

STATEMENT BY THE MANAGING DIRECTOR ON THE EVALUATION BY THE INDEPENDENT EVALUATION OFFICE ON STRUCTURAL CONDITIONALITY IN IMF-SUPPORTED PROGRAMS

Executive Board Meeting
December 12, 2007

Management welcomes the Independent Evaluation Office (IEO) report on Structural Conditionality in IMF-supported programs, which provides a wealth of useful information and echoes many of the findings of the staff's own analysis in the 2005 Conditionality Review. The IEO report has already been helpful in disseminating lessons for program design in the Fund and has triggered a stimulating discussion among departments on the subject of conditionality. In this regard, it has already served to enhance the Fund's learning culture.

It is important to recall that the streamlining initiative was intended to foster country ownership by bringing about a change in the Fund's mindset about program design; namely, from comprehensiveness to parsimony, thus serving to focus programs in key areas. The initiative, which culminated in a comprehensive revision of the Conditionality Guidelines in 2002, concluded that conditionality should be limited to measures that are: (i) critical to achieving program goals, (ii) critical to monitoring the implementation of a program, and (iii) necessary to implement specific provisions of the Articles or policies adopted under them. In particular, conditionality that is not critical for these purposes, however economically beneficial it may be, should not be established.

Moreover, as the Executive Board has stressed in many occasions, the "number of conditions is at best a crude metric", and more important than the number of conditions is "their quality and mutual consistency". In this regard, the primary aim is to tailor conditionality to program goals, recognizing that it is not uncommon for a single substantive reform to involve numerous steps and, as a result, it is more likely to include a number of conditions.

The IEO report provides evidence of considerable success in implementing the Conditionality Guidelines:

- There is evidence of a shift from comprehensiveness to parsimony in the coverage of con-

ditionality; in particular, fewer areas of reform are targeted, suggesting greater focus in the design of recent Fund-supported programs.

- In the IEO's own words, the streamlining initiative has "helped to shift the composition of conditionality towards Fund core areas," which are more likely to be critical to achieving the goals of the programs that the Fund is supporting.
- This change in mindset is also reflected in the IEO's finding that conditionality in some sectors has declined (for instance, in trade-related and public enterprise reforms—where the reform measures, though otherwise beneficial, may be less critical to achieving the goals of the Fund-supported program).
- While the IEO would prefer to see a greater reduction in numbers, it is worth noting that in their own view the vast majority (95 percent) of conditions do not require deep structural reforms. As such, they should not be onerous or unduly burden national authorities' implementation capacity.
- The IEO finds no evidence that programs with more conditions had lower rates of implementation; on the contrary, as one example, program delays were fewer.

The IEO states that Fund arrangements included conditions that seem not to have been critical to program goals. On this point, however, the report provides little specific evidence—and disregards the other important purposes of conditionality noted above. The IEO's view seems to be based on its "structural depth" indicator but, as noted in the staff response, limited depth does not necessarily imply that the measure was not critical for the Fund-supported program goals or the other purposes of conditionality.

The report suggests that structural conditionality has been ineffective because in 45 percent of cases it did not spur further reforms. Under the Conditionality Guidelines, however, conditionality is supposed to

underpin measures critical to the program's success, monitor program implementation, and facilitate implementation of the Articles—not to initiate reforms beyond the program period except, of course, for ensuring that external viability can be sustained. The IEO's view mixes the provision of policy advice with conditionality during a program, and could be viewed as intruding in national policy making and thereby undermining country ownership.

Finally, the IEO report argues that the Fund should play a subsidiary role in non-core areas of its expertise. However, the Fund must be responsible for its lending decisions and must ensure that the programs it supports can be successful. To do this, the Conditionality Guidelines require that conditionality cover all measures critical to achieving program goals—regardless of whether they are in core or non-core areas. Of course, in non-core areas, Fund staff should continue to draw on the expertise of other institutions.

We also agree with the report's suggestion that the link between program goals, strategies and conditions could be better explained and articulated in Board papers—and this should be monitored. We further agree with the report's emphasis on greater outreach. Fund outreach activities should aim at explaining the purpose of conditionality; indeed, it is important that our members, civil society, and other stakeholders understand both how much has already been achieved and what challenges remain ahead.

In conclusion, we welcome the IEO report and look forward to the Board discussion, which will provide the opportunity to draw out further the implications for the Fund's policies and procedures and for program design. The accompanying staff comments provides further details on our response to the Report's findings and recommendations. An implementation plan of Board-endorsed recommendations will be presented to the Board in early 2008.