

Review of Conditionality and Design of Fund-Supported Programs

Findings and Recommendations

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Program Objectives

A program is a package of policy measures that, combined with financing, is intended to achieve certain economic objectives.

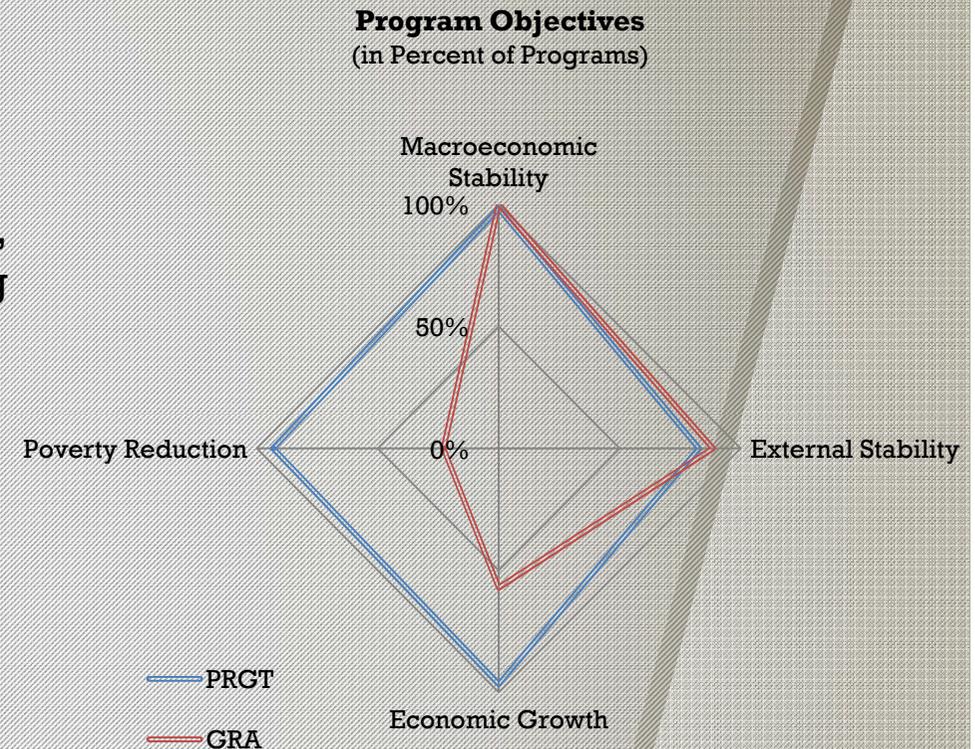
Programs pursue different objectives depending on the nature of the problem, and the size and time profile of financing needs.

Program objectives:

- Restoring macroeconomic stability
- Restoring external stability
- Enhancing Growth
- Lowering Poverty

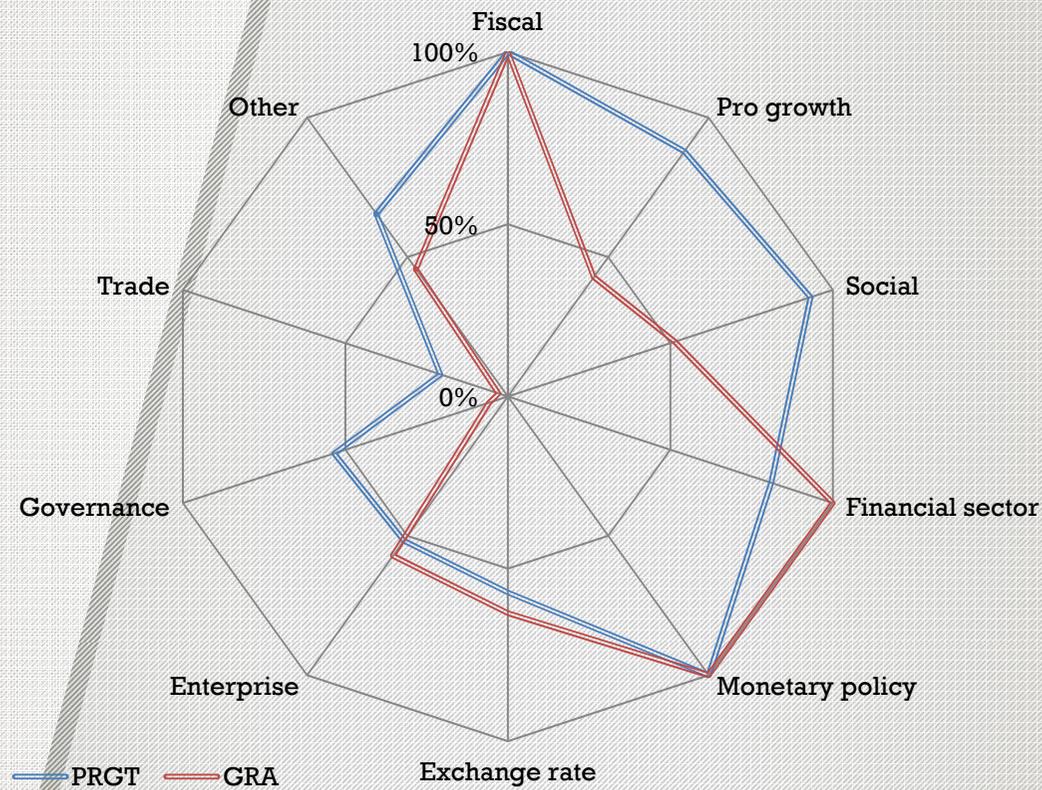
Additional objectives:

- Containing spillover risk
- Catalyze other financing



Program Instruments

Program Instruments
(Share of programs with the stated instrument)



Fund Facilities

Concessional	Non-concessional
Extended Credit Facility	Extended Fund Facility
➤ For protracted financing needs	
Standby Credit Facility	Stand-By Arrangement
➤ For short-term financing needs, precautionary use possible	
Rapid Credit Facility	Rapid Financing Instrument
➤ For urgent financing needs, limited conditionality	
Policy Support Instrument	Flexible Credit Line
➤ No financing, signaling instrument	➤ For members with strong fundamentals, no conditionality, no cap on credit limit
	Precautionary and Liquidity Line
	➤ For members with sound policies, insurance tool

Conditionality Principles

Five principles guide the design of conditionality:

- National ownership of programs
- Parsimony and macro-criticality
- Tailoring to country circumstances
- Clarity of conditions
- Coordination with other multilateral institutions

Specification and Monitoring of Performance

Documents:

- *Letter of Intent (LOI)*
- *Memorandum on Economic and Financial Policies (MEFP)*
- *Technical Memorandum of Understanding (TMU).*

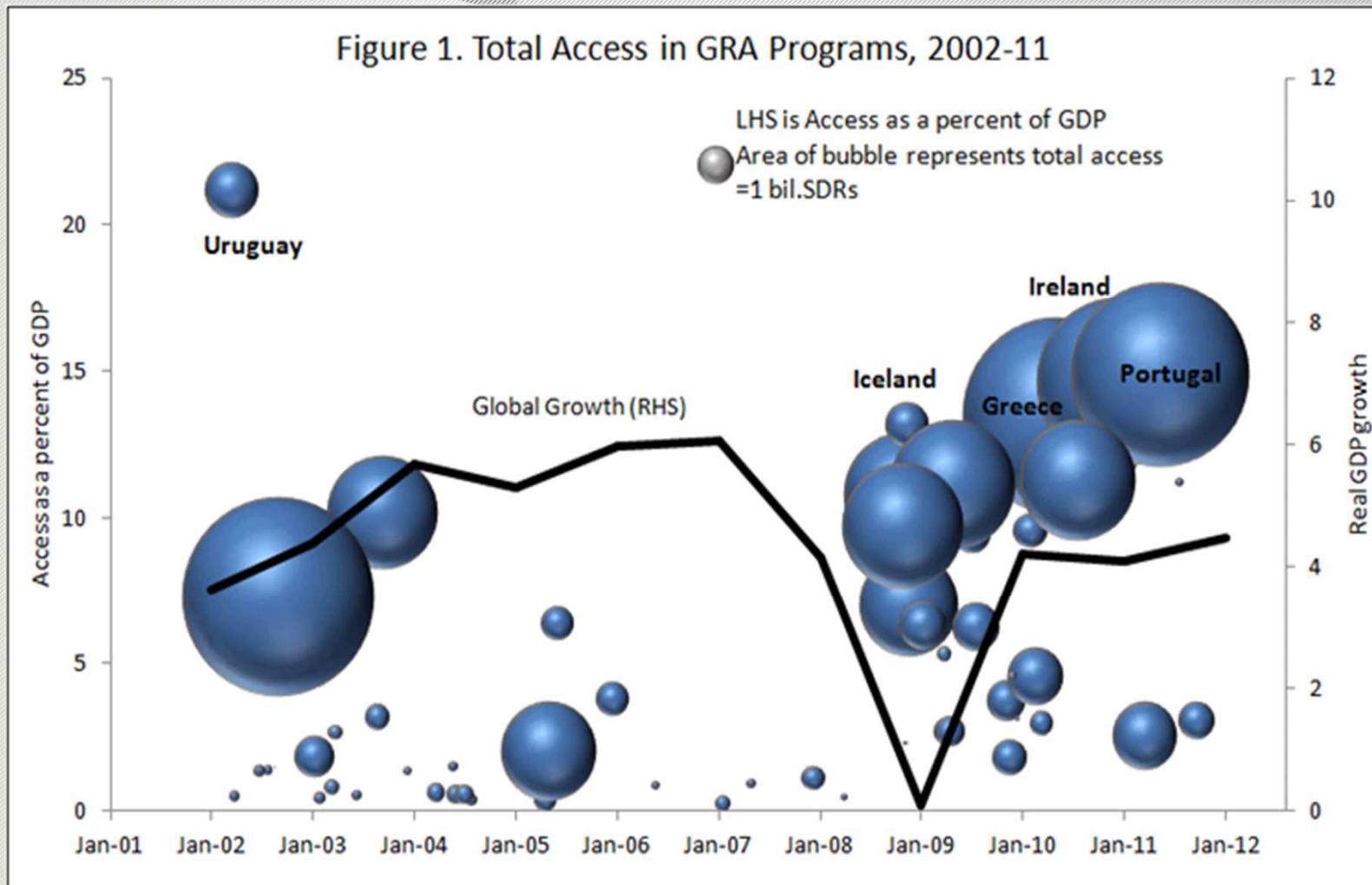
Monitoring based on :

- *Prior actions*
- *Performance criteria*
- *Structural benchmarks*
- *Indicative targets*

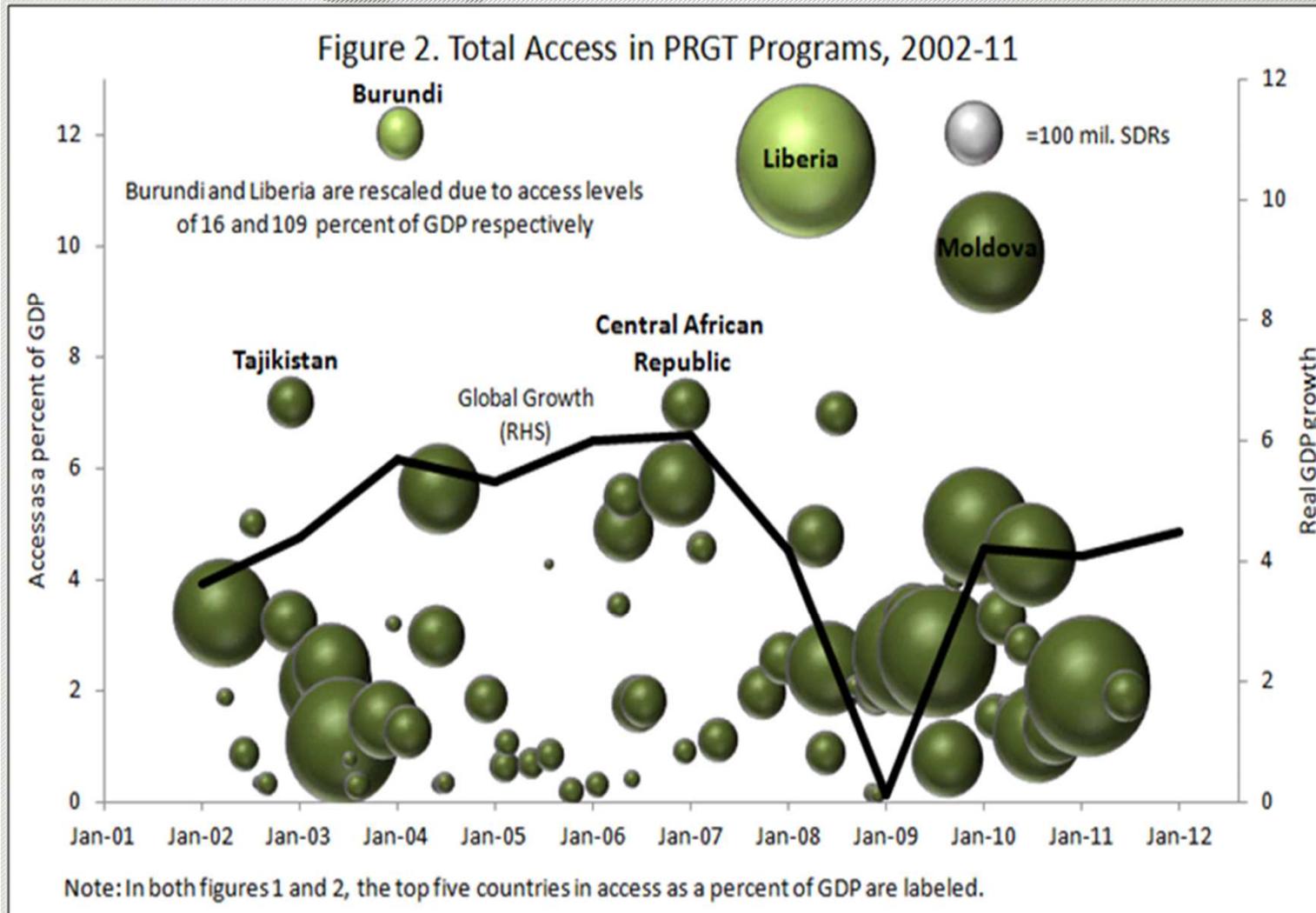
Review of Conditionality

- Assesses conditionality, design, and outcomes in all (“upper-credit tranche”) Fund-supported programs started during 2002-September 2011.
- Consultative process:
 - ✓ Fund Executive Board discussed concept note in 2011
 - ✓ Outreach with stakeholders, two external advisors
 - ✓ Surveys and interviews of key stakeholders
 - ✓ Board discussion in September 2012
 - ✓ Data being made available on Fund website
- Provides recommendations to strengthen conditionality and design.

GRA Programs in Sample



PRGT Programs in Sample



Main Findings

- **Positive** results were obtained for a substantial majority of programs:
 - Most programs met their objectives (based on comparison of outturns to initial projections and acceptable levels of key macro variables).
 - Conditionality was generally appropriately streamlined, even-handed, and tailored to country needs.
 - Program design adapted flexibly to the global financial crisis.
 - Macroeconomic impact of most programs was generally positive and social spending was largely protected, with some cases showing an increase in social spending.
- **Challenges** arose in some recent programs, where:
 - High levels of debt and weak competitiveness required deep policy adjustment.
 - Structural conditionality became less parsimonious and less focused on core Fund competencies.

Recommendations in Six Areas

The conditionality guidelines remain broadly appropriate, while implementation needs to be strengthened by:

Keeping
Conditionality
Focused

Enhancing
Risk
Diagnostics

Considering
Further Macro-
Social Issues

Enhancing
Ownership
&
Transparency

Leveraging
Surveillance

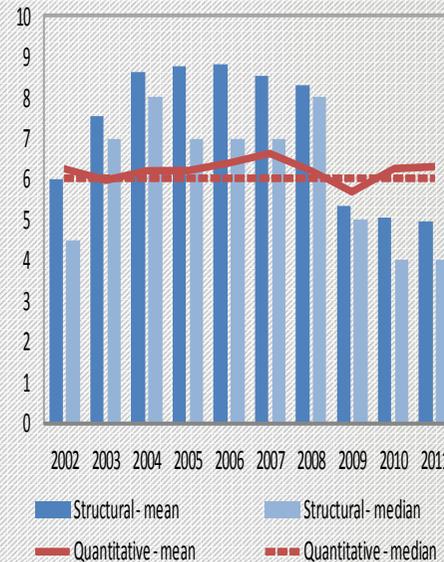
Improving
Partnerships
with Other
Institutions

Keeping Conditionality Focused—Findings and Recommendations

- Streamlining conditionality has been successful overall.
- But in some recent higher risk programs, the number of conditions has risen.
- Maintaining streamlining in higher risk programs will be important.
- Improved clarity in rationale for conditionality would also help.

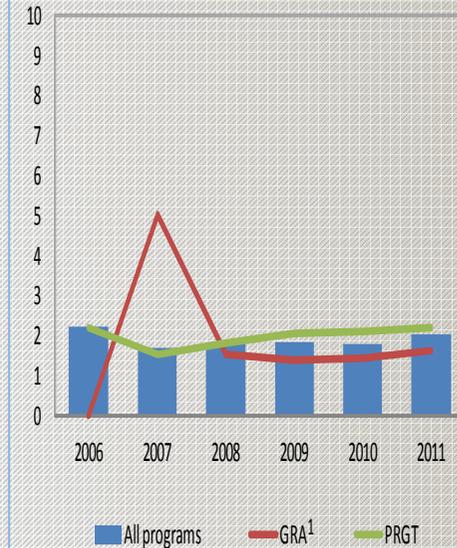
Figure 8. Number of Structural and Quantitative Conditions per Review, 2002-2011

All programs, average and median



Source: MONA and Staff calculations.

Figure 9. Number of Indicative Targets per Review, 2006-2011



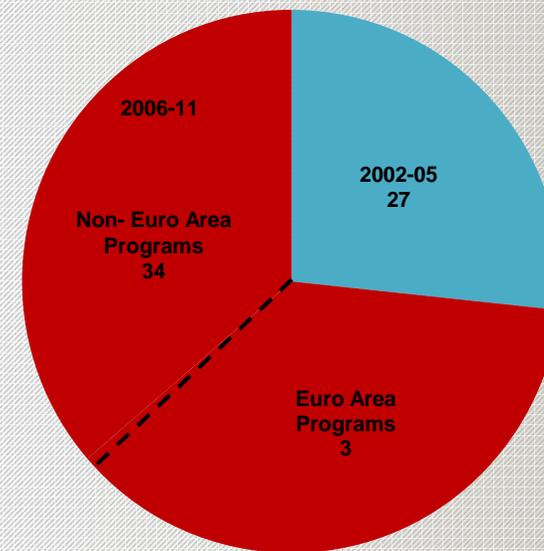
Source: MONA and Staff calculations.

¹ No data for 2006. There was only one GRA program in 2005, with 5 ITs.

Enhancing Risk Diagnostics During Program Design—Findings

- Program design on the whole appears reasonably tailored to country needs, even-handed, flexible, and adaptive.
- The challenges point to the need for more robust risk diagnostics, where the core issue is achieving robust sustainability
- Deeper analysis of risks seem to be helpful and should be a guide for the future.

Figure 4. Distribution of Total Access in GRA Programs, 2002-11

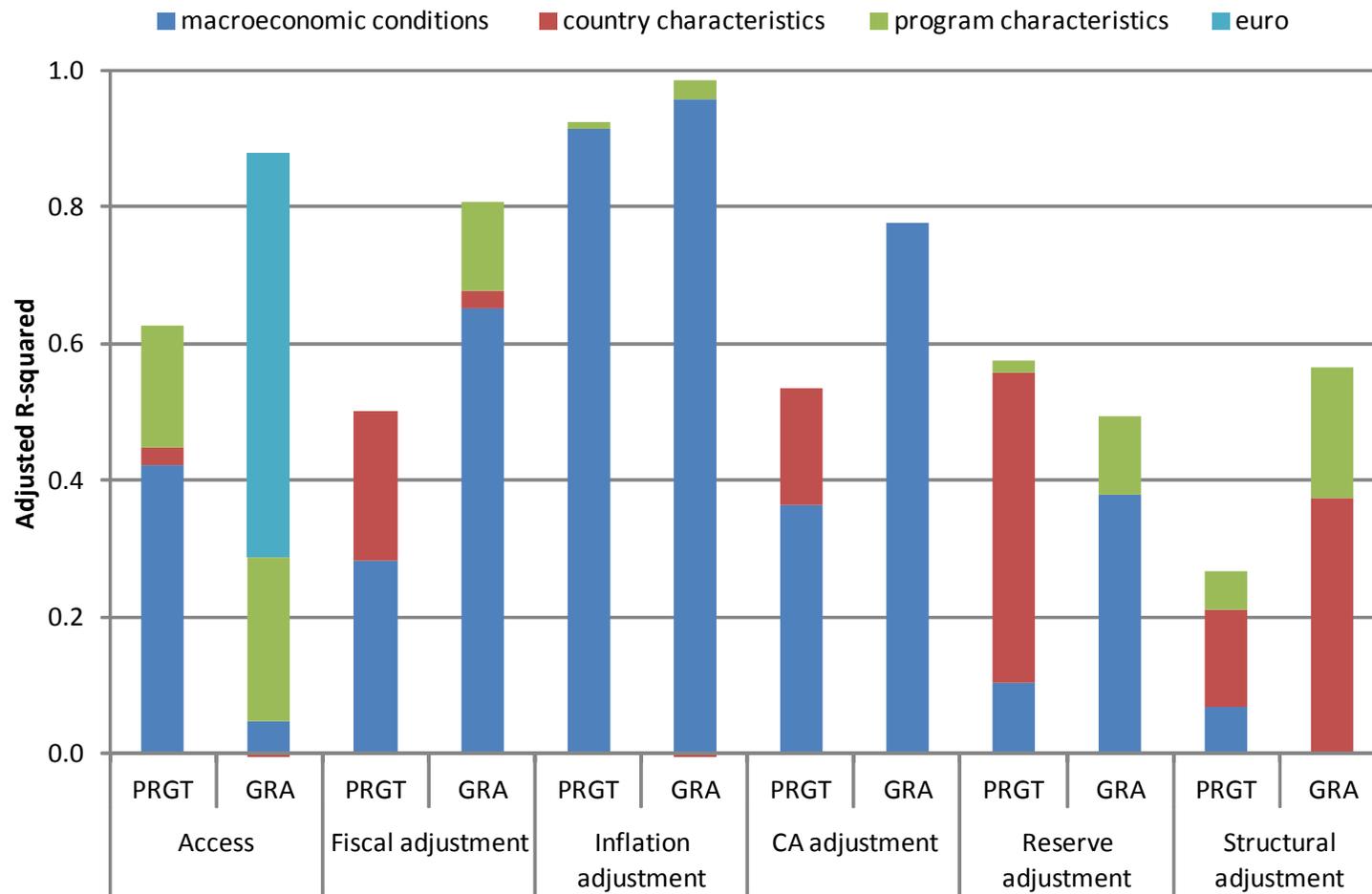


Note: Total Access was 191.6 bil. SDRs
The total number of programs is listed in each section

Evenhandedness: Across countries, program features correspond to economic conditions and country characteristics.

Figure 2.1. Summary of Factors Affecting Adjustment and Access

The size of adjustment and financing in the Fund-supported programs are largely explained by macroeconomic conditions, though country- and program-specific factors do affect the size of financing and structural adjustment.



Enhancing Risk Diagnostics During Program Design—Recommendations

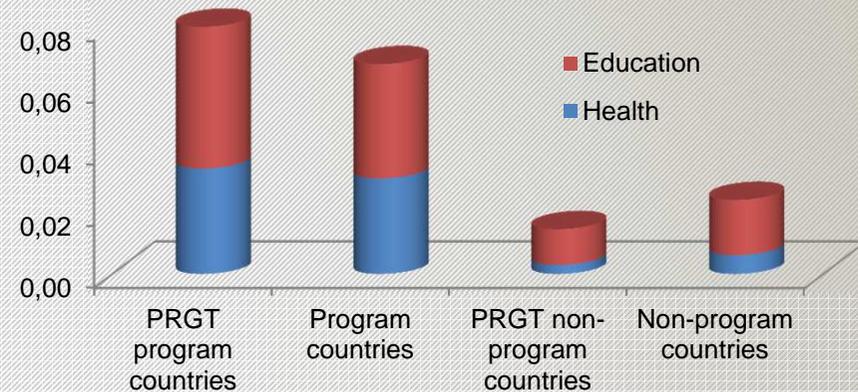
- Develop procedures for conducting tailored robustness tests
- Closely analyze and monitor the fiscal adjustment/growth nexus
- Refine analytical tools to evaluate systemic and contagion risks
- Analyze systemic risks, spillovers, and macro-financial linkages more systematically
- Review the design and implementation of the exceptional access criteria
- Account for external views in the internal Fund discussions of program design.



Macro-Social Aspects—Findings

- The focus on macro-social issues in Fund-supported programs has increased recently.
- Social spending has been largely safeguarded under most Fund-supported programs during 2002-11, and has grown over 1985-2009, particularly in PRGT programs.
- Greater fiscal and external accommodation than in the past was observed in many programs, limiting the output and job losses.

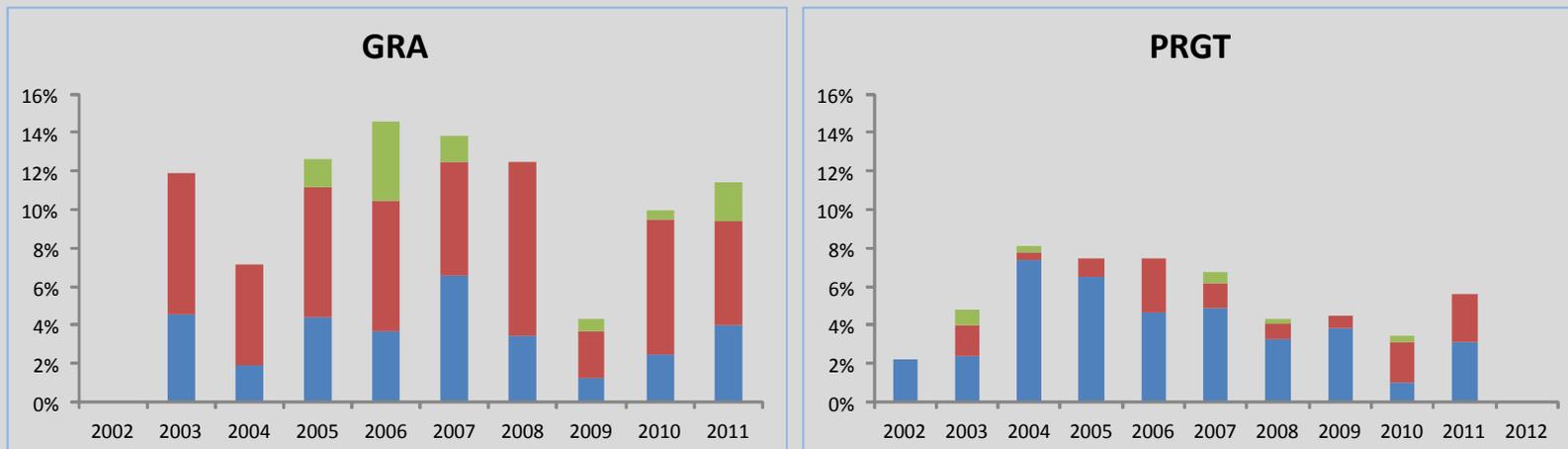
Median Annual Change in Social Spending, 1985-2009
(In percent of GDP)



Source: IMF staff calculations

Macro-Social Conditions, by Type of Fund-Supported Program

Share of total structural conditions



Source: MONA and Staff calculations.

■ Civil Service and public employment, and wages
 ■ Pension and other social sector reforms
 ■ Labor markets, excluding public sector employment

Macro-Social Aspects—Recommendations

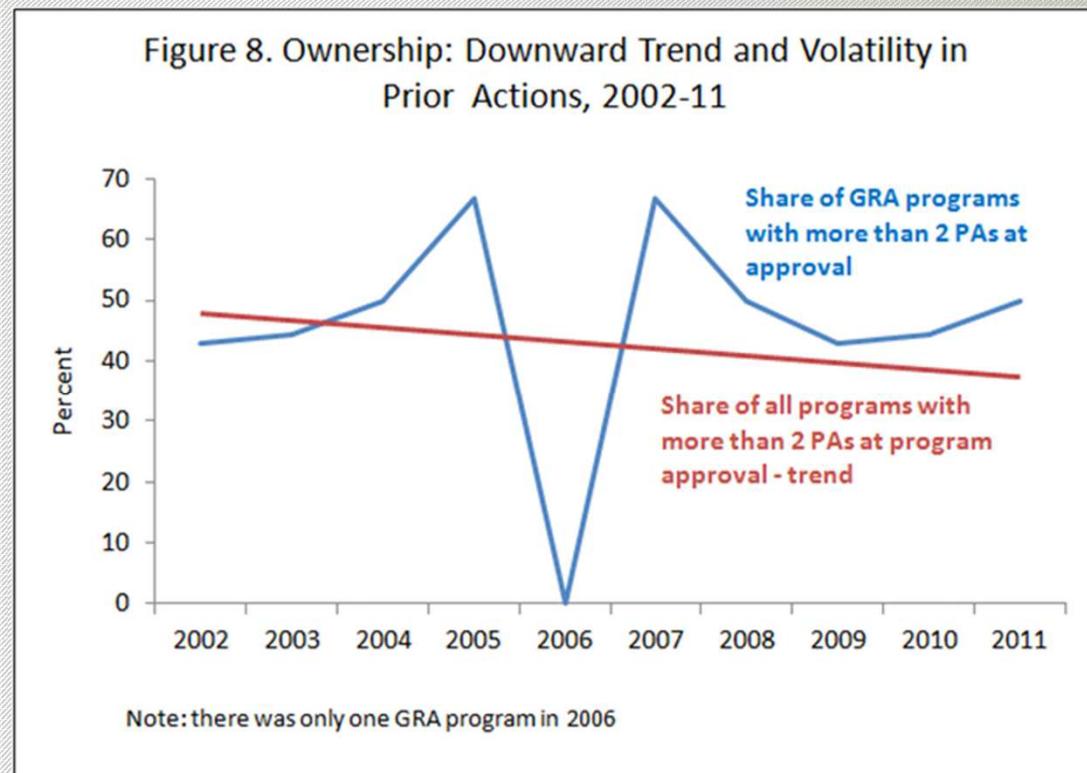
- Leverage surveillance and technical assistance.
- Where possible, conduct more analysis of macro-social issues.
 - Evaluate additional options, including to foster dialogue.
 - Analyze in a broad context, including trade-offs between short-term costs and overall benefits of adjustment.
- Enhance discussion of macro-social issues in program documents.
- Ensure inclusion in program design, where feasible and appropriate, of policy measures to mitigate adverse short-term impacts on the most vulnerable.

Follow-Up Paper “Jobs and Growth: Operational and Analytical Considerations for the Fund”

- Describes situation: weak growth, high unemployment, and rising within-country inequality
- Identifies the main driving forces and events: technical progress, globalization, growing global labor force, and global financial crisis
- Reviews the literature on policies conducive to growth, policies conducive to job creation, effects of inequality on growth.
- Makes recommendations on strengthening Fund work, e.g.:
 - Try to identify the key constraints to growth.
 - Enhance advice on labor market policies.
 - On request, advise on measures to lower inequality.

Enhancing Ownership and Transparency— Findings

- **Ownership critical to program success**, reflecting member countries' primary responsibility for design and implementation of economic policies.
- There is some evidence for improved ownership.
- Ownership can benefit from more systematic outreach and transparency, involving the authorities and other stakeholders.
- Ownership could also be enhanced by better provision of cross-country information on program design.
- Addressing stigma of Fund-supported programs remains key challenge.



Enhancing Ownership and Transparency– Recommendations

- **Broaden discussion of alternative policy options at the design stage, in dialogue with authorities and in program documents.**
- **Develop standard processes for staff to collect, and reflect on, external views in the internal Fund discussion of program design.**
- **Re-affirm presumption of two-way in-country communication with stakeholders (e.g., CSOs, private sector, parliamentarians), in coordination with the authorities.**
- **Make data from this conditionality review publicly available.**

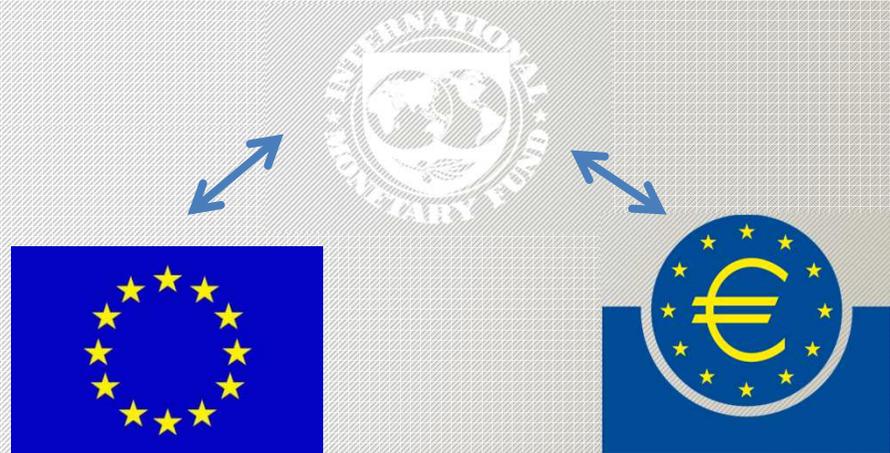
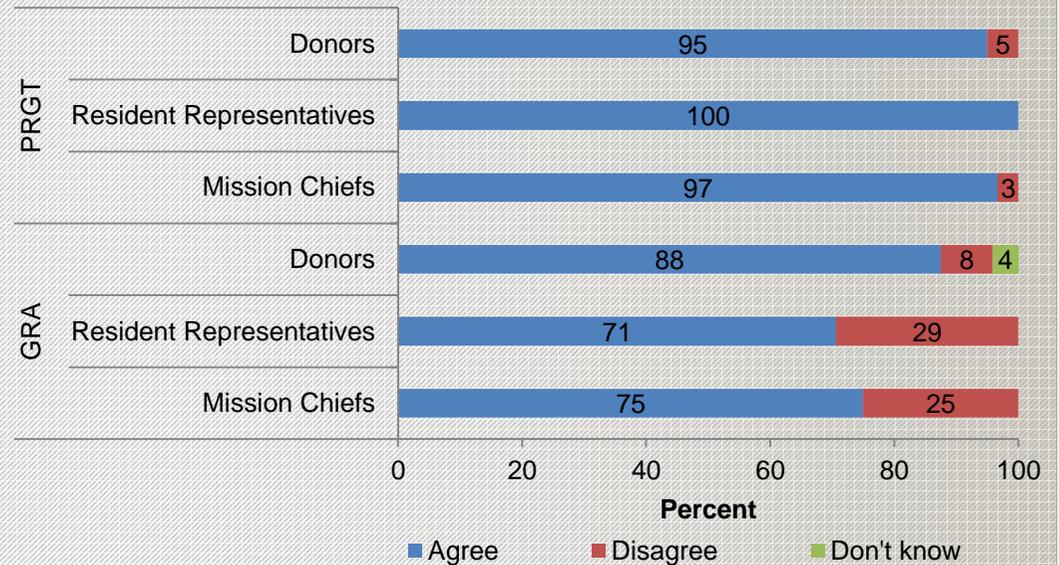
Leveraging Surveillance–Findings & Recommendations

- Only about half of initial program measures were foreshadowed in preceding Article IV consultation reports.
- Increased contingency planning by Fund staff for countries at risk can boost the value of surveillance.
- Help identify systemic risks, macro-financial linkages, and key early structural reforms.
- Establish closer link to risk-based surveillance, where possible utilizing the risk assessment matrices undertaken during surveillance.

Stronger Partnerships—Findings

- Coordination with partner institutions is a key feature of program design.
- Many partners (including World Bank, regional development banks, other IFIs, and donors).
- In recent GRA programs with European countries, coordination between Fund and EU institutions essential but complex.

“The program involved intensive coordination with bilateral and/or multilateral donors.” (Survey results)



Stronger Partnerships—Recommendations

- **Maintain standing dialogue with regional financial agencies on policies and procedures for program conditionality and design, including a discussion of approaches for dealing with recurrent problems.**
- **Strengthen coordination on macro-critical structural reforms in non-core Fund areas with World Bank, regional development banks, OECD, ILO, and others.**
- **Clearly communicate the Fund's financing principles when joining co-financing operations.**

Responding to diverse and evolving needs of LICs.

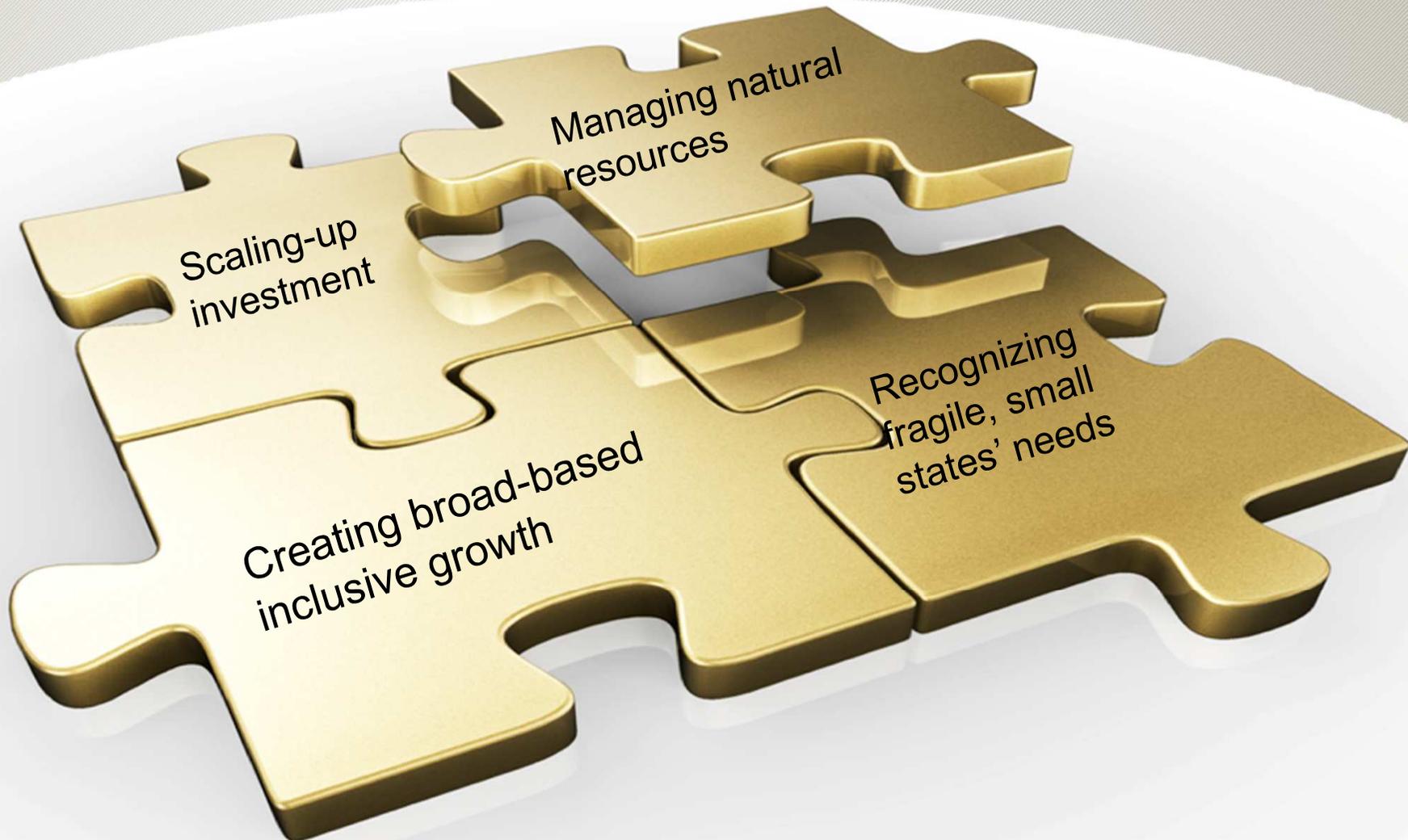
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Policy Advice: Sharpening IMF policy support.

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Strategic priority: achieving higher sustainable growth



Useful Links

Review of Conditionality

<http://www.imf.org/external/pp/longres.aspx?id=4692>

Review of Crisis Programs

<http://www.imf.org/external/np/spr/2011/crisprorev/index.htm>

IMF Lending Facilities

<http://www.imf.org/external/np/exr/facts/howlend.htm>

What Happens to Social Spending in IMF-Supported Programs?, IMF Staff Discussion Note 11/15

www.imf.org/external/pubs/ft/sdn/2011/sdn1115.pdf

Jobs and Growth: Analytical and Operational Considerations for the Fund

www.imf.org/external/np/pp/eng/2013/031413.pdf