

INTERNATIONAL MONETARY FUND

**Implementation Plan in Response to Board-Endorsed Recommendations Arising from the IEO Evaluation of Structural Conditionality in IMF-Supported Programs**

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In consultation with the other Departments

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**I. INTRODUCTION**

1. **This paper presents an implementation plan for Board-endorsed recommendations arising from the IEO Evaluation of Structural Conditionality in IMF-Supported Programs** (“the IEO Report”).<sup>1</sup> The IEO report’s recommendations and the views of the Executive Board are summarized in Section II, followed by a description of the proposed initiatives which make up this implementation plan (Section III). Section IV concludes with a discussion of the projected resource cost associated with this plan.
2. **The IEO evaluation provides a renewed impetus to the Fund’s efforts to emphasize parsimony and criticality in the setting of structural conditions.** The IEO report’s key findings echo in many respects those provided in the 2005 Conditionality Review; specifically, evidence exists of a substantive shift in the composition of structural conditionality towards Fund core areas and Fund-supported programs cover narrower areas of reform. The IEO report argues, however, that conditionality may have covered areas not critical to the goals of Fund-supported programs, suggesting scope for strengthening the parsimony and criticality aspects of the 2002 Conditionality Guidelines (CG).

**II. IEO RECOMMENDATIONS AND BOARD RESPONSE**

3. **The IEO Report’s recommendations covered a number of areas related to structural conditionality.** Specifically, the recommendations covered six categories: policy review in terms of numbers and the focus of structural conditions; program and conditionality design; cooperation with the World Bank in non-core areas of Fund expertise;

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<sup>1</sup> “Evaluation of Structural Conditionality in IMF-Supported Programs,” Independent Evaluation Office, and “The Chairman’s Summing Up—IEO Evaluation of Structural Conditionality in IMF-Supported Programs” ([http://www.ieo-imf.org/eval/complete/eval\\_01032008.html](http://www.ieo-imf.org/eval/complete/eval_01032008.html)). This paper fulfils the requirement for Management to provide the Board a forward-looking implementation plan for the recommendations contained in the IEO report and endorsed by the Board.

development of a monitoring and evaluation framework; Board documentation and information; and IMF outreach activities. The key recommendations included:

- Clarify what is expected in terms of numbers and focus of structural conditions, including the introduction of a notional cap per program year.<sup>2</sup>
- Identify the goals of each program and set structural conditions (SC) that contribute significantly to these goals; the expectation is that conditions should pertain to core areas of Fund responsibility. Structural benchmarks should be discontinued.
- Ensure the Fund plays a subsidiary role to that of the World Bank in setting SC in areas where the latter has primary responsibility; Board guidance is required in non-core critical areas if World Bank cooperation is unlikely to materialize.
- Develop a framework for monitoring and evaluation linking conditions to reforms and specified goals, and improve and make public the MONA database.<sup>3</sup>
- Make program documentation explicit about the objectives being supported by the Fund and how the measures being proposed would help achieve these objectives; in the case of PRGFs, a roadmap of reform for the length of the program is needed.
- Intensify outreach efforts to clarify how structural conditions are set and by whom.

4. **Executive Directors broadly agreed with the IEO’s main findings and emphasis on strengthening efforts to enhance the design and focus of conditionality.** Directors broadly supported “strengthened efforts to streamline conditionality, with parsimony as the guiding principle and a focus on measures critical to achieving program objectives.” Nevertheless, Directors did not support some of the specific recommendations, including on the notional cap on the number of structural conditions, the elimination of structural benchmarks, and the need to play a subsidiary role to the World Bank in non-core areas of Fund expertise.<sup>4</sup> Instead, a majority of the Board wanted to achieve parsimony by focusing on criticality and requiring rigorous justification for conditions. Table 1 lists the IEO recommendations, the Board’s response, and the proposed follow-up to the Board-endorsed IEO recommendations.

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<sup>2</sup> The definition of *program year* in the IEO report follows the methodology proposed in the “2005 Review of Conditionality” (<http://www.imf.org/external/np/pp/eng/2005/030305.htm>).

<sup>3</sup> The MONA database records the program conditionality—quantitative and structural—of Fund arrangements and policy support instruments.

<sup>4</sup> Of course, as is already required in the CG 2002, reforms outside the Fund’s own areas of expertise should be designed drawing on the advice of other IFIs (notably the World Bank).

**Table 1. IEO Recommendations, Board Response, and Follow-Up Plan**

IEO RECOMMENDATION	BOARD RESPONSE	FOLLOW-UP PLAN
<b>1. Policy Review</b>		
1.1. Set a notional cap on the number of structural conditions per program year.	Not supported: “A majority of the Executive Board ... saw a cap as overly rigid and mechanistic, which would compound the difficulty of tailoring ... to country-specific circumstances.”	No further initiatives required; see, however, item 1.2 on parsimony.
1.2. Clarify what is expected in terms of numbers and focus of structural conditions.	Supported: “The preferred way forward appears to be to strengthen efforts to achieve parsimony by focusing on criticality, and requiring rigorous justification for conditions.”	<p>Under the 2002 Conditionality Guidelines (CG), program-related conditions will be established on all variables or measures that are (i) critical for achieving the goals of the program, (ii) critical for monitoring program implementation, and (iii) necessary for implementing specific provisions of the Articles of Agreement or policies adopted under them. The Staff Statement on the CG further explains that parsimony requires setting program-related conditions at the minimum necessary to achieve the above listed three categories. In effect this requires avoiding setting structural conditionality (SC) on reforms that might be desirable but are not critical for achieving the program goals.</p> <p>The staff plans to:</p> <ul style="list-style-type: none"> <li>• Propose changes to the Operational Guidance Note (OGN)—revised in January 2006—that would highlight the importance of a clear and thorough justification of the criticality of SC—covering to the extent possible the life of the program—in all initial staff reports. See item 2.1 below.</li> <li>• Assess the need for additional changes to the OGN that would serve to highlight parsimony and criticality while minimizing subjectivity; this would include guidance on how to deal with donor-driven conditionality and structural conditions introduced at the request of country authorities (see also item 2.4 below).</li> </ul>

**Table 1. IEO Recommendations, Board Response, and Follow-Up Plan (continued)**

IEO RECOMMENDATION	BOARD RESPONSE	FOLLOW-UP PLAN
<b>2. Program and Conditionality Design (continued)</b>		
<p>2.1. Identify the main goals of each program and set structural conditions that contribute to these goals.</p>	<p>Supported: “Directors agreed ... that the link between program goals, strategies, and conditions should be better explained in Board papers.”</p>	<p>At the time of the pre-brief meeting, staff should propose the program strategy that is necessary to achieve the program goals. To the extent possible, the framework of structural reforms that is considered critical for implementing this strategy during the program period should be discussed.</p> <p>Anticipated SC should be indicated—to the extent possible—at the pre-brief stage. Justification of SC would be strengthened in the briefing paper sent to management for approval. Such conditionality would be modified in light of discussions with country authorities. The purpose of such a process is to define the contours of reform that are critical to the programs as early and clearly as possible, including in terms of links between program goals and strategies, and the supporting conditionality.</p> <p>At the time of approval of a new UFR arrangement (and when new conditions are introduced during program reviews), Board documents will present a clear description of the links between program goals and program strategies, and their link to the proposed reform framework.</p> <p>Further, all future discussions of SC under a program (including modifications introduced during reviews) would be anchored in the reform framework presented in the originating program document. An expansion in the scope of SC outside the original reform framework would need to be justified in the staff report.</p> <p>Programs of longer duration might define SC at later stages but within the specified reform framework. If the program strategies are redefined during program reviews owing to new or unforeseen developments or, if applicable, the existence of a revised PRSP, program documents should reflect and justify these changes.</p> <p>See also item 2.4 below.</p>

**Table 1. IEO Recommendations, Board Response, and Follow-Up Plan (continued)**

IEO RECOMMENDATION	BOARD RESPONSE	FOLLOW-UP PLAN
<b>2. Program and Conditionality Design (continued)</b>		
2.2. Conditions should pertain to the core areas of IMF responsibility.	Not supported: “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.”	No further initiatives required.
2.3. The use of structural benchmarks should be discontinued.	Not supported: “A majority of the ... 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.”	No further initiatives required.
2.4. Accommodate national authorities’ desire to have program-related documents address policies that are not subject to conditionality. Documents should distinguish between conditions on which IMF support is binding and other elements of the authorities’ policy agenda.	Supported: “Directors agreed that ... 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.” Also, to enhance “ownership—and thereby compliance—Directors called for ... reliance on the authorities’ views in setting conditions” and several Directors advised against setting “conditions in non-critical areas at the request of donors.”	Although no further initiatives are required as these recommendations are already part of the CG, revisions to the OGN to clarify these matters is likely. For instance, the CG specify that the authorities might describe their program in the Memorandum of Economic and Financial Policies, and that they should distinguish between the SC on which Fund-financing depends and other elements of their program. See also item 1.2 above.
<b>3. Cooperation with the World Bank</b>		
The IMF should play a subsidiary role to that of the World Bank in setting structural conditions in areas in which the World Bank has primary responsibility.	Not supported: “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.” Directors, however, noted that in “the design and monitoring of conditions in non-core areas, Fund staff should be able to count on the expertise of other institutions, notably the World Bank.”	The ongoing Joint Management Action Plan provides a framework for strengthening Bank-Fund coordination in areas of overlap. In those rare cases where expert advice is not available, however, the Fund still needs to meet the requirement in the CG for including all critical reforms into SC. The contact group will attempt to develop additional guidance for those cases where expert advice is not available.
<b>4. Development of a Monitoring and Evaluation Framework</b>		
Develop a monitoring and evaluation framework linking conditions in each program to reforms and specified goals and improve the system to track conditions (MONA) with a view to disclose this data.	Supported: “Directors agreed...that the link between program goals, strategies, and conditions should be better explained in Board papers—and that this should be monitored.”	Establish framework within MONA to monitor the links between goals, reforms, and structural conditionality.  Issue annual updates (Board information) on the application of SC.  Make data in MONA available on the Fund external website—only for staff reports that are in the public domain.

**Table 1. IEO Recommendations, Board Response, and Follow-Up Plan (concluded)**

IEO RECOMMENDATION	BOARD RESPONSE	FOLLOW-UP PLAN
<b>5. Information in Board Documents</b>		
<p>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.</p> <p>For PRGF arrangements, 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.</p>	<p>Supported: ““Directors agreed...that the link between program goals, strategies, and conditions should be better explained...” In particular:...some Directors reiterated their support for inclusion in program documents of text boxes that lay out the rationale for ... conditions.”</p> <p>“...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.”</p>	<p>See item 2.1 and 2.4 above.</p> <p>Staff reports should include a description of the links between goals, strategies, and conditionality. A judgment that a condition is of critical importance for achieving program goals should be at the core of such description. One way of doing so would be for staff to quantify the impact of the implementation of SC on the macroeconomic framework of the Fund-supported program; it is recognized, however, that such assessment might not always be possible ex ante. In addition, in the context of reviewing the OGN, the contact group will assess if there is a need for additional guidance regarding the use of structural benchmarks.</p> <p>The use of an appendix table would be a possibility for establishing these links but would not be required; these appendix tables will not be subject to the usual word count limits.</p>
<b>6. IMF Outreach</b>		
<p>Greater outreach effort is needed to clarify how structural conditions are set and by whom.</p>	<p>Not supported: “A number of Directors expressed support for the report’s emphasis on greater Fund outreach.” However, “many others ... emphasized that clearer program documents should be the main vehicle for providing the rationale for the conditions” and that explanation of “measures was seen as the responsibility ... of ... authorities.”</p>	<p>No further initiatives required.</p>

### III. IMPLEMENTATION PLAN

5. **The implementation plan builds on the efforts at the Fund since the CG came into effect and on actions aimed at incorporating Board-endorsed IEO recommendations.** Specifically, Directors called for “strengthen[ed] efforts to achieve parsimony by focusing on criticality, and requiring rigorous justification for conditions,” which was judged by Directors’ as the “preferred way forward” in implementing the IEO

recommendations. Key components of the plan (Table 2) include: creating (in February 2008) an inter-departmental contact group<sup>5</sup> to implement the Board-endorsed recommendations and assess the need for changes in the Operational Guidance Note (OGN); producing an annual progress report summarizing the application of the CG; changing the MONA database to improve structural conditionality monitoring; and making the MONA database public.<sup>6</sup>

**Table 2. Deliverables and Expected Completion Dates**

<b>Deliverable</b>	<b>Expected Date</b>
1. Creation of inter-departmental contact group	February 2008
2. Revise OGN on conditionality	July 2008
3. Modifications to the MONA database	
Put in place a system to track goals and strategies and its links to conditions	July 2008
First annual monitoring report	August 2008
Availability in IMF external website	End-2008

6. **The inter-departmental contact group on conditionality was tasked with developing proposals to implement the Board-endorsed recommendations.** The group has emphasized the need to achieve greater parsimony and criticality in the setting of conditionality, and has proposed measures to improve program documentation; namely, through explicit links between program goals, strategies, and conditionality.<sup>7</sup> Specifically:

- In line with the CG, program-related conditions will be established on all measures that are (i) critical for achieving the goals of the program, (ii) critical for monitoring its implementation, and (iii) necessary for implementing specific provisions of the Articles of Agreement or policies adopted under them. Moreover, as noted in the Staff Statement on the CG, parsimony requires setting program-related conditions at the minimum necessary to achieve the above three listed categories. In this context, it is worth noting that parsimony in conditionality does not necessarily imply

<sup>5</sup> The contact group includes representatives from area departments, PDR and LEG, as well as representatives from key functional departments (FAD, MCM, and RES).

<sup>6</sup> The first annual report (August 2008) would provide an update of the application of structural conditionality as of end-2007, thus extending by three years the programs and reviews covered by the IEO report; information regarding the link between program goals, strategies, and structural conditions will be reported in the annual report to be issued in calendar year 2009.

<sup>7</sup> These proposed changes would be consistent with the guidance already received from the Board ([http://www.ieo-imf.org/eval/complete/eval\\_01032008.html](http://www.ieo-imf.org/eval/complete/eval_01032008.html)), but the details will be finalized after the meeting of the inter-departmental contact group described in this MIP.

parsimony in the authorities program; indeed, a Fund-supported program is typically intended to focus only on a subset of the authorities' goals and policies. In addition, Fund-supported programs should refrain from setting SC in areas of reform that might be desirable but are not critical for achieving the program goals. Hence, while the authorities could continue to describe other key structural measures that serve to achieve their broader goals in the Memorandum of Economic and Financial Policies (MEFP) together with progress in implementing these reforms, these should not be part of Fund conditionality.

- Staff will propose the policy strategy necessary to achieve the program goals at the pre-brief meeting. This strategy should include a preliminary indication, to the extent possible, of the structural conditionality that might monitor program implementation. The rationale for prospective program structural conditionality will be elaborated in the briefing paper that is approved by management. Obviously, such conditionality would need to reflect the outcome of discussions with country authorities. This process is intended to define the contours of the proposed structural reforms that are critical to programs as early and clearly as possible, including links between program goals and the supporting structural reforms. It will also facilitate preparation of the Board documents, particularly the enhanced focus on providing a clear explanation for structural conditionality and its links to the program goals.
- Require a clear and full justification of the criticality of SC in briefing papers and program documents—covering, to the extent possible, the life of the program—through describing the sequencing and linkages of conditionality with the program goals and strategies. An appendix table (a best practice example will be added to the OGN) would be one way of describing such links, but would not constitute a requirement.<sup>8</sup> When possible, staff should attempt to quantify the impact of the implementation of SC on the macroeconomic framework of the Fund-supported program, though it is recognized that in many cases it will be difficult to make firmly based estimates.
- All UFR Board documents will present the justification of the SC at the time of approval of new arrangements and when new conditions are introduced during program reviews. All future program-related Board documents would anchor any discussion of structural conditionality in the originating program documents. An expansion in the scope of SC outside the original reform framework would need to be justified in the staff report for each program review.

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<sup>8</sup> After the IEO report on structural conditionality was issued, staff conducted a qualitative assessment of staff reports approved in 2004–05–60 staff reports were evaluated. Each staff report was read by two different staff members. This assessment did not find that the existence of a text box improved the clarity of the reform framework in terms of links between goals and strategies and the supporting SCs. Revisions to the OGN will include a best practice example of an appendix table; this appendix will be excluded from word count limits.



- Programs of longer duration might define SC at later stages but within the already specified reform framework. If the program strategies are redefined during program reviews owing to new or unforeseen economic developments or the existence of a revised PRSP, program documents should reflect these changes.

Against this background, the contact group will review and propose changes to the OGN, in particular to highlight the importance of a clear and thorough justification of criticality, and the need to clarify the links between goals and strategies. The group will also assess the need for additional changes to the OGN to better serve the objectives of parsimony and criticality. Dealing with donor-driven conditionality or conditionality introduced at the request of the authorities is also vital to ensure that neither parsimony nor criticality are compromised. In revising the OGN, language will be incorporated consistent with the 2002 CG approved by the Board and the approach endorsed by the Board during the discussion of the IEO report. The revised OGN will be circulated to the Board for information and posted on the PDR website.

**7. A framework for monitoring (within MONA) the links between goals, strategies, and conditionality in program documents will be implemented in 2008 and include:**

- The current system for monitoring structural conditionality (MONA database) will be enhanced to cover the documentation of conditionality in Board papers; e.g., the inclusion of a description of the links between goals and strategies. A qualitative assessment of these linkages will be made during conditionality reviews.
- Summary statistics on conditionality and their documentation will be produced on an annual basis for circulation to the Board (information only) and review officers.
- The MONA database will be made available on the Fund's external website for staff reports in the public domain; annual updates of the MONA database will be made available in the Fund's external website shortly after the annual report with summary statistics on the application of SC in Fund-supported programs is issued.

**8. Knowledge dissemination will be limited to initiatives already in progress, including the implementation of the Joint Management Action Plan (JMAP) to enhance Bank-Fund collaboration.** To achieve improved knowledge base for implementing critical reforms, work is underway to implement the JMAP to strengthen Bank-Fund collaboration. One of its central elements is to engage jointly in country-level discussions of work programs that would serve to guide Fund and Bank operational work. The expectation is that country teams in both institutions will agree on instruments, macro-critical sectoral issues, and the specific knowledge inputs needed from the other institution to prepare operational work.

#### IV. ESTIMATED COSTS

**9. The one-time resource costs amount to US\$75,000, largely associated with the revision of the OGN and enhancing the MONA database; annual monitoring costs are small (\$10,000).** The inter-departmental contact group will recommend changes to the OGN before mid-2008 that could strengthen parsimony and criticality, and serve to improve

program documentation along the lines discussed in this MIP. The cost of this revision to the OGN and preparatory work is estimated at \$30,000 in FY2009. To implement the MONA enhancements, the cost in IT expenses is estimated at \$35,000 in FY2009. This includes putting in place a system to track goals and strategies and their links to conditionality. The preparation of an annual monitoring report and making available the MONA database on the external website is expected to cost an additional \$10,000 per year.