial stability needed to raise sustainable growth and have a durable effect on poverty reduction. While recognizing that the Fund's mandate is similar in all member countries, many Directors suggested that the mission statement should better reflect the fact that at times different instruments and approaches are required when working with LICs given the particular characteristics of this group of countries. Many Directors considered that the objective of achieving strong, sustained growth

should be an integral part of the policies which the Fund is helping LICs put in place, while others felt that the emphasis should rather be on stability as the platform upon which sustainable growth can be achieved. Directors agreed that the main channels for the Fund's engagement will continue to be macroeconomic policy advice, capacity-building assistance, and concessional balance of payments support. On the latter, some Directors noted that the Fund is not a donor agency, and that its financing is relatively less concessional. A few Directors reiterated the view that LICs should not have to pay for capacity building assistance. As in other member countries, the Fund will focus on its core areas of expertise, namely, macroeconomic stabilization and fiscal, monetary, financial, and exchange rate policies, and the underlying institutions and closely related structural policies. The Fund's work will draw on country-owned development strategies, and its advice and engagement will be tailored to the specific characteristics of countries. We will need to reflect further on how to take forward the issuance of a mission statement in light of the comments as well as suggestions for further refinement that were made today.

Directors underscored that effective collaboration with the international community will help ensure that the Fund's work contributes to the attainment of the Millennium Development Goals. The Fund's refocusing has heightened the importance of further improvements, in particular in Fund-Bank collaboration. Directors also welcomed the plans to strengthen communication on the Fund's LIC policies to foster two-way communication and ensure that the rhetoric, policy, and practice of the Fund's LIC activities are fully aligned.

Directors welcomed the planned reviews of the Fund's instruments to ensure that they continue to meet the evolving needs and priorities of LICs. The immediate priority will be to modify the Exogenous Shocks Facility (ESF), which has so far not been used, to make it a more effective instrument in helping LICs cope with shocks, including those arising from food and fuel price increases. Today's discussion has raised a number of complex issues, on which we need to reflect further as we seek to adapt our instruments. This will involve careful examination of the merits of increasing the flexibility of the PRGF as the primary instrument for Fund financial engagement with LICs facing protracted balance-of-payments problems, including with respect to repayment schedules and the possibility of creating a precautionary window. The review of Fund facilities will also address proposals for increasing the fungibility of concessional resources across the Fund's toolkit, and for a possible Stand-By-type instrument to support short-term stabilization in LICs. Most Directors did not see a role for Fund financing to offset shortfalls in aid.

Overall, Directors agreed that the broad principles and objectives outlined in the staff paper provide a useful overarching framework for considering modifications and improvements to Fund instruments. They also called for sustained efforts to refocus and strengthen work practices to ensure continued high-quality support to LICs within the framework of the Medium-Term Budget. Directors looked forward to the follow-up paper, which will lay out how the Fund's work on LICs will be advanced, taking into account the views and suggestions expressed at today's discussion.