

INTERNATIONAL MONETARY FUND

**Third Periodic Monitoring Report on the Status of Implementation Plans in Response  
to Board-Endorsed IEO Recommendations**

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In consultation with other Departments

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## I. OVERVIEW

1. **Periodic Monitoring Reports (PMRs) were established by the Executive Board in January 2007 to ensure the systematic monitoring of those IEO recommendations that the Board has endorsed.** The first PMR was discussed by the Executive Board in January 2008<sup>1</sup> and the second PMR was discussed by the Evaluation Committee (EVC) in November 2008.<sup>2</sup> This third report updates the status of the performance benchmarks related to IEO evaluations covered in the first and second PMRs and listed in [Periodic Monitoring Report on the Status of Implementation Plans in Response to Board-Endorsed IEO Recommendations](#), Table 5. It also updates the implementation status of the management implementation plan (MIP) for Board-endorsed recommendations stemming from the IEO evaluation of “Structural Conditionality in IMF-Supported Programs.”
2. **The Executive Board discussed the IEO Evaluation of “IMF Involvement in International Trade Policy Issues” in June 2009.** The management implementation plan related to this evaluation will be discussed by the Executive Board later in 2009 and therefore this PMR does not report on the status of implementation. The status of recommendations related to the IEO’s 2008 evaluation on IMF Corporate Governance is being handled separately.

## II. SUMMARY OF IMPLEMENTATION STATUS

3. **The main elements of the implementation status of the performance benchmarks are reported below.** Section A describes the implementation status of the key benchmarks for the implementation plan regarding structural conditionality, while the outstanding recommendations from the second PMR are covered in Section B.

### A. Structural Conditionality in IMF-Supported Programs

4. **The implementation of key performance benchmarks related to the IEO Evaluation of Structural Conditionality in IMF-Supported Programs is complete:**<sup>3</sup>

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<sup>1</sup> [“Periodic Monitoring Report on the Status of Board-Endorsed IEO Recommendations and Management Implementation Plans,”](#) and [Public Information Notice \(PIN\) No. 08/25.](#)

<sup>2</sup> [“Periodic Monitoring Report on the Status of Implementation Plans in Response to Board-Endorsed IEO Recommendations.”](#) The assessment by the Evaluation Committee to the Executive Board is reflected in [“Assessment by the Evaluation Committee to the Executive Board on the Periodic Monitoring Report \(PMR\) on the Status of Implementation Plans in Response to Board-Endorsed IEO-Recommendations and was supported by the Executive Board.”](#)

<sup>3</sup> Details are provided in Appendix Table A.1. The second PMR reported on the early progress toward implementation of these benchmarks; however, as it was prepared less than six months following the Board discussion of the implementation plan, this PMR provides a comprehensive report. Some actions reported here were reported in the second PMR.

- The Operational Guidance Note on Conditionality (OGN) was revised in July 2008 to emphasize the need to apply rigorously the principles of parsimony and criticality when designing conditionality in Fund arrangements ([Revisions to the Operational Guidance Note on Conditionality](#)). The revised OGN is available on the Fund’s external website. Revisions have also been made to improve program documentation to clearly establish links between program goals, strategies, and conditionality. An inter-departmental contact group established in February 2008 developed these OGN revisions. The OGN is being further revised to reflect the recent move towards a review-based structural conditionality framework.
- The Monitoring of Fund Arrangements (MONA) database was launched on the Fund’s external web site in January 2009 (Table 1).
- The first annual report on the application of structural conditionality, issued to the Board for information in July 2008 ([Application of Structural Conditionality 2008 Annual Report](#)) and made available on the Fund’s external website, provides new data for the period 2005-07. It found that the overall number of conditions had remained unchanged relative to the findings of the IEO evaluation. However, these conditions had become more concentrated in the IMF’s core areas of expertise (including those shared with the World Bank). The second annual report will soon be issued to the Board for information. Two recent staff papers identify a decline in the frequency of structural conditions in low-income country programs and in recent crisis programs.<sup>4</sup>

**Table 1. Structural Conditionality—Status of Key Benchmarks**

	<b>Expected Date</b>	<b>Date Completed</b>
1. Creation of inter-departmental contact group	February 2008	February 2008
2. Revise OGN on conditionality	July 2008	July 2008
3. Modifications to the MONA database		
Put in place a system to track goals and strategies and its links to conditions	July 2008	July 2008
First annual monitoring report	August 2008	July 2008
Availability on IMF external website 1/	End-2008	January 2009

1/ Temporarily removed from external website between May and October 2009 to allow time for the design of a better economic classification of structural conditions (see Table 2).

<sup>4</sup> See “[Creating Policy Space: Responsive Design and Streamlined Conditionality in Recent Low-Income Country Programs](#),” September 2009 and “[Review of Recent Crisis Programs](#),” September 2009.

5. **The IMF has made further important changes to the framework for structural conditionality that are not directly related to the IEO Evaluation of Structural Conditionality.** In particular, the IMF no longer establishes structural performance criteria under any of its lending arrangements, nor structural assessment criteria under the Policy Support Instrument.<sup>5</sup> The implementation of structural reforms in Fund-supported programs is now monitored through a review-based approach, and the conditionality attached to such reforms takes only the form of benchmarks (whose assessment is embedded in reviews) or prior actions.

### B. Outstanding Recommendations from the Second PMR

6. Most of the outstanding recommendations noted in the previous PMR ([Periodic Monitoring Report on the Status of Implementation Plans in Response to Board-Endorsed IEO Recommendations](#), Table 5) have been fully addressed, although actions remain to be taken on some recommendations (Table 2). Revised guidance on the operational aspects of the 2007 Surveillance Decision was issued in June 2009 and an updated Surveillance Guidance Note is expected to take effect soon and to be circulated to the Executive Board. The stability of the system of exchange rates was reviewed in an informal Board seminar in July 2009 (the underlying staff paper is expected to be published soon) and a revised classification of exchange rate arrangements is being published. As noted above, the MONA database was made available on the IMF's external web site beginning in January 2009. In light of the wide-ranging modifications to LIC facilities carried out in July 2009, the recommendation to conduct the 2010 review of the PRGF also need not be retained as a performance benchmark. Table 2 also presents the status of those recommendations that are not yet fully implemented.

**Table 2. Outstanding Recommendations From the Second PMR**

	<b>Recommendation</b>	<b>Implementation Status</b>
1	Revise Surveillance Guidance Note to reflect 2007 Surveillance Decision and guidance on its implementation	Largely completed. Revised guidance on operational aspects of the 2007 Surveillance Decision was issued in June 2009. An updated Surveillance Guidance Note, which reflects both the Triennial Surveillance Review and the 2007 Surveillance Decision, is expected to take effect in October 2009.
2	Conduct Review of the Stability of the System of Exchange Rates	Completed. A paper entitled " <i>Toward a Stable System of Exchange Rates</i> " was discussed at an informal Board seminar in July 2009 and will be published as an Occasional Paper in the near future.
3	Review system on Classification of Exchange Rate Arrangements	Completed. The existing IMF staff classification system has now been modified. The revised classification will be published in the 2009 Annual Report on Exchange Arrangements and Exchange Restrictions (AREAER) and in the IMF's 2009 Annual Report.
4	Expand and improve CGER work (including refining methodologies and	A Working Paper outlining a methodology to assess current account balances in exporters of non-renewable resources was issued as IMF

<sup>5</sup> "[GRA Lending Toolkit and Conditionality—Reform Proposals](#)" March 2009, and "[Modifications to the Fund's Conditionality Framework—Application to the Policy Support Instrument](#)" April 2009.

	expanding it to key low-income countries and producers of exhaustible resources)	<a href="#">WP 09/33</a> . A second working paper, which presents three CGER-type methodologies for exporters of non-renewable resources, is forthcoming in the fall of 2009. The extension and adaptation of CGER methodologies to low income countries is also at an advanced stage. Preliminary background notes should be available for circulation in the fall of 2009, with an Occasional Paper ready by the end of the fiscal year.
5	Conduct 2010 Review of PRGF	In July 2009, the Executive Board approved wide-ranging modifications to upgrade concessional financing facilities for low-income countries (LICs), and the Extended Credit Facility (ECF) will succeed the PRGF. Directors agreed to review experience with the new facilities and financing framework within three years of the effective date of the decision.
6	Make MONA database available on the Fund's external website	Completed. The MONA database was launched on the Fund's external web site in January 2009 containing information beginning in 2002. In May 2009, the database was taken off the website to allow time for the design of a more up-to-date economic classification of structural conditions, which better reflects current concerns in areas such as public sector accountability. The database was put back on the external website in October 2009.
7	Assess the evolution of the FSAP in recent years as part of the FY2010 Review of the FSAP	The Board discussed in September 2009 a staff paper assessing the lessons learnt from the FSAP over the last decade and proposing enhancements to make it more flexible, targeted, and better integrated with surveillance.
8	Measures to address excessive staff mobility will be carefully examined in the coming year	A more strategic and targeted approach to mobility was introduced to support crisis departments through centrally-managed transfers of mid-career staff to crisis departments. The expectation, however, is that staff should serve at least two years in an assignment before moving.

### III. CONCLUSIONS

7. **All key performance benchmarks related to the MIPs covered in this report have either been met or are on track for timely completion, and no new remedial actions are proposed.** There are no outstanding performance benchmarks to be reviewed in the next PMR.

**Proposed Decision**

The Executive Board supports the conclusions in Paragraph 7 of the Third Periodic Monitoring Report on the Implementation of Board-Endorsed IEO Recommendations (PMR)

**Table A.1. Status of Implementation Plan in Response to Board-Endorsed Recommendations on Structural Conditionality**

IEO RECOMMENDATION	BOARD RESPONSE	FOLLOW-UP PLAN	IMPLEMENTATION STATUS
<b>1. Policy Review</b>			
<p>1.2. Clarify what is expected in terms of numbers and focus of structural conditions.</p>	<p>Supported: “The preferred way forward appears to be to strengthen efforts to achieve parsimony by focusing on criticality, and requiring rigorous justification for conditions.”</p>	<p>Propose changes to the Operational Guidance Note (OGN)—revised in January 2006—that would highlight the importance of a clear and thorough justification of the criticality of structural conditionality (SC)—covering to the extent possible the life of the program—in all initial staff reports. See item 2.1 below.</p> <p>Assess the need for additional changes to the OGN that would serve to highlight parsimony and criticality while minimizing subjectivity; this would include guidance on how to deal with donor-driven conditionality and structural conditions introduced at the request of country authorities (see also item 2.4 below).</p>	<p>The Operational Guidance Note (OGN) was revised in July 2008 to emphasize the importance of linking structural conditionality to program goals, to emphasize parsimony and criticality, and to provide further specific guidance on these concepts (<a href="#">Revisions to the Operational Guidance Note on Conditionality; July 10, 2008</a>). Following circulation to the Board, the revised OGN was made available on the Fund’s external web site.</p>

<b>2. Program and Conditionality Design</b>			
<p>2.1. Identify the main goals of each program and set structural conditions that contribute to these goals.</p>	<p>Supported: “Directors agreed ... that the link between program goals, strategies, and conditions should be better explained in Board papers.”</p>	<p>At the time of the pre-brief meeting, staff should propose the program strategy that is necessary to achieve the program goals. To the extent possible, the framework of structural reforms that is considered critical for implementing this strategy during the program period should be discussed.</p> <p>Anticipated SC should be indicated—to the extent possible—at the pre-brief stage. Justification of SC would be strengthened in the briefing paper sent to management for approval. Such conditionality would be modified in light of discussions with country authorities. The purpose of such a process is to define the contours of reform that are critical to the programs as early and clearly as possible, including in terms of links between program goals and strategies, and the supporting conditionality.</p> <p>At the time of approval of a new UFR arrangement (and when new conditions are introduced during program reviews), Board documents will present a clear description of the links between program goals and program strategies, and their link to the proposed reform framework.</p> <p>Further, all future discussions of SC under a program (including modifications introduced during reviews) would be anchored in the reform framework presented in the originating program document. An expansion in the scope of SC outside the original reform framework would need to be justified in the staff report.</p> <p>Programs of longer duration might define SC at later stages but within the specified reform framework. If the program strategies are redefined during program reviews owing to new or unforeseen developments or, if applicable, the existence of a revised PRSP, program documents should reflect and justify these changes.</p> <p>See also item 2.4 below.</p>	<p>Revisions to the OGN call specifically for program documentation to present the links between program goals, reform strategies, and underlying structural conditionality, and require that conditionality added during reviews be in line with the reform strategy presented in the original program document or justified in the new staff report. Program documents, particularly those for longer-duration arrangements, are to provide a roadmap of reform, and the documentation for the last program review will take stock of the experience with implementation.</p>

<p>2.4. Accommodate national authorities' desire to have program-related documents address policies that are not subject to conditionality. Documents should distinguish between conditions on which IMF support is binding and other elements of the authorities' policy agenda.</p>	<p>Supported: "Directors agreed that ... country ownership of programs is essential, and some emphasized that conditions set for non-critical areas when requested by the authorities may serve to enhance ownership." Also, to enhance "ownership—and thereby compliance— Directors called for ... reliance on the authorities' views in setting conditions" and several Directors advised against setting "conditions in non-critical areas at the request of donors."</p>	<p>Although no further initiatives are required as these recommendations are already part of the Conditionality Guidelines (CG), revisions to the OGN to clarify these matters is likely. For instance, the CG specify that the authorities might describe their program in the Memorandum of Economic and Financial Policies, and that they should distinguish between the SC on which Fund-financing depends and other elements of their program. See also item 1.2 above.</p>	<p>No further specific initiatives are contemplated.</p>
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<b>4. Development of a Monitoring and Evaluation Framework</b>			
<p>Develop a monitoring and evaluation framework linking conditions in each program to reforms and specified goals and improve the system to track conditions (MONA) with a view to disclose this data</p>	<p>Supported: “Directors agreed...that the link between program goals, strategies, and conditions should be better explained in Board papers—and that this should be monitored.”</p>	<p>Establish framework within MONA to monitor the links between goals, reforms, and structural conditionality.</p> <p>Issue annual updates (Board information) on the application of SC.</p> <p>Make data in MONA available on the Fund external website—only for staff reports that are in the public domain.</p>	<p>A system to link goals, reforms, and structural conditionality was established within the MONA database framework in July 2008. The first Annual Report on Structural Conditionality was provided to the Executive Board for information in July 2008 (<a href="#">Application of Structural Conditionality 2008 Annual Report</a>) and was made available on the Fund’s external website. It provides new data for the period 2005-07. The second annual report will soon be issued to the Board for information and staff will recommend that it be made available on the Fund’s external website.</p>

<b>5. Information in Board Documents</b>			
<p>Program documentation needs to be more explicit about the objectives being supported by the IMF and how the measures being proposed would help achieve these objectives.</p> <p>For PRGF arrangements, in particular, program requests should be accompanied by an operational roadmap covering the length of the program, elaborating on the modalities of the reforms and on their sequencing and expected impact.</p>	<p>Supported: “Directors agreed...that the link between program goals, strategies, and conditions should be better explained....” In particular:...some Directors reiterated their support for inclusion in program documents of text boxes that lay out the rationale for ... conditions.”</p> <p>“...several Directors proposed that initial program requests include a roadmap describing the sequencing and linkage of conditions to stated program goals; some Directors proposed that final program reviews should include a stock-taking to compare stated program goals with their achievement.”</p>	<p>See item 2.1 and 2.4 above.</p> <p>Staff reports should include a description of the links between goals, strategies, and conditionality. A judgment that a condition is of critical importance for achieving program goals should be at the core of such description. One way of doing so would be for staff to quantify the impact of the implementation of SC on the macroeconomic framework of the Fund-supported program; it is recognized, however, that such assessment might not always be possible ex ante. In addition, in the context of reviewing the OGN, the contact group will assess if there is a need for additional guidance regarding the use of structural benchmarks.</p> <p>The use of an appendix table would be a possibility for establishing these links but would not be required; these appendix tables will not be subject to the usual word count limits.</p>	<p>See item 2.1 above.</p>

Note: The first three columns of this table reproduce Table 1 of [“Implementation Plan in Response to Board-Endorsed Recommendations Arising from the IEO Evaluation of Structural Conditionality in IMF-Supported Programs,”](#) omitting those recommendations that were not supported by the Executive Board.