



Executive Board Perspective on Relevant Issues

This annex provides background on Executive Board discussions of topics covered in the main text. For the most part, it quotes from relevant Chairman's Summings Up and Concluding Remarks. It follows the order of Chapter 2 of the main text—starting first with aid issues, before turning to issues related to the stance of macroeconomic policy, and finally to issues included in the Key Features agenda.¹ Table A1.1 provides a timeline of key events and Board discussions.

Aid and Macroeconomic Stance

The importance of aid to the macroeconomic framework was emphasized early on by the IMF Board. At the inception of the PRSP and PRGF in 1999, “[Directors] agreed that external financing would need to play a crucial role in meeting poverty objectives within a stable macroeconomic environment.”² And also that aid would have an impact on the fiscal and external stance, but need not compromise stability: “Directors agreed that the policies to meet poverty reduction objectives would have an impact on the design of the macroeconomic framework, and they could have an impact on the level of the fiscal and external deficits. Directors emphasized, however, that government spending would need to be financed in a non-inflationary manner.”

The Board recognized in 2003 the importance of accommodating aid, taking into account its terms and impact: “Directors generally agreed that additional aid inflows should be accommodated within PRGF-supported programs if these flows are sufficiently concessional and their use does not endanger overall macroeconomic stability. In particular, such an assessment should be based on an evaluation not only of the macroeconomic impact of increased aid inflows, but also of their effect on competitiveness and on fiscal and external debt sustainability, including the recurrent cost implications of additional aid-financed spending.”³

In 2005, the Board endorsed management’s recommendation on the macroeconomic accommodation of aid: “Directors noted the useful distinction between aid-related ‘spending’ . . . and ‘absorption’. . . . Directors were of the view that, given a large increase in aid inflows, if absorption capacity is adequate and adverse effects on the tradable sector are contained, a spend-and-absorb strategy would be appropriate. Directors considered that, within this scenario, programs should have adjusters to allow higher-than-anticipated aid inflows to be spent, when countries have finance constrained plans for productive spending. Directors also considered that program design could provide greater leeway to draw down reserves when shortfalls in aid materialize, through adjusters on domestic financing, unless reserve levels are inadequate. Directors considered, however, that a more restrained spending policy could be in order if the effectiveness of higher spending is constrained by absorptive capacity, if there is a tension between aid volatility and spending rigidities, or if there is an unacceptable erosion of competitiveness. . . . Directors also encouraged countries in which higher aid-based spending would pose a serious threat to competitiveness to consider using the aid for enhancing productivity and/or removing domestic supply constraints.” In this context, Directors highlighted the impact of aid and monetary and fiscal policy coordination on the private sector: “Directors considered that these inflows could help underpin macroeconomic stability, by financing fiscal deficits and crowding in private sector investment through lower interest rates.”⁴

Aid: Fund Role in Mobilization and Alternative Scenarios

Aid mobilization

The Board has discussed the IMF’s role in the mobilization of aid on several occasions, usually in the context of PRSP and PRGF reviews. Following the Board

¹See IMF (2000a).

²See IMF (1999e).

³See IMF (2003a and 2003b).

⁴See IMF (2005k).

Table AI.1. Timeline of Key Events and Executive Board Discussions

Date	Event	Related Documents
August 1999	Enhanced HIPC endorsed by IMF and Bank.	Chairman's Summing Up (IMF, 1999a).
September 1999	Report to Interim Committee on Reform of ESAF.	Report of the Managing Director to the Interim Committee on Reform of ESAF (IMF, 1999b).
December 1999	PRSP approach.	PRSP operational issues (IMF, 1999c).
December 1999	PRGF launched.	PRGF operational issues (IMF, 1999d).
December 1999	Board endorsement of PRSP and PRGF.	Chairman's Concluding Remarks (IMF, 1999e).
August 2000	Key Features of PRGF.	Key Features of PRGF (IMF, 2000a).
March 2002	PRGF Review.	Acting Chair's Summing Up (IMF, 2002a and 2002b).
March 2002	Managing Director's speech at Monterrey.	The Monterrey Consensus and Beyond: Moving from Vision to Action (Köhler, 2002).
April 2003	Board Review of PRGF and PRSP alignment.	Acting Chair's Concluding Remarks (IMF, 2003a and 2003b).
September 2003	Board Review of Role of the Fund in Low-Income Countries.	Chair's Concluding Remarks (IMF, 2003e).
July 2004	IEO Evaluation of PRSP and PRGF.	Report of Independent Evaluation Office (IEO, 2004).
September 2004	Board Review of Role of the Fund in Low-Income Countries.	Acting Chair's Summing Up (IMF, 2004c and 2004d).
September 2004	Board Review of PRSP.	Acting Chair's Summing Up (IMF, 2004b and 2004e).
March 2005	Paris Declaration.	Paris Declaration on Aid Effectiveness (OECD, 2005).
August 2005	Review of PRGF program design.	Review of PRGF program design (IMF, 2005g).
September 2005	Review of PRSP.	Acting Chair's Summing Up (IMF, 2005j and 2005l).
October 2005	PSI launched.	Chair's Summing Up (IMF, 2005m).
December 2005	MDRI.	Acting Chair's Summing Up (IMF, 2005r).
December 2005	Exogenous Shocks Facility launched.	Acting Chair's Summing Up (IMF, 2005r).

discussion of the 1999 paper on PRGF operational issues, the Chairman concluded: "Directors hoped that the PRSP would identify priority program elements for poverty reduction, to guide adjustments in spending should funding differ from what was assumed. Most Directors considered that Bank and Fund staff should take an active role in identifying financing needs and in mobilizing additional donor resources on appropriate terms for the countries that most need and can effectively use such support."⁵

Arguments over the appropriate role for the IMF in helping mobilize aid flows to meet the MDGs were summarized in an August 2004 paper on "The Role of the Fund in Low Income Countries."⁶ That paper stated: "The role of the Fund in mobilizing the aid flows needed to meet the MDGs should be elaborated more clearly. . . . Some believe the Fund should help its members present their case for how much aid is necessary to meet the MDGs. While the World Bank and

other . . . donors are better equipped to craft estimates, the Fund could provide a coherent macroeconomic and financial framework. . . . Some would have the Fund play an advocacy role in the international community by assessing how much aid has already been pledged, how much more is needed, how much debt a country can afford to service, and how the aid could be timed to minimize the potential for macroeconomic disruption. Others see a more limited role for the Fund, in which it concentrates on its macroeconomic advisory role. . . . The IEO has raised similar issues. With the focus on MDG financing increasing in the international discussions of aid, further clarity will be important." In a parallel paper reviewing progress in PRSP implementation, staff commented on the Fund's wider potential role in the process of donor coordination, alignment and harmonization, noting that "the Bretton Woods Institutions will be expected to play a central role in this effort."⁷

⁵See IMF (1999c, 1999d, and 1999e).

⁶See IMF (2004c and 2004d).

⁷See IMF (2004b).

These arguments were left largely unresolved at the subsequent Board discussion on August 30, 2004. The Acting Chair's Summing Up records that "Directors underscored that it is not the Fund's role to provide long term development assistance but rather to assist members in responding to balance of payments problems. By helping members develop appropriate macroeconomic frameworks, and by providing financial support through the PRGF, the Fund could play an important catalytic role in mobilizing development assistance. Directors agreed, however, that the Fund's role in mobilizing aid on behalf of low-income countries for MDG financing needs to be clarified. Many Directors held the view that the Fund should not play a role in mobilizing aid . . . but rather its contribution in this area lies in providing policy advice based on sound assessments of financing gaps and macroeconomic implications of aid flows, in terms of both levels and variability. Some Directors preferred a broader role of the Fund, including in promoting and coordinating aid inflows for MDG purposes."⁸

Subsequently, in the 2005 review of the PRS approach, the Board agreed on the IMF's critical role in the analysis of the macroeconomic impact of additional aid. The Acting Chair's Summing Up stated: "Directors considered that the Fund would play a critical role in helping countries to analyze this impact and adapt the macroeconomic framework appropriately to accommodate higher aid inflows."⁹

Alternative scenarios

Executive Directors have also discussed alternative scenarios in low-income countries on several occasions, mostly in the context of their periodic reviews of PRSP implementation. What emerges from those discussions is Board encouragement of *countries* to undertake contingency planning and alternative scenario analysis as part of their budget and PRSP preparations, with the IMF extending assistance *where asked* and in close collaboration with the Bank.

For example, at the end of the 2002 Board discussion of the PRSP review, which had focused on country vulnerability to shocks, the Chairman concluded: "Countries should work to incorporate contingency-based alternative macroeconomic scenarios in their PRSPs, with Fund support."¹⁰

At a 2003 Board seminar on aligning the PRGF and PRSP approach, Executive Directors focused on the disconnect between PRSPs' optimistic projections and PRGFs' realistic projections. The Chairman concluded: "Directors considered that the potential risks and uncertainties, including those resulting from exog-

enous shocks, should be explicitly identified and taken into account through sensitivity analyses and alternative scenarios. They called for this work to be undertaken in close collaboration with the World Bank, drawing on its particular expertise in this area. . . . More generally, all Directors believed that the PRSP should start from the existing capacity and financial constraints in the current budget, and then set out credible plans on policies that can alleviate these constraints and lead to more ambitious outcomes. This analysis would also need to be reflected in the design of PRGF-supported programs . . . and would require a greater degree of involvement by Fund staff early in the PRSP process."¹¹

Directors returned to this topic in the 2004 PRSP review, with the Chairman concluding: "Greater use of contingency planning and alternative scenarios could help make the macroeconomic frameworks more effective, particularly in response to shocks. Some Directors noted that alternative scenarios could also be used to demonstrate how a country would scale up its efforts and use additional external resources to speed up progress toward the MDGs, while maintaining the operational realism of the PRSP framework."¹²

In the 2005 PRSP review, the Chairman concluded: "Directors considered that the use of alternative scenarios in PRSPs could bridge the gap between realism and ambition, and provide a credible framework for scaling up assistance at the country level. They concurred that Fund staff should help those countries that sought assistance in preparing such scenarios."¹³

Poverty Reduction and Growth Effects

Poverty and social impact analysis

Social impact analysis was included as one of the key features of PRGF-supported programs.¹⁴ In discussing poverty and social impact analysis (PSIA) in the context of their consideration of the PRGF, the Acting Chair concluded that Directors generally welcomed the progress, "but indicated that there was scope for a more systematic treatment of this issue in PRGF documents. They requested that documents for PRGF-supported programs routinely provide a description of the PSIA being carried out in the country, including a qualitative description of the likely impact of major macroeconomic and structural measures on the poor and a summary of countervailing measures being implemented to offset any adverse effects."¹⁵

⁸See IMF (2004c and 2004d).

⁹See IMF (2005l).

¹⁰See IMF (2002e and 2002f).

¹¹See IMF (2003a and 2003b).

¹²See IMF (2004b and 2004e).

¹³See IMF (2005j and 2005l).

¹⁴See IMF (2000a).

¹⁵See IMF (2002a and 2002b).

Subsequently in the Board's August 2002 discussion of PRSP implementation, the Chairman concluded that "Directors also urged further efforts by the Bank and other donors to help countries undertake PSIA on a more generalized and systematic basis. They reaffirmed that PRGF program design and documentation should continue to incorporate available PSIA."¹⁶

In the April 2003 Board seminar on aligning the PRSP and PRGF approach, the Chairman concluded that: "Directors agreed on the importance of PSIA for the PRSP process and for the design and evaluation of Fund-supported programs. Several EDs stressed that PSIA of critical reforms should be carried out early in the PRSP and PRGF process, and they urged Fund staff to work closely with the Bank and other donors to assist national authorities in accelerating the pace of this work." In discussing the links between the PRSP and the PRGF, and particularly the options that were considered in PRGF formulation, the Chairman said: "Directors also called for setting out the role of PSIA in informing program design and policy choices. They also welcomed the intention to specify the links between program conditionality and PRSP priorities, and strengthen the reporting on PSIA activities."¹⁷

More recently, in the September 2004 review of PRSP implementation, the Chairman summed up the discussion of PSIA as follows: "Directors welcomed the rising use of PSIA to inform policy choices and underpin PRS design. They agreed on the need for realistic expectations as to what could be covered by PSIA. . . . They called on Fund staff to step up efforts to integrate PSIA into PRGF program design, focusing Fund efforts on the impact of macroeconomic policy on poverty, and to report regularly on the results of this work in staff reports."¹⁸

¹⁶See IMF (2002e and 2002f).

¹⁷See IMF (2003a and 2003b).

¹⁸See IMF (2004b and 2004e).

Pro-poor and pro-growth budgets

In the December 1999 discussion of the PRSP and PRGF, the Chairman concluded that: "[Directors] supported the integration into the macroeconomic frameworks of key specific, costed measures to increase growth and reduce poverty, noting that this will enhance existing efforts to increase social and other priority spending where appropriate and to identify targeted social safety nets." But at the same time, the IMF should not venture into areas outside its core responsibilities: "Directors broadly supported the proposed division of labor between the Bank and the IMF in supporting the preparation of PRSPs. They emphasized that Fund staff should not be expected to—and should not—offer assistance in areas that are primarily the responsibility of the Bank."¹⁹

In 2002, in the context of discussions of the Status of Implementation of the HIPC Initiative, the Board noted in general terms the expected contribution of debt relief to higher poverty-reducing expenditures: "[Directors noted] . . . HIPC debt relief to these countries represents a reduction in their outstanding debt stock by two-thirds. This will reduce debt-service payments for most HIPCs to less than 10 percent of exports, helping these countries to increase substantially their poverty-reducing expenditures."²⁰

In 2005, the Board also clarified its views on the role of pro-poor expenditures vis-à-vis the MDGs: "Directors saw a need for increased spending in many low-income countries, in particular for public investments, health care and education, if these countries are to meet the MDGs. However, they emphasized that progress towards the MDGs is not contingent on higher public expenditures alone, noting the potential tensions between higher government spending and both debt sustainability and private sector activity, which could be crowded out."²¹

¹⁹See IMF (1999e).

²⁰See IMF (2002d and 2002g).

²¹See IMF (2005l).