Foreword

Against the backdrop of continuing debate over the use and effectiveness of structural conditions, the Independent Evaluation Office undertook an evaluation of the use of structural conditionality in IMF-supported programs. It focused on two distinct issues: the effectiveness of structural conditionality at bringing about lasting economic change and the impact of the 2000 Streamlining Initiative to achieve greater focus in the use of conditionality in Fund arrangements.

The report finds that a significant number of structural conditions are very detailed, not obviously critical, and often felt to be intrusive and to undermine domestic ownership of programs. Most programs failed to explain how so many conditions, and at such a level of detail, are needed to bring about the desired long-lasting reforms. The report also finds that compliance with structural conditionality, at about 50 percent, is low compared to about 85 percent for macroeconomic conditionality. In these circumstances, it is difficult to see how structural conditionality contributes to ensuring adequate safeguards for the use of Fund resources or how it provides assurances to borrowing countries regarding the conditions under which Fund resources would be available to them—the roles envisaged for conditionality in the Fund's Articles of Agreement.

The evaluation finds that the average number of structural conditions in IMF-supported programs has not declined since the launching of the streamlining initiative in 2000 and remains at about 17 conditions per program year. However, progress has been made in that the composition of structural conditionality has changed, showing a significant shift toward core areas of IMF expertise, with marked declines in the share of conditions in trade and privatization and increases in tax policy, public expenditure management and financial sector issues. Yet, about one-third of structural conditions continue to fall in non-core areas. The report finds that the absence of a marked decline in the number of conditions can be attributed in part to the significant room for discretion provided by the conditionality guidelines introduced in 2002 (and the difficulty of applying in practice the criticality criterion it sets) together with the lack of clear guidance provided to staff by Management and the Executive Board.

Improving the design of structural conditionality in IMF-supported programs remains a key challenge for the Fund. The overarching message of the report is that efforts need to concentrate on changing incentives within the institution so that programs are better tailored to countries' technical capacities and political realities and to achieve greater parsimony in the number of conditions and greater focus on core areas of IMF expertise—the original goals of the streamlining initiative. Management and the Board need to provide new impetus to the streamlining initiative by restating their commitment to the achievement of its goals.

Thomas A. Bernes
Director
Independent Evaluation Office