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**Statement by Mr. Buissé, Mr. Rozan, and Ms. Albert on Independent Evaluation
Office—Growth and Adjustment in IMF-Supported Programs
(Preliminary)
Executive Board Meeting
August 30, 2021**

We commend the IEO for their impressive work. It is really key to elaborate smarter and more pro-growth programs going forward, with a more fine-tuned approach to strike the right balance between adjustment and growth. This work is also particularly timely, in the preparation for the post-Covid recovery. We agree with the thrust of the recommendations and thank the MD for her thoughtful statement. As highlighted in the report, there is no “simple recipe” to deliver growth outcomes and ensure the success of a program, and continuous efforts are necessary to sequence and adapt the adjustment to country specific circumstances. We also note the limitations of the exercise, as the scale of the programs, trade-offs between different types of policy adjustments, as well as and the systematic analysis of the quality dimensions of growth, are not considered, and these areas would deserve further work in the future.

Recommendation 1: we fully agree that a more systematic and comprehensive analysis on the link between adjustments and growth outcomes, as well as on the social and distributional aspects of growth, would enhance the quality of the programs.

We welcome the increased focus on growth over time, and the finding of a positive role of programs in promoting it. It is clear however that more can be done, and we broadly support the direction of work highlighted by the IEO. We particularly thank the IEO for their attention to the social and distributional angle, including on health and education spending, which has often been disappointing in programs, and we thus strongly encourage a more systematic inclusion of distributional considerations in programs. The environmental dimension of growth would deserve also to be taken into consideration. The discussion around fiscal multipliers issue is particularly enlightening. Going forward we would like to see in programs: (i) the publication of better justified fiscal multiplier assumptions; (ii) an analysis of the trade-offs between adjustment and growth and how different policy mix could affect them ; (iii) a discussion on country specific contingencies plans. We note the uneven

success of debt operations, and in particular that “too little too late” operations should be avoided. We encourage a more systematic analysis of the impact of debt restructuring on growth and the timing of the market access. On the exchange rate arrangements, we note that in some cases the REER depreciation were helpful in PRGT programs and agree with the recommendation for a more frequent use of this instrument to facilitate adjustments. Yet we emphasize the need to proceed with caution in any case and do agree with the MD’s comments that there is no one size fits all, and that modifying the exchange rate is not always possible due to regional currency arrangements. Moreover, the discussion on the quality of growth is very welcomed, and we encourage a more focused, high quality growth structural conditionality (SC). Finally, the report also demonstrates the importance of continuous efforts to improve the composition of the adjustments, with a specific attention to the protection of the most vulnerable and the investment efficiency.

Recommendation 2: we strongly support a stronger focus on deeper and more growth-oriented reforms, supported by more efficient capacity development and collaboration with the World Bank and other partners.

On CD, we welcome the fact that structural conditionality and CD are broadly aligned but agree that a better integration with surveillance and programs will help to fine-tune the design and the implementation of the programs. We are looking forward to concrete proposals to improve the outcomes on this topic in the IEO evaluation on CD. The fact that TA has been delivered comparatively less to countries with lower capacities and has not been effective to strengthen the implementation of structural conditionality is concerning. Addressing this issue is a priority, in particular for LICs. Collaboration with other institutions around structural reforms, and appropriate division of responsibilities, remains a central issue. This calls again for a strengthened collaboration with the WB and other partners: while cross conditionality should be avoided, we should find ways to mutually reinforce the support provided by each institution in pursuit of growth-enhancing reforms. Progress is too slow, and we continue to lack an over-arching framework for effective collaboration. We encourage staff and management to propose concrete steps on this key issue and welcome the IEO’s idea of a Board paper reviewing the Bank-Fund collaboration in Fund-supported program. Finally, we remain interested in a discussion on the adequacy of the current lending toolkit to better support medium to long term growth outcomes as structural reforms take times to bear fruits.

Recommendation 3: a greater realism of growth projections, a deeper understanding of the political and social context, and appropriate monitoring tools during and after the arrangements are paramount to ensure the success of a program.

Specific attention to the elaboration of realistic macroeconomic scenarios and to explore tradeoffs between alternative policy mixes is necessary. This is also critical to preserve country ownership and avoid adjustment fatigue. The report also rightfully raises the need to better understand the political context, and we strongly encourage staff to deepen their analysis of domestic political landscapes to have a better view of the authorities’ room for maneuver. It would help for example to improve the modest and varying success in revenue mobilization or in reforming energy subsidies. Moreover, helping the authorities to elaborate adequate domestic and external communication strategies would contribute to positive outcomes. In addition, we underline the importance of solid institutions, with transparency, public financial management, and fight against corruption as key elements to ensure a

program's success. In this regard, we look forward to an assessment of the implementation of the 2018 governance framework, as part of the IEO's future areas of work. Finally, developing appropriate tools to improve the reliability of macroeconomic models and the monitoring of the post-program effects, is important. Data gaps and their reliability are key barriers to overcome, in collaboration with relevant partners and especially for LICs, to assess properly the social and distributional impact. We however stress the need to keep the ambition of the macroeconomic models commensurate to the available data, to ensure robustness and easy appropriation by the authorities.

Last, regarding budgetary implications, we understand that the implementation of the recommendations would imply more resources, and more time, to elaborate a program. We remain interested to have more details on this.