

SM/08/318*

October 7, 2008

To: Members of the Executive Board

From: The Secretary

Subject: **Periodic Monitoring Report on the Status of Implementation Plans in Response to Board-Endorsed IEO Recommendations**

At the discussion of the last Periodic Monitoring Report (PMR) in January 2008, the Executive Board—while reiterating the responsibility of management and staff for the preparation of PMRs—agreed to refer future PMRs to the Evaluation Committee (EC) for initial consideration and review, and reporting to the full Board (see BUFF/08/20). It was expected that, although a full Board discussion of the PMR could not be ruled out, in most cases the EC discussion would replace a full Board discussion.

To give effect to the above agreement, the following procedures will be followed with regard to the Board issuance and consideration of the PMR document. The document will be henceforth first reviewed by the Evaluation Committee. Following this discussion, it is expected that the EC would recommend endorsement of the PMR by the full Board on a lapse of time basis. This recommendation will take the form of a draft decision included in the PMR. Board discussion will take place only if an Executive Director requests it following the EC review or if management considers a meeting desirable. In the absence of a Board discussion, there will be no Board summing up. The Summary Record of the EC discussion would note the views of EC members as well as non-members. A policy PIN, to be prepared on the basis of the Board's lapse of time decision, will be posted on the Fund's website along with the PMR.

The attached paper will be the first PMR to follow the above-mentioned procedures. A draft decision appears on page 15.

The Evaluation Committee will discuss this report on a date to be announced.

Att: (1)

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Department Heads

*Document, previously issued as EB/EVC/08/12, is being reissued to amend the transmittal note to reflect the correct series and to indicate that the note is from The Secretary and to Members of the Executive Board.

INTERNATIONAL MONETARY FUND

**Periodic Monitoring Report on the Status of Implementation Plans in Response to
Board-Endorsed IEO Recommendations**

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In consultation with other Departments

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October 6, 2008

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I. OVERVIEW

1. **Evaluations by the Independent Evaluation Office (IEO) play an integral role in advancing the Fund’s learning culture, enabling the Fund to gain valuable insights and perspective to improve its work.** Since its inception in 2001, the IEO has completed 14 evaluations spanning a broad range of topics related to the Fund’s mandate, some of which include assessments of surveillance issues, technical assistance, the financial sector assessment program, capital account crises, structural conditionality, exchange rate policy advice, aid to sub-Saharan Africa, as well as the Fund’s governance.

2. **The Executive Board instituted the periodic monitoring report (PMR) in January 2007 to report on the implementation status of Board-endorsed IEO recommendations.**¹ The idea behind instituting the PMR was to ensure that Board-endorsed IEO recommendations were followed-up and their implementation monitored in a more systematic manner. The Board discussed the first such report in January 2008, at which time Directors welcomed the report’s systematic documentation of follow-up measures to the IEO recommendations and stressed that a strengthened monitoring of implementation is important to maintain an effective institutional accountability framework as well as a strong learning culture.² Directors also reiterated the responsibility of management and staff for the preparation of future monitoring reports, with periodic Board reviews.

3. **This report updates the implementation status of Board-endorsed IEO recommendations since the completion of the first PMR in January 2008.**³ In particular, it examines the implementation status for the two management implementation plans (MIPs) pertaining to the Board-endorsed IEO recommendations on *IMF and Aid to Sub-Saharan Africa* and *IMF Exchange Rate Policy Advice: 1999-2005*.⁴ It also reports on progress in implementing the outstanding recommendations from the first PMR.⁵ Although the requisite time has not elapsed since the May 2008 Board discussion of the MIP for the Board-endorsed recommendations in the IEO’s evaluation of *Structural Conditionality in IMF-supported Programs*,⁶ this PMR touches on aspects that have been implemented.⁷

¹ See “External Evaluation of the Independent Evaluation Office—Follow-Up” EBAP/07/4.

² See Acting Chair’s Summing Up (BUFF/08/20).

³ The first PMR provided the implementation status of Board-endorsed IEO recommendations for the first 10 IEO evaluations (see SM/07/383).

⁴ See SM/07/198 and SM/07/297 for the implementation plans in response to the Board-endorsed recommendations on the two respective IEO evaluations.

⁵ Box 2 in the first PMR gives the outstanding Board-endorsed IEO recommendations that the report covers; the list was approved by the Board (BUFF/08/20).

⁶ See SM/08/104 for the MIP on the noted IEO evaluation.

4. **At the May 2008 Board discussion of the IEO evaluation of *Aspects of IMF Corporate Governance—Including the Role of the Executive Board*, the Board and the Managing Director viewed the issues in the evaluation to be complex and needing a holistic discussion, which will take time to address after broader consultation with multiple stakeholders.**^{8,9} As a result, there were no Board-endorsed recommendations or summing up for the discussion; thus, this PMR does not cover any aspects of that evaluation. As follow up to this IEO report, a Working Group of Executive Directors was established with a mandate to sort through the IEO recommendations pertaining to Fund Governors and the Executive Board and make suggestions on how to organize the response in this regard. The report and recommendations of this Executive Board Working Group were transmitted to all Executive Directors in late July 2008. On September 4, 2008, the Managing Director announced the appointment of a committee of eminent persons to assess the adequacy of the Fund’s current framework for decision-making (by the Board of Governors, the International Monetary and Financial Committee (IMFC), the Executive Board, and Fund Management), and to advise on any modification that might enable the institution to fulfill its global mandate more effectively (Press Release No. 08/200). The committee’s perspectives are expected by April 2009.

5. **The follow-up measures in response to IEO recommendations need to be considered in the context of the broader Fund work program and its overall strategic direction.** It is hard to isolate the impact of the Board-endorsed IEO recommendations because follow-up measures taken in response to these recommendations may overlap with measures taken to implement the Executive Board’s broader work program. Further, overall resource constraints also sometimes impede staff’s ability to devote resources to take follow-up measures on every Board-endorsed IEO recommendation. To the extent that there may be synergies with other papers/topics in the Fund’s broader work program, the follow-up measure may be woven into them. Nonetheless, the IEO’s recommendations help to validate the need for the required change even when key elements of it are already included in the Fund’s work plan. Finally, as with the previous PMR, this report does not constitute a traditional review or assessment; it is a factual documentation of the follow-up to the IEO recommendations and does not evaluate the effectiveness of the follow-up measures. Moreover, it is generally too early to evaluate the effectiveness of the measures discussed in this report.

6. **Thus, seen in light of the Fund’s overall strategic directions, the broad conclusion from this PMR is that IEO recommendations have a significant impact on Fund operations.** Examples of progress include exchange rate analyses in Fund surveillance, a new

⁷ At the discussion of the first PMR, the Board agreed that recently formulated MIPs should be taken up in a PMR only after sufficient time has elapsed—say, six months—following Board feedback on the MIP (BUFF/08/20).

⁸ For the IEO’s evaluation report, see SM/08/127.

⁹ “Joint Statement by the Executive Board and the IMF Managing Director”, Press Release No. 08/121, and “Statement by the Managing Director” (BUFF/08/61).

2007 Bilateral Surveillance Decision that replaces the previous 30-year old decision, clarification in Fund policies on aid inflows, better communications strategy, and revisions to the Operational Guidance Note on Conditionality (to highlight the objectives of parsimony and criticality in the application of structural conditionality). A number of aspects of the various implementation plans are still being executed and are integral to the broader ongoing Fund work program.

7. **Regarding modalities, the PMR will serve as the main tool for discussing the implementation status of the MIPs related to IEO evaluations.** The IEO no longer intends to include in its Annual Report the matrix on the status of IEO recommendations, which were supplied by Fund staff; it will instead refer to the annual PMR for the implementation status.

II. BACKGROUND AND CROSS-CUTTING ISSUES

8. **Past IEO evaluations have identified common messages which have been detailed in the IEO's *Annual Reports*.**

- **A number of IEO studies have highlighted the need for managing the process of institutional change within the IMF.** The evaluation of the IMF and aid to Sub-Saharan Africa (SSA) found gaps between policy decisions and follow-through measures aimed to ensure that practices were adapted and aligned effectively in new directions. This message was also noted in the IEO's evaluation of the Fund's multilateral surveillance, which found that fuller integration between macroeconomic and financial sector surveillance was impeded by lack of sufficient cooperation among departments.
- **Another issue that has surfaced is the need for greater clarity about the goals of various IMF initiatives and a properly aligned external communications policy.** This was noted in the IEO's study of the IMF and aid to SSA as well as in the evaluation of the IMF's role in the PRSP and PRGF. The exchange rate policy evaluation also found a lack of clarity about the role of Fund in exchange rate surveillance which impeded the effectiveness of Fund advice. Finally, the evaluation of structural conditionality in IMF-supported programs noted that resistance to requesting IMF-supported programs may stem in part from misunderstanding about how structural conditions are set and by whom; greater outreach was recommended to clarify these issues.
- **Other common themes that have emerged are the need to strengthen partnerships with IFIs and donors as well as clear metrics that would allow the assessment of the impact of IMF policy advice.** Several IEO studies—notably fiscal adjustment in IMF-supported programs, the IMF's role in PRSPs and the PRGFs, the IMF and technical assistance, the IMF and aid to SSA, as well as structural conditionality in IMF-supported programs—have highlighted the importance of effective partnerships. They have noted that successful Fund engagement in low-income countries requires collaboration with other IFIs and donors, particularly the World Bank. The study on IMF's aid to SSA noted that while some areas of collaboration with the World Bank

have worked well (e.g., fiscal governance), World Bank inputs in other areas such as Poverty and Social Issues Analysis (PSIA) have not been effectively incorporated. The evaluation of structural conditionality also called for developing a monitoring framework linking conditions to goals and reform strategies—a theme echoed in some of the previous evaluations (the IMF’s role in PRSPs and the PRGFs and the IMF and aid to SSA) that called for clear metrics to assess the impact of IMF’s policy advice and to determine whether the IMF is meeting its commitments to countries.

9. At the Board discussions of the evaluations in this PMR, the recommendations endorsed by the Board addressed a number of these cross-cutting issues.

- At the discussion of the IMF aid to SSA, Executive Directors concurred with the need for improved transparency and clear communications by the Fund on its stance regarding the use of aid. They also considered that any improvements in the Fund’s engagement in LICs should, in line with the MTS, continue to focus on its core mandate. They confirmed that distributional policies generally lie outside the Fund’s core area of expertise and emphasized the importance of improving Fund collaboration with development partners, particularly the World Bank, to take issues such as PSIA into account when helping countries formulate their macroeconomic policies. Directors also supported the need for further clarification of Fund policy on several aid-related issues including mobilization of aid, alternative scenarios, and pro-poor and pro-growth budget frameworks. Directors noted that a common theme in the IEO recommendations was the need for improved and more realistic Fund communications. Thus, they supported the need for greater clarity in the Fund’s external relations on what the Fund can and cannot do in its low-income country work.
- At the discussion of the IMF’s exchange rate policy advice, Directors broadly endorsed the IEO conclusion that during 1999-2005, the Fund was not as effective as it needs to be in some important aspects of the Fund’s exchange rate policy advice, and that the Fund should aim at enhancing the effectiveness of its analysis, advice, and dialogue with member countries, as well as address any perception of asymmetry in its exchange rate surveillance. Directors considered it a shared responsibility of the Board, management, and staff—as well as national authorities—to address these concerns constructively. Directors also noted that, since the end of the evaluation period, a further strengthening of exchange rate surveillance had been identified as a priority in the implementation of the Fund’s MTS. They underscored the importance of better incorporating the analysis of policy spillovers into regional and bilateral surveillance. They encouraged further strengthening of the existing coordinating mechanisms (including the Surveillance Committee and the CGER). Given the initiatives directly relevant to the IEO findings launched under the MTS, as well as the resource constraints, Directors felt that the implementation plan should be comprehensive, while leveraging existing and planned initiatives to the greatest possible extent to address the Board-endorsed IEO recommendations.
- At the discussion of structural conditionality in IMF-supported programs, Executive Directors broadly agreed with the IEO’s main findings and emphasis on strengthening

efforts to enhance the design and focus of conditionality. Directors broadly supported “strengthened efforts to streamline conditionality, with parsimony as the guiding principle and a focus on measures critical to achieving program objectives.” They wanted to achieve parsimony by focusing on criticality and requiring rigorous justification for conditions in program documentation and staff reports.

10. **Following the Board discussions of the evaluations covered in this PMR, forward-looking MIPs for the Board-endorsed IEO recommendations were developed.** These plans incorporated the Board’s views on the issues raised in the IEO’s evaluations and provided an actionable plan and timetable for following-up on the recommendations endorsed by the Board. As noted before, in developing the action plan, staff utilize the synergies between the IEO recommendations and topics already in the Fund’s broader work program.

11. **The various work streams developed in the implementation plans are by no means the end of the road.** The Managing Director’s Strategic Directions paper sets out medium-term priorities for the Fund. It envisages an institution more alert to emerging issues related to global and bilateral surveillance with deeper analysis of macro-financial linkages, exchange rates, as well as furthering a more global perspective on bilateral surveillance, more low-income country work, capacity building, and a more modern Fund. Thus, many of the issues raised in the IEO evaluations continue to be discussed and policies reformed to best fulfill the Fund’s mandate and serve its members. In what follows, the paper reports on the current implementation status of the specific measures noted in the management implementation plans of the reports covered in this PMR.

III. SUMMARY OF IMPLEMENTATION STATUS

12. **Key elements of the implementation status of the performance benchmarks are reported below; additional details are in the Annex tables.**¹⁰ Sections A and B below describe the main aspects of the implementation status of the key benchmarks for two implementation plans: (1) IMF exchange rate policy advice and (2) IMF and aid to Sub-Saharan Africa. Section C touches on the status of key deliverables from the implementation plan related to the evaluation of structural conditionality; Section D reports on the outstanding recommendations from the first PMR.

A. IMF’s Exchange Rate Policy Advice

13. **Progress has taken place in executing key components of the implementation plan (Table 1).** The highlights are noted below:

- The 2007 Decision on Bilateral Surveillance, which updates the 1977 Decision on Surveillance over Exchange Rate Policies, has been adopted (PIN No. 07/69) and is being implemented. An Interim Guidance Note to staff on the 2007 Decision was

¹⁰ Box 3 in the last PMR lists the key performance benchmarks for the MIPs related to the two IEO evaluations (IMF Exchange Rate Policy Advice and IMF and Aid to Sub-Saharan Africa).

issued in June 2007 (SM/07/228). During the first year of implementation of the new Decision, the record has been mixed in meeting its objectives. In particular, there has been progress in enhancing the focus of surveillance and strengthening attention to exchange rate issues. However, there have been difficulties related to the third objective relating to candor and clarity on external stability and exchange rate issues that was intended to promote a stronger engagement with the membership as well as enhance evenhandedness. To address some of these issues, additional guidance on the operational aspects of the Decision was informally discussed by the Executive Board in July 2008 and published in August 2008 (SM/08/236; SM/08/236 Cor.1; and BUFF/08/112). The paper presented procedural and conceptual guidance to better implement the Decision. To ensure evenhandedness, “ad hoc consultations” were proposed in cases where there was significant concern that a member may not be observing a Principle for the guidance of members’ exchange rate policies, or that its exchange rate may be fundamentally misaligned. An updated Surveillance Guidance Note is expected to be issued after the Board discussion of the Triennial Surveillance Review (TSR).

- The CGER work program places priority on assessing the performance of past CGER predictions and improving the current methodology. Work is also underway on expanding CGER to low-income countries and producers of exhaustible resources. Analysis of exchange rate-related issues is being enhanced, including through hands-on guidance on CGER methodologies, and sharing of key datasets good practices. Emphasis on analytical work on exchange rates at the departmental level has also increased.¹¹ (While a somewhat crude measure, Table A.2 provides a summary of recent Selected Issues Papers on exchange rate-related issues.)
- MCM’s participation in Article IV mission increased to about 60 missions in FY2008. Following reprioritization of the work program amid resource constraints in the Fund, the level of mission participation is expected to decline in FY2009. However, targeted training on financial sector issues to area departments should help to ensure that mission teams have the requisite skills and expertise to carry on the work.
- The Executive Board discussed the TSR (SM/08/287) on September 26, 2008. The review took stock of a number of surveillance-related issues and found that the focus of surveillance on the Fund’s core mandate has sharpened with an improvement in the coverage and quality of analysis of exchange rate issues. However, exchange rate analysis still needs to be better integrated into the overall macroeconomic assessment and presented more transparently as well as applied more evenhandedly. The draft Statement of Surveillance Priorities for 2008-11 includes “exchange rate analysis and external stability risks” as one of four operational priorities.

¹¹ The African department is also preparing a note that outlines key operational issues for exchange rate assessments in low-income countries.

Table 1. IMF Exchange rate Policy Advice—Status of Key Performance Benchmarks	
Performance Benchmark	Implementation Status
Adopt the 2007 Decision on Bilateral Surveillance	Decision adopted (SM/07/183) and being implemented.
Revise Surveillance Guidance Note to reflect 2007 Surveillance Decision	Interim Guidance Note to staff was issued in June 2007 (SM/07/228). Guidance on Operational Aspects of the Decision issued in July 2008 (SM/08/236; BUFF/08/112) and published in August 2008. Updated Surveillance Guidance Note to be issued after Board discussion of the TSR.
Conduct Review of the Stability of the System of Exchange Rates	Review to be completed in FY2009.
Expand and improve CGER work (including refining methodologies and expanding it to key low-income countries and producers of exhaustible resources)	Priority in the CGER work program has been given to assessing the performance of past CGER predictions and improving the current methodology. Work is also underway on expanding CGER to LICs and producers of exhaustible resources. Preliminary versions of these methodologies are expected for the Spring of 2009.
Develop surveillance agendas, seeking input from authorities	Surveillance agendas are prepared for all countries alongside the Article IV cycle.
Develop initiatives to increase MCM participation in Article IV missions	MCM participation in Article IV missions increased to about 60 consultations in FY08. A decline is expected in FY09 (45-50 consultations), but ongoing training on financial sector issues targeted to country desks and mission chiefs should help ensure that mission teams keep the right mix of skills and expertise.
Conduct Review of Exchange Arrangements, Restrictions, and Markets	The Review was split in two. The Review of Exchange Arrangements, Restrictions, and Controls was completed in 2007. On methodological issues, an informal Board seminar on the Classification of Exchange Rate Arrangements was held in April 2008 (SM/08/90); a further Board discussion of classification issues, based on supplementary information, may take place later in 2008 if requested by Directors.
Conduct Review of Data Provision to the Fund	Review completed in May 2008 (SM/08/76). Details are in the Annex.
Conduct Triennial Surveillance Review	Board discussion for the TSR was held on September 26, 2008 (SM/08/287).

B. IMF and Aid to Sub-Saharan Africa

14. **Key performance benchmarks have been implemented (Table 2).** The following are some highlights:

- The recent chapeau paper on the *Role of the Fund in Low-Income Countries* took stock of the work at the Fund on LICs over the last four years, and outlined a comprehensive approach for Fund engagement (SM/08/170). During the July 2008 Board discussion (BUFF/08/127), most Directors considered that the proposed mission statement, which affirms that the Fund aims to help LICs achieve the macroeconomic and financial stability needed to raise growth and reduce poverty, outlines useful guiding principles for the Fund's engagement in LICs. 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 particular characteristics of this group of countries. Directors also 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. Overall, Directors agreed that the broad principles and objectives outlined in the paper provide a useful framework for considering modifications and improvements to Fund instruments. They looked forward to the follow-up paper laying out how the Fund's work on LICs will be advanced.

- The Board also discussed *Fiscal Policy Response to Scaled-Up Aid* and *Role of the Fund in Aid Inflows and Impact on the Design of Fund-supported Programs* which examine Fund policies to handle aid inflows, including bringing all LIC members to the point where all aid can be carefully spent and absorbed without disrupting macroeconomic stability (SM/07/199 and SM/07/210, respectively). Directors noted that the papers provide important guidance for Fund engagement in LICs and stressed the need to integrate the proposals in the paper with other ongoing work in the Fund on LICs to have a comprehensive operational framework on LICs (BUFF/07/102). At the operational level, AFR is strengthening its analysis and policy advice in this area. In particular, the department has been providing macroeconomic assessments of scaled-up aid scenarios in a number of countries as a contribution to a UN-led MDG Africa Initiative, and a number of staff reports and selected issues papers provide assessments of the implications of scaled-up aid.¹²
- The Board discussed strategies to improve interactions with donors and civil society in the context of *The Role of the Fund in the PRSP and Donor Coordination Processes* and *The IMF's Communications Strategy*, including the role of resident representatives and mission chiefs in these interactions (BUFF/07/139, revised and BUFF/07/92). The former paper on donor coordination clarifies the parameters of the Fund's involvement with low-income countries in the PRSP and donor collaboration processes and in supporting their efforts to reach the Millennium Development Goals. The paper on communications strategy aims at building understanding and support for the role of the IMF and its reform agenda, further integrating communications with operations, raising the impact of communication materials, and rebalancing outreach efforts; these were broadly endorsed by the Executive Board at its discussion. In light of the misperceptions and criticism of the work of the Fund in LICs, Directors also underscored the importance of ensuring that communication efforts with these members are closely aligned with policies approved by the Fund.
- As a follow-up to the Malan Report, the Joint Management Action Plan to improve Bank-Fund collaboration was presented to the Board in October 2007 (SM/07/335) and is being implemented, aiming at translating identified good-practice approaches into standard practices.

¹² Examples of such assessments are in the staff reports of Burkina Faso (EBS/07/153) and Rwanda (EBS/07/04) as well as the SIPs on Madagascar (SM/07/209) and Mozambique (SM/07/167) assess aid-scaling up scenarios.

Performance Benchmark	Implementation Status
Prepare paper on The Role of the Fund in Managing Aid Inflows and Impact on the Design of Fund-supported Programs	Policy guidance on managing aid flows was clarified at the July 2007 Board discussion of program design and aid (BUFF/07/102). In addition, the Board discussed the chapeau paper “The Role of the Fund in LICs” (SM/08/170 and BUFF/08/127) in July 2008, which included a comprehensive work program on LIC-related issues.
Prepare analysis of Fiscal Policy Response to Scaled-Up Aid	Executive Board discussed the paper in July 2007 (SM/07/199, SM/07/210, and BUFF/07/102).
Prepare paper on The Role of the Fund in the PRSP and Donor Coordination Processes	Issues addressed in the paper on the IMF’s role in the PRS process and collaboration with donors (BUFF/07/139 rev).
Prepare joint management implementation plan as follow-up to Malan Report.	A Joint Management Action Plan to improve Bank-Fund collaboration was presented to the Board in October 2007 (SM/07/335).
Conduct 2010 Review of PRGF	Review to be prepared as planned.

C. Structural Conditionality in IMF-Supported Programs

15. **Even though the management implementation plan was discussed less than six months ago by the Executive Board (BUFF/08/55; May 7, 2008), some performance benchmarks have been observed (Table 3). Specifically:**

- The Operational Guidance Note on Conditionality (OGN) was revised in July 2008 to emphasize the need to apply rigorously the principles of parsimony and criticality when designing conditionality in Fund arrangements (SM/08/245 and SM/08/245, Correction I). Revisions have also been made to improve program documentation to clearly establish links between program goals, strategies, and conditionality. An inter-departmental contact group set up in February 2008 developed these OGN revisions.
- The first annual report on the application of structural conditionality was issued to the Board for information in July 2008 (SM/08/246). The annual report provides new data for the period 2005-07 and finds that the overall number of conditions has remained unchanged relative to the findings of the IEO evaluation. However, these conditions are now more concentrated in the IMF’s core and shared areas of expertise.

Table 3. Structural Conditionality in IMF-Supported Programs—Status of Key Benchmarks	
Performance Benchmark	Implementation Status
1. Creation of inter-departmental contact group	Contact group was set up in February; provided inputs in the development of the MIP and revisions to the OGN.
2. Revise OGN on conditionality	Revised OGN was circulated to the Board for information in July 2008 (SM/08/245; SM/08/245, Cor. I); it was also published in the IMF's external website.
3. Modifications to the MONA database	
Put in place a system to track goals and strategies and its links to conditions	System put in place in July 2008.
First annual monitoring report	First annual report on the application of conditionality was circulated to the Board for information in July 2008 (SM/08/246); it was also published in the IMF's external website.
Availability in IMF external website	On track for completion by end-2008.

D. Outstanding Recommendations from the Last PMR

16. **An update of actions related to the outstanding recommendations noted in the previous PMR is presented in Table 4.** In particular:

- The TSR reports on whether staff reports contain greater candor on macroeconomic risks. The TSR also reports on whether there has been a greater focus in the assessment of members' external vulnerabilities. It notes that only about 60 percent of staff reports presented the short-term economic outlook, including risks to this outlook, in a substantiated way. While close to three-quarters of reports offered a well-articulated, medium-term scenario, there were still fewer thorough discussions of risks surrounding this baseline. As an operational priority on risk assessment, the draft Statement of Surveillance Priorities for the IMF for 2008-11 calls for refining "the tools necessary to provide clear early warnings to members. Thorough analysis of major risks to baseline projections (including, where appropriate, high-cost tail risks) and their policy implications should become more systematic."
- Progress on remedial actions noted in the last PMR regarding Human Resource (HR) policy on staff mobility has been impeded by the recent downsizing and restructuring exercise in the Fund. Moreover, sufficient data are not yet available to conduct a meaningful analysis of staff mobility since the internal job market was frozen in the context of the downsizing exercise. Still, due to the oversubscription of volunteers during the downsizing exercise, HRD anticipates substantial internal mobility. In particular, 47 A9-A15 staff and 46 B-level staff from area departments volunteered to leave the Fund (amounting to a turnover ratio of 9 percent and 33½ percent, respectively). The internal job market will be critical in the coming year to meet departmental staffing plans and business needs. The Managing Director noted in the

interim update on risk management that in an effort to enhance job content among Fund staff and to ensure that adequate opportunities for career development are provided, the work of the task force on enhanced career development has resumed with the goal of providing concrete proposals to address these issues (BUFF/08/79). Hence, the introduction of measures to address excessive mobility will be carefully examined and very targeted.

- Refocusing of work priorities amid resource constraints in the Fund limit staff's ability to undertake the assessments indicated in the recommendations related to the fiscal adjustment evaluation. In particular, as noted in the last PMR, the Fiscal Affairs Department (FAD) has issued a guidance note in January 2004 on how staff reports might best present the appropriate size, pattern, and composition of fiscal adjustment, which has led to more careful assessments of fiscal adjustment in staff reports. However, no formal assessment of these analyses has been conducted or is scheduled in the immediate FAD work program. Further, the elimination of the Poverty and Social Impact Analysis (PSIA) Unit in FAD has reduced the resources devoted to PSIA, and stand-alone PSIA missions will no longer be feasible. As in the past, the Fund will continue to rely on work performed by other development agencies, particularly the World Bank (*Enhancing Collaboration: Joint Management Action Plan*, SM/07/335). Nevertheless, FAD has, within a reduced budget envelope, continued to support area departments' analysis of assessments related to fiscal adjustment. The results of such work and their implications for program design have been discussed in staff reports and selected issues papers.¹³
- As to the FSAP evaluation, MCM's Review of the FSAP scheduled for FY2010 will take stock of the evolution of the FSAP in recent years including whether the quality of the FSAP has improved over time. Meanwhile, it is notable that current FSAP analyses focus significantly on vulnerability issues, including the use of stress tests and scrutiny of regulatory issues and systemic liquidity and crisis management. The World Bank is playing the leading role in integrating developmental issues into FSAPs. Recent FSAPs also apply new analytical methodologies and sophisticated tools.
- On Fund Technical Assistance (TA), the recent Board paper *Enhancing the Impact of Fund Technical Assistance* (SM/08/97) outlines reforms to increase the effectiveness of the Fund's TA. The paper includes, inter alia, reforms to better integrate TA with surveillance and Fund lending operations, introduce performance indicators to make TA transparent and accountable (including revisions to the Fund's TA Information Management System), better costing to ensure efficient allocation of resources, and strengthen partnerships with donors through fundraising. At the discussion, Directors encouraged staff to explore the possibility that units not providing the TA directly

¹³ Recent examples include the analysis of fuel subsidies in Iraq and Peru. Likewise, the Fund-wide working group on the food and fuel shock is an example of how the Fund contributes to the policy dialogue on protecting the poor.

conduct the ex post evaluations of internally financed TA. In addition, as noted in *Fund's Technical Assistance Evaluation Program*, external evaluations for donor-financed TA will continue (SM/08/100).

Table 4. Outstanding Recommendations From the First PMR	
Recommendation	Implementation Status
Monitor whether staff reports contain greater candor on risks and enhanced analysis of political economy issues (Evaluation of Prolonged Use of Fund Resources)	The Triennial Surveillance Review reports on the candor on macroeconomic policy risks contained in staff reports (SM/08/287).
Introduce measures to address excessive staff mobility (Evaluation of Prolonged Use of Fund Resources)	The introduction of measures to address excessive staff mobility was impeded by the recent downsizing and restructuring exercise in the Fund. Introduction of such measures will be carefully examined and targeted in the coming year.
Conduct a periodic follow up to assess implementation of greater focus in the assessment of members' external vulnerabilities (The IMF and Recent Capital Account Crises)	The Triennial Surveillance Review provides an assessment (SM/08/287).
Assess the appropriate size, pattern, and composition of fiscal adjustment and evaluate the degree of protection of critical social spending when formulating advice and incorporate the costs of social safety nets into program design (Fiscal Adjustment in IMF-Supported programs)	While the elimination of FAD's PSIA Unit constrains work in this area, FAD continues to support area department's analysis of such issues. Reliance on relevant analysis from other agencies, notably the World Bank, will increase.
Introduce external evaluations to enhance accountability and provide a fresh perspective to the TA process (IMF Technical Assistance)	Evaluations for donor-financed TA will continue to be done externally (Fund's TA Evaluation Program, SM/08/100). A review of the Regional TA Centers (RTACs) is scheduled for FY2010, which will report on external evaluations for individual RTACs undertaken since FY2005.
Establish more systematic procedures for feeding back into the TA program the lessons learned from self-assessments and evaluations (IMF Technical Assistance)	Fund TA evaluation policies and practices are expected to become more systematic through a unified TA management approach. Starting in May 2008, TA is being primarily organized as projects in line with international best practice as increasingly applied by international financial institutions.
Conduct assessments of vulnerability and development issues in the financial sector (Financial Sector Assessment Program)	FSAPs place emphasis on vulnerability issues, including quantitative stress tests, the regulatory environment, and systemic liquidity and crisis management, as well as key country-specific challenges to financial stability. World Bank takes the lead in integrating developmental issues into FSAP. The Board will review this (and other) aspects of FSAP operations in FY2010.
Establish whether the quality of the FSAP has improved over time (Financial Sector Assessment Program)	Review of the FSAP scheduled for FY2010 will assess the evolution of the FSAP in recent years.

E. Conclusions

17. **In light of recent developments, no new remedial actions are proposed at this time.** All the key performance benchmarks related to the MIPs covered in this report have either been met or are on track for timely completion. As for the outstanding recommendations from the previous PMR, most remedial actions were met as noted in Section D. The recent elimination of FAD's PSIA Unit and the refocusing of the Fund's activities more generally, has increased reliance on relevant analysis provided by other agencies. With the completion of the recent downsizing and restructuring exercise, measures to address excessive staff mobility

will be carefully examined and targeted in the coming year. The next PMR will review the status of the performance benchmarks listed in Table 5, along with any other MIPs for which sufficient time has elapsed following the Board's feedback on the MIP.

Table 5. Performance Benchmarks to be Reviewed in the Next PMR	
1.	Revise Surveillance Guidance Note to reflect 2007 Surveillance Decision and guidance on its implementation
2.	Conduct Review of the Stability of the System of Exchange Rates
3.	Review system on Classification of Exchange Rate Arrangements
4.	Expand and improve CGER work (including refining methodologies and expanding it to key low-income countries and producers of exhaustible resources)
5.	Conduct 2010 Review of PRGF
6.	Make MONA database available on the Fund's external website
7.	Assess the evolution of the FSAP in recent years as part of the FY2010 Review of the FSAP
8.	Measures to address excessive staff mobility will be carefully examined in the coming year

Proposed Decision

The Executive Board supports the conclusions in Paragraph 17 of the Periodic Monitoring Report on the Implementation Status of Board-Endorsed IEO Recommendations (PMR), and approves the performance benchmarks to be reviewed in the next Periodic Monitoring Report set out in Table 5 of the PMR.

Table A.1. Status of Implementation Plan in Response to Board-Endorsed IEO Recommendations on IMF Exchange Rate Policy Advice, 1999-2005

IEO Recommendations	Board Discussion	Follow-up plan	Implementation Status
<i>I. Rules of the Game and Guidance to Staff</i>			
I.1 Clarify the rules of the game for the IMF and its member countries	“Most Directors agreed ... that a revalidation of the fundamental purpose of surveillance is an important goal, although views differed on the best vehicle through which this revalidation could occur.”	Adoption of the 2007 Decision on Bilateral Surveillance.	Decision adopted and being implemented
I.2 Practical policy guidance should be developed on key analytical issues. Two priorities would be on the stability of the system and on the use and limits of intervention.	<p>Directors “had diverse views regarding the need for such guidance and on the feasibility of developing it.”</p> <p>“A number of Directors saw merit in a Board discussion on the stability of the system of exchange rates, similar to the one undertaken in 1999. A number of other Directors, however, noted that the WEO already provides a useful platform for such an assessment.”</p> <p>“Many Directors saw the need for practical policy guidance on specific aspects of exchange rate policy advice, while some Directors underscored the practical difficulties in formulating such guidance.”</p> <p>Many Directors noted that “more effort needs to be put into integrating cutting edge techniques into the Fund’s country work, and in disseminating such knowledge within the Fund.”</p>	<p>a. Revised Surveillance Guidance Note (by end 2007, note that guidance related to the 2007 Decision may be issued by October 2007).</p> <p>b. Tentatively, review of the stability of the system of exchange rates in 2009.</p> <p>c. Expand and improve CGER work (including refine methodologies and expand it to key low income countries and producers of exhaustible resources).</p> <p>d. Knowledge dissemination. A coordinated training plan will be developed by INS and PDR in 2008, and a section of examples of best practice in exchange rate surveillance will be posted on the PDR website in late 2007.</p>	<p>Guidance on operational aspects of the 2007 Surveillance Decision issued in July 2008 (SM/08/236; BUFF/08/112) and published in August 2008. Updated Surveillance Guidance Note to be issued after Board discussion of the TSR (SM/08/287).</p> <p>Priority in the CGER work program has been given to assessing the performance of past CGER predictions and improving the current methodology. Work is also underway on expanding CGER to LICs and producers of exhaustible resources. Preliminary versions of these methodologies are expected for the Spring of 2009.</p> <p>Work on knowledge dissemination is proceeding and most of it is expected to be completed in the summer of 2008. This work has been designed to cover two areas:</p> <ul style="list-style-type: none"> • Information repository; housed in a dedicated web space and to contain relevant information on exchange rate analysis techniques (including templates), historical data sets, and good sample cases in Fund’s work (already available from PDR’s website). • Training materials for CGER methodologies, exchange rate regime classification, and analysis of foreign exchange operations.
I.3 Management should give much greater attention to ensuring effective dialogue with authorities.	“Directors agreed that there remains scope to explore further ways to improve the dialogue with member countries, and to address any perception of lack of evenhandedness.”		
a. Management should develop a	“Directors encouraged management to give	a. Surveillance agendas.	Surveillance agendas are prepared for all countries

<p>strategic approach to identify opportunities to improve the effectiveness of the dialogue.</p>	<p>consideration to the IEO recommendations in this area, particularly to a strategic approach to identifying opportunities to improve the effectiveness of the dialogue.”</p> <p>“Ensuring that missions have the right mix of skills and expertise...was seen by many as requiring further efforts”.</p>	<p>b. Ongoing initiatives to increase MCM participation in Art. IV missions.</p>	<p>alongside the Article IV cycle.</p> <p>MCM participation in Article IV missions increased to about 60 consultations in FY08. A decline is planned in FY09 (40-50 missions), but ongoing training on financial sector issues targeted to country desks and mission chiefs should help ensure that mission teams keep the right mix of skills and expertise.</p>
<p>b. Management and the Board need to adjust the incentives to raise controversial issues.</p>	<p>“Staff should be encouraged to raise controversial issues with the authorities, to better understand the viewpoint of national authorities, and to ensure evenhandedness.”</p>	<p>Clearer expectations and support from Management.</p>	<p>The Managing Director has made clear in his Strategic Directions paper that he envisions an IMF more critical in its assessments (especially in good times), and more assertive in communicating its concerns (BUFF/08/27, Rev. 1).</p>
<p><i>II. Implementing Existing Policy Guidance</i></p>			
<p>II.1 Management and the Executive Board should resolve inconsistencies and ambiguity over the issue of regime classification.</p>	<p>“Directors reaffirmed the importance of a clear description of the de facto exchange rate regime.</p> <p>Many Directors also underscored the need to better understand the factors underlying differences between the de facto and de jure classifications.”</p>	<p>a. Revised Surveillance Guidance Note.</p> <p>b. Review of Exchange Arrangements, Restrictions, and Markets in September 2007.</p> <p>c. Focus on issue in internal review process.</p>	<p>Guidance on operational aspects of the 2007 Surveillance Decision issued in July 2008 (SM/08/236; BUFF/08/112) and published in August 2008. Updated Surveillance Guidance Note to be issued after Board discussion of the TSR.</p> <p>The Review was split in two. The Review of Exchange Arrangements, Restrictions, and Controls was completed in 2007. On methodological issues, an informal Board seminar on the Classification of Exchange Rate Arrangements was held in April 2008 (SM/08/90); a further Board discussion of classification issues, based on supplementary information, may take place later in 2008 if requested by Directors.</p> <p>Review process strengthened following guidance to staff on reporting of the exchange rate regime classification. Training by MCM on foreign exchange regime classification and analysis of foreign exchange market operations is being prepared in the context of expanding knowledge dissemination on exchange rate surveillance.</p>

<p>II.2 IMF advice on exchange rate regimes should be backed up more explicitly by analytic work.</p>	<p>“Regarding the assessment of members’ choices of exchange rate regimes, Directors saw scope for more candid staff assessments while avoiding a mechanistic approach.”</p> <p>“In general, Directors agreed that staff’s views should, whenever warranted, be explicitly underpinned by more comprehensive analytical discussion of the pros and cons, taking into account country circumstances, the authorities’ views, and implementation issues when macroeconomically relevant. Staff advice should be informed by the Fund’s considerable cross-country experience.”</p>	<p>a. Revised Surveillance Guidance Note.</p> <p>b. Knowledge dissemination (see above).</p> <p>c. Focus on issue in internal review process.</p> <p>d. Tentatively, review of the stability of the system of exchange rates in 2009.</p>	<p>Guidance on operational aspects of the 2007 Surveillance Decision issued in July 2008 (SM/08/236; BUFF/08/112) and published in August 2008. Updated Surveillance Guidance Note to be issued after Board discussion of the TSR.</p> <p>Progress on knowledge dissemination (see above).</p> <p>Review process strengthened in the context of the implementation of the 2007 Decision. Guidance on expectations for exchange rate assessments in Article IV consultations was included in the guidance on operational aspects of the 2007 Decision.</p> <p>The review of the stability of the system of exchange rates is expected to be completed in FY2009.</p>
<p>II.3 To improve assessments of the exchange rate level, the IMF should be at the forefront of developing the needed analytical framework, while more successfully translating existing methodologies into advice that is relevant to discussion of individual country cases.</p>	<p>“Directors welcomed the finding that analysis of exchange rate levels had improved, although in several cases there remained scope for improvement in the quality of the analysis.”</p> <p>“Directors generally agreed with the IEO that the Fund should stay at the forefront of developing the analytical framework in this area, including with respect to developing countries. Several Directors advocated caution in the Fund’s public communications on its findings on equilibrium exchange rates and misalignments, including those based on CGER assessments. In this context, a few Directors cautioned against over-reliance on model-based estimates of equilibrium exchange rates.”</p>	<p>a. Expand and improve CGER work (including refine methodologies and expand it to key low income countries and producers of exhaustible resources).</p> <p>b. Knowledge dissemination (see above).</p> <p>c. Additional research in area departments, including cross-country work on oil producers in MCD.</p> <p>d. Focus on issue in internal review process.</p>	<p>CGER work (see above).</p> <p>Progress on knowledge dissemination (see above).</p> <p>Work in area departments (through dedicated working groups) and PDR (real exchange rate benchmarks for oil exporting countries) is ongoing. Table A.2 has a list of recent Selected Issues papers on exchange rate-related topics.</p> <p>Review process strengthened in the context of the implementation of the 2007 Decision (see above).</p>

<p>II.4 Management and the Executive Board should consider further what lies behind the apparently serious problems of data provision for surveillance, and how incentive structures can be improved.</p>	<p>“Directors... welcomed the recommendation to consider further the scope of the problem [of data availability] and possible remedies. Thus, they looked forward to the upcoming review of data provision to the Fund.”</p>	<p>Review of data provision to the Fund in late 2007.</p>	<p>Review completed in May 2008 (SM/08/76). Directors noted that the approach followed in recent years has been largely effective in resolving concerns that members may not be sharing data to the best of their ability. They pointed, however, to the wide variance in staff’s handling of such cases as an area for improvement, and stressed that staff must follow up expeditiously in cases where concerns arise. They endorsed the proposal to clarify guidance to staff regarding steps to follow when there is a concern that a member may not be complying with Article VIII, Section 5, to ensure consistent and evenhanded treatment (BUFF/08/57).</p>
<p>II.5 Incentives should be given to develop and implement guidance for the integration of spillovers into bilateral and regional surveillance.</p>	<p>“Directors underscored the importance of better incorporating the analysis of policy spillovers into regional and bilateral surveillance and welcomed the initiatives recently taken in this area under the aegis of the Medium-Term Strategy.”</p>	<p>No new initiatives. Continued implementation of existing initiatives under the MTS.</p>	<p>This theme has received renewed emphasis in the refocusing process and in the TSR. The Managing Director’s Strategic Directions paper outlines some initiatives to integrate a multilateral perspective in bilateral surveillance.</p>
<p><i>III. Management of Work on Exchange Rates</i></p>			
<p>III.1 Management should address how to bring better focus to the analytical work on exchange rates.</p>	<p>“Directors agreed with the recommendation that management should ensure that exchange rate work across the Fund is organized and managed effectively, in tandem with ongoing work to integrate financial sector issues into Fund surveillance.”</p>	<p>No changes in departmental organization and responsibilities.</p>	
<p>a. Management should clarify responsibility and accountability for exchange rate policy issues and actively use a forum like the Surveillance Committee to ensure proper focus on key issues, and to discuss a variety of different views and perspectives.</p>	<p>“Directors encouraged further strengthening of the existing coordinating mechanisms (including the Surveillance Committee and the CGER), as envisaged by the Medium-Term Strategy.”</p>	<p>Strengthened role of the Surveillance Committee and CGER.</p>	<p>The Surveillance Committee is being strengthened and is expected to oversee efforts to integrate global perspectives into Article IV consultations, specially in systemically important cases.</p>
<p>b. The structure of staff teams could be reconsidered.</p>		<p>No new initiatives. Ongoing initiatives to increase MCM participation in Article IV missions.</p>	
<p><i>IV. Confidentiality and Executive Board Oversight</i></p>			

<p>An understanding is needed on what are the expectations for inclusion in the Article IV staff report, what may be mentioned orally at Board meetings, and what may be understood to have been discussed between staff and the authorities on the clear understanding that it would not be revealed to the Executive Board.</p> <p>a. Confidential policy discussions about possible policy actions in the case of contingencies should be a regular feature of the dialogue with member countries.</p> <p>b. Options for the Board to exercise its accountability and oversight functions.</p>	<p>“Many Directors had concerns with the IEO suggestion to have an independent party periodically review Fund staff activities that are not reported to the Board.”</p> <p>“Most Directors emphasized that management is responsible for providing the Executive Board with all the information that it needs to conduct surveillance, and is accountable to the Executive Board for how it combines this duty with the need for the staff and management to serve as a confidential advisor to members.”</p>	<p>No new initiatives planned at this time, at least pending the discussion of the Board’s Ad Hoc Committee on Confidential Information on a report on related issues in use of Fund resources.</p>	
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V. Facilitating Multilateral Policy Coordination

<p>Opportunities for potential multilateral concerted action deserve to be a key strategic management focus.</p>	<p>“Most Directors considered multilateral consultations to be a useful addition to the surveillance toolkit because they helped to improve policymakers’ understanding of each other’s objectives.”</p>	<p>Continued use of the multilateral consultation vehicle.</p>	<p>There is continued monitoring of the conclusions of the Multilateral Consultation in the relevant Article IV reports. The Fund is also playing a useful role in facilitating the dialogue in other areas that require multilateral concerted action. In particular, the IMFC underscored that continued close Fund collaboration with the Financial Stability Forum, the Bank for International Settlements, standard-setting bodies, and national authorities will be essential to ensure that the lessons from the crisis are effectively shared and that agreed policy actions are rapidly implemented. Also, the IMFC welcomed the IMF’s initiative to work, as facilitator and coordinator, with SWFs to develop a set of best practices.</p>
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Table A.2: Coverage of Selected Issues Papers on Real Exchange Rate Issues¹

Country	Date	Document ID	Chapter Title
South Africa	Jul. 2007	SM/07/267	I. Exchange Rate Volatility and Inflation Targeting: International Experience and Implications for South Africa
Arab Republic of Egypt	Nov. 2007	SM/07/351	II. External Competitiveness and the Real Exchange Rate in Egypt
Kingdom of Lesotho	Nov. 2007	SM/07/346	II. Assessing Lesotho's Real Exchange Rate and Competitiveness
Myanmar	Nov. 2007	SM/07/369	I. Modernizing the Exchange Rate System
Sri Lanka	Nov. 2007	SM/07/358	II. Is Sri Lanka's External Competitiveness of Concern?
Bulgaria	Nov. 2007	SM/07/381	II. An Assessment of Bulgaria's External Stability Risks
Burkina Faso	Dec. 2007	SM/07/396	II. Assessing Competitiveness in Burkina Faso
Algeria	Jan. 2008	SM/08/15	II. Estimating the Equilibrium Real Exchange Rate in Algeria
ECCU	Jan. 2008	SM/08/10	I. Assessing Exchange Rate Competitiveness in the Eastern Caribbean Currency Union
Ecuador	Jan. 2008	SM/08/12	I. Estimation of the Equilibrium Real Exchange Rate for Ecuador
France	Jan. 2008	SM/08/37	I. Recent French Export Performance: Is There a Competitiveness Problem?
India	Jan. 2008	SM/08/4; Cor. 1	I. Competitiveness and Exchange Rate Policy
Islamic Rep. of Afghanistan	Jan. 2008	SM/08/41	III. The Exchange Rate and the Conduct of Monetary Policy in Afghanistan
Israel	Jan. 2008	SM/08/30; Cor. 1	I. Israel's External Competitiveness: Assessing the Real Exchange rate
Papua New Guinea	Jan. 2008	SM/08/46	III. Papua New Guinea: Export Performance and Competitiveness
Republic of Montenegro	Jan. 2008	SM/08/3; Cor. 1	D. Competitiveness of Montenegro's Tourism Sector;
Greece	Mar. 2008	SM/08/87	I. Competitiveness and Saving-Investment Balance: An Update
Jordan	Apr. 2008	SM/08/117	I. Assessment of the Level of the Exchange Rate
Kingdom of Netherlands	Apr. 2008	SM/08/121; Cor. 1	I. Maintaining Competitiveness in the Global Economy: Dutch Export Performance
Republic of Lithuania	Apr. 2008	SM/08/92	I. Methodologies for Current Account Assessment
New Zealand	Apr. 2008	SM/08/113	II. The Impact of Commodity Prices on New Zealand's Equilibrium REER: Some Insights from GEM
The State of Eritrea	Apr. 2008	SM/08/103	I. Exports and Competitiveness
Republic of Croatia	May 2008	SM/08/119; Cor. 1	B. Current Account Sustainability
Guatemala	May 2008	SM/08/135	II. Real Equilibrium Exchange Rate and Competitiveness of Guatemala
Thailand	May 2008	SM/08/134; Cor. 1	II. Global Volatility, Exchange Rates in Asia and the Thai Foreign Exchange Market
WAEMU	May 2008	SM/08/137	I. External Stability of the WAEMU; II. Determinants of Export Performance and Competitiveness
Senegal	Jun. 2008	SM/08/158	I. Senegal—Assessment of the REER and External Competitiveness
Romania	Jun. 2008	SM/08/168	I. Romania's Exchange Stability Risks
Mauritius	Jun. 2008	SM/08/178	I. Assessing the External Competitiveness of Mauritius
Burundi	Jun. 2008	SM/08/189	II. Assessing External Competitiveness in Burundi
Ethiopia	Jul. 2008	SM/08/209, Sup. 1	III. External Stability and Competitiveness in Ethiopia
Gabon	Jul. 2008	SM/08/233	I. External Competitiveness and Diversification in Gabon
Morocco	Jul. 2008	SM/08/214	II. Assessment of Morocco's Real Exchange Rate
Saudi Arabia	Jul. 2008	SM/08/211	Box I.1. Empirical Evidence on Exchange Rate Pass-through
CEMAC	Jul. 2008	SM/08/254	III. External Stability and Exchange Rate Assessment in an Oil-dependent Developing Region
Tha Gambia	Sep. 2008	SM/08/279	I. External Stability and Competitiveness in The Gambia

¹ The coverage of the listed SIPs is from July 2007 to September 2008, corresponding to the period since the adoption of the 2007 Surveillance Decision. Staff working papers on exchange rate-related issues as well as SIPs on the topic prior to the adoption of the Decision are not listed.

Table A.3. Status of Implementation Plan in Response to Board-Endorsed IEO Recommendations on Fund and Aid to Sub-Saharan Africa

IEO Recommendations	Executive Directors' Responses	Follow-up Plan	Implementation Status
<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>	<p>⇒ All strands</p>	<p>Policy has been clarified by the Board in this respect at the July 2007 discussion of program design and aid (SM/07/199, SM/07/210, BUFF/07/102) and at the October 2007 discussion of the IMF's role in the PRS process and collaboration with donors (SM/07/334, BUFF/07/139 rev).</p> <p>A chapeau paper on the "The Role of the Fund in LICs" was discussed by the Board in July 2008 (SM/08/170, BUFF/08/127).</p>
	<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>	<p>⇒ The Role of the Fund in Managing Aid Inflows and Impact on the Design of Fund-supported Programs.</p>	<p>Policy has been clarified in this respect at the July 2007 Board discussion of program design and aid (SM/07/199, SM/07/210, BUFF/07/102).</p>
	<p>A.3 ...they considered that this approach should continue to be implemented on a case-by-case basis.</p>	<p>⇒ All strands</p>	<p>This approach was reaffirmed by the Board at the discussion of program design and aid in July 2007 (SM/07/199, SM/07/210, BUFF/07/102).</p>
	<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>	<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>	<p>Policy has been reaffirmed during the October 2007 Board discussion of the IMF's role in the PRS process and collaboration with donors (SM/07/334, BUFF/07/139 rev).</p> <p>As follow-up to the Malan Report, a Joint Management Action Plan (JMAP) to improve Bank-Fund collaboration—presented to the Board in October 2007 (SM/07/335)—is being implemented.</p>
	<p>A.5 Directors noted that PSIA 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>	<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</p>	<p>Issues have been addressed in papers prepared for the Board on the IMF's role in the PRS process and collaboration with donors (SM/07/334, BUFF/07/139 rev).</p> <p>A JMAP to improve Bank-Fund collaboration—presented to the Board in October 2007 (SM/07/335)—is being implemented.</p>

	<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>	<ul style="list-style-type: none"> ⇒ The Role of the Fund in the PRSP and Donor Coordination Processes ⇒ The Role of the Fund in Managing Aid Inflows and Impact on the Design of Fund-supported Programs, ⇒ Fiscal Policy Response to Scaled-up Aid. ⇒ Follow-up to Malan Report 	<p>Policies have been clarified during the July 2007 Board discussion on fiscal responses to scaled up aid and program design and aid (SM/07/199, SM/07/210, BUFF/07/102) and the October 2007 Board discussion of the IMF’s role in the PRS process and collaboration with donors (SM/07/334, BUFF/07/139 rev).</p> <p>A JMAP to improve Bank-Fund collaboration—presented to the Board in October 2007 (SM/07/335)—is being implemented.</p> <p>A chapeau paper on the “The Role of the Fund in LICs” was discussed by the Board in July 2008 (SM/08/170, BUFF/08/127).</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>	<ul style="list-style-type: none"> ⇒ Fiscal Policy Response to Scaled-up Aid. ⇒ Follow-up to Malan Report 	<p>Policies have been clarified during the July 2007 Board discussion on fiscal responses to scaled up aid and program design and aid (SM/07/199, SM/07/210, BUFF/07/102) and the October 2007 Board discussion of the IMF’s role in the PRS process and collaboration with donors (SM/07/334, BUFF/07/139 rev).</p> <p>A JMAP to improve Bank-Fund collaboration—presented to the Board in October 2007 (SM/07/335)—is being implemented.</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>	<ul style="list-style-type: none"> ⇒ The IMF’s Communication Strategy. 	<p>Strategy to improve communication has been laid out in the papers prepared for the June 2007 Board discussion of the IMF’s communication strategy (SM/07/192, BUFF/07/92).</p> <p>A chapeau paper on the “The Role of the Fund in LICs” was discussed by the Board in July 2008 (SM/08/170, BUFF/08/127).</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>	<ul style="list-style-type: none"> ⇒ The Role of the Fund in the PRSP and Donor Coordination Processes ⇒ The IMF’s Communication Strategy. 	<p>Strategy to improve communication has been laid out in the papers prepared for the June 2007 Board discussion of the IMF’s communication strategy (SM/07/192, BUFF/07/92) and the discussion of the IMF’s role in the PRS process and collaboration with donors (SM/07/334, BUFF/07/139 rev).</p>

<p>B. Management should establish transparent mechanisms for monitoring and evaluating the implementation of the clarified policy guidance.</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>⇒ All strands</p>	<p>A chapeau paper on the “The Role of the Fund in LICs” was discussed by the Board in July 2008 (SM/08/170, BUFF/08/127).</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 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>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>⇒ Review guidance note on ex-post assessments ⇒ 2010 Review of PRGF</p>	<p>Reviewing the guidance note on EPAs is not in the immediate work program in light of their limited use; only one EPA (Kenya) has been undertaken since May 2007 (Ghana).</p> <p>2010 Review of PRGF is on track.</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>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>Issue has been addressed in the June and October 2007 Board meetings on the IMF’s communication strategy (SM/07/192, BUFF/07/92) and the IMF’s role in the PRS process and collaboration with donors (SM/07/334, BUFF/07/139 rev).</p> <p>No expansion of res rep program in medium term budget.</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.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>Issue has been addressed in the June and October 2007 Board meetings on the IMF’s communication strategy (SM/07/192, BUFF/07/92) and the IMF’s role in the PRS process and collaboration with donors (SM/07/334, BUFF/07/139 rev).</p> <p>No expansion of res rep program in 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>Issue has been addressed in the June and October 2007 Board discussions of the IMF's communication strategy (SM/07/192, BUFF/07/92) and the IMF's role in the PRS process and collaboration with donors (SM/07/334, BUFF/07/139 rev).</p> <p>A JMAP to improve Bank-Fund collaboration—presented to the Board in October 2007 (SM/07/335)—is being implemented.</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>Issues have been addressed in the June 2007 Board discussion of the IMF's communication strategy (SM/07/192, BUFF/07/92).</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>Issues have been addressed in the June 2007 Board discussion of the IMF's communication strategy (SM/07/192, BUFF/07/92).</p>
	<p>D.3 Improvements in coordination and communication would need to be implemented in a strategic manner</p>	<p>⇒ All strands</p>	<p>Issue has been addressed in the June and October 2007 Board discussions of the IMF's communication strategy (SM/07/192, BUFF/07/92) and the IMF's role in the PRS process and collaboration with donors (SM/07/334, BUFF/07/139 rev).</p> <p>A chapeau paper on the "The Role of the Fund in LICs" was discussed by the Board in July 2008 (SM/08/170, BUFF/08/127).</p>