

Quality at Entry Report and Next Steps to Complete Design for IMF Topical Trust Fund for Managing Natural Resource Wealth

A: AidWorks details <i>completed by Activity Manager</i>			
Initiative Name:	IMF Topical Trust Fund for Managing Natural Resource Wealth		
AidWorks ID:	INJ940	Total Amount:	\$5,000,000
Start Date:	9/5/2011	End Date:	30/6/2015

B: Appraisal Peer Review meeting details <i>completed by Activity Manager</i>	
Initial ratings prepared by:	Roland Rajah
Meeting date:	30/5/2011
Chair:	Paul Lehman, ADG ERDIR
Peer reviewers providing formal comment & ratings:	<ul style="list-style-type: none"> – Andrew Edge (Africa Section) – David Osborne (PNG)
Independent Appraiser:	– NA
Other peer review participants:	<ul style="list-style-type: none"> – Kirsty McNichol, Matthew Harding, Jonathan Gouy, Tanya Morjanoff (Economics Section) – Scott McNamara (East Timor) – David Gottlieb (Afghanistan) – Daniel Boettcher (Africa)

C: Safeguards and Commitments <i>(new!) completed by Activity Manager</i>		
<i>Answer the following questions relevant to potential impacts of the activity.</i>		
1. Environment	Have the environmental marker questions been answered and adequately addressed by the design document in line with legal requirements under the <i>Environmental Protection and Biodiversity Conservation Act</i> ?	Yes
2. Child Protection	Does the design meet the requirements of AusAID's Child Protection Policy?	N/a
3. Imprest Account	Does the business case and risk assessment support the use of an imprest account as the most efficient, effective and ethical use of Commonwealth funds in accordance with the Commonwealth Financial Framework and AusAID policy?	N/a

D: Initiative/Activity description <i>completed by Activity Manager (no more than 300 words per cell)</i>	
4. Description	<p>This proposal will provide a \$5,000,000 contribution to a new International Monetary Fund (IMF) Topical Trust Fund for Managing Natural Resource Wealth (the Trust Fund). The Trust Fund will be used to deliver technical assistance to improve economic management in developing countries rich in oil, gas and minerals. 51 countries with large current or prospective oil, gas and mineral sectors are eligible for assistance. The majority of eligible countries are in Africa. Other key recipients of Australian aid that are also eligible include: Papua New Guinea, Indonesia, East Timor, Afghanistan, Solomon Islands, Iraq, Cambodia, Laos, Vietnam and Mongolia. Targeted areas of support include: resource tax policy; revenue administration; macroeconomic policy; asset and liability management; and resource statistics.</p>
5. Objectives Summary	<p>The Trust Fund will make a contribution to the ability of partner countries to achieve sustained and broad-based growth and development. Some of the key outcomes which the Trust Fund is expected to contribute towards include:</p> <ul style="list-style-type: none"> • increased investment into resource sectors • increased employment creation • greater public revenues for investment in human development • enhanced transparency • improved macroeconomic stability

E: Quality Assessment and Rating *(no more than 300 words per cell)**completed by Activity Manager after agreement at the Appraisal Peer Review meeting*

Criteria	Assessment	Rating (1-6) *	Required Action (if needed)
6. Relevance	<p>Many resource-rich developing countries have suffered the so-called 'resource curse' and failed to translate resource wealth into broad-based growth and sustainable development. This is well recognised as a critical long-term development issue for a number of key partner countries; including Indonesia, Papua New Guinea, East Timor, Solomon Islands, Afghanistan and many African countries.</p> <p>A contribution to the Trust Fund provides a useful mechanism for delivering relevant support both to partners in our immediate region and also to numerous countries in Africa where AusAID is expanding its presence.</p> <p>The activity is generally aligned with AusAID's higher level objective of implementation of the MDGs. A positive impact on poverty reduction can be achieved through assisting partners to achieve fiscal stability and capacity.</p> <p>It is aligned with AusAID's governance work (and related TA) in a number of countries, including PNG, Indonesia, Timor Leste, and the Solomon Islands. In particular, it accords with the desire of a number of recipient countries who want to move gradually towards a relationship centred on trade and economic activities. It also aligns with current demands coming from several recipient countries, and AusAID's recent announcements to support developing countries engage with, grow and benefit from mining.</p> <p>The program design could be improved with a clearer articulation of what this TA means for service delivery and the resultant impacts on implementation of the MDGs. Activities funded through the TTF will need to ensure that they are complementary to other, region based, TA when implemented.</p> <p>AusAID would benefit from an agency strategy on mining and natural resource management issues.</p>	5	

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7. Analysis and Learning	<p>The design of the Trust Fund is based on the experience and learning of the IMF in economic management in resource-rich economies.</p> <p>The IMF's areas of expertise include tax policy (including for natural resources), revenue administration, macroeconomic management, macro statistics and fiscal transparency. The IMF can provide highly credible advice under the five modules proposed for the Trust Fund. One of its strengths is the oversight provided by IMF HQ both through the Secretariat and as part of design missions.</p> <p>However, the IMF program document does not provide a comprehensive discussion of the appropriateness of the form of technical assistance and how it will ensure its effectiveness.</p> <p>IMF technical assistance will be short term in nature, focused on guiding participating countries through an agreed reform process. A key issue will be whether partner governments have the capacity to effectively operate and maintain the reformed systems.</p> <p>However for the purposes of guiding reforms, the form of technical assistance is likely to be appropriate, particularly if the IMF TA is coordinated with existing and longer term TA.</p> <p>There may be a role for AusAID following IMF TA, to ensure the sustainability of reforms.</p> <p>Learning and analysis could be improved through engagement with existing (non-IMF) TA in relevant government agencies. For example, the Strongim Gavman Program will be an important stakeholder due to their integral role in the creation and implementation of fiscal policy.</p>	4/5	<p>AusAID will pay close attention to monitoring and evaluation outputs of the effectiveness of IMF technical assistance and use our presence on the Steering Committee to influence things as necessary.</p>
8. Effectiveness	<p>Assistance from the Trust Fund will be on a request basis. This demand led approach will help ensure that only countries with the requisite political will to undertake reforms are likely to request assistance.</p> <p>The TTF and its short term TA has some very ambitious outcomes listed. The argument that provision of demand driven TA will lead to success due to participant countries self selecting and therefore being reform minded may not hold. For example, PNG continues to demand a high level of TA, especially at the national level, in an environment where the reform agenda is not well supported at the political level and has therefore stalled.</p> <p>Once the TA has been delivered (i.e. via a report) to the recipient country it is not clear what follow-up may occur and what support will be provided to understand the recommendations and their implementation. Furthermore, the onus seems to be on donors to provide advice to countries in formulating requests and implementing reforms.</p> <p>A cause for concern is that the IMF is benchmarking against 2007 transparency standards, which may be somewhat out of date.</p> <p>The TTF could be strengthened by addressing how local conditions will impact policy advice, i.e. going from 'best practice' to 'best fit'. Such an approach would reduce that risk of addressing economic problems in isolation to political economy problems.</p> <p>Effectiveness will be determined case by case.</p>	3/4	<p>Through our role in the steering committee and in working with partners in formulating requests for TA from the fund, AusAID will need to:</p> <ul style="list-style-type: none"> Be aware of best fit, as opposed to best practice Ensure TA works across government and with external players (e.g. NGOs) Be realistic about what the TTF can achieve and what AusAID can actually drive Find out more about the mechanism for demand driven provision of TA.

E: Quality Assessment and Rating (no more than 300 words per cell)

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9. Efficiency	<p>Trust Fund assistance will entail short term missions by IMF staff mostly based in Washington. TA missions typically consist of Washington-based staff complemented with external experts to cover specialised topics and bring practical experience.</p> <p>External experts can be engaged as short or long-term resident advisors, but are always supervised by, and interact closely with, IMF staff. This "backstopping" ensures the TA is consistent with IMF best-practice advice. The systematic manner in which this is done stands the IMF apart from other TA providers and helps it realise its comparative advantage.</p> <p>Second, all TA outputs are always formally reviewed internally by both functional and area department staff, realising synergies between TA and the IMF's surveillance and lending operations. IMF TA reports are available to donors and other TA providers to provide an additional layer of quality control.</p> <p>The TTF <u>could</u> be an important mechanism for coordinating and harmonising donor assistance in the area of natural resource wealth management. There should exist an information feed back loop that improves the IMF's and partner donors' expertise, especially in terms of political economy considerations.</p>	5	
10. Monitoring and Evaluation	<p>The IMF's <i>Results Focused Management System</i> (RFMS) and the TTF logical framework provide a well structured and clear approach to M&E. The RFMS accords with AusAID's M&E processes.</p> <p>The logical framework for results management could be strengthened by including a number of PEFA indicators. For example, indicators covering transparency of inter-governmental fiscal relations (PI-8), multi-year perspective in fiscal planning (PI-12), and transparency of taxpayer obligations (PI-13). The use of these indicators would provide a known baseline measure.</p> <p>As with other TA monitoring and evaluation, the IMF will need to be careful about which results to attribute to TTF projects.</p> <p>The evaluation carried out at the three year mark could be strengthened by mandating the inclusion of one recipient country stakeholder, possibly a senior technical official that was privy to the assistance and possible related reforms.</p>	5	Through our engagement with the steering committee, AusAID should be involved in implementation of the monitoring and evaluation framework to ensure that it is effective both at country level evaluations and during the third year review.

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11. Sustainability	<p>It is expected that the majority of the TA provided will be demand driven. Based on this demand the design has assumed that a country will have a pro-reform agenda and therefore sustainability is possibly assured by the recipient government. There may be a cohort of pro-reform officials in a bureaucracy however, what this means within the broader partner government system is harder to gauge. Ownership at the institutional level (and possibly political) may be a minimum requirement for the types of fiscal policy reforms recommended under this activity. The issue of sustainability needs to be addressed, especially in how policy recommendations will be institutionalised. The current cadre of officials will move and politics will change. Who will continue to promote the reforms proposed by the TTF TA? Will the IMF's central TA database act as the corporate memory?</p> <p>The TTF has identified the need to engage with civil society to create the demand for better public policy. Such an initiative would have a positive impact on the sustainability of the TTF. Empowerment of civil society to demand fiscal policies that, among other things, more equitably share public resources would put greater pressure on non-reforming governments and create ownership amongst those that will benefit most.</p> <p>Could be improved by addressing issue of follow-up and training in the implementation of recommendations. A strategy for consensus building within the relevant agency and formalising linkages with existing support to central agencies and a formal process for dissemination across relevant stakeholders is required (i.e. more than just making reports available.)</p>	4	
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12. Gender Equality	<p>The activity does not discuss gender, and it is not clear if gender neutrality has been assumed.</p> <p>The IMF, through its literature has suggested that macroeconomic policies should take into account the benefits of reducing gender inequalities, especially in the lowest-income countries where these differences are most pronounced. In the past two decades literature has emerged that considers how gender differences in economic behaviour and in the effects of public policy decisions might usefully qualify the findings of macroeconomic analyses and affect the design of fiscal policies and, to a more limited extent, monetary policies.</p> <p>Furthermore, IMF literature has previously noted that generally the IMF seeks to prevent financial crises affecting developing countries, the burden of which falls disproportionately on the poor. For women particularly, this preventive role may be the most important one, since women may be the most susceptible to the adverse effects of a financial crisis.</p> <p>There is also a growing literature which suggests that a failure to model the contribution of women in the informal sector of the economy can result in distortions in both analysis and operational policy conclusions.</p> <p>The TTF targets civil society as a key part of its information dissemination strategy. Any engagement strategy will need to factor in gender dynamics, especially in the use of any public fora to disseminate the findings from research and analytical work.</p> <p>Could be improved by noting that TA provided will be guided by current and future literature on the topic of gender and fiscal policy setting.</p>	4	
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*** Definitions of the Rating Scale:**

Satisfactory (4, 5 and 6)		Less than satisfactory (1, 2 and 3)	
6	Very high quality; needs ongoing management & monitoring only	3	Less than adequate quality; needs to be improved in core areas
5	Good quality; needs minor work to improve in some areas	2	Poor quality; needs major work to improve
4	Adequate quality; needs some work to improve	1	Very poor quality; needs major overhaul

E: Next Steps *completed by Activity Manager after agreement at the Appraisal Peer Review meeting*

Provide information on all steps required to finalise the design based on <i>Required Actions</i> in "C" above, and additional actions identified in the peer review meeting	Who is responsible	Date to be done
1. < action >	< name >	< date >
2. < action >	< name >	< date >
3. < action >	< name >	< date >

F: Other comments or issues *completed by Activity Manager after agreement at the APR meeting*

<ul style="list-style-type: none">
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F: Approval *completed by ADG or Minister-Counsellor who chaired the peer review meeting*

On the basis of the final agreed Quality Rating assessment (C) and Next Steps (D) above:

- ☒ **QAE REPORT IS APPROVED**, and authorization given to proceed to:
- ☒ **FINALISE** the design incorporating actions above, and proceed to implementation
- or: ☐ **REDESIGN** and resubmit for appraisal peer review

☐ **NOT APPROVED** for the following reason(s):

KIRSTY MCNICHOL
A19
< name of MC / ADG >

KQ. McNichol
signed:

09 June 2011
< date >

When complete:

- Copy and paste the approved ratings, narrative assessment and required actions (if any) (table D) into AidWorks
- The original signed report must be placed on a registered file