

THE CHAIR'S SUMMING UP

IEO EVALUATION OF STRUCTURAL CONDITIONALITY IN IMF-SUPPORTED PROGRAMS

Executive Board Meeting
December 12, 2007

Executive Directors welcomed the report by the Independent Evaluation Office (IEO) assessing structural conditionality in IMF-supported programs. The report provides a wealth of valuable information. Directors broadly agreed with the IEO's findings, and noted that the IEO assessment gives useful impetus to the ongoing effort to make the Fund more focused and relevant.

Key IEO Findings

Directors commended the shift in the composition of structural conditionality towards Fund core areas. With fewer areas of reform targeted, there has been progress from comprehensiveness to parsimony in coverage, and a greater focus in program design.

Nevertheless, two important findings of the IEO report suggest that there is scope for further strengthening the implementation of the 2002 Conditionality Guidelines.

Criticality and number of conditions

Most Directors expressed concern regarding the IEO finding that the number of structural conditions did not decline significantly, and that some structural conditionality may have covered areas not critical to program goals. Many Directors recognized that it is important to consider not only the number but also the quality and coherence of structural conditions included in programs. Some Directors highlighted that criticality needs to be tailored to country-specific circumstances.

Ownership and potential for fostering future reforms

Directors took note of the IEO's finding that compliance rates on structural conditionality have been

low in many cases, and that often structural conditionality did not spur further reforms. Several Directors did not consider that conditionality should necessarily foster reforms beyond the program objectives. Directors agreed that strong country ownership of programs is essential, and some emphasized that conditions set for non-critical areas when requested by the authorities may serve to enhance ownership. Several Directors advised caution on setting conditions in non-critical areas at the request of donors.

Key IEO Recommendations

Directors broadly supported strengthened efforts to streamline conditionality, with parsimony as the guiding principle and a focus on measures critical to achieving program objectives. To enhance broad national ownership—and thereby compliance—Directors called for greater reliance on the authorities' views in setting conditions.

A possible “Notional Cap” on the number of structural conditions per year

Many Directors supported the IEO's call for a notional cap on the number of conditions—flexibly applied—as providing greater discipline in program design, as well as improving the focus and prioritization of conditionality. A majority of the Executive Board, however, saw a cap as overly rigid and mechanistic, which would compound the difficulty of tailoring programs to country-specific circumstances. The preferred way forward appears to be to strengthen efforts to achieve parsimony by focusing on criticality, and requiring rigorous justification for conditions. Better Board scrutiny of programs will be also important. To this end, some Directors reiterated their support for inclusion in program documents of text boxes that lay out the rationale for structural conditions.

A better articulation of program design and conditionality

Directors agreed with the IEO that the link between program goals, strategies, and conditions should be better explained in Board papers—and that this should be monitored. In particular, several Directors proposed that initial program requests include a roadmap describing the sequencing and linkage of conditions to stated program goals; some Directors proposed that final program reviews should include a stock-taking to compare stated program goals with their achievement.

Greater outreach

A number of Directors expressed support for the report's emphasis on greater Fund outreach to explain the purpose of conditionality, within the tight budgetary envelope. Many others, however, emphasized that clearer program documents should be the main vehicle for providing the rationale for the conditions included, and for dispelling misconceptions. Explanation of program measures was seen as the responsibility primarily of national authorities.

A possible elimination of structural benchmarks

Directors stressed that parsimony and a focus on criticality should apply also in setting structural

benchmarks. A majority of the Executive Board did not support the IEO's suggestion to eliminate structural benchmarks, with several Directors noting their importance as markers to assess progress on reforms.

A possible subsidiary role for the Fund in non-core areas

Most Directors reiterated that—consistent with the 2002 Conditionality Guidelines—Fund conditionality needs to cover all measures critical for program success, regardless of whether they are in core or non-core areas of the Fund, although the focus should be on core areas. Conditionality in non-core areas will require strong justification. In the design and monitoring of conditions in non-core areas, Fund staff should be able to count on the expertise provided by other institutions, notably the World Bank. Directors believed that rigorous implementation of the recently agreed Joint Management Action Plan will be key to resolving issues pertaining to Bank-Fund collaboration on conditionality, and called for strong management leadership in this regard.

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Directors looked forward to consideration of management's implementation plan of the Board-endorsed recommendations in early 2008.