

IEO COMMENTS ON MANAGEMENT AND STAFF'S RESPONSES TO THE EVALUATION OF STRUCTURAL CONDITIONALITY IN IMF-SUPPORTED PROGRAMS

**Executive Board Meeting
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The IEO welcomes management and staff's concurrence with several of the evaluation's findings and recommendations, and is pleased to learn that the 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.

The IEO agrees that progress has been made on a key objective of the Streamlining Initiative and the 2002 Conditionality Guidelines, namely, to better focus programs in core areas. However, the call for parsimony extended beyond the issue of which areas should be subject to conditionality. The guidelines established that conditions would only be included if their implementation was critical to achieve program objectives. The Initiative and the Guidelines also generated the expectation, both within and outside the Fund, of a decline in the number of conditions (as acknowledged in the Review of the 2002 Conditionality Guidelines conducted in 2005).

Set against these expectations, the evaluation found that the concept of criticality included in the 2002 Conditionality Guidelines has not proven to be a sufficiently strong filter to bring about the desired results. There has not been a significant decline in the average number of conditions per program year since 2000 despite the efforts to limit the areas covered. Also, conditions that were not critical continued to be included, e.g., SBAs approved in 2004 and 2005 included, respectively, conditions on the type of medical experts that could verify disability certification and on specific amendments to the Law of Misdemeanors (additional examples can be found in the case studies, including those in pages 62, 73, 107 and 117 of the Background Documents). It is against this backdrop that the IEO proposes a notional cap on the number of conditions to help further focus and reduce structural conditionality. Applied with some flexibility, the cap would force all stakeholders to prioritize and focus conditionality on critical reform, while leaving room to accommodate

country-specific circumstances without making the Fund vulnerable to "one-size-fits-all" criticisms. Such a notional cap would also respond to the views expressed by some staff to the IEO that incentives in the current review system (and Board oversight) continue to favor comprehensiveness over parsimony so as to avoid a criticism that something has been missed.

While staff have suggested a lack of understanding of the purpose of conditionality, in fact, the evaluation did examine the role of structural conditionality in achieving program objectives and in providing members with predictability regarding the availability of Fund resources while safeguarding the revolving nature of these resources. The low compliance rate with conditions and their low degree of structural depth (defined as the degree of structural change that they would bring about if implemented) suggest that, during the period under review, structural conditionality did not, in general, play a critical role in meeting these goals. If programs were meeting their objectives, then it is hard to see how these unfulfilled conditions could have been critical, or what role they played in providing predictability. It is also unclear how low structural depth conditionality could play a role in safeguarding Fund resources. Following this analysis, the evaluation went on to examine whether, despite these shortcomings, these conditions may have contributed to structural reform over time. The evaluation assessed the extent to which structural conditionality contributed to bring about durable changes consistent with the achievement of the program's stated objectives. These objectives extended well beyond the structural conditions prescribed by the programs in the corresponding sectors. Overall, the IEO found only a weak correlation between compliance with structural conditionality and furthering of reforms.

There appears to be some confusion on the evaluation's comments on the role of IMF conditionality in non-core areas. The evaluation found that struc-

tural conditionality tends to be better designed and to be complied with more often in areas where IMF staff have greater expertise. Conditions in core areas are also more likely to play a catalytic role for further reform. Thus the recommendation to focus conditionality in core areas and to play a subsidiary role in others. The IEO recognizes that in some cases, reforms in non-core areas may be critical for the achievement of program objectives, and that at times this could occur when neither the World Bank nor other multilateral organizations may be focusing on these issues. However, it should be expected that that would be the case for much less than one-third of

all conditions—the share of conditions in non-core areas found during the period of this evaluation. It is in these cases where the IEO recommends that further guidance from the Board be sought.

Finally, we welcome the recognition of the “need to undertake outreach that would expand the understanding of civil society and other stakeholders regarding the purposes and confines of Fund conditionality.” To do so effectively will require greater clarity from the Executive Board and in operational guidance than currently exists as to the purposes of conditionality and the concepts of criticality and parsimony as set out above.