IEO
Independent Evaluation Office
of the International Monetary Fund

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IEO Evaluates the Use of Structural Conditionality in IMF Lending

Project leaders Ruben Lamdany (left) and Javier Hamann (right) discuss the IEO's evaluation of Structural Conditionality in IMF-supported Programs with IEO Director, Tom Bernes (center).

The IMF imposes structural conditions on its lending that seek to strengthen the sustainability of macroeconomic adjustment, foster growth, guide the transformation of transition economies, and reduce poverty. In response to criticism from borrowers and third parties on the growing use of structural conditionality, the Fund since 2000 has sought to streamline the use of structural conditionality, reducing both its volume and scope.

A new IEO evaluation examines the factors influencing the effectiveness of structural conditions in promoting structural reform, and appraises the results of the Fund's streamlining initiative.

The study finds that during the evaluation period, 1995–2004, conditions became more focused but remained too numerous, and many were not tied to key program goals. Releasing the report in January 2008, IEO Director Tom Bernes noted that "progress has been made in better aligning IMF conditionality to its core areas of responsibility and expertise, but… achieving

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Corporate Governance Evaluated

Participants at a workshop organized by the IEO during the 2007 Annual Meetings. (From left) Marc-Antoine Autheman, former IMF & World Bank Executive Director; Jo Marie Griesgraber (New Rules for Global Finance Coalition); Peter Chowla (Bretton Woods Project); Scott Clark and Joanne Salop (IEO Advisors).

Work is coming to a close on IEO's evaluation of *Aspects of IMF Corporate Governance, Including the Role of the Board*. This evaluation, whose parameters are described in an Issues Paper posted on IEO's website in August 2007, assesses the Fund's major organs of governance—the International Monetary and Financial Committee (IMFC), the Executive Board, and Fund management—from the standpoint of effectiveness, efficiency, accountability, and voice.

To gather evidence the evaluation team consulted extensively with current and former members of the IMF Executive Board, management and staff, as well as with representatives of member country governments, central banks, and civil society. The views of these stakeholder groups were obtained through structured interviews, workshops, and detailed surveys. The evaluation report will also draw on background papers commissioned on a broad range of governance-related topics, including strategy formulation, the selection process for the Fund's Managing Director, financial oversight and control, the Executive Board's summing up process, ethical oversight and the management of conflicts of interest, and the role of the IMFC. Papers were also written comparing the Fund's governance arrangements with those of other inter-governmental organizations and in the private sector.

It is expected that the final report will be issued to the Executive Board in the near future.

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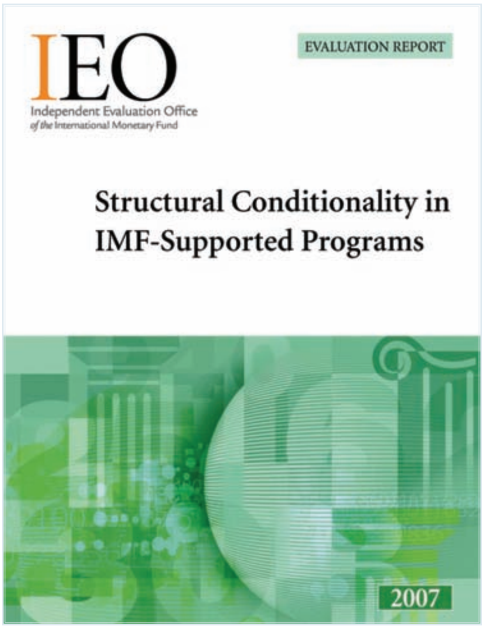
the stated objectives of the streamlining initiative—parsimony and criticality—remains an important challenge for the Fund. Greater efforts are needed in this direction."

Directors broadly supported strengthened efforts to streamline conditionality, with parsimony as the guiding principle and a focus on measures critical to achieving program objectives.

—Chair's Summing Up of the Executive Board Discussion



Main Findings

Through 2004, the average number of structural conditions in IMF-supported programs remained at about 17 per year—no smaller than in 2000 when the Fund's streamlining effort was launched. The conditions tended to be quite detailed and about one third of them reached outside the areas of core Fund competency. Most had little structural depth—i.e. had they been implemented, they would have brought about little structural change.

Only about half the conditions were met on time. Both compliance and effectiveness were higher for conditions in areas of IMF core competency, such as public expenditure management and tax related issues, and lower in areas such as privatization and reform of the wider public sector. Countries' compliance with conditions was only weakly linked to their subsequent progress in structural reform. Both for compliance and for continuity of the reforms supported, the key factor was the country authorities' ownership of the reform program.

The Fund's streamlining initiative had mixed success. One reason was a strong demand by other agencies for IMF conditions that could help them monitor their own programs with the borrowing countries. The initiative did help to shift the composition of conditionality toward IMF core areas and new areas of basic fiduciary reform, and away from controversial areas where conditionality had little impact. Nonetheless, even by the end of the evaluation period, Fund arrangements still included conditions that seemed tangential to the main goals of the programs.

Recommendations and new developments

The report recommends the IMF:

- Reaffirm the need to reduce the volume of structural conditionality. As a first step, a notional cap could be set at perhaps four or five conditions per year—half the current average for common types of conditions.
- Discontinue use of structural benchmarks.
- Limit conditionality to the core areas of IMF expertise and measures with high structural content.
- Develop a monitoring and evaluation framework linking conditions to reforms and goals.
- Show in program documents how the proposed conditionality is critical to achieve explicit objectives.

The IMF Executive Board discussed the report on December 12, 2007. Directors broadly agreed with the findings, and reiterated the importance of parsimony and criticality in the use of conditionality. Fund management is now preparing an implementation plan for the Board-endorsed recommendations, and this will be discussed by the Board in the coming months.

IEO Evaluation of Structural Conditionality in IMF-Supported Programs, including IMF management and staff responses, IEO comments, and the Summing Up of the Executive Board meeting are available at <http://www.ieo-imf.org/eval/complete/eval_01032008.html>

"Progress has been made in better aligning IMF conditionality to its core areas of responsibility and expertise, but... achieving the stated objectives of the streamlining initiative-parsimony and criticality-remains an important challenge for the Fund," said Tom Bernes, Director of the IEO.

IEO Launches Evaluation of IMF's Approach to Trade Policy Issues

The IEO has launched an evaluation of the IMF's approach to international trade policy issues. The draft Issues Paper laying out the main directions, areas of focus, and methodology proposed for the evaluation, can be found at http://www.ieo-imf.org/eval/eval_ongoing.html.

Follow-up to IEO Evaluations: Stronger Monitoring Procedures Now in Force

In response to one of the main recommendations of the Report of the External Evaluation of the IEO [http://www.imf.org/external/np/sec/pn/2006/pn0667.htm] (the "Lissakers Report"), the IMF Executive Board agreed in January 2007 on procedures for more thorough and systematic monitoring of the Fund management's follow-up to IEO recommendations. The new procedures have two parts. (1) In response to each IEO evaluation, Fund management will provide a plan for implementing those IEO recommendations endorsed by the Board, and will publish the implementation plan along with the summing up of the Board discussion; and (2) Fund staff will present to the Board a periodic monitoring report on the status of implementation.

The first of these periodic monitoring reports [http://www.imf.org/external/np/sec/pn/2008/pn0825.htm] was discussed by the Board in January 2008. Directors noted that IEO recommendations were having a substantial impact on how the Fund operates, and emphasized that the strengthened monitoring of implementation was important for effective institutional accountability and a strong learning culture. (See below for news on the latest implementation plan.)

Follow-up to IEO's Exchange Rate Evaluation: Specifics of Implementation Will Be Key

On September 12, 2007, IMF's Board of Executive Directors discussed IMF management's plan for following up the Board-endorsed recommendations made by the *IEO's Evaluation of IMF Exchange Rate Policy Advice*, 1999-2005. For each of the eleven recommendations (see Box), management's plan sets out the proposed actions in light of Board discussions [http://www.ieo-imf.org/eval/complete/eval_05172007.html].

Directors agreed that the plan advances the Fund's efforts to improve surveillance, which lies at the core of the Fund's mandate. They underscored the importance of monitoring progress and noted that the specifics of implementation of management's plan would be key:

- In light of the 2007 Decision on Bilateral Surveillance, Directors emphasized the importance of the forthcoming revision to the Fund's Guidance Note on Surveillance to provide greater clarity to conduct of exchange rate surveillance and to respond to IEO's recommendations.
- Directors welcomed the increased emphasis on exchange rate issues in surveillance.
- A number of Directors considered that a review of the system of exchange rates was crucial, especially with an eye to strengthening the Fund's assessments of exchange rate regimes.
- Directors highlighted other areas as requiring further careful attention by management and staff, including: actions to improve the dialogue with countries, and deeper analysis of the link between capital flows and exchange rates.

The next periodic monitoring report and the forthcoming Triennial Surveillance Review will provide the next opportunities for the Board to assess the implementation of the Board-endorsed IEO recommendations.

IEO Recommendations for IMF's Exchange Rate Policy Advice

1. Clarify the rules of the game for the IMF and its member countries.
2. Develop practical policy guidance on key analytical issues. Priorities include work on the stability of the system, including the first Board review since 1999; and the use and limits of intervention.
3. Give greater management attention to ensure effective dialogue with authorities.
4. Resolve inconsistencies and ambiguity in classifying exchange rate regimes.
5. Back up advice on exchange rate regimes with more explicit analysis.
6. Improve assessments of exchange rate levels.
7. Address serious problems of data provision.
8. Better integrate analysis of spillover effects into surveillance.
9. Achieve better focus on key issues on exchange rate analysis by clarifying responsibilities and accountability, and reconsidering structure of staff teams.
10. Agree on procedures and accountability to respect members' concerns about confidentiality of discussions.
11. Place strategic focus on opportunities for multilateral concerted policy action.

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In December 2007, IEO Director Tom Bernes spoke on "Cross-cutting Lessons from Evaluating the IMF and Consultations on the IEO Work Program" at a conference hosted by the Lee Kuan Yew School of Public Policy at the National University of Singapore. His remarks on "The Independent Evaluation Office: Lessons Learned, Emerging Themes, and Priorities for Future Work," are now available on the IEO website at www.ieo-imf.org.

Senior officials and academics from Southeast Asia attend a seminar co-hosted by the Lee Kuan Yew School of Public Policy at the National University of Singapore and the IEO.

In November 2007, the IEO co-hosted seminars on recent and ongoing IEO evaluations. In Berlin, the seminar on *IMF Exchange Rate Policy Advice and Aspects of IMF Corporate Governance* was held together with InWent. In Tokyo, the event on *IMF Exchange Rate Policy Advice* was organized in cooperation with the Asian Development Bank Institute.

In January 2008, IEO Assistant Director Ruben Lamdany presented the findings of IEO's evaluation of *Structural Conditionality in IMF-supported Programs* in Oslo, at a conference hosted by the Norwegian Ministry of Finance, and in Santiago, at the Economic Commission for Latin America and the Caribbean (ECLAC) during ECLAC's 20th Regional Seminar on Fiscal Policy.