

# ANNEX 4

## Assessment of the Adaptation of the IMF's Internal Policy Process

**Table A4.1. An Assessment of the Adaptation of the IMF's Internal Policy Process Between the ESAF and the PRGF Based on Briefing Papers for a Sample of 23 PRGF-Eligible Countries Between 1999 and 2003**

Issues for Assessment	Comments on Changes in Policy Approach as Indicated by Comparisons of ESAF- and PRGF-Related Benchmark Briefing Papers	Average Rating of ESAF and PRGF Benchmark Briefing Papers and Highest Scoring Briefs <sup>1</sup>			
		ESAF		PRGF	
		Average rating of brief (1–4)	Percentage of briefs scoring 3 and above	Average rating of brief (1–4)	Percentage of briefs scoring 3 and above
<b>A. Briefing papers</b>					
1. Does the brief discuss links between the PRSP and the PRGF objectives?	Not done under ESAF. PRGF links to the PRSP are discussed in detail by majority of PRGF briefs.	n.a.	n.a.	3.18	82
2. In resolving the key issues identified by the mission does the brief leave room for discussions on the specific policies to be adopted to achieve the objectives of the poverty reduction strategy (i.e., are a range of possible policy options considered in key areas?)					
1. Macro stabilization	Overall, PRGF briefs did not present a broader range of possible policy options to the authorities than those of the ESAF nor did they leave room for discussion on specific policy issues. PRGF briefs were generally prescriptive and change was incremental at best.	2.1	38	2.2	35
2. Public finance		1.7	9	2.3	35
3. Financial sector		1.9	9	2.2	31
4. Macro-critical <sup>2</sup>		2.2	50	2.1	21
5. Structural areas <sup>3</sup>		1.7	6	1.8	9
Overall		1.9	22	2.1	26
3. Are alternative macroeconomic frameworks and the trade-offs between them considered?	Given the complex nature of the actual and potential shocks facing the sample countries, alternative macroeconomic frameworks were not fully fledged and trade-offs were rarely sufficiently discussed.	1.4	4	2.1	39
4. Does the brief discuss how the program will protect key objectives in the event of unanticipated negative shocks?	A large number of PRGF briefs address the issue of protecting key objectives in the event of unanticipated shocks, including adjustments in the expenditure framework.	1.8	30	2.3	52
5. Does the brief allow for flexibility to use additional concessional external financing if available?	Considerable flexibility in the use of additional concessional external financing was already achieved under the ESAF, and there was not much change under the PRGF.	2.4	57	2.3	52
6. Is a participatory process in resolving key issues considered?	Key policy discussions were generally confined to official circles and there was very little attempt to seek input from other stakeholders.	n.a.	n.a.	1.9	22

**Table A4.1 (concluded)**

Issues for Assessment	Comments on Changes in Policy Approach as Indicated by Comparisons of ESAF- and PRGF-Related Benchmark Briefing Papers	Average Rating of ESAF and PRGF Benchmark Briefing Papers and Highest Scoring Briefs <sup>1</sup>			
		ESAF		PRGF	
		Average rating of brief (1–4)	Percentage of briefs scoring 3 and above	Average rating of brief (1–4)	Percentage of briefs scoring 3 and above
7. Does the brief identify policy issues where poverty and social impact analysis (PSIA) inputs would be necessary/useful? (Explain precisely what was proposed/done on PSIA in comments section.)	The importance of PSIAs is highlighted by many briefs. However, inputs during implementation were assumed to come from the government and other agencies, while methodological and capacity constraints were not discussed.	n.a.	n.a.	2.6	57
<b>B. Review departments' comments</b>					
8. Is the need for more “policy space” for homegrown options recognized in the review process? (The focus of this question is not on the magnitude of adjustment but on how prescriptive review comments were.)	The review process did not put much emphasis on creating policy space for homegrown options—by, for example, encouraging a more participatory approach to policy formulation. This was then mirrored in the briefs' relatively inflexible approach to policy formulation, as indicated above.	1.2	4	1.9	22
9. Are poverty issues discussed or their absence highlighted in review departments' comments?	Review departments insisted on raising the profile for poverty and social expenditure issues, including PSIA, in the majority of briefs, explaining to a large extent the increased emphasis on poverty and related issues seen in the PRGF briefs.	1.8	26	2.5	52
10. Did review departments press for more or less conditionality (prior actions, performance criteria, structural benchmarks) in the policy areas specified by the mission?	Compared to the ESAF briefs, PRGF briefs were less inclined to press for more conditionality. However, this is mostly true for countries that had established credibility with the IMF (via a successful ESAF program, for example). For “early stabilizers” conditionality did not decline by much.	1.4	13	2.4	48

<sup>1</sup>The ranking scheme is based on the degree of consistency with the PRSP/PRGF approach: 1 = Highly inconsistent; 2 = Inconsistent; 3 = Consistent; 4 = Highly consistent (see Table A4.2 for the criteria used in the ranking).

<sup>2</sup>Including governance (financial transparency and anticorruption), trade liberalization, and debt sustainability.

<sup>3</sup>Including privatization and SOE reform, public sector reform, private sector development, capacity building, agricultural sector and land reform, forestry sector policy, industrial sector reform, and other reforms.

**Table A4.2. Coding Scheme for the Cross-Country Task on Briefing Papers and Department Reviews<sup>1</sup>**

Numbers in Parentheses Refer to Assessment Reached	
<b>Section I. Briefing paper</b>	
<b>A. Issues and timing</b>	
(i) Key policy issues to be addressed by the mission (specify in each case, with a focus on major issues).	Examples of policy issues (but add specifics in “comments” section): Fiscal policy Trade liberalization Privatization Civil service reform Public expenditure reform Monetary policy Financial sector reform Governance
(ii) Was PRGF launched before full PRSP?	Yes/No; provide date of full PRSP.
<b>B. Contents of briefs</b>	
(i) Does the brief discuss the links between the PRSP and the PRGF objectives?	(1) No linkage (mere mention of poverty not enough). (2) Discussion of poverty issues and references to PRSP but no indication of how the two are linked. (3) Some discussions of PRSP strategy and objectives and of links with PRGF proposals, but not comprehensive. (4) Comprehensive discussion of key objectives and strategy of PRSP and of how proposed PRGF program will be integrated with them.
(ii) In resolving the issues identified in A above does the brief leave room for discussion, based on domestic policy debate, on the specific policies to be adopted to achieve the objectives of the poverty reduction strategy? (i.e., are a range of possible policy options considered in key areas?) (specify for each policy issue).	(1) Brief leaves no policy space (i.e., sets objectives and specifies policies). (2) Brief leaves room for discussion of a narrow range of policy alternatives. (3) Brief leaves room for discussion of a broad range of policy alternatives. (4) Policy options not restricted in discussions of objectives and analyses of key trade-offs.
(iii) Are alternative macroeconomic frameworks and the trade-offs between them considered?	(1) No discussion of alternative frameworks. (2) Limited discussion of an alternative macroeconomic framework (but no discussion of potential trade-offs). (3) Alternative macroeconomic framework and trade-offs discussed but implications for PRSP objectives not analyzed in depth. (4) Alternative macroeconomic frameworks, potential trade-offs between them, and their implication for overall PRSP objectives clearly analyzed.
(iv) Does the brief discuss how the program will protect key objectives in the event of unanticipated negative shocks?	(1) No discussion of potential shocks or of how program would adapt to them. (2) Risk of shocks is discussed but no discussion of trade-offs between adjustment and financing or how to protect key objectives. (3) Potential shocks are identified and mix of financing and adjustment discussed, but no significant discussion of implication for key objectives and how to protect them. (4) Potential shocks are identified; trade-offs between adjustment and financing clearly analyzed; and potential strategy for preserving key objectives is set out.
(v) Does the brief allow for flexibility to use additional concessional external financing, if available?	(1) Brief proposes a specific fiscal deficit target, with no flexibility for use of additional concessional financing. (2) Some limited flexibility to accommodate additional inflows. (3) Proposed program allows for significant flexibility in accommodating additional financing, but no systematic discussion of implications for key PRSP objectives. (4) Brief discusses implications of different levels of external financing for achievement of PRSP objectives, and lays out an explicit strategy on how the program will accommodate additional inflows.
(vi) Is a participatory process in resolving key policy issues considered?	(1) Not discussed. (2) Consultations with donors, NGOs etc., by Fund staff are suggested but no indication of how the results will be incorporated into program design. (3) Discusses a broad strategy for seeking views of all key stakeholders on the major program design issues. (4) Clear recognition that program design issues should draw upon a participatory process included in the PRSP and sets out a clear strategy for Fund participations in such a debate.
(vii) Does the brief identify policy issues where poverty and social impact analysis (PSIA) inputs would be necessary/useful? (Explain precisely what was proposed/done on PSIA in comments section.)	(1) No discussion of PSIA. (2) Identifies broad policy issues where poverty/social impact may be significant, but no discussion of actual impact or of how PSIA will be brought to bear on these issues. (3) Areas where PSIA is needed are identified, but no comprehensive strategy for use of PSIA is set out. (4) PSIA undertaken, even if in limited manner, before policy decisions are taken.

**Table A4.2 (concluded)**

Numbers in Parentheses Refer to Assessment Reached	
<b>Section 2. Department Reviews<sup>2</sup></b>	
(i) Is the need for more “policy space” for home-grown options recognized in the review process? (The focus of this question is not on the magnitude of adjustment but on how prescriptive review comments were.)	<ul style="list-style-type: none"> <li>(1) Review comments remain highly prescriptive in content.</li> <li>(2) Reviews suggest some limited alternative policy options, but no recognition that authorities should be given more “policy space.”</li> <li>(3) Significant range of alternative policy options suggested.</li> <li>(4) Explicit recognition in review comments that approach should be one of identifying broad objectives and helping authorities implement homegrown options to achieve these objectives.</li> </ul>
(ii) Are poverty issues discussed or their absence highlighted in review department comments?	<ul style="list-style-type: none"> <li>(1) Not discussed.</li> <li>(2) Poverty issues mentioned but discussion shallow.</li> <li>(3) Review comments on macro and related policies are explicitly linked to the broader poverty objectives.</li> <li>(4) Staff urged to be more proactive in the poverty reduction strategy (e.g., references to “key features of PRGF-supported program”).</li> </ul>
(iii) Did departments press for more or less conditionality (prior actions, performance criteria, structural benchmarks) in each of the areas specified in A? (specify) <sup>3</sup>	<ul style="list-style-type: none"> <li>(1) More conditionality demanded, with no indication of priority or streamlining.</li> <li>(2) Recognition that streamlining (to the Fund’s core areas) required, but wide conditionality pressed for in core areas and requests that Bank strengthen its conditionality in other areas.</li> <li>(3) Strong emphasis on streamlining conditionality, but no link to ownership or consideration of aggregate level of Bank-Fund conditionality.</li> <li>(4) Review departments recognize that ownership and streamlined conditionality are linked, and that any conditionality should be closely associated with PRSP core objectives. Aggregate level of Fund-Bank conditionality explicitly considered.</li> </ul>

<sup>1</sup>The grading scheme had the following scale: 1 = Highly inconsistent; 2 = Inconsistent; 3 = Consistent; 4 = Highly consistent.

<sup>2</sup>Coverage of review department comments will be mainly on the basis of PDR, but comments from other departments (such as PDR, FAD, MFD, and RES) where substantive program design issues are raised are also noted.

<sup>3</sup>“Not applicable” could be used here to indicate that conditionality was not discussed at all.