INTERNATIONAL MONETARY FUND

Conditionality in Fund-Supported Programs: External Consultations

Prepared by the Policy Development and Review Department

In consultation with other departments

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1. The IMF, as part of its review of conditionality, is soliciting comments from the public through a series of seminars and through its website and a News Brief. Seminars that the Fund is co-sponsoring with host organizations include one on conditionality and ownership, held in Berlin on June 11-12, 2001, under the auspices of the Fund and the German Foundation for International Development; one on issues pertaining to countries in Asia, held in Tokyo on July 10, 2001 and sponsored by the Fund and the Ministry of Finance of Japan; and one on issues pertaining particularly to low-income countries, held in London on July 23-24 and co-sponsored by the Fund, the Commonwealth Secretariat, and the World Bank. Other events on these topics that are still being planned, at least one of which should be held in a developing country, will also help inform the review.

2. This paper summarizes the responses submitted through the website and the findings of the external seminars, held in Berlin, Tokyo, and London..

I. Public Comments

3. In seeking comments from the public, the staff made available the papers discussed by the Executive Board on March 7, 2001; the Public Information Notice (PIN) summarizing that discussion; and several background papers on the terms and practice of conditionality.[1] As those papers illustrated, a number of issues were unresolved on which the views of stakeholders, including non-governmental organizations (NGOs), academics, and other members of civil society, could be helpful. These included:

- where to draw the line between measures that are critical to program objectives and those that are less critical but still important;

[1] See http://www.imf.org/external/np/pdr/cond/2001/eng/overview/index.htm. The deadline for inclusion of submissions in this report was June 30, 2001.

- how to improve coordination and collaboration with the World Bank and other organizations, especially on policy issues that are outside the Fund's core areas of competence and responsibility;

- how the IMF should respond when its financial support is requested by a country that lacks a strong commitment to policies that the Fund judges to be necessary to achieve a sustainable external position and economic growth;

- the scope for results-based conditionality, focused on the achievement of (or progress toward) policy goals and outcomes rather than on specific economic policies; and

- the requirements for the Fund to effectively promote countries' ownership of the policy reform agendas embodied in conditionality.

4. Nearly 50 comments were submitted by academics, government officials, NGOs, and other individuals, from developed, developing, and transition economies.[2] Comments were wide ranging, from very general ones on the role and effectiveness of conditionality to specific suggestions on its application. Though certainly neither a comprehensive nor a scientific sampling of public views and opinions, this exercise provides valuable insights in a broader perspective than would otherwise be available.

5. Most contributors considered that the present review of conditionality was welcome and timely, but many questioned whether the Fund has yet gone nearly far enough in making its determination of conditionality into a transparent, and participatory process. Most agreed that the expansion of conditionality during the 1990s had stretched countries' capacity to implement reforms, and they welcomed the move to streamline and focus conditionality on the IMF's core areas of expertise. A few, however, cautioned that premature or excessive streamlining could harm the interests of the international community in supporting good policy making and diminish the effectiveness and flexibility of conditionality. Others questioned whether streamlining conditionality meant only a reallocation from the Fund to the World Bank, conveying little or no benefit to the country. Other prominent themes in these submissions related to the need for ownership of reform programs; the horizon, sequence, and pace of required policy implementation; the institutional design and division of labor between the IMF and World Bank; relevant versus critical measures; the scope for results-based conditionality; and the political economy of reform.

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[2] This total excludes submissions that did not address issues related to conditionality. For a list of contributors, see Annex I. The full text of each submission is being made available on www.imf.org and is being circulated to the Executive Board.

The Role of Conditionality

6. *Does IMF Conditionality work?* Several contributors expressed skepticism about the effectiveness of conditionality as presently practiced by the Fund, but others noted the difficulty of making such assessments. While some academics who have studied this issue reaffirmed the importance, desirability, and effectiveness of conditionality, including on structural policies, they cited the difficulty of testing what would have happened in countries if a program had not been adopted. One contributor pointed to the lack of empirical evidence as to whether the expansion of conditionality reduced or enhanced the results of Fund-supported programs and called for much more thorough analysis of how conditionality actually works. Others questioned the effectiveness of conditionality more generally, citing what they perceived as the poor record of the effects of Fund-supported programs on a range of economic outturns, their limited impact on key policy variables, the number of program interruptions due to noncompliance with programs, and what one contributor calls "recidivism": the fact that many developing countries have to keep coming back to the Fund for further assistance.

7. As for remedies to poor effectiveness, a few NGOs felt that the IMF should do away with conditionality altogether. In their view, IMF financing should be based on the needs of the respective countries, and the policies to be taken up should be the prerogative of the countries. Another noted that effectiveness requires that conditions have the right scope and focus. Inappropriate conditions will either lead to immediately ineffective outcomes or endanger domestic support and gradually erode effectiveness. Others made a more general argument, that for conditionality to work better the IMF needs to take the politics of reform as seriously as it does the economics.

8. *Appropriateness of policy conditions.* Some commentators, particularly the NGOs, felt that the debate was too narrow and needed to be opened up to review the relevance of conditionality in general. Rather than focusing on the number and type of conditions, and confining the debate to the link between fulfilling structural policy conditions and access to fund resources, the debate would benefit from wider discussion about the need for policy conditions and about their very nature. According to them, the IMF should assess more deeply whether its policy conditions have been appropriate in a given country and should propose criteria by which to judge their appropriateness case by case. Further, a rationale for including structural conditions in the Letter of Intent (LOI), alongside the list of performance criteria, would serve to better explain Fund-supported programs. One NGO questioned whether conditionality within Fund-supported programs for low-income countries would be derived effectively from the priorities specified in countries' Poverty Reduction Strategy Papers (PRSPs).

9. *Dependence on the type of program*. Several comments stressed the importance of differentiating between conditionality as part of a longer-term structural reform program and the conditionality necessary for a country to overcome temporary pressure on its currency and foreign exchange reserves. They called for more analysis of crisis situations, particularly in the context of highly integrated global capital markets. They also noted that effectiveness of

conditionality in a crisis requires that it be determined and implemented quickly; while this imperative may limit the scope for comprehensiveness and promotion of domestic ownership, there are dangers in this trade-off. Imposing inappropriate conditionality in the midst of a currency crisis could damage the credibility of a government to control the economic situation and worsen the effect of such a crisis on the economy. A potential trade-off between rapid formulation of crisis-response conditionality and the need to lend under adequate safeguards was also noted in a few submissions.

10. *Modalities of conditionality*. Some commentators worried that the benefits of streamlining might be offset by an expansion of informal conditions or prior actions, and they suggested that the presumption of parsimony should extend to prior actions. Several noted anomalies in the treatment of conditions across countries. The number of prior actions differs markedly between countries; in some cases, the number of conditions increases as the program continues; and a specific measure such as privatization of a state-run enterprise might be a structural performance criterion for one country and a prior action in another. They called for better explanations in each program as to the choices made in different cases.

11. One contributor made the case for reviewing conditionality in the context of a country's past experience with IMF-supported programs. For instance, does incomplete program compliance lead to the use of more prior conditions in future programs? If partial completion is due to a breakdown in a particular area such as monetary policy, do future programs attempt to remedy the weakness by including structural measures, such as policies designed to enhance central bank independence or its capabilities? Such empirical analysis, it was noted, might provide a fuller understanding of the impact of conditionality over time and of how successive programs could respond to past deficiencies. In the same vein, policy design could benefit from an analysis of the reasons for non-compliance with past programs, such as tensions over the impact on income distribution that some structural measures may entail. Future programs could explicitly address this problem, through provision of social safety nets or other measures that might mitigate the effect of the initial policy change.

The Scope for Parsimony

12. Many contributors expressed support for focusing conditionality in IMF-supported programs on areas that are of direct relevance to macroeconomic stabilization. These include monetary, fiscal, and exchange rate policy and financial sector issues. Structural measures critical to progress in these areas would also be included. One contributor noted that clear distinctions between what is a critical and why and what is relevant will be of importance to financial market participants.

13. *Determining what is critical for success*. One submission suggested that a practical measure of whether a policy is critical for program success is whether, without the implementation of this measure, macroeconomic stabilization is not to be expected within the period during which a member has access to Fund resources. Conditions beyond those that are deemed macro-relevant or critical (with a clear motivation by staff), should be taken up by other international organizations or in national country programs. Others argued that if

policies cannot be clearly linked to the macroeconomic health of a country, they should not form part of the IMF's conditionality. Yet others took a longer-term view and argued that impacts on poverty and the environment should be given greater priority.

14. One paper emphasized the difficulties in separating critical from relevant measures. In many countries, a multitude of structural impediments can make the outcome of a program doubtful, particularly in terms of medium- to long-term sustainability. Thus a critical mass of structural conditions can be absolutely crucial without any individual condition being critical on its own. In light of these complexities, the paper concluded that streamlining conditionality requires a large element of judgment, which may increase the probability of errors in selecting conditions in Fund-supported programs. Another commentator, although unconvinced of this "synergy" in conditionality—that is, a critical mass that facilitates progress in related areas and thus improves compliance—suggested further empirical studies on such relationships. Structural conditionality in one program may have a long-term pay-off and increase a country's ability to comply with other policy measures in future programs, thus opening the possibility of "sequencing" structural conditionality.

15. Another paper addressing this topic argued that conditionality needs to make a sharper distinction between mandatory conditions—actions that are required in order to get access to a loan—and advice that is non-mandatory. Mandatory conditions should relate to policy variables that are easy to define and control and should be capable of being monitored. Otherwise, the Fund can still make recommendations but it should seek to persuade rather than coerce, and there should be genuine dialogue about policy reform. At the same time, the paper argued, there should be stiffer penalties for failing to implement agreed measures subject to conditionality. Canceling a program is not much of a penalty if another program can quickly replace it.

Trade Policy Conditions

16. One academic contributor strongly criticized the staff paper on trade conditionality, alleging that it substituted free-trade ideology for economic analysis. He suggested that the staff, in making the case that trade liberalization strengthens growth, had relied on studies that use variables unrelated to trade policy (e.g., black market currency premiums or policy instability) to estimate linkages between trade and growth. In fact, he argued, the effects of trade liberalization on growth cannot be separated from the effects of macroeconomic stabilization and other reforms. Another contributor, while convinced of the beneficial impact of trade liberalization and openness on growth and skeptical about the arguments made by the first contributor, was uneasy about the institutional appropriateness of conditioning IMF support on trade liberalization.

17. These arguments against trade liberalization conditions in Fund-supported programs were reinforced by some NGOs, who argued that the paper on trade conditionality makes a very uncritical assessment of the impact of and criteria for such conditions. In their view, trade agreements should be negotiated between countries, not imposed by the IMF on developing nations. Further, the rationale for trade liberalization should be clearly explained

and the links to poverty alleviation made clear. In addition, the appropriateness of trade conditionality depends on whether the measures being considered have been agreed in the WTO.

Coordination with Other Agencies

18. Contributors generally agreed that aiming at structural goals such as longer-term growth, development, and poverty reduction requires coordination with the World Bank and other multilateral institutions. Respondents noted that if the Bank and the Fund are to distinguish their conditionality, they must first better focus their activities, with a clearer division of labor. Hence Fund stabilization objectives should not be muddled with the Bank's concerns with sustainable development and poverty reduction. It was recognized that in some cases, this might result in the Bank and Fund taking different views on when lending is appropriate. Some advocated making more explicit the distinctions between areas where IMF staff should advise governments and those that should be left to other institutions.

19. Some concerns were expressed about the extent to which other institutions are able to take up conditions relinquished by the Fund. Contributors observed that the IMF seemed to lack a clear strategy for streamlining conditions in middle-income country borrowers, where a World Bank lending program may not exist. In these circumstances, streamlining conditionality would leave a crucial gap. In this view, the Fund should continue with its present practice of evaluating and imposing structural conditions outside its core areas until mechanisms are in place for closer coordination between the Fund and other relevant international organization. Others suggested that the Fund should dedicate more resources to developing a framework for coordination with other international organizations that would ultimately allow it to transfer structural conditionality outside its core areas, along the lines worked out with the World Bank for low-income countries.

20. Some contributors decried the extent to which other creditors and donors deferred to the Fund for the conditionality on their own assistance. In this view, independence conditionality on the part of other agents—particularly the Paris Club—could be a useful disciplinary force and could enable the Fund to focus its own conditionality on macroeconomics.

Promoting Ownership

21. Contributors expressed varied views on the concept of ownership. Most accepted that ownership matters because it positively influences commitment to reform. While there was general agreement that limiting both the number and the scope of conditions is helpful in securing national ownership for an IMF-supported program, a few noted that causality runs in both directions: better commitment justifies fewer conditions. Others, most notably some NGOs, saw a fundamental contradiction between conditionality and ownership. To some, programs were often seen as designed and "owned" by the Fund, and not by the country. What constitutes an "owned program" and how it can be identified ex ante was also questioned by some commentators. For others, focusing on ownership is not enough.

Governments often use conditionality as leverage to make policy changes, which makes ownership and implementation questionable. Much more work is needed on the prerequisites for successful implementation.

22. According to some, effective ownership depends on a knowledge base and a country's capacity to design, implement, and monitor policy reforms. The IMF should therefore promote greater policy dialogue with governments and other agencies, and greater collaboration with various partners (including on technical assistance) in building such capacities. To enhance ownership, some encouraged both the Fund and individual countries to consider different scenarios or policy alternatives to addressing economic imbalances. Countries should be offered a real choice with respect to the measures they prefer to implement. In this vein, one comment recommended that to strengthen the position of member states, the authorities should develop and seek parliamentary approval for a "national adjustment program" whenever they decide to approach the Fund for financial assistance. Unlike a PRSP, this NAP should not be endorsed by the Fund. The country should have absolute freedom as to its processes and content, with minimum Fund involvement.

23. Some submissions expressed support for results-based conditionality (conditions on performance outcomes rather than on policy actions) as a means of promoting ownership and of allowing countries greater flexibility. It was acknowledged, however, that close and regular staff monitoring would be necessary to ensure that reforms do not have unintended social consequences, especially at times of financial crisis. Other contributors to this discussion noted that in practice the Fund has been and should remain somewhere in the middle between action-based and results-based conditionality. They cited the uncertainty of policy effects on results over time and the need for timely balance of payment financing. Using reviews in Fund-supported programs to measure results is one way of addressing this inherent uncertainty in the relationships between policies, intermediate targets, and desired results. However, reviews would need to retain some flexibility—by moving the goal posts, so to speak—where appropriate.

24. As transparency is crucial for ownership, almost all welcomed the decision to clarify in program documents which aspects of the LOI are conditions for IMF assistance. In addition, many contributors, particularly the NGOs, suggested making public all staff assessments of program reviews. National ownership and IMF accountability would be further assisted by releasing program documents in draft form prior to government and board approval. Real-time assessments of how conditions have been decided in country programs should be made openly and in a timely fashion, as should upstream reviews of upcoming programs.

Selectivity in Providing Financial Support

25. A related issue concerns the extent to which the Fund could and should be more selective in providing financing in support of programs with low probabilities of success. Greater selectivity, achieved by requiring borrowers to demonstrate *ex ante* the ability to implement successful policies, would reduce the debtor's moral hazard. Most of those who

addressed this issue also maintained that ensuring the credibility of IMF-supported programs and their favorable catalytic effects—both of which are being increasingly called into question—will require a higher rejection rate for programs judged to have a low chance of success. To do so effectively would require strengthening the Fund's technical ability to assess the degree of ownership of programs by the authorities and the likelihood of their being able to implement policy reforms.

26. One submission suggested that the Fund should refuse to lend to countries for a period of time after the breakdown of a program and should not permit countries to time their borrowings to coincide with electoral cycles. On balance, however, most contributors did not support the suggest of the Meltzer Commission that the Fund should lend only to countries that pre-qualify. The Fund had to serve the needs of its members even if this meant taking risks. In addition, one paper saw a danger in limiting IMF lending, either by explicit decisions or in terms of practical outcomes, since the long term viability of the IMF depends on its being as inclusive as possible. A contrasting submission argued that the effectiveness of lending would be strengthened if the Fund refused to lend to totalitarian regimes or to those with a record of human rights abuses.

Political Economy of Reform

27. Several contributors referred to the unavoidable political economy component in IMF conditionality and felt that more work was necessary to discover what mix of political institutions allows for strong ownership and good adherence to Fund performance criteria. They noted a lack of discussion of domestic political factors that can contribute to successful implementation. If the Fund seeks to improve the implementation rate of its programs, then this necessitates designing prior actions and performance criteria that are politically as well as economically viable. The Fund, in this view, should devote much more of its analytical resources to studying the political science literature, particularly on ownership issues.

28. According to one contributor, the staff papers exaggerate the case for effective conditionality by underestimating or ignoring ways that conditionality might undermine domestic political support. Notably, he argued that insufficient attention has been paid to the issue of the heterogeneity of preferences within the recipient governments (i.e., the fact that many governments are coalitions of parties that may have different views about the reform program). Related to this issue is the importance of "sovereignty and independence" as a crucial variable in the political market. A pro-reform government that is accused of selling out the country by the opposition (or by some members of the coalition) may be prompted to renounce its reform agenda as a way of placating nationalistic fears. The outcome would be less likely if aid were not seen as conditional, since the connection between the reform program and loss of national sovereignty could not be exploited by anti-reform elements. At times, unconditional aid may help provide reformers with much needed "oxygen" to maintain their reformist drive.

II. BERLIN SEMINAR

29. The Development Policy Forum of the German Foundation for International Development (DSE) hosted an international policy dialogue on the theme of "Ownership and Conditionality" in Berlin on June 11-12, 2001. The dialogue was co-organized with the IMF, in close collaboration with the German Ministry for Economic Cooperation and Development. The conference brought together key decision-makers from around the world, from the IMF and other international organizations and the European Union, and from Germany's public and private sectors to reflect on the relationship between conditionality and ownership in the context of Fund-supported adjustment programs and to contribute to the ongoing debate on the streamlining of conditionality in such programs.[3]

30. Following the introductory remarks, the conference was organized in five main sessions: (i) overview; (ii) capacity to implement reforms; (iii) ownership and political economy of reform; (iv) alternative modalities of conditionality; and (v) streamlining conditionality and enhancing the policy dialogue.

31. The discussion touched upon, among other topics, the appropriateness of the IMF's policy advice during the Asian crisis; the use of capital controls during crises and the potential risk of capital account liberalization; the role of the IMF in crisis prevention and in development assistance; and the voting structure and agenda of the Fund. As regards "ownership and conditionality" more narrowly construed, the featured speeches and ensuing discussions centered on six main issues.

32. First, conditionality was seen as key to all borrower/lender relationships and would remain an indispensable part of the relations between the Fund and its member countries. Conditionality, it was argued, provided both assurances to borrowing countries and safeguards for Fund resources. Nonetheless, participants broadly agreed that the expansion of structural conditionality in recent years had given rise to increasing tension between conditionality and ownership. Moreover, it was felt that the expansion of conditionality outside the Fund's core areas—and some participants argued, even within these core areas—had, at times, stretched the Fund's expertise to its limits. As such, participants generally agreed, the Fund should focus its conditionality more narrowly and not adopt the agendas of interest groups, whether bilateral donors, other creditors, NGOs, or even the country's authorities. Some participants went further, arguing that the Fund is not well equipped to deal with structural adjustment and should therefore return to the pre-1980s paradigm of conditionality, limiting both its policy advice and conditionality to traditional macroeconomic adjustment and crisis prevention and management.

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[3] For a list of participants and the staff report on the discussions, see Annex II. A more complete report on the seminar, incorporating further input from participants, will be published by the DSE as part of the seminar proceedings.

33. Second, it was recognized that ownership is a multi-faceted and complex issue. On the one hand, a program that is supported by only a few officials or politicians is unlikely to succeed; on the other hand, it is unrealistic to think that it would be possible to achieve full ownership of the program by all elements of society, particularly in crisis situations. Thus, while ownership was viewed as a crucial ingredient of program success, there was also the belief that the Fund should not insist on full national ownership before supporting a program.

34. Third, there was broad agreement on the need for efforts at building ownership. Participants, particularly those representing national authorities, noted that conditionality was often viewed as being excessively intrusive; yet, with better sequencing and greater flexibility, many of the same fundamental reforms might gain wider-spread acceptance. A more participatory approach to program design might also be helpful in enhancing national ownership. Some speakers stressed that the content of policies supported by the IMF should be seen as appropriate to the country's specific situation.

35. Fourth, there was also broad agreement on the need for greater transparency in program documents. In particular, it was felt that documents did not make sufficiently clear the origin and impetus for reform measures. This, it was argued, undermined ownership and led to a lack of accountability. One suggestion, which seemed to garner widespread support among the conference participants, was that program documents might make more explicit which policy measures reflected the view of the IMF, the authorities, or some compromise.

36. Fifth, participants welcomed the idea of exploring alternative forms of conditionality, including floating-tranche conditionality, ex-post or results based conditionality, and ex-ante selectivity based on countries' track records. Participants generally agreed that these alternatives were promising in terms of fostering greater program ownership, while acknowledging that they also had a number of potential drawbacks. Floating-tranche conditionality was viewed as being more appropriate for long-term structural reforms than for pressing macroeconomic policy corrections. Results-based conditionality could help avoid micro-management and allow governments greater flexibility in making policy choices. But it would also provide less assurance to borrowing countries that funds would be disbursed, and could lead to back-loaded disbursements because of the inherent lags in information on whether the requisite results had been achieved. On greater selectivity, the discussion was mixed. Some participants argued that such selectivity might violate the Fund's principle of uniformity of treatment, and that there was a need to work with member countries to help steer them toward better policy choices. Others, however, stressed that conditionality could not substitute for ownership, and that when such ownership is lacking, there may need to be greater selectivity.

37. Sixth, given the close interconnection between the macroeconomic and structural aspects of adjustment, there was widespread agreement that any attempts to streamline conditionality would need to be undertaken jointly between the IMF and the World Bank. In particular, there was a concern that the shedding of conditionality by one institution not be fully matched by increased conditionality by the other institution, with little change from the perspective of the borrowing country.

38. Finally, participants expressed their appreciation to the DSE in taking the initiative of organizing the conference, and welcomed the opportunity to discuss issues which they viewed to be of great importance to the IMF and its member countries alike.

III. Tokyo Seminar

39. The second seminar in this series, organized by the Fund in collaboration with the Ministry of Finance of Japan, was held in Tokyo on July 10. The seminar drew on the experience of countries in the Asia-Pacific region and focused particularly on issues that came to the fore in the crises of 1997-98. Senior officials, academics, and representatives of civil society came from 12 countries in the region and from international organizations (IMF, Asian Development Bank, World Bank, and UNDP). Sessions dealt with the general role of conditionality in Fund-supported programs, the more specific role of structural conditionality, and the linkages between conditionality and national ownership.[4]

40. Nearly all of those who spoke at the seminar agreed that conditionality was a necessary adjunct to Fund financing and was usually beneficial to the borrower as well as to the Fund. Not only did conditionality provide assurances to the borrower and safeguards for the Fund, it also helped prevent the misuse of resources, strengthened governance, and helped catalyze additional financing by providing assurances to other creditors. Nonetheless, by general agreement the practice of conditionality called for changes to make it more effective, fairer, and less burdensome. Several participants suggested that the review of conditionality, while certainly welcome, should be broadened to include a re-examination of how surveillance and technical assistance could be refocused so as to reduce the need for broad and detailed conditionality and to help the Fund move forward from crisis management to crisis prevention.

41. Most speakers agreed that conditionality should be streamlined and should focus on the requirements for macroeconomic stability, restoration of confidence among investors, and achieving sustainable economic growth. Those principles, however, do not exclude structural conditionality. Striving for high-quality growth and a good environment for investment could imply a range of structural conditions. Even if it is agreed that the burden of proof should be on those who wish to include a particular condition, it may not be obvious where to draw the line. One speaker suggested that a standard checklist would be useful for deciding why each condition was thought to be necessary and for drawing boundaries around the acceptable types of conditions. Others stressed that the issue was not so much the number of conditions, but the overall scope and effect of conditionality.

42. As for specific recommendations, one major theme was the desirability of allowing for flexibility in program design. The Fund should not attempt to impose “one size fits all” programs and should encourage countries to determine the best way to achieve the objectives

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[4] The program and a list of participants are found in Annex III. Most presentations at the seminar were informal, and papers were not circulated.

agreed upon with the Fund. For example, countries with limited development of markets might have very different policy requirements than those with more advanced market systems. Early and regular consultation with local or regional experts was suggested as one way for the Fund to find the right nuances in its conditionality. Several speakers suggested that results-based conditionality merited further study, as it would increase the scope for country authorities to employ policy instruments in a way that was appropriate for local conditions while still satisfying the goals of the program. One participant likened this argument to a Chinese saying, that it does not matter whether one has a black cat or a white cat as long as it catches the mouse.

43. Another prominent theme in the discussion was the need for clarity and transparency in conditionality. Speakers called for a clearer presentation of programs that distinguished true conditions from other policy intentions. As one speaker noted, the Letter of Intent is actually a letter of commitments, not just intentions, and it is important that it be structured so as to communicate the nature of those commitments.

44. Closely related to the theme of transparency was the discussion of ownership and participation. Although everyone agreed that national ownership of reform programs is a critical requirement for effective implementation (and in a sense was nearly synonymous with it), different views were expressed on how conditionality might contribute to or distract from it. Most speakers thought that extensive and highly detailed conditionality stretched the capacity of governments to implement policies and thereby weakened the sense of ownership. Some noted, however, that the relationship was more complicated than that; if the details were necessary to achieve the goals of the program, the authorities might be more willing, not less, to accept ownership. In that view, there are no firm rules that would enable the Fund to determine a priori whether ownership was likely in a particular situation. It was also noted that “ownership under duress” was meaningless.

45. In part, ownership was seen as a question of getting the right participation in the process of program design. While some speakers saw a need for wide involvement by government officials and civil society, others were concerned that excessive participation could bog down the process. One participant suggested that the responsibility of the Fund and the authorities was to give the public an opportunity to present alternatives, not to try to negotiate a solution with all segments of civil society in a country.

46. It was suggested that in negotiating programs, the Fund needs to show more sensitivity to the borrower’s political constraints and capacity to implement complex reform programs. Moreover, the Fund does not have a monopoly on insights or expertise on structural or even macroeconomic policies, and accepting the need for broad consultation could improve both the substance and the process of conditionality. Also, the staff could do more to recognize that countries are hurting—economically and psychologically—when they come to the Fund for assistance, and to take economic vulnerability and wounded pride more fully into account in the negotiation process.

47. The sequencing and timing of structural reforms was also seen as an important challenge for program design. In extending conditionality in recent years, the Fund may be asking countries to try to achieve too much, too soon. Structural reforms, particularly "second generation" reforms, may take many years to complete, and attempts to accelerate the process within the confines of the program period may be counter-productive. Some speakers, however, pointed out that financial crises may give countries a "window of opportunity" to implement necessary reforms that would otherwise be considered too controversial. Unless the economy was greatly weakened by the crisis, such reforms should be enacted swiftly before the opportunity passed. Although views differed on this specific point, all agreed that sequencing and prioritizing deserved closer attention.

48. Finally, participants noted the importance of improving coordination with donors and multilateral development banks. Some officials from borrowing countries recalled instances when mixed signals from the Fund and the World Bank on appropriate policy reforms had caused confusion and weakened ownership.

49. Participants expressed their gratitude to the IMF and the Japanese authorities for organizing this seminar. They considered that holding the seminar in Asia and focusing on these issues was particularly apt and would contribute to a better understanding of these difficult issues.

IV. London Seminar

50. The third seminar was held in London on July 23-24.[5] The seminar, co-sponsored by the Commonwealth Secretariat, the IMF, and the World Bank, focused on issues related to conditionality and ownership that are particularly relevant in low-income countries. Participants included representatives of borrowing and creditor countries, international organizations, and NGOs, and a number of other individuals selected for their expertise and experience.

51. Participants welcomed the fact that the Bank and the Fund were undertaking a review of conditionality at a time when changes were clearly needed, and that the reviews were being carried out with wide participation, including through forums such as this one. Some skepticism was expressed about whether the review would bring about fundamental changes, and one speaker noted that the initial IMF papers on conditionality—which had been circulated as background for this seminar—made premature claims of progress on streamlining. Nonetheless, if the Fund and the Bank were prepared to listen to and learn from successfully adjusting countries, they should be able to improve the effectiveness and the fairness of conditionality. The establishment of the Independent Evaluation Office in the Fund was seen as another welcome step in this direction.

[5] The program and a list of participants are found in Annex IV.

52. Most of those who directly addressed the issue of the overall effectiveness of Fund conditionality considered that there was a great deal of room for improvement, particularly by giving it more focus. Proliferation of conditions was not seen as having solved any problems of ineffectiveness, and both streamlining and promotion of national ownership of reforms were viewed as important elements of any strategy for making conditionality more effective. Most speakers, though not all, acknowledged that conditionality was necessary, but many speakers suggested that improvements in the design and application of conditionality should be fundamental rather than marginal.

53. Much of the discussion of how to improve effectiveness dealt with the requirements for enabling borrowing countries to take ownership of reform programs. Most felt that ownership was an issue of fundamental importance that needed to be discussed more fully and in a wider context, not just in relation to conditionality. For example, the link between ownership of reforms and the attraction of international capital flows was an important relationship that should be closely examined. Ownership, as interpreted in this discussion, essentially meant a willingness by countries—and not just governments, but also civil society—to accept responsibility for the reform program. Although ownership is not synonymous with authorship of the program, having a substantial input into the design and drafting of the program was considered to be nearly a necessary condition for ownership. Participants broadly agreed that conditionality as practiced in recent years had often been overly intrusive and had thus hindered ownership. Some speakers argued that conditionality and ownership were fundamentally contradictory, but most thought that conditionality could be reformed so as to be more consistent with ownership.

54. Three concrete proposals were offered for getting better national ownership. First, the Bank and the Fund should be more transparent and accountable in the way they designed and implemented conditionality. Notably, the institutions should consult thoroughly and systematically with the authorities, and preferably with other stakeholders in the outcome, to determine the country's preferences and priorities before attempting to specify conditions. Second, the institutions should always ensure that a range of options is available from which the authorities can choose. Both of these proposals were reflected in the PRSP process, which participants warmly welcomed, but they could be implemented more widely. Letters of Intent, like PRSPs, should be drafted by the countries rather than in Washington. As an aside, one speaker observed that the institutions' insistence that country papers be called PRSPs, rather than a name that better suited the country's own needs, was a subtle indicator of the tendency of the Bank and Fund to continue to control the process. Third, the institutions should devote more resources to capacity building in developing countries. As one speaker remarked, education is expensive, but ignorance is far more expensive, and many low-income countries need much wider opportunities if they are to be able to design their own programs effectively. Technical assistance was considered to have been inadequate for this purpose, and several speakers asked the institutions to develop more intensive strategies for capacity building.

55. Participants also took note of the need for the Bretton Woods institutions to be more aware of and sensitive to issues of political economy in borrowing countries. Paying more

attention to budget and election cycles as constraints on the timing of reforms would improve ownership and strengthen implementation. Moreover, the Fund in particular was seen as limiting its own awareness by basing most senior staff in Washington and by usually restricting staff missions to capital cities, in contrast to other agencies and bilateral donors that had more staff in the field and regularly made staff visits to villages and rural areas. One speaker lamented that in the Fund, those with the most knowledge of local conditions (resident representatives and area department staff) had the least power to affect the specification of conditionality.

56. On the subject of whether the institutions should be more selective by lending only to countries with a proven track record of ownership and effective implementation of reforms, speakers looked for ways to avoid corner solutions. The Bank and the Fund do not face a stark choice of saying yes or no; rather, one of when and how much to lend. Staff-monitored programs and flexibility in negotiating programs can enable the institutions to stay engaged with the full range of countries requesting assistance. Participants agreed that imposing detailed and extensive conditionality was not a viable solution for dealing with countries with poor records of ownership and implementation.

57. Participants also discussed the relationship between macroeconomic and structural conditionality and the extent to which the Fund should cover structural issues. One general suggestion for getting a better view of this complex issue was for clearer and more systematic differentiation among three categories of Fund-supported programs: (a) those aimed at short-term balance of payments support (requiring primarily macro conditionality), (b) those aimed at resolution of financial crises (requiring also financial sector and other quick-acting structural reforms), and (c) those made in support of longer-term development strategies (possibly requiring a more extensive but also more gradual approach to structural reform). The discussion suggested that clarifying the distinct natures of these categories—especially between short- and longer-term programs—could lead both to more appropriate decisions in the Fund about the need for structural conditionality, more control by countries over their policy decisions in non-crisis cases, and better coordination between the Fund and the Bank.

58. The seminar also examined some technical changes that might enhance both ownership and the effectiveness of Fund-supported programs. Results-based conditionality was endorsed by several speakers as a means of reversing the proliferation of conditions, reducing the intrusiveness of the Fund into policy making, and turning the Fund into more of a policy advisor. Floating-tranche specification of structural conditions was suggested as a means of providing more flexibility and more realism in the timing of complex structural reforms.

59. On the relationship between the Fund and the Bank, several speakers expressed concern that the two institutions together practically constituted a joint monopoly in their dealings with borrowing countries. A more pluralistic, less coercive, and more consultative relationship was called for. Many participants, however, thought that collaboration between the Bank and the Fund should be made more systematic, and one even suggested that the two institutions should be merged. The Fund needed to consult more systematically with the

Bank, and the Bank had to be better prepared to act quickly when required (for example, through earlier and more systematic Economic and Sector Work). Some speakers suggested that this issue needed to be examined more carefully.

60. The main message from the discussion of collaboration was that what matters most to borrowing countries is not what is done by one or even two institutions, but the overall extent and burden of conditionality. Many low-income countries had to devote valuable and scarce resources to negotiating with the Fund, the World Bank, a regional development bank, the European Union, and other creditors and donors. Capacity for implementing reforms was unrealistically stretched, and better outcomes would result if the international community could agree on a coordinated strategy for conditionality. To that end, collaboration should extend well beyond the Bretton Woods institutions. The PRSP process and the application of the HIPC initiative, for example, had implications for bilateral donors as well as for the Bank and the Fund, and all involved needed to work together to get a good division of labor Seminar participants welcomed the initiatives of the managements of both institutions to streamline and focus conditionality, but they noted that more needed to be done to implement and operationalize the reforms. Streamlining would be particularly successful if it were done by reducing the amount of detail and as long as it meant something more fundamental than just shifting conditions from one institution to another. The Fund needed to avoid trying to micromanage the economies of borrowing countries. Moreover, participants generally agreed that the Fund should limit itself more strictly to conditions that are critical for the macroeconomic objectives of the program. Some speakers argued that there was too much overlap in coverage of structural issues by the Bank and the Fund, resulting from a gradual expansion of the Fund's mandate into growth and poverty reduction issues. The Bank, in this view, is much better equipped to deal with those matters, and the burden of proof for inclusion of structural conditions in Fund-supported programs lay with the Fund. Others, however, noted that many low-income countries need to implement both structural and macro reforms, and that it is important not to lose sight of this goal by focusing too narrowly on the tactical objective of streamlining. In that view, the Fund should not back away from its insistence on such structural reforms as improving governance and strengthening financial systems.

V. Conclusions

61. The overall message that emerges so far from this process of soliciting external views on the practice of IMF conditionality is that conditionality is a necessary and appropriate means of providing assurances to the borrower and to the Fund, but it must be designed and implemented within well specified boundaries. Those boundaries should be defined by the imperatives for achieving macroeconomic stability, good access to international financial markets, and sustainable economic growth. Although these goals leave scope for structural conditionality, they do not give the Fund carte blanche to expand the range of conditionality. Dissent from this broad consensus has been expressed on one side by those who would do away with conditionality, either by trusting borrowers to act in their own long-run interests or by restricting Fund lending to countries that pre-qualify or have a proven track record; and on the other side by those who see merit in making conditionality as comprehensive as necessary

to ensure that the program succeeds. Most contributors to the debate, however, have focused on specific proposals for improving the design and implementation of conditionality. Although the overall motivation for such proposals has been the need to strengthen national ownership of reform programs, these discussions have also illustrated the difficulties of defining ownership in a constructive way.

62. A number of questions suggested by this exercise could be considered further, recognizing that practical considerations might limit the feasibility of implementation in certain areas.

- First, are there steps that the Fund could take to get better assurance that policy conditions are consistent with political realities in the borrowing country, without weakening the program? Procedural steps might include broadening the skills mix or training options at the Fund, developing a more inclusive process of participation in the specification of conditions (already underway in the PRSP process), having more staff based in borrowing countries, or revising the guidelines to give weight to political economy considerations. More substantively, it has been suggested that the Fund may be asking countries to do too much, too soon.

- Second, is it realistic to shift conditionality more toward the broad goals of the reform program: toward results rather than instruments? To do so would enhance flexibility and promote ownership, but it would have to be done so as not to lose the assurances that conditionality is supposed to provide.

- Third, can the Fund and borrowing countries find ways to cooperate more effectively with donors and multilateral development banks so as to strengthen the coherence of the international community's assistance? Most of the discussion of this issue has related either to enhancing collaboration between the Fund and the World Bank or to making the role of donors and creditors more consistent and transparent. Many of those who addressed this issue suggested that the Fund has become too willing to impose structural conditions on behalf of donors, creditors, or other interest groups and not because the conditions were necessary for the stated goals of the program.

- Fourth, should the Fund aim toward greater selectivity in approving programs by insisting that each borrowing country demonstrate both ownership and implementation capacity prior to approval? One practical means of achieving this objective would be to require countries to have a major input into the design of the program and the drafting of the Letter of Intent, as is already well underway.

- Fifth, can the modalities of conditionality be restructured so as to provide greater clarity to the Fund's role and more consistency in application? Two aspects of this issue that have been brought up repeatedly are the confusion between conditions and broader policy intentions in Letters of Intent and other program-related documents, and the negative aspects of the use of waivers for missed conditions.

As noted, efforts are already underway in a number of these areas suggested for attention. These efforts will be intensified. In other areas, further consideration is required to determine whether and how to carry these suggestions forward. There will be further opportunities in upcoming papers for the Board to consider in greater detail.

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Berlin Seminar: Participants and Summary of Discussion

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B. Summary of Discussion

Session I: Overview of the Current Issues

63. The first session presented an overview of the current issues underlying the debate on streamlining conditionality and promoting ownership. Mr. Boorman noted that the IMF's provision of balance of payments support depended on the country's commitment to the implementation of a set of policy reforms, which in his view, would have a better chance of success if they enjoyed widespread support. While there was no inherent contradiction between ownership and conditionality, he saw a potential for tension between these two concepts arising from differences of views between the IMF and the country authorities, and within the country, regarding the nature of the problems facing a country and the appropriate policy response. There was also the question of whose ownership was relevant, and its required extent: It would be unrealistic to expect total support for a reform program by everyone in a country, but a program could also not be expected to succeed when only supported by a few officials or politicians—there needed to be a critical mass of support, including from the broad population and those in a position to block reforms. Since ownership was essential to a program's success, Mr. Boorman argued, the IMF should help the government to broaden support for the reform effort; in this context, he thought that the poverty reduction strategy papers (PRSP) would be a good framework for such efforts in low-income countries. He noted that there could be a trade-off between conditionality and the IMF's willingness to refrain from lending: Withholding all lending to countries where there was a lack of commitment and ownership would be against the IMF's Articles of Agreement, he observed, but where the commitment to reform was in doubt, the IMF could remain engaged by relying more on conditionality to ensure that a minimum of policy action is taken. However, there were limits to the ability to compensate for a lack of ownership through additional conditionality. Mr. Boorman also noted that the increasing emphasis on structural reform in IMF supported programs over the past two decades reflected the growing awareness of the structural underpinnings of demand management policies, as well as the increasing emphasis on growth as a key objective. However, the greater complexity of the reform agenda had resulted in a lack of clarity as to what constituted conditionality in IMF programs. He stressed that streamlining conditionality and strengthening ownership would imply focusing on the macroeconomic objectives of the program, drawing a line between critical and merely relevant policies, while striving for greater clarity and the right balance between streamlined conditionality and program objectives. Improved coordination with the World Bank and other institutions would also be essential.

64. Mr. Goldstein observed that the intrusiveness of IMF conditionality depended in part on how ambitious were the objectives of the country authorities and of the IMF. Trying to get

out of a current crisis was one possible objective; trying to ward off future crises was another; while trying to spur ”high-quality” growth in low-income countries with a host of government-induced distortions and large institutional gaps, was something yet again. Mr. Goldstein expressed a preference for an IMF mandate that focused on crisis prevention and management, emphasizing macroeconomic and financial stability. In discussing the needed streamlining of IMF conditionality, he argued that the key was for IMF management to say “no” more often than in the past: to requests for IMF assistance where there was a low probability that the country would actually implement IMF policy conditions; to G-7 governments when these proposed tasks for the IMF that went beyond the IMF’s core competence; to NGOs that sought to use a country’s letter of intent to advance agendas outside the IMF’s field of comparative advantage; and to finance ministers of developing countries who wanted to use micro conditions in IMF programs to impose spending discipline on other government ministries that could not be obtained through their national legislatures.

65. Mr. Marino observed that the scope of conditionality in Mexico’s IMF-supported programs had expanded over time, though not intrusively. This reflected the increasing emphasis on growth and, more recently, financial sector reforms and transparency, although the primary focus remained the resolution of short-term crises. The necessary policies often encountered popular resistance, however, being seen as reflecting external interests; they also went against vested interests, and sometimes had adverse social consequences in the short-term. Mr. Marino noted that the emphasis on financial sector transparency and on standards and codes might be considered a ”new” form of conditionality, but considered such reforms to be in the interest of any country wishing to benefit from capital flows and global markets. He considered that IMF conditionality should be limited to essential program objectives, as conditionality that was too extensive or intrusive would be difficult to implement, leading to uncertainty and undermining ownership—it should therefore focus on monetary, fiscal, exchange rate policies, the financial sector, and those structural measures critical to macroeconomic stability, in close collaboration with the World Bank. There were also important issues of sequencing and timing. While crises presented an opportunity for implementing structural reforms, the social and political climate should be observed carefully to ensure that conditionality did not short-circuit the domestic political environment and was consistent with the authorities’ political capacity to implement the reforms. Mr. Marino stressed that ownership was essential for successful reform, but agreed with other speakers that it was unclear how broad it had to be—the capacity to absorb and implement reforms was also very important.

66. Ms. Unmüßig considered the debate on conditionality to be overdue, but it should be seen as part of broader discussion of development strategy in the globalized economy (including a reexamination of the call for trade and capital market liberalization), as well as the IMF’s proper role in the international financial architecture and in development finance. She agreed that the discussion of ownership should address the question of whose ownership was relevant—whether that of governments alone, including those without democratic legitimization, or also including interest groups—as well as the participation of non-government groupings in the IMF’s decision-making process. Ms. Unmüßig expressed

support for the role of the IMF in fostering macroeconomic stability and in crisis management and prevention, in keeping with its original mandate, but crises should not be used to expand unduly the IMF's influence. Poor countries, however, faced problems that were structural and longer-term in nature, in areas where the IMF lacked expertise—this had been demonstrated, in her view, by the poor results achieved under IMF programs over the past 20 years. Ms. Unmüßig considered that the IMF should withdraw from development financing (as, she said, was proposed by the German Bundesbank), though this was clearly not a realistic option in the short term. She also expressed that the discussion of streamlining conditionality focused too much on implementation issues, with little or no analysis of the effectiveness of the conditions themselves. This allowed the IMF to avoid a critical analysis of the poverty consequences of its macroeconomic policy advice, and to shift responsibility for poverty reduction to the World Bank. Ms. Unmüßig stressed that any serious attempt to promote ownership would have to address the interlinkages between macroeconomic and sectoral policies, in the context of participatory discussions which would give civil society the scope to discuss alternative sequencing and timing of policies, so as to find the solution best suited to each individual country.

67. In the general discussion, participants expressed varied views on ownership. One discussant pointed out that the perception of the appropriateness of the content of IMF policies would affect the willingness of countries and the public to accept conditionality and the ownership of programs, noting that the appropriateness of IMF policies had been questioned in several quarters. The content, appropriateness, and technical soundness of IMF policies should thus be assessed and alternative policies considered, including on macroeconomic, financial, and exchange rate issues. Other noted that the degree of ownership also depended on the capacity to design and implement reforms, and varied from country to country—moreover, many of the successful reform programs of the recent past, particularly in Africa, had been started under conditions of less than perfect ownership. As such, although countries should strive for ownership, it should not be a necessary pre-condition for IMF support. However, other discussants observed that the real test was the capacity to deliver on reforms—if ownership was necessary to ensure this, then it should be the basis of IMF support. In this context, some discussants maintained that the letters of intent underpinning IMF-supported programs should reflect the country's own policy commitments and clearly identify what constituted program conditionality and what did not. There were also questions as to how broad the consultation and participation of the population in the decision-making process could be while remaining politically practicable.

68. With regard to the scope of IMF conditionality, some speakers argued that it should be limited to the broad principles necessary to ensure the success of the adjustment effort, leaving the details of policy to the country authorities. Excessive conditionality, or conditionality seen primarily as safeguarding the IMF's resources, was perceived to have brought the issue of ownership to the fore—greater transparency, and a return to limiting the IMF's policy advice and conditionality to its core mandate of supporting macroeconomic adjustment aimed at crisis management and prevention could help resolve this issue, particularly as, in the view of some speakers, the Fund was not well equipped to deal with structural issues. Conversely, others noted that conditionality that fostered growth and

sustainability could also be essential to successful crisis prevention, and would contribute to an improved perception by markets of the medium-term perspectives of an adjusting economy.

Session II: Experience with Conditionality: Capacity to Implement Reforms

69. The second session considered the issue of **the capacity to implement reforms**. Mr. Saddem noted that problems associated with conditionality were often related to issues of implementation, sequencing, and timing of the policies concerned, rather than their content. In this context, he stressed that it was important for countries to be aware of their capacity to implement reforms, and to commit only to those measures that they could actually accomplish. The critical mass of consensus needed to sustain the reform effort could be generated by consultation with the population on the thrust and objectives of policy, he said supported by a careful analysis of the social aspects of adjustment—the resulting policies would be more likely to generalize the gains and minimize the losses from reforms, lowering the risk of rejection of the reform effort by the public. Mr. Saddem cautioned, however, that autonomy of decision-making did not release governments from the responsibility of a disciplined execution of programs.

70. Ms. Grey of the World Bank noted that the Bank's adjustment lending operations had more than doubled since the 1980s, to about one third of total Bank lending, with a shift in focus from trade and price liberalization to more complex "second-generation" reforms, such as public sector management, decentralization and governance, civil service and social security reform, and social sector policies. The average number of conditions attached to loans had also been considerably reduced. In the process, several key lessons had been learned with regard to conditionality: First, the situation in each country should be carefully analyzed to identify the specific problems, assess the political and technical feasibility of reforms, and innovatively tailor the approach to the country's situation. Second, conditionality should be selective and seek to exploit windows of opportunity to implement needed reforms. These could include crisis situations, but much could be achieved even in normal circumstances to build support for the reform effort through broad-based participation. However, conditionality without commitment would not work—where the needed level of commitment and ownership for the reform agenda had not yet been reached, the scale of lending operations should be reduced accordingly. Third, not just the policies themselves, but also the institutions for their formulation and implementation should be subject to reform. This implied strengthening the "supply" of institutional reform through rules and restraints (such as regulatory reform, and independent judiciaries and auditing mechanisms for government activities), but also fostering the "demand" for institutional reform—enhancing transparency, increasing access to information, and pressing for competition and accountability in service delivery were all means to this end. Fourth, reform priorities should be set within a medium-term context. This was reflected in the Bank's increasing shift toward a programmatic approach to adjustment lending, providing support for the achievement of an overall medium- to long-term strategies through a series of one-year loans, each of which could be renegotiated as circumstances required. A good example would be the Bank's new Poverty Reduction Support Credits (PRSCs). Ms. Grey also

observed that streamlining conditionality placed a greater onus on Bank/Fund collaboration, and would require flexibility, an openness to innovation, a focus on appropriate content in conditionality, and the willingness of the institutions to reform their own internal rules and procedures.

71. Referring to the specific case of Korea during the Asian Crisis, Mr. Kim emphasized three aspects of the multidimensional nature of the capacity to implement reforms: (i) political leadership and commitment to reform; (ii) the existing economic context of the reform effort; and (iii) the social situation. On the political front, he said Korea was well placed, to undertake the necessary reforms, following the election of a new President just before the outbreak of the crisis. The economic context was mixed: Korea's fiscal solvency facilitated the financial sector restructuring and the setting up of social safety nets, and its open trading structure allowed the prompt resolution of the liquidity crisis. On the negative side, however, labor market rigidity and the "chaebols" made for an unwieldy corporate structure which heightened the systemic risk to the banking system. The social situation was conducive to building the broad consensus for the reform effort, which helped Korea deal with the rising tensions caused by the rapid expansion of unemployment. Mr. Kim agreed that prioritization was clearly a factor in the overall success of an adjustment program, although any successful reform required ancillary measures—for example, Korea's financial restructuring, though clearly the priority, would not have succeeded without corporate restructuring and labor market reforms. On the other hand, he stressed that overly complex conditionality could obscure the focus of the reform effort. Moreover, the failure to take due account in program conditionality of the time needed to implement complex institutional reforms, including overcoming bureaucratic inertia and dealing with rising social costs, had led to a weakening of the reform momentum in Korea. Similarly, Mr. Kim noted, the Korean experience showed that a mapping out of individual measures and steps could undermine ownership, though it might be necessary initially where detailed implementation plans for key reforms did not exist at the outset of a crisis. There could also be a trade-off between ownership and the sustainability of the reform effort, as increased country "ownership" could lessen the political commitment to undertake unpopular reforms—he noted that the pace of reforms was noticeably slower in Korea after the end of the IMF-supported program. In general, Mr. Kim underscored the importance identifying and effectively exploiting the capacity to implement reforms, and argued for a realistic timeframe for the implementation of structural reforms. It might also be possible to lessen some of the tension between conditionality and ownership through price incentives, i.e., lowering the cost of loans in support of programs with extensive conditionality, and vice versa.

72. The ensuing discussion revolved around three main issues: (i) striking the right balance between conditionality and ownership, particularly in times of crisis; (ii) the link between the policy content of conditionality, ownership, and the sustainability of reforms; and (iii) the question of who should set the priorities of the reform effort. Participants generally agreed that a more focused, country-specific conditionality, based on a participatory analysis of the problems confronting a country and its capacity to implement policy reforms, was more likely to be fully owned, but acknowledged that the need to act decisively in times of crisis might limit the extent to which this would be possible and necessitate more

extensive conditionality. One discussant stressed the high social and economic costs of policy mistakes that could arise from a misdiagnosis of the causes of a crisis in a given country context. Since there was no ex-ante guarantee that the IMF's policy prescriptions were optimal, particularly in capital-market crisis situations, the speaker argued, it would be difficult to expect recipient countries to build ownership of such policies. However, other discussants observed that the IMF's role included providing ongoing policy advice and technical assistance, both of which would enhance the country's capacity to formulate and implement appropriate policy on their own, even in the absence of specific IMF conditionality. Finally, it was noted that the conditionality of donors was often based on their own agendas and entailed the earmarking of the use of loans, undercutting the ability of governments and parliaments to define their own policy priorities. There should thus be greater flexibility in the approach to conditionality, and nontraditional forms of support, such as contingency lines and guarantees, should be considered.

Session III: Ownership and the Political Economy of Policy Reform

73. The third session dealt with the link between ownership and the political economy of policy reform. In their presentations, the featured speakers discussed the implications of various concepts of program ownership—by the IMF, by the national authorities, or by some combination of both—and examined the catalytic role of IMF conditionality in restoring market confidence and engendering a reflow of capital.

74. Mr. Chaisang argued that, in practice, adjustment programs were designed by the IMF, while the sovereign government, facing an imminent crisis, had few options other than to accept them. As such, the real "ownership" of an adjustment program was by the IMF, though this was seldom explicit, while the government, not the IMF, would be held accountable for a program's failure. In his view, therefore, the IMF should be prepared to share the responsibility for the consequences of the programs it supported. Ownership and responsibility would be less of a concern, Mr. Chaisang argued, if IMF-designed programs were seen to be successful, and the IMF would need to take greater account of political feasibility and social sensibilities in designing its conditionality. In his view, however, the IMF's record during the Asian crisis did not inspire confidence. Not only had there been a failure to foresee the crisis, but many of the reforms imposed—including inappropriately tight monetary and fiscal policies, and the closure of financial institutions without a clear roadmap for financial sector reform—had exacerbated the crisis. An extreme alternative to IMF ownership of a reform program would be purely national ownership. In such a model, the IMF would provide resources without conditionality and simply monitor progress under the (government's) program. The IMF staff could give policy advice which the government would be free to ignore, but if the program failed, the government alone would have to take responsibility. There would, however, be concerns about safeguarding the Fund's own resources. A middle road between these two extremes would be one in which the conditions required by the Fund would be explicitly and publicly distinguished from the measures desired by the government. Such a model would no doubt raise political and diplomatic sensitivities, he concluded, but nevertheless it would be a start.

75. Mr. Gomel emphasized the catalytic role that IMF conditions could play in helping a country in difficulty regain access to capital markets by signaling the government's willingness to tackle deep-rooted structural problems over the medium-term. Without this restoration of confidence, he noted, official financing might simply fuel further capital outflows. He therefore saw a critical role for conditionality in involving the private sector in the resolution of financial crises, provided there were firm limits to official financing, and international support for temporarily suspending debt service to private creditors. The increase in structural conditionality, he observed, had not been a capricious addition to the IMF's toolkit—it reflected rather the recognition in the 1970s and 1980s that aggregate demand management was not sufficient to achieve high "quality" adjustment that was sustainable over the longer term. Mr. Gomel noted that the evidence did not suggest that the scope of structural conditionality had become excessive, and most conditionality had been in the IMF's core areas, shifting from trade and exchange systems to financial sector reforms. This suggested that, far from failing, programs were enabling countries to climb the ladder of reforms. There was also no evidence that ownership was undermined by conditionality, since implementation rates were independent of the number of conditions. In fact, a more comprehensive reform program might enjoy greater public support by increasing economic efficiency and raising growth rates. Of course, he concluded, programs should not be imposed from outside, and governments should not allow concern over short-term losses to delay needed reforms, or postpone seeking IMF assistance for fear of facing excessive conditionality. On the other hand, in the midst of a crisis, there may not be time to build full national ownership.

76. Much of the general discussion centered on issues raised by Mr. Chaisang, particularly concerning the appropriateness and correctness of IMF policy recommendations during the Asian crisis. A number of participants questioned whether there were feasible alternatives to the policies supported by the IMF. Moreover, a number of the purported failings of the IMF in the Asian crisis might be better ascribed to the lack of transparency on the part of the authorities. These included the failure to reveal key information to the IMF, such as on the state of the banking system or the level of reserves; a resistance to tackle banking sector problems in a comprehensive manner; and a reluctance, in part for cultural reasons, to introduce social safety nets. There was, however, a need to convey better to the public the rationale for the choice of measures, the risks involved, and the different positions taken by the IMF and by the country authorities. Accordingly, letters of intent might indeed make more explicit which policy measures in the program reflected the views of the IMF, the authorities, or some compromise.

77. One speaker argued that, while it was easy to agree that the IMF should withdraw from its non-core areas, it was far from clear that the IMF's policy recommendations were appropriate even in its core areas, such as fiscal and monetary/exchange rate policy. There were alternative approaches, and where there were trade-offs to be considered, other policy instruments should be taken into account. It was clear, for example, that monetary policy could not be used both to stabilize the exchange rate and to stimulate economic activity—what was required, therefore, was another instrument, such as capital controls or "fixing" the exchange rate. In the context of the Asian crisis, this would have allowed lower interest rated

to be maintained in support of domestic activity without inducing capital outflows. Such controls obviously ran counter to the IMF's mantra of capital account liberalization, he stated, but in a world of volatile private capital where either the public or private sector might borrow excessively, the IMF should not recommend capital account liberalization without explaining more carefully its possible dangers. Countries should also have the right to impose controls to defend against speculative attacks. Another discussant observed, however, that a simplistic approach to capital account liberalization was not appropriate, and that the IMF recognized that there were important issues of sequencing and modalities. Capital controls could be viewed as a possible instrument in a broader context of private sector involvement (along with limits to the size of official financing packages), though there might be practical limitations and potentially serious consequences to re-imposing controls in an attempt to stem capital outflows in the midst of a crisis.

78. Other discussants noted that the existence of an IMF-supported program was often seen by the donor community as a seal of approval for the country's economic policies, and thus affected the political economy of reform within the country. Economic reforms were never politically neutral, and the existence of trade-offs within the country called for a national dialogue on reforms. Another concern was that "winners" and "losers" from any particular measure might not be able to evaluate their interests correctly, with a tendency for "losers" to exaggerate the extent of their losses.

Session IV: Alternatives to the Present Framework of Fund Conditionality

79. The fourth session focused on alternatives to the traditional, ex-ante, policy-based conditionality that IMF-supported programs entail. Two main alternatives, not mutually exclusive, were discussed: (i) floating-tranche conditionality; and (ii) ex-post, or results-based conditionality.

80. Mr. Abdul-Aziz reviewed Malaysia's adjustment strategy during the Asian Crisis of 1997/98 and its differences to the policy advice given by the IMF to other countries in the region which, in his view would have exacerbated the contraction. He noted that Malaysia had chosen counter cyclical fiscal and monetary policies, supported by selective exchange control measures and fixed exchange rates to stabilize short-term capital, as well as complementary measures to enhance banking liquidity and encourage bank lending to viable firms. The results were financial and stock market stability and a quicker overall recovery than elsewhere. Based in part on Malaysia's experience, he argued that IMF conditionality had become too broad and intrusive, and should be re-examined with a view to giving countries a greater say in deciding policies. One possible alternative would be unconditional, but more selective IMF lending, though he recognized that there might be thorny issues of equal treatment in the absence of clear criteria on what would constitute an adequate track-record, as well as concerns about safeguarding IMF resources. Alternatively, results-based conditionality would also allow countries greater flexibility in choosing their policies, and would also lead to greater ownership. Mr. Abdul-Aziz conceded that the inherent lags in a results-based conditionality program might necessitate the continued but sparing use of some structural benchmarks in areas essential to the macroeconomic program, but stressed that

conditionality must take into account the unique characteristics of the country with regard to the priorities, pace, and sequencing of reforms—one size did not fit all. The IMF, in his view, should help countries formulate their own broad development strategies and a range of policy options, including through technical assistance focused on institution- and consensus-building.

81. Mr. Ahmed Al-Gunaid described Yemen's experience with economic transition, and the successful implementation of Fund-supported programs following the unification of the country. The authorities' ownership was a key factor in the success of these programs. He stated that the Yemeni authorities viewed the Letter of Intent as a contract between the country and the IMF. The letter of intent contained nothing that the authorities did not feel was in the interests of the country; once signed, however, there was a clear commitment to deliver on the policies. The IMF missions were encouraged to meet with various segments of society, including the political opposition, as a means of enhancing ownership of the program. Mr. Ahmed Al-Gunaid noted that, on the whole, the policy advice of the IMF—some of which was codified into formal conditions—had indeed benefited the country. The reduction in internal and external imbalances could not have been achieved without the assistance of the IMF (as well as bilateral donors). In concluding, Mr. Ahmed Al-Gunaid stated that the main concerns with conditionality were largely procedural, particularly as concerned the time required for the IMF's Executive Board to consider requests for waivers. Some streamlining of conditionality and a greater delegation of authority to the management and staff of the IMF would be beneficial, he thought, and IMF procedures also needed to be simplified to speed up the process of concluding program agreements.

82. Mr. Khan noted that the IMF's interest in enhancing ownership stemmed, in part, from the observation that while Fund-supported programs were, on average, successful in meeting key macro objectives, the more successful cases appeared to be ones in which ownership was stronger. The two main, not mutually exclusive, alternatives to existing conditionality considered by Mr. Khan were (i) floating tranche conditionality; and (ii) results-based conditionality. On floating tranche conditionality, he noted that rigid timetables for implementing structural reforms could limit policy options. Accordingly, it might be preferable to split conditionality (and disbursements) into a traditional, mostly macroeconomic component, which would follow a pre-specified timetable, and a second, mostly structural, component for which disbursements would be tied to the implementation of agreed actions, not to particular dates. Establishing results-based conditionality would involve conditioning IMF disbursements on the achievement of specified outcomes rather than on policy measures. By making the authorities responsible for the outcomes, while allowing them the freedom to choose the means, results-based conditionality, Mr. Khan argued, would enhance ownership of programs. Moreover, this approach would force a rethinking, by both the authorities and by the IMF, of policies that failed to produce the expected results. Nonetheless, he agreed that there might be disadvantages to such an approach. These included (i) possible back-loading of financing reflecting the long lags before data on economic outcomes became available (especially on structural changes or social indicators); and (ii) less assurance to the country that it would in fact receive the disbursements, since, even if the appropriate policies were pursued, exogenous shocks or

model errors might mean that the agreed objectives were not achieved. To these objections, Mr. Khan noted that it would be possible to tranche disbursements, perhaps making the first disbursement unconditionally, and linking subsequent disbursements to the achievement of agreed outcomes. This would go some way to addressing the tension between safeguarding Fund resources while reducing the degree of back-loading. Ultimately, he concluded, greater results-based conditionality might be combined with policy-based conditionality to achieve an appropriate mix.

83. In the general discussion, speakers noted that while results-based conditionality could indeed enhance national ownership (and perhaps improve the country's implementation capacity), there were also practical concerns. These included the possibility of a country adopting inappropriate policies which, while achieving the narrow objectives in the short-run, would be inconsistent with a sustained improvement in economic performance. Though the more drawn-out nature of structural (as opposed to macroeconomic) reforms gave greater scope for results-based conditionality, there might still be a need for policy-based conditions in the early stages of the reform process. Moreover, taking account of exogenous shocks or model errors in granting waivers for missed program objectives would, in effect, mean that country was subject to policy conditionality, since waivers would typically be granted in cases where the authorities had been pursuing appropriate policies. It was also unclear whether it would be necessary to wait for poor outcomes to be observed before stopping disbursements, even if policies were clearly off-track. It was noted that the European Union had already shifted to outcomes-based conditionality for its grants. It had found that the PRSP provided a good framework for deepening country ownership and defining appropriate outcome indicators, though many countries still lacked the necessary institutional capacity, and problems in monitoring performance could lead to uncertainty in the timing of disbursements

84. In his response, Mr. Khan stated that, in results-based conditionality, the onus would be on the IMF to persuade the country not to use inappropriate policies to achieve agreed outcomes. Indeed, the key responsibility of the IMF would continue to be to offer sound policy advice, but the recommended policies would not be conditions in a program. On the mechanics of results-based conditionality, he expressed confidence in the IMF staff's ability to make it work.

Session V: Streamlining Conditionality and Enhancing the Policy Dialogue

85. The fifth session was devoted to the issue of streamlining conditionality and enhancing the policy dialogue. Agreeing with the points raised in earlier sessions on the need for conditionality and the possible tension between conditionality and ownership, Mr. Esdar stressed the need to find the right balance between the two concepts. The best approach to this would be for countries to develop their own reform programs, in collaboration with their partners. The IMF should participate in this policy dialogue and assess the quality of the authorities' proposals, the PRSP was a good example of this. Mr. Esdar observed that a country's adherence to international standards and codes could reduce the need for program conditionality, but in defining ”critical” conditionality, there was need for greater focus and a

case-by-case approach. In this context. Any attempts to streamline conditionality would have to be undertaken jointly between the IMF and the World Bank, given the close interconnection between the macroeconomic and structural aspects of adjustment. He noted that there had already been a considerable deepening of this collaboration within the frameworks of the Heavily Indebted Poor Countries (HIPC) Initiative and the PRSPs.

86. Mr. Gondwe underscored that IMF conditionality had achieved good results, especially in Africa, where it had helped restore and maintain macroeconomic stability and improve economic efficiency. However, as the economic situation and the authorities' understanding of the underlying policy recommendations had improved, and as the priority of policy gradually shifted toward the second-generation reforms, the whole approach to the economic policy dialogue and conditionality needed to be reviewed. Reducing the pervasive and detailed conditionality would give the authorities greater scope to choose their own policy priorities, as well as to monitor their own performance and manage competing demands of different donors. This effort could be activity supported by appropriate technical assistance. Mr. Gondwe observed that, in many respects, IMF structural conditionality had expanded to cover policies under the responsibility of other institutions that lacked similar instruments to encourage the necessary reforms. As the IMF reduced its conditionality to its core areas, therefore, there would be a need for these other institutions to maintain the policy dialogue in these areas. Streamlining conditionality and enhancing the policy dialogue could thus not succeed if done by the IMF alone—all donors would be called upon to coordinate their policies and avoid duplication and overlap.

87. Mr. Khor considered that the IMF now faced a crisis in legitimacy, given both the social and political upheavals resulting from its advice in the Asian Crisis, and the evolving consensus in development circles on the need to better balance the internal and external adjustment effort and to tailor policies to individual circumstances. He stressed that ownership would only be possible if IMF policies were appropriate, but its failure to anticipate the Asian Crisis and to understand the role played by capital markets had gravely undermined its credibility. In his view, given the poor record of the IMF, there was a need to debate and review the assumptions and effects of IMF models. Mr. Khor underscored the need for the IMF to return to its original role of establishing a global framework for financial stability, where short-term capital flows were regulated, exchange rates were stable, and crises could be prevented. In managing crises that did occur, Mr. Khor argued for an international bankruptcy court as a framework for temporary debt stand-stills, a fair debt workout with equitable burden sharing between creditors and debtors, and fresh liquidity for recovery. Mr. Khor considered the scope of IMF conditionality too broad, and saw the need for rethinking it, even in core areas like trade liberalization. The jury was still out, he said, on issues such as the priorities and targets of IMF conditions, and the appropriate policy stance to take in a crisis—he argued for policies aimed at maintaining the domestic basis for recovery and growth, rather than at favoring the foreign investor. Another area of necessary reform was in the ownership structure of the IMF itself, where Mr. Khor called for a revision of the quotas to give debtor and developing countries an equal voice.

88. In the general discussion, several speakers took issue with Mr. Khor's analysis of the sources of the Asian Crisis, in particular the view that the onset of the crisis and its subsequent evolution was due only to external factors and the IMF's policy advice. Others noted that while IMF-supported programs had achieved some improvements, it was also necessary to analyze policy prescriptions carefully, learn from the failures, and avoid the tendency to blame the recipient countries for all shortcomings.

89. Discussants generally agreed that streamlining conditionality should be coordinated among donors, but the country could take the lead in this effort—for their part, donors should emphasize support for developing local institutions, and possibly also private sector stakeholders, that would then assume responsibility for monitoring the actions of their governments. Ownership would only work when there was trust in the capacity of institutions to handle this monitoring. One discussant agreed that standards and codes could help in this, but were often a constraint upon developing countries, which were often not represented in the relevant decision-making bodies, and shared the call for a greater voice of debtor countries in the Executive Board of the IMF.

90. In their closing reflections, speakers took noted of the willingness of the IMF to seek out the views of others on ways to enhance the effectiveness of conditionality and of its role in general. Mr. Wangwe noted that greater IMF flexibility could itself enhance ownership and urged country authorities to be transparent in their policy choices, and to discuss these openly with the IMF and their populations.. He observed that other actors responded positively to the signals given by conditionality in IMF-supported programs but stressed the need for the IMF to take stock of the lessons from its wide experience with program conditionality in the review of conditionality.

91. Mr. Shourie observed that there seemed to be some consensus on the continuing need for conditionality, but that it should be parsimonious and developed on a case-by-case basis. The IMF and governments should learn from each other in seeking ways to make adjustment programs more effective, and more acceptable to the countries concerned. The IMF should closely examine and document the appropriateness of its policy recommendations, and seek to convince countries of the need for reform through the force of its intellectual arguments, rather than through the threat of withholding its supports. Country authorities, for their part, should build consensus for the reform effort by communicating to their populations the rationale for each proposed reform.

92. Mr. Hinrichs concurred with this view, but considered that the IMF should support the authorities in this effort, by a willingness to discuss publicly the policies proposed and their likely impact. The IMF should also reassess past programs to determine where program conditions had had the expected effect, and were really necessary to successful reform. In his view, the answer to the question of how to streamline and rationalize conditionality could only be found by a careful assessment by all partners concerned—the government and civil society in member countries, the donor community in general, and the Bretton Woods institutions themselves.

Tokyo Seminar: Participants and Program

A. Participants[6]

Country Officials

Australia
Martin Parkinson; Executive Director, Department of the Treasury

Cambodia
Thaysan Eng; Deputy Governor, National Bank of Cambodia

China
Ruogu Li; Assistant Governor, People's Bank of China
Jiangyan Yu; Deputy Section Chief, International Department, People's Bank of China

Hong Kong
Julia Leung; Executive Director, External Department, Hong Kong Monetary Authority

Indonesia
Boediono; Advisor, Coordinating Agency for Poverty Reduction
Widjojo Nitisastro; Economic Advisor, Government of Indonesia

Korea
Yong-Duk Kim; Deputy Minister for International Affairs, Ministry of Finance and Economy
Sirn-Byung Kim; Senior Deputy Director, Ministry of Finance and Economy

New Zealand
Murray Sherwin; Deputy Governor, Reserve Bank of New Zealand

Philippines
Amando M. Tetangco; Deputy Governor, Research and Treasury, Banking Service Sector, Bangko Sentral ng Pilipinas

Papua New Guinea
Leonard Wilson Kamit; Governor, Bank of Papua New Guinea

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[6] In addition, Bank Negara Malaysia submitted a written statement that was circulated at the seminar. The seminar report in the text also reflects the views in that statement.

Singapore
Peh Kian Heng; Senior Assistant Director, Monetary Authority of Singapore

Thailand
Tarrin Nimmanahaeminda; Member of Parliament

Japan
Haruhiko Kuroda; Vice Minister of Finance for International Affairs, Ministry of Finance
Prof. Takatoshi Ito; Professor, Hitotsubashi University
Zenbei Mizoguchi; Director-General, International Bureau, Ministry of Finance
Tadashi Iwashita; Deputy Director-General, International Bureau, Ministry of Finance
Mitsuhiro Furusawa; Director, International Organizations Division, Ministry of Finance
Takuo Komori, Deputy Director, International Organizations Division, Ministry of Finance
Kazuki Watanabe, Chief, International Organizations Division, Ministry of Finance
Jun Yamada, Director, Second International Economic Affairs, Ministry of Foreign Affairs
Tomoko Nakada, Second International Economic Affairs, Ministry of Foreign Affairs
Eiji Hirano, Director, International Department, Bank of Japan
Tadashi Nunami, Associate Director, International Department, Bank of Japan
Kenichirou Watanabe, Manager Global Economic Research Division, International Department, Bank of Japan
Atsushi Takeuchi, Assistant Manager Planning and Coordination Division, International Department, Bank of Japan
Hiroshi Yoshida, Director-General, Country Economic Analysis Department, Japan Bank for International Corporation

Academia/ Think Tank

Fan He, Deputy Director, Research Center for International Finance, Institute of World Economics and Politics, Chinese Academy of Social Science
Hadi Soesastro, Executive Director, Centre for Strategic and International Studies, Jakarta, Indonesia
Mohamed Ariff, Executive Director, Malaysian Institute of Economic Research
Dr. Chalongphob Sussangkarn, President, Thailand Development Research Institute
Rei Masunaga, Deputy President, Japan Center for International Finance
Junichi Mori, Director, Planning and Administration Division, Institute for International Monetary Affairs
Prof. Naoyuki Yoshino, Professor, Keio University, Tokyo, Japan
Prof. Kenichi Ohno, Professor, National Graduate Institute for Policy Studies, Tokyo, Japan
Prof. Eiji Ogawa, Professor, Hitotsubashi University, Tokyo, Japan

Private Sector

Yoko Kitazawa, Co-Chair, Japan Network on Debt and Poverty
Tadahiko Nakagawa, Senior Advisor, Electric Power Development Coorporation Limited,

Tokyo, Japan
Hubert Neiss, Chairman, Deutsche Bank AG (Asia), Singapore
Noriyuki Suzuki, General Secretary, International Confederation of Free Trade Unions-Asian and Pacific Regional Organisation

International Organizations

Asian Development Bank

Shoji Nishimoto, Director, Strategy and Policy Department
Masaru Yoshitomi, Dean, Asian Development Bank Institute

International Monetary Fund

Stanley Fischer, First Deputy Managing Director
Benhua Wei, Executive Director
Ken Yagi, Executive Director
Diwa Guinigundo, Alternate Executive Director
Jack Boorman, Director, Policy Development and Review Department
James Boughton, Assistant Director, Policy Development and Review Department
Yusuke Horiguchi, Director, Asia and Pacific Department
Prakash Loungani, Assistant to the Director, External Relations Department
Kunio Saito, Director, Regional Office for Asia and the Pacific
Christopher Morris, Senior Economist, Research Department
Romuald Semblat, Economist, Regional Office for Asia and the Pacific

United Nations Development Programme
Hafiz Pasha, UN Assistant Secretary General - Assistant Administrator and Director for Asia and the Pacific
Masaru Todoroki, Deputy Director, Regional Bureau for Asia and the Pacific

The World Bank
Bernd Esdar, Poverty Reduction and Economy Management
Zia M. Qureishi, Poverty Reduction and Economy Management
Shuzo Nakamura, Director, World Bank Tokyo Office

B. Program

July 10, 2001

10:00 – 10:30 Session 1: Welcome and Introduction
Chairperson: Stanley Fischer (First Deputy Managing Director, IMF)

Speaker: Haruhiko Kuroda (Vice Minister for International Affairs, Ministry of Finance, Japan)

10:30 – 12:00 Session 2: The Role of Conditionality in Fund-supported programs

Conditionality is a key element in any Fund-supported program. It is the link between the approval or the continuation of the Fund's financing and the implementation of certain specified aspects of the government's policy. Conditionality is an insurance that the resources provided by the Fund are used effectively to achieve a sustainable balance of payments. It is also a monitoring device allowing the Fund to assess the consistency of the government's policy with features of the program. Some critics, however, have suggested that the Fund should tailor its conditionality more to meet the needs of each country, or that it should be more flexible to avoid having to refrain from providing financing for a country. Panelists may wish to discuss the role of conditionality and its design in Fund-supported programs in light of regional experience and assess its effectiveness at achieving its objective.

Moderator: Jack Boorman (Director, Policy Development and Review Department, IMF)

Speakers:

Li Ruogu (Assistant Governor, People's Bank of China)
Shoji Nishimoto (Director, Asian Development Bank)
Amando Tetangco (Deputy Governor, Bangko Sentral ng Pilipinas, Philippines)
Mohamed Ariff (Executive Director, Malaysian Institute of Economic Research)

12:00 – 13:30 Lunch (Mita Room, 3F)

13:30 – 15:00 Session 3: Structural Conditionality in Fund-supported programs

Over the past ten years, the role of structural issues in Fund-supported programs has expanded as a result of increasing emphasis on achieving sustainable growth, reducing poverty and ensuring the transition of planned to market economies. To some extent, this expansion has been accompanied by an increased collaboration with the World Bank. Despite the importance of these broader goals, there may be legitimate concerns that structural conditionality has become too detailed and too extensive and that the delineation of responsibilities between the Fund and the Bank is not clear . Using regional experiences, panelists may assess the effectiveness of structural conditionality in IMF-supported programs in fostering sustainable growth and may suggest avenues for improvement.

Moderator: Yusuke Horiguchi (Director, Asia and Pacific Department, IMF)

Speakers:
Martin Parkinson (Executive Director of the Treasury, Australia)
Boediono (Advisor, Coordinating Agency for Poverty Reduction, Indonesia)
Haruhiko Kuroda (Vice Minister for International Affairs, Ministry of Finance, Japan)

15:30 – 17:00 Session 4: Conditionality and Program Ownership

The success of IMF supported programs hinges on strong ownership of policies by the authorities. Through an extensive dialogue and interaction with member countries, the Fund tries to use its conditionality to help the authorities build domestic support for reform. There may, however, be cases where the excessive use of conditionality may weaken program ownership. The country's capacity to implement policy reforms is clearly an important element in a program and if implementation capacity is lacking, the Fund may seek to use more detailed conditionality in planning a sequence of reforms. The panelists may wish to assess the complex relation between conditionality and program ownership at the light of their experience and may suggest ways where the Fund policies and negotiating procedures could be effective at enhancing program ownership.

Moderator: Tarrin Nimmanahaeminda (Former Finance Minister, Thailand)

Speakers:
Hafiz Pasha (Asst. Secretary General, UNDP, former Minister of Finance, Pakistan)
Takatoshi Ito (Professor, Hitotsubashi University, Japan)
Kim Yong Duk (Deputy Minister, Ministry of Finance and Economy, Korea)
Hubert Neiss (Chairman, Asia, Deutsche Bank)

17:00 – 17:30 Concluding Remarks:

Speaker: Stanley Fischer (First Deputy Managing Director, IMF)

17:30 –18:00 Press Conference (Conference Room 3, 3F)

Mr. Stanley Fischer
Mr. Haruhiko Kuroda

London Seminar: Program and Participants

A. Program

Monday, July 23

Session 1 (9:30–10:30): Welcome and Introduction

Session 2 (11:00–12:30): Ownership, Conditionality and Streamlining

There are two key issues here.

- Finances aside, it has been observed that Fund and Bank involvement can both help and hurt in building domestic support for reform. It can help by facilitating the design, prioritization and implementation of reform programs. It can hurt by creating the impression of external pressure and galvanizing opposition to desirable policies. On balance, what has been the experience?
- All countries need to prioritize carefully among policy reforms and be selective: no government can do everything at once. Have the Fund and Bank sought to specify too much, and use detailed benchmarks in too many areas or have the additional details served to enhance clarity of actions needed? How can conditions be made more selective, and yet provide effective support for the Government's reform program? Can conditions, especially for longer-term reforms be specified in a more flexible way?
- How do creditor and borrowing countries see these issues? Under what circumstances would less detail be appropriate, and when do they see such detail as helpful? Do the PRSP-based arrangements being introduced for low-income countries suggest a pattern that could be followed elsewhere? What changes might be made to Fund and Bank approaches to help the institutions play a more positive role in building ownership for good policies? How should other agencies and stakeholders be brought into the process?

Session 3 (2:15–3:45): Macroeconomic and Structural Conditionality

The boundaries between macroeconomics and structural, social and sectoral policies have become blurred, as it is increasingly recognized that both sound structural policies and macroeconomic stability are needed for external sustainability, growth and poverty reduction. If it is accepted that some structural reforms are to be an integral part of Fund-supported programs, how should a line be drawn between what should be of concern to the Fund and what to the Bank? How can conditionality handle the different timescale of long term structural reforms and shorter-term macroeconomic measures?

Session 4 (4:15–5:45): Bank-Fund Collaboration

- A clear division of labor with the World Bank, and the Bank's own more systematic approach to diagnosis and program support should help ensure that as the Fund curtails its conditionality outside its core area of responsibility, the important structural aspects of policy will continue to be covered. A high priority is being given to improving coordination between the Fund and Bank. How are the enhanced collaboration arrangements being introduced for PRSP countries working in practice? What lessons can be drawn for middle-income countries? What specific steps should be taken to improve the efficiency and effectiveness of the three-way relationship among the two institutions and their member countries with the objective of integrating their advise and support into a coherent country framework? How should other agencies and stakeholders be brought into the process?

Tuesday, July 24

Session 5 (9:00–10:30): Creditor Country, Private Sector, NGO and other External Views

How are the issues seen by creditors and other external stakeholders? What policy conditions are most important for reassuring bilateral donors giving financial support? Which are most important for reassuring creditors and potential private investors? Will all the concerns of these groups be covered as conditionality is streamlined?

Session 6 (10:45–12:15): Concluding Comments and Lessons from the Seminar

B. Participants

Republic Of Congo
Mr. Leon Raphaël Mokoko; Director, External Financial Relations, Ministry of the Economy and Finance

France
Mr. Jean-Pierre Landau; Financial Counsellor, French Embassy, London

Ghana
Dr. Joe Abbey; Executive Director, Centre for Policy Analysis

India
Dr. Shankar Acharya; Professor, ICRIER

Jamaica
Mr. Larry Bailey; Managing Director, Bailey Graham and Dodd
Dr. Wesley Hughes; Director General, Planning Institute

Kenya
Mr. Micah Cheserem; former Governor, Central Bank of Kenya

MOZAMBIQUE
Mr. Pedro Couto; Director of Cabinete de Estutos, Ministry of Planning and Finance

Netherlands
Mr. Wouter Raab; Director of Foreign Financial Relations, Ministry of Finance

Pakistan
Dr. Ishrat Hussain; Governor, State Bank of Pakistan

Senegal
Mr. Makhtar Sop Diop; former Minister of the Economy and Finance

Tanzania
Mr. Gray Mgonja; Deputy Permanent Secretary

Trinidad and Tobago
Ms. Candyce Kelshall; Commercial Attaché, Trinidad and Tobago High Commission (London)

United Kingdom
Mr. Barry Ireton; Director General (Programmes), DIFID
Mr. Tony Killick; Advisor, Overseas Development Institute
Mr. Andrew Lewis, H. M. Treasury
Mr. Percy Mistry; Managing Director, Oxford International Associates
Mr. Gus O'Donnell; Managing Director (Macro Economic Policy and International Finance and Head of Government Economic Services), H M Treasury
Mr. Avinash Persaud; State Street Bank
Dr. Benu Schneider; Overseas Development Institute
Professor David Vines; Balliol College, University of Oxford
Ms. Angela Wood; Bretton Woods Project

International Organizations

African Development Bank
Mr. Oladeji Olayiwola Ojo

IMF
Mr. Thomas Bernes; Executive Director
Mr. Cyrus D. R. Rustomjee; Executive Director
Mr. Goodall Gondwe; Director, African Department
Mr. Masood Ahmed; Deputy Director, Policy Development and Review Department
Mr. James Boughton; Assistant Director, Policy Development and Review Department
Ms. Simonetta Nardin; External Relations Department

World Bank
Ms. Joanne Salop; Vice President, Operations Policy and Country Services
Mr. Theodore Ahlers; Operations Director, Africa Region
Mr. John Page; Director, Poverty Reduction Group
Mr. Amar Bhattacharya; Senior Advisor, Poverty Reduction and Economic Management
Mr. David Peretz; Advisor to the World Bank and the Commonwealth Secretariat

Commonwealth Secretariat
Rt. Hon Don McKinnon; Secretary-General
Mr. Winston Cox; Deputy Secretary-General
Dr. Indrajit Coomaraswamy; Acting Director, Economic Affairs Division
Dr. Bishakha Mukherjee; Chief Programme Officer
Mr. Rajiv Biswas; Senior Programme Officer