PROPOSAL FOR A STAFF-MONITORED PROGRAM WITH EXECUTIVE BOARD INVOLVEMENT

EXECUTIVE SUMMARY

This paper proposes an amendment to the policy on Staff-Monitored Programs (SMPs) that would allow for limited Executive Board involvement in opining on the robustness of a member’s policies to meet their stated objectives under an SMP and monitoring its implementation. To differentiate from regular SMPs, such SMPs would be called “Program Monitoring with Board Involvement” or “PMBs”. Their use would be only available to those (requesting) members who, in addition to seeking to build or rebuild a track record for Upper Credit Tranche (UCT) Use of Fund Resources (UFR), would benefit from targeted Executive Board involvement because of either (i) an ongoing concerted international effort by creditors or donors to provide substantial new financing or debt relief to the member or (ii) significant outstanding Fund credit under emergency financing instruments at the time new emergency financing is received. Members meeting criterion (i) or (ii) above would be strongly encouraged to request such a PMB. The PMB would support members in designing, implementing, and monitoring policies under often complex circumstances.

The proposed policy reflects considerations regarding the Fund’s current toolkit, to ensure that SMPs would remain the IMF’s workhorse instrument to build or rebuild a track-record for UCT-UFR, that the Policy Support Instrument (PSI) and Policy Coordination Instrument (PCI) remain the appropriate non-financing instruments for Board-monitoring of members’ programs that meet UCT-quality standards, and that the strength of Executive Board endorsement as a “signaling” tool is maintained. To that end, the proposed PMB has the benefit of being sufficiently narrow to allow for Executive Board involvement in opining on/monitoring a member’s policies only in limited circumstances. This limited role would avoid undermining the broad-based use of the SMPs for track-record building and diluting the strength of the “signaling” effect that Executive Board endorsement is generally designed to entail. Clear communication regarding the Board’s limited role in the PMB will also be crucial.
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INTRODUCTION AND BACKGROUND

1. This paper proposes an amendment to the Staff-Monitored Program (SMP) policy to allow for limited Executive Board involvement. This proposal is tailored to members that currently are not able to engage in a Fund-supported financing program but would benefit from Executive Board involvement in narrowly tailored circumstances. These SMPs, called “Program Monitoring with Board Involvement”, or “PMBs,” would allow for regular structured engagement with the Executive Board to help members establish or re-establish a track record toward Upper Credit Tranche (UCT) Use of Fund Resources (UFR) and to help ensure enhanced coordination among the Executive Board, management, and staff in the Fund’s engagement with the member.\(^1\) Under the Fund’s current toolkit, there is no instrument that would allow the Executive Board to monitor a member’s program that does not meet the qualifications of the current non-financing monitoring instruments—the Policy Coordination Instrument (PCI) and the Policy Support Instrument (PSI), as discussed further below.\(^2\) The proposed PMB would fill this gap.

2. Currently, members who are seeking to establish or re-establish a track record for UCT-UFR may request staff monitoring under an SMP. SMPs are informal agreements between national authorities and Fund staff for staff to monitor the implementation of the authorities’ economic program (see Annex). Given their informal nature, SMPs are approved by Management and generally sent only for information to the Executive Board. SMPs are used to help members establish or re-establish a policy implementation track record to pave the way for UCT-UFR. They have generally been used by members with weak capacity (e.g., due to exogenous shocks, conflict, or structural reasons), no prior or limited experience with policy reforms supported by UCT-quality programs, and/or have UCT-quality programs that have gone off-track.\(^3\)

3. In the limited context of the Heavily Indebted Poor Countries (HIPC) Initiative, an SMP may be “endorsed” by the Executive Board. In 2008, the Executive Board amended the HIPC Instrument to allow performance under SMPs to be counted as a track record towards reaching the HIPC Initiative Decision Point, in cases where the Board agreed with staff’s assessment that the policies under the member’s SMP meet UCT-quality standards.\(^4\) The amendment was considered

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\(^1\) The UCT-quality standard refers to a member’s policies that are designed to provide a substantial justification that the member’s BOP problems are being addressed and resolved, and adequate confidence to the Fund that the improvements in resolving such BOP difficulties will allow the member to repay Fund resources by the time repayments fall due (FO/DIS/21/134 and SM/20/141)

\(^2\) Non-financing instruments, such as the Policy Coordination Instrument and the Policy Support Instrument (for LICs), also require UCT-quality policies. (BUFF/17/59 The Acting Chair’s Summing Up - Adequacy of the Global Financial Safety Net Proposal for a New Policy Coordination Instrument and BUFF/05/131-The Chairman’s Summing Up- Policy Support Instrument and Signaling for Low-Income Countries)

\(^3\) See Staff-Monitored Programs—Updated Operational Guidance Note (SM/22/157), June 24, 2022.

\(^4\) The IMF Executive Board’s agreement with the staff appraisal is recorded in the Acting Chair’s Summing Up. See Section III(2)(c) of the HIPC Instrument, Decision No. 11436 (97/10), as amended (the PRGF-HIPC Trust Instrument). See also Proposals to Modify the PRGT-HIPC Trust Instrument—Further Considerations and Proposed Decisions (EBS/07/152, December 21, 2007), The Acting Chair’s Summing Up (EBM/08/04), and paragraph 5 of the (continued)
critical to allow members who, for factors beyond their control, were unable to obtain adequate financing assurances to qualify for the other instruments listed in the HIPC Instrument that could be used to build a track record, but were implementing strong programs of macroeconomic stabilization and structural reform that were in principle sufficient for establishing a track-record to qualify for Decision Point. In approving this amendment, Directors made clear that it did not change the status of SMPs in the Fund’s toolkit, which would continue to be approved by Management and monitored by staff. The Board’s agreement with staff’s assessment that a given SMP has policies of UCT-quality would only be used to facilitate a member’s qualification for debt relief under HIPC. In that regard, the Executive Board agreed that the Board’s involvement would be limited to determining that member’s policies were of UCT-quality at the time of SMP approval, which would be recorded in the Summing Up.

4. **Under the Fund’s current toolkit, of non-financing instruments, Executive Board monitoring and endorsement is limited to programs of UCT-quality.** The Executive Board currently may monitor a member’s policies in the context of non-financing UCT-quality instruments—the PCI and the PSI (see Annex). These instruments are designed to signal the strength of members’ policies—which must be of UCT-quality—in the general absence of a BOP need that requires financing from the Fund. The PCI/PSI both require that debt be sustainable, and that the member’s program be fully financed. They include conditionality in the form of quantitative targets and structural measures, all set by the Executive Board as well as prior actions as needed. While the Executive Board engaged in monitoring of non-UCT quality policies (e.g., in the context of “enhanced surveillance”), in recent decades it has limited its monitoring in a non-financing context to UCT-quality policies, such as the PCI and the PSI, and the narrow HIPC-SMP “endorsement” discussed above.

5. **The current approach generally reflects concerns regarding the “signaling” effect of Executive Board endorsement.** Specifically, it seeks to ensure that the Fund should only be seen as providing an endorsement of a member’s policies when they meet the UCT-quality standard. In 2003, the Executive Board engaged in extensive discussion regarding its role in “signaling” members’ policies. At that time, SMPs were used for two very different purposes: (i) general signaling to private and/or public creditors and donors, and (ii) building a track record towards a

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5 For a discussion of Enhanced Surveillance and the Fund’s history of signaling more generally, see *Signaling By the Fund—A Historical Review*, available here. Enhanced Surveillance was put in place in the early 1980s in response to the need for creditors to receive a signal of Fund’s members’ policy strength in the absence of a Fund arrangement, for those members who had a strong track record and no foreseeable need for exceptional financing. While referred to as “surveillance”, the service was technical assistance provided to members upon request under Article V, Section 2(b). Semi-annual staff reports with staff’s views on the member’s policy program were permitted to be released to creditors, while the Executive Board assessed the strength of members’ policies in Board discussions, the Summing Up was not provided to creditors so as to avoid any on/off signals for bank lending decisions, including any perception of the Fund’s endorsement of the member’s program. The procedure was used only six times, the last in 1993.

6 See Id. See also *The Acting Chair’s Summing Up: Signaling Assessments of Members’ Policies*, Executive Board Meeting 03/5, January 29, 2003, and *Signaling Assessments of Members’ Policies*, SM/03/02.
Fund-supported program. Directors expressed concerns that the SMP’s close formal resemblance to Fund supported programs carried the risk that signaling SMPs would be misconstrued as carrying the Fund’s seal of approval, and were thus not well suited for situations where members required monitoring by Fund staff to provide assessments of their economic policies to official and/or private creditors. The Executive Board thus decided to eliminate “signaling” SMPs and limited the use of SMPs solely for track record building purposes, reflecting the view that in cases where SMPs are used to build a policy track record toward a Fund arrangement, the risk of misinterpretation is relatively low.

6. In designing the proposed PMB, staff recognized the importance of preserving the broad-based use of the SMP for track-record building purposes. The SMP has for years been the primary modality for members to build or rebuild track record toward UCT-UFR. As with the limited carve-out for HIPC discussed above, the proposed PMB would not change the status of SMPs in the Fund’s toolkit: SMPs (also PMBs, as an SMP subset) would be approved only for members to build or re-build a track record and would retain their informal nature, with the program design remaining within the sole purview of Management and staff. The PMB, under the broader umbrella of the SMP policy, can provide country members with broad macroeconomic policy support, closely integrated with capacity development assistance, and can support members in designing, implementing, and monitoring policies under often complex circumstances.

7. The scope of the amendment to the SMP policy would be very limited. The proposed PMB would only be used in those situations where a member seeks to build or rebuild a track record for UCT-UFR and where:

- The member needs to have a policy dialogue with the Fund to unlock financing from donors and/or the international creditor community. This would account for situations where the international community—in the context of an ongoing international concerted effort—is in the process of providing significant financing/debt relief in support of a member’s policy program and requires the Executive Board’s assessment of policy strength to achieve the program objectives; or
- The member has significant Fund credit outstanding under emergency financing instruments at the time it obtains further emergency financing, to address potential safeguards concerns.

8. Staff also recognized the criticality of ensuring the continued use of the PSI and the PCI for those members whose policies meet the UCT-quality standard. As discussed above, the Fund already has well-established policies for non-financing monitoring instruments (the PCI/PSI) to signal UCT-quality strength of a member’s policies. The PMB should not undermine the use of these instruments. Therefore, staff proposes that under the PMB, the Executive Board would not set

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7 An SMP is the preferred option to establish or re-establish a track record prior to moving to, or resuming UFR, while other ways are also possible.
conditionality or endorse a member’s policy measures, in line with the current SMP guidance, as the Executive Board only does this for UCT-quality instruments (financing or non-financing).

9. The circumscribed nature of the PMB would thus minimize the dilution of the “signaling” effect intended from the Executive Board’s endorsement of members’ policies. The Executive Board’s role in the PMB would be limited to, in the summing up, opining on whether the member’s policies, including the conditionality, as presented to the Board, are robust enough to meet the stated PMB objectives and monitoring program implementation. It would neither set conditionality nor complete reviews as under UCT-quality instruments. To avoid the risk of confusion, clear communication will be critical to emphasize the more limited role of the Executive Board in the PMB and, in particular, that the Executive Board’s assessment of a member’s policy strength would be against the stated objectives of its program and the overall objective of building or rebuilding a track record towards UCT-UFR, not the UCT-quality standard.

STAFF PROPOSAL

10. Given the above considerations, staff would propose that the PMB have the following key features:

• **Role of the Executive Board:** As with the regular SMP, the PMB would continue to be approved by management and monitored by staff for purposes of building or rebuilding a track record. However, drawing from the HIPC precedent, the PMB would allow the Executive Board to opine on whether the policies under the PMB approved by management are robust to meet the program’s objectives, and monitor its implementation. This would entail Executive Board discussion of the PMB at the time of management’s approval of the PMB and in the context of periodic reviews. At PMB approval, the Executive Board would, in a summing up, indicate its assessment of the robustness of the member’s policy program to meet the stated objectives of the PMB and achieve the purpose of building or rebuilding a track record toward UCT-UFR. In the context of reviews, it would opine on, in a summing up, whether it agrees with staff that the member is on track to achieve the objectives of the PMB.8

8 The Executive Board assessment would be incorporated into the Press Release.

• **Availability:** A PMB would only be available to members that seek to establish or re-establish a track record for UCT-UFR, and either (i) are benefiting from an ongoing concerted international effort by the international community to provide substantial new financing/debt relief in support of the member’s policy program, or (ii) have significant Fund credit outstanding under emergency financing instruments at the time they obtain new emergency financing.

• **Criteria:** Staff proposes to use the following criteria to assess the conditions (i) and (ii) above.
  
  o With respect to criterion (i), whether there is an “ongoing concerted international effort by the international community to provide substantial new financing/debt relief” would be a matter of judgment for staff and management. In exercising this judgment, consideration...
would be given to factors such as (i) the extent to which Fund members have expressed their commitment to provide financing/debt relief to a member; and (ii) whether the amount of such financing/debt relief, in total, would be likely to restore debt sustainability and close financing gaps in the context of a future Fund-supported program.

With respect to criterion (ii), such criterion would be met if a member receives new emergency financing under the Rapid Credit Facility or the Rapid Financing Instrument, which brings total credit exposure outstanding from emergency financing at or above 100 percent of quota arising. By setting the threshold at 100 percent of quota, the Board can opine on and monitor under the PMB a country that receives significant Fund emergency financing beyond the cumulative access limit before the temporary increase during the COVID-19 pandemic.

- **Program Design:** Program design would continue to be in line with current SMP guidance. As with the SMP, the scope of an PMB would be tailored to the underlying objectives of the authorities’ program taking into account a member’s specific circumstances, consistent with the overall objective to establish or re-establish a satisfactory track record. In this vein, an PMB could be targeted towards key macroeconomic or financial issues, or it could entail a broader program of macroeconomic and financial reforms across sectors.

- **Voluntary but encouraged:** While the proposed PMB would continue to be technical assistance and would thus be voluntary for both the Fund and the member, it would be strongly encouraged for those members which are seeking an SMP to build a track-record for UCT-UFR and also meet either criterion (i) or (ii) above. Given its voluntary nature, where a member does not wish to request the PMB, it could not be forced to do so in line with other technical assistance.

- **Clear Communication:** As discussed above, clear communication to distinguish the PMB both from the SMP and Board-monitored non-financing instruments (the PCI and the PSI) would be critical. In that regard, communications after the Board discussion of the PMB would clearly indicate (i) the nature of the PMB, including that it is monitored by staff and approved by Management; and (ii) the limited nature of the Board’s involvement, namely that it has only assessed the robustness of the policies to meet the objectives of the program and achieve the overall track record building purpose of the PMB, and whether the member is on track to meet

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9 This would take into consideration the strength of their commitments. Drawing on the standards set in the context of other Fund policies, “specific and credible” assurances of financing/debt relief would be considered a strong signal of support.

10 Under the Fund’s framework for Post Financing Assessments (PFA), members are expected to engage in PFA where total outstanding credit exceeds certain thresholds and the member is not implementing, inter alia, a Fund arrangement or an SMP. The Managing Director also has flexibility to not recommend PFA where an SMP is expected to be in place within the next six months. Given that the PMB is a subset of the SMP, the exceptions in the PFA policy for SMPs would apply equally to PMBs.

11 However, the PMB could have a bearing on the willingness of creditors and donors to provide new financing/debt relief.
the stated objectives of the PMB. Consistent with the current approach to SMPs, publication of PMB staff reports would be voluntary but presumed.

11. **Staff would propose that the PMB policy would be effective upon the Executive Board’s endorsement and reviewed no later than end-September, 2023.** Moreover, members who currently have SMPs but meet the PMB criterion (i) or (ii) could avail themselves immediately of the new policy. The PMB, as a subset of SMPs, would continue to be guided by the SMP Guidance Note. Given the particular nature of the PMB, experience with the policy would be reviewed no later than end-September 2023, to determine whether the PMB continues to be a valuable addition to the Fund’s toolkit, and revise or eliminate as needed in light of circumstances at the time.

**ISSUES FOR DISCUSSION**

12. **Staff would welcome Executive Directors views and comments on the following issues:**

   (i) *Do Directors agree with the set of circumstances under which the proposed PMB would become available to members and the limited role of the Executive Board in the PMB outlined in the paper?*

   (ii) *Do Directors agree that to safeguard the Fund’s current toolkit, clear communication is critical to distinguish the PMB from other monitoring instruments, as outlined by staff above, and that experience with the PMB should be reviewed no later than end-September 2023?*
Under the Fund’s current toolkit, there are three non-financing instruments used to monitor member’s policies. The Staff-Monitored Program (SMP) is for track-record building, and is staff-monitored and approved by Management. The PCI and PSI are signaling instruments, approved by the Executive Board. Key features are as follows:

<table>
<thead>
<tr>
<th>Instrument</th>
<th>Purpose</th>
<th>Eligible Members</th>
<th>UCT-Quality</th>
<th>Program Approved by</th>
<th>BOP Need</th>
<th>Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Staff-Monitored Program</strong></td>
<td>Track-Record Building</td>
<td>All</td>
<td>Non-UCT (*except for HIPC track record)</td>
<td>Management (*Board’s endorsement of UCT-quality in the context of HIPC)</td>
<td>None required</td>
<td>Generally 9–18 months (longer durations not precluded)</td>
</tr>
<tr>
<td><strong>Policy Coordination Instrument</strong></td>
<td>Signaling</td>
<td>All</td>
<td>Yes</td>
<td>Board</td>
<td>BOP need may exist, but would be expected to be met through financing from non-Fund sources</td>
<td>Normally 2–3 years (min. 6 months–4 years)</td>
</tr>
<tr>
<td><strong>Policy Support Instrument</strong></td>
<td>Signaling</td>
<td>PRGT-eligible members</td>
<td>Yes</td>
<td>Board</td>
<td>BOP need may exist, but would be expected to be met through financing from non-Fund sources At time of approval, must be in a <em>broadly stable and sustainable macroeconomic position.</em></td>
<td>1–4 years (can be extended to up to 5 years)</td>
</tr>
<tr>
<td>Risk Name</td>
<td>Risk Description</td>
<td>Risk Type</td>
<td>Risk Mitigation</td>
<td>Risk Timeframe</td>
<td>Residual Risk Assessment</td>
<td></td>
</tr>
<tr>
<td>-----------------------------------------------</td>
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</tr>
<tr>
<td>Risk according to the Enterprise risk taxonomy</td>
<td>The nature of the risk - Risk to the Fund without the proposal – or – Risks to the Fund that will be incurred as a result of the proposal</td>
<td>Risk to the Fund</td>
<td>Description of mitigation of new risks incurred by the proposal</td>
<td>Current (0–1 years)</td>
<td>Near Certain Critical</td>
<td></td>
</tr>
<tr>
<td>Member engagement</td>
<td>Under the Fund’s current toolkit, there is no non-financial instrument that would allow for the Executive Board involvement in opining/monitoring a member’s program that does not meet the qualifications of the PSI and PCI.</td>
<td>Risk incurred by proposal</td>
<td>Mitigation: The Board’s role will be limited to opining on the robustness of a member’s policies to meet their stated objective under an SMP and monitoring its implementation. The Executive Board’s assessment of a member’s policy strength would be against the stated objectives of its program and the overall objective of building or rebuilding a track record towards UTC-quality standard.</td>
<td>Current (0–1 years)</td>
<td>Possible Moderate</td>
<td></td>
</tr>
</tbody>
</table>

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## Enterprise Risk Self-Assessment1/ (concluded)

<table>
<thead>
<tr>
<th>Risk Name</th>
<th>Risk Description</th>
<th>Risk Type</th>
<th>Risk Mitigation</th>
<th>Risk Timeframe</th>
<th>Residual Risk Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk according to the Enterprise risk taxonomy</td>
<td>The nature of the risk</td>
<td>Risk to the Fund without the proposal – or – Risks to the Fund that will be incurred as a result of the proposal</td>
<td>Description of mitigation of new risks incurred by the proposal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reputational</td>
<td>Could undermine the utility of the SMP as a workhorse track record building instrument.</td>
<td>Risk incurred by proposal</td>
<td>Mitigation: Clear communication to emphasize the narrowly specified circumstances for the use of the PMB and the limited role of the Executive Board will minimize the dilution of the Board’s signaling effect.</td>
<td>Current (0–1 years)</td>
<td>Possible</td>
</tr>
</tbody>
</table>

1/ This ex-ante risk assessment is performed by staff with guidance from ORM. It is used to identify and assess enterprise risks to the Fund that may arise without the proposal and/or be incurred upon the approval of the proposal.