

Main Findings and Recommendations

Main Findings and Conclusions

50. The following are the main findings and conclusions of the evaluation, which motivate its recommendations.

- 1) The number of structural conditions in Fund programs remained stable at about 17 per program-year, contrary to expectations when the streamlining initiative was launched. This was so, in part, because of a strong demand by donors and others to include SC in Fund arrangements as a monitoring tool for their own programs and initiatives, such as for HIPC or the EU accession process. Also, in some cases, members of the economic team requested specific conditionality to help them leverage their domestic policy goals.
- 2) The bulk of structural conditions had only limited structural depth: more than 40 percent of them called for preparing plans or drafting legislation and about half called for one-off easily reversible changes. Fewer than 5 percent required actual changes in legislation or other durable structural changes, and within this group fewer than one-third were complied with.
- 3) In spite of these factors, the large number of conditions was widely criticized as intruding in the policymaking process and detracting from society's sense of ownership of programs. Resistance to and stigma linked to IMF conditionality reflect in part the public's lack of knowledge and understanding about the different sources and types of conditions.
- 4) Only about half of the structural conditions were complied with on time. Moreover, there was only a weak link between compliance with SC in a Fund program and subsequent additional reforms in the corresponding sector—a weak measure of the effectiveness of conditions in bringing about reform.
- 5) Ownership of the reform program by a strong economic policymaking team is critical for the implementation of conditionality. But to sustain the reforms at the country and the sectoral levels, broader government ownership—at least ownership of the specific conditionality by the corresponding implementing bodies—seems to be a precondition.
- 6) Both compliance and effectiveness differed across sectors; they tended to be higher in the areas of core competency of the IMF, such as PEM and tax administration, and lower in non-core areas, such as privatization and reform of the wider public sector.
- 7) After the streamlining initiative was launched, the composition of SC shifted significantly toward IMF core areas, e.g., PEM and tax administration, as well as to new areas of basic fiduciary reforms, e.g., financial management and controls, which became important for donors trying to move their aid away from project-based to general budget support. At the same time, the IMF moved away from controversial areas where it had little impact and that largely fell within the World Bank's core competency.
- 8) There is a lack of clarity on whether the shift was fully consistent with the “criticality” requirement set by the CG. Many of the conditions do not appear to have been critical to the program objectives, while some policies that were not covered by conditionality may have been critical.
- 9) World Bank conditionality has moved away from issues such as privatization and restructuring of SOE that are considered part of the Bank's core competency. The simultaneous shift by both organizations raises questions as to whether some critical reforms were not addressed.

- 10) Progress has been uneven in ensuring that program documents are clear about criticality, i.e., about how specific structural conditions would support program objectives. Moreover, in most PRGFs the program documentation does not specify a roadmap for the intended reforms.

Main Recommendations

51. Policy review. The Board should clarify what it expects in terms of numbers and focus of structural conditions. The findings of the evaluation suggest that the Board would be well advised to reaffirm the need to use SC sparingly and only when it is critical for achieving program objectives or safeguarding IMF resources. As a first practical step, the Board could consider setting a notional cap on the number of structural conditions per program-year. Initially, the cap could be set at about one half of the current average of PCs and PAs, or some four to five conditions per year. This mechanistic constraint would force all parties (e.g., Board, management, and staff) to justify the “criticality” of each condition. To help implement this recommendation, the Board would need to clarify whether and how SC in IMF arrangements should continue to be used as a monitoring tool for donor-led programs and other initiatives. To address the demand for SC for these purposes, the Fund should consider greater use of non-lending instruments such as more frequent surveillance, and other existing or new monitoring tools.

52. Program and conditionality design. Staff should work with country authorities to identify clearly the main goals of each program and to set structural conditions that contribute significantly to these goals. Fewer prior actions and performance criteria should be used, and they should focus on reforms that are expected to have a significant and sustainable impact. To ensure their relevance and proper design, as well as to enhance their effectiveness, the conditions set should pertain to the core areas of IMF responsibility where staff has in-depth knowledge: fiscal and monetary policy, and certain aspects of finance and trade. The use of structural benchmarks should be discontinued, and conditions with low structural content should not be part of conditionality. Generally, the Fund should accommodate national authorities’ desire to have program-related documents address policies that are not subject to conditionality. But these documents should clearly distinguish between the conditions on which IMF financial support depends and other elements of the authorities’ policy agenda.

53. Cooperation with the World Bank. The sustainability of structural reforms and macroeconomic adjustments often depends on changes in a country’s wider public sector and on restructuring of quasi-fiscal expenditures. In setting SC in these areas, however, the IMF should play a subsidiary role to that of the World Bank, which has primary responsibility and greater expertise in these areas. The management of both organizations should consider means to help country authorities to diagnose constraints and prepare homegrown strategies for reform. Explicit Board guidance would still be needed in instances in which policy changes in non-core areas are deemed critical but effective cooperation with the Bank is unlikely to crystallize in time.

54. Development of a monitoring and evaluation framework. The assessment of whether SC in Fund arrangements was effective is complicated by the lack of an agreed framework to assess results and accountability, and the consequent lack of some of the necessary information. The Fund should develop a monitoring and evaluation framework linking conditions in each program to reforms and specified goals. This would provide a more robust basis for monitoring the implementation and evaluation of programs, as well as facilitating learning on what works and what does not. Such a framework would allow staff to better define what data need to be collected before, during, and after a program. As an interim measure, the staff needs to improve the system used to track conditionality (MONA), with a view to disclosing these data and thus facilitating accountability as well as learning by authorities in member countries.

55. Information in Board documents. Program documentation needs to be more explicit about the objectives being supported by the IMF and how the measures being proposed would help achieve these objectives. For PRGFs, in particular, program requests should be accompanied by an operational roadmap covering the length of the program, elaborating on the modalities of the reforms and on their sequencing and expected impact.

56. IMF outreach. Outside criticism of Fund conditionality and resistance to requesting IMF support for stabilization and economic reform programs may stem in part from misunderstandings about how structural conditions are set and by whom. While implementation of the recommendations above would likely improve the situation, the IMF would need a greater outreach effort to clarify these issues. To be effective, such an effort would need to be supported by the Executive Board and the member countries.