

Watchdog Evaluates IMF Loan Conditions

In a study of structural conditionality in IMF-supported programs, the Fund's Independent Evaluation Office (IEO) noted that conditions attached to loans have become more focused, but found that there were still too many of them and that some conditions may not have been tied to the main goals of the program.

In commenting on the report, IMF Managing Director Dominique Strauss-Kahn stated that “while we have been making progress in recent years in streamlining conditionality and focusing it on our core areas of expertise, we will need to ensure parsimony in the selection of conditions in the future, limiting them to measures that are critical to achieve the objectives of the programs we support.”

Tom Bernes, head of the IEO, said that “progress has been made in better aligning IMF conditionality to its core areas of responsibility and expertise. The report also provides evidence of higher compliance with conditionality in the IMF's core areas. However, approximately one-third of the conditions remain outside core areas and compliance overall—at about one-half—remains weak.

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—Strauss-Kahn

This analysis underscores that achieving the objectives of parsimony and criticality remains an important challenge for the Fund and further progress is necessary.”

Following criticism during the Asian crisis in the late 1990s for including too many conditions on its loans, the IMF has been trying to ensure that conditions are linked to key goals in a country's recovery program. This initiative resulted in a comprehensive revision of the Conditionality Guidelines in 2002.

Key IEO findings

The IEO report, which covers Fund-supported programs approved in 1995–2004, arrives at the following conclusions:

- After the streamlining initiative was launched, the composition of structural conditions shifted significantly toward IMF core areas.
- Compliance and effectiveness were higher in the areas of IMF core competency, such as public expenditure management and tax-related issues, and lower in areas such as privatization and reform of the public sector.
- The number of structural conditions in Fund programs remained stable at about 17 per program/year, contrary to expectations when

the streamlining initiative was launched. This was so, in part, because of a strong demand by donors and others to include these conditions as a monitoring tool for their own programs and initiatives,

- Many conditions had limited structural depth—that is, the degree of structural change that they would bring about if implemented. For example, a number of conditions called for preparing plans or drafting legislation.

- Only about half of the conditions were complied with on time and there was a weak link between compliance and subsequent reforms.

IMF response

In their response to the report, IMF staff noted the limitations of counting the number of conditions as a metric to evaluate the success of reforms. The staff noted that the measure of success should not be to look at reforms beyond the program but rather at whether the program goals are achieved and sustained. They also noted that the report did not provide specific evidence to substantiate the conclusion that some conditions may not have been critical enough. Lastly, the staff reaffirmed that the Fund should have the option to adopt conditions in areas outside their expertise (assuming appropriate external expert advice is available) if such conditions are critical to achieving the program goals and are not part of another institution's supported program (such as the World Bank).

At the conclusion of the meeting on the IEO report on December 12, 2007, the Fund's Executive Board broadly agreed with its findings and noted that the assessment gives impetus to the ongoing efforts to make the Fund more focused and relevant. Based on the report and the discussion, the Board endorsed the following recommendations:

- The objective should be to have parsimony of conditions in Fund-supported programs. To this end, IMF staff should have candid exchanges with country authorities to identify critical structural reforms that are linked to program goals and likely to have a significant and sustainable impact. Several Directors at the Board also advised caution on setting conditions in noncritical areas at the request of donors.
- Fund documents should justify the criticality of the proposed conditions (especially those outside the areas of IMF competence) and their relation to the program goals.
- The IMF should continue including conditionality on all measures critical to programs while drawing on the expertise of other institutions in noncore areas. A recently agreed action plan on Bank-Fund collaboration will help coordinate the coverage of conditions by the two institutions.
- The IMF should strengthen its monitoring and evaluation framework to link conditions to program goals and enhance accountability. ■