

INTERNATIONAL MONETARY FUND

Modifications of the Fund’s Conditionality Framework—Application to the Policy Support Instrument

Prepared by the Legal and Strategy, Policy, and Review Departments

In consultation with other departments

Approved by Sean Hagan and Reza Moghadam

April 13, 2009

1. In connection with its recent review of the *GRA Lending Toolkit and Conditionality—Reform Proposals*, the Executive Board decided that the Fund would move to a review-based approach to monitor the implementation of structural reforms in the context of Fund-supported programs, including under PRGF or ESF arrangements.¹ The reform is intended to enhance the flexibility of the conditionality framework, without reducing appropriate emphasis on structural reforms. Under the new approach, specific conditionality attached to structural reforms will take the form of structural benchmarks or prior actions only. The Executive Board has decided that it would no longer establish structural performance criteria as a modality for monitoring performance under any type of Fund arrangement after May 1, 2009.

2. The Executive Board’s decision does not extend to the use of assessment criteria under the Policy Support Instrument (PSI), since the PSI is not a Fund arrangement but a technical service provided to the member by the Fund pursuant to Article V, Section 2(b) of the Fund’s Articles of Agreement. However, the rationale underpinning the new approach to the monitoring of progress on structural reforms in the context of Fund arrangements also applies to programs supported under a PSI. PSIs are designed to address the needs of low-income members that may not need, or want, Fund financial assistance but seek Fund monitoring and endorsement of their economic policies. Therefore—and as indicated in SM/09/69, Supplement 1—it is proposed that a review-based approach be also used for monitoring the implementation of structural reforms by members with a PSI. This would imply that only structural benchmarks and prior actions would be established, and the Board would no longer establish structural assessment criteria. The attached Proposed Decision would implement this proposed approach.

¹ *GRA Lending Toolkit and Conditionality—Reform Proposals* and the related Decisions adopted March 24, 2009.

3. Notwithstanding the above and as a transitional measure, structural assessment criteria that have already been approved by the Board under existing PSIs with test dates after the effectiveness of the relevant decision would not be automatically abolished, but would remain in force until their test dates. However, depending on the circumstances of the member, staff could propose that the Board eliminate these assessment criteria or convert them into structural benchmarks in the context of subsequent reviews of the relevant programs.

PROPOSED DECISION

The following decision is proposed for adoption by a majority of the votes cast:

POLICY SUPPORT INSTRUMENT- MONITORING PERFORMANCE

The Fund decides that, effective May 1, 2009, it shall no longer establish structural assessment criteria as a modality for monitoring performance under a Policy Support Instrument.