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9:30 a.m., May 3, 2019

1. 2018 Review of Program Design and Conditionality

Documents: SM/19/72 and Correction 1; and Correction 2; and Supplement 1; and Supplement 1, Correction 1; and Supplement 1, Correction 2; and Supplement 2; SM/19/74

Staff: Koeva Brooks, SPR; Kramarenko, SPR; Steinberg, SPR

Length: 2 hours, 1 minute

Executive Board Attendance

C. Lagarde, Acting Chair

Executive Directors	Alternate Executive Directors
D. Mahlinza (AE)	
M. Raghani (AF)	
G. Lopetegui (AG)	
N. Ray (AP)	
A. Tombini (BR)	
Z. Jin (CC)	
	A. Guerra (CE)
L. Levonian (CO)	
R. Kaya (EC)	
	A. Castets (FF)
	K. Merk (GR)
S. Gokarn (IN)	
D. Fanizza (IT)	
M. Kaizuka (JA)	
	M. Daïri (MD)
	S. Geadah (MI)
	V. Rashkovan (NE)
T. Ostros (NO)	
	L. Palei (RU)
M. Mouminah (SA)	
A. Mahasandana (ST)	
P. Inderbinen (SZ)	
S. Riach (UK)	
	M. Rosen (US), Temporary

J. Lin, Secretary
O. Vongthieres, Summing Up Officer
D. Alcantara / L. Briamonte, Board Operations Officers
L. Nagy-Baker, Verbatim Reporting Officer

Also Present
African Department: Benedict J. Clements, Zeine Zeidane. Asia and Pacific Department: Geoffrey Alan Gottlieb, Ranil Manohara Salgado. Communications Department: Amit Khetarpaul, Peter Jens Kunzel, Christoph B. Rosenberg, Olga Ilinichna Stankova. European Department: Delia Velculescu. Fiscal Affairs Department: Chuling Chen. Finance Department: David K. Moore, Christian Mumssen, Mwanza Nkusu-Mulumba. Institute for

Capacity Development: Anna Rose Armentia Bordon. Independent Evaluation Office: Alisa D. Abrams, Charles V.A. Collyns, Jun IL Kim, Jung Yeon Kim, Cyrus D.R. Rustomjee. Legal Department: Chanda Marina DeLong, Kyung Kwak, Yan Liu, Gabriela Rosenberg. Middle East and Central Asia Department: William Gavin Gray, Bikas Joshi. Office of Budget and Planning: Piyabha Kongsamut, Andrea Richter. Office of Internal Audit and Inspection: Packiaraj Murugan. Office of Risk Management: Qianying Chen, Ahmad Fazurin Bin Jamaludin. Strategy, Policy, and Review Department: Jochen Rainer Andritzky, Balazs Csonto, Rupa Duttagupta, Greetje Margareta Marcella Everaert, Edward Rene Gemayel, Souvik Gupta, Mai A. K. F. H Kamel Farid Mohamed Farid, Jonghyuk Kim, Petya Yordanova Koeva Brooks, Vitaliy Kramarenko, Fei Liu, Wesley Ward McGrew, Neil Antony Meads, Paulomi Rajan Mehta, Martin Muhleisen, Michael Paul Perks, Faezeh Raei, Chad Bennett Steinberg, Haimanot Teferra, Rima A. Turk, Ke Wang. Statistics Department: Gabriel Quiros Romero.

1. 2018 REVIEW OF PROGRAM DESIGN AND CONDITIONALITY

Ms. Levonian, Ms. McKiernan and Mr. Williams submitted the following statement:

We thank staff for their informative set of papers, which benefited from the outreach to our offices and country authorities, as well as from prior engagement with Directors.

The review presents a timely opportunity for the Fund to undertake a thorough stocktaking of the effectiveness of its lending operations. As the Fund's reputation hinges largely on the success of its programs, a critical takeaway from this review must be how best to identify and use lessons learnt to guide and shape future programs. In this context, we welcome the distinction in assessment between GRA and PRGT programs, and the different methodology developed to measure success in each case. We are encouraged by staff's suggestions for more considerations to trade-offs in program design and conditionality. While we broadly support recommendations in favor of granularity, parsimony, and realism, we suggest that a nuanced approach guided by country-conditions be adopted to ensure programs strike the proper balance. More generally, lessons on program performance can provide valuable guidance for surveillance.

We broadly concur with the assessment of program success. Amid formidable challenges during a period of heightened global uncertainties, 75 percent of programs achieving at least partial success is reasonable. Nevertheless, the number of programs assessed to be in the unsuccessful and partially successful zone remained significant. We welcome the focused discussion in the paper, including the helpful case studies, on factors that enabled, as well as thwarted success. The analytical presentations across the five broad areas of assessments highlight some common themes among successful programs. Going forward, the key is to leverage this knowledge to improve tailoring to country-specific considerations.

We agree that ownership is critical to program success while sharing staff's concerns that it is difficult to measure. Strong ownership beyond the boundaries of the government is key to avoiding policy slippages and to reducing the probability of policy reversal in a post-program scenario. We are however not convinced that program completion rate is a good proxy for ownership, especially for small states and fragile states hamstrung by capacity constraints. Moreover, responsibility for establishing program conditionality resides with the Fund. We invite staff's comments on whether greater involvement of the authorities in setting conditionality would enhance ownership and ultimately program success.

Better communication of a program's objectives can aid traction. Insufficient information on the part of some stakeholders may lead to varying perspectives on the expected benefits of a program, and ultimately flawed conclusions about a program's performance. The Fund can play a greater role in this space by collaborating with the authorities to more effectively communicate timely, factual, and comprehensive information. This could help to reduce information asymmetry and manage expectations. Furthermore, an effective communication strategy can help to reduce stigma associated with Fund-supported programs.

On the macroeconomic front, we believe that program design could benefit from more conservative growth estimates. At the same time, we caution against swinging the forecast pendulum toward a pessimistic bias, as this could overstate the magnitude of required fiscal adjustment. That said, we are heartened by the humility emanating from the report on the need to bring more realism to the macroeconomic baseline. In this vein, we encourage a deeper evaluation and incorporation of risks, including from natural disasters, into program design.

We can support more granularity on fiscal conditionality. This shift could secure higher quality fiscal adjustment and steer policy toward more growth-friendly expenditure – including public investment – and revenue measures, as well as enable better targeting of social spending. On the latter, the workstream to develop a Social Spending Framework should provide useful guidance. In this context, the Fund could leverage the expertise of other development partners, including the World Bank.

However, to minimize tension with a simultaneous thrust toward parsimony and to avoid over-burdening members with thin institutional capacity, fiscal granularity should not materially expand the slate of conditionality. Instead, the approach should be to deepen focus and prioritize actions on conditionality that are critical to addressing the member's problem within a GRA or PRGT context. Furthermore, country-specific priorities must remain key considerations to secure program ownership.

With regard to structural conditionality, we support greater emphasis on prioritization and sequencing of reforms. Structural reforms can help restore growth and stability over the medium term on a more durable basis. They are also complex and politically challenging, and vaguely-defined objectives are less likely to be achieved. Conditionality should be based upon a clear, well-sequenced, and realistic path to reform, supported by capacity development, as necessary. We would also welcome a greater focus on labor and product market reforms through a combination of greater in-house expertise with stronger collaboration with institutions that specialize in these areas.

Relatedly, we are open to discuss longer program horizons, subject to adequate safeguards. This would be useful in a context where profound structural reforms require more time to implement, particularly for PRGT programs. Longer program durations could be especially relevant for small states and fragile states given their limited institutional and human capacity. We support exploring greater use of follow-up SMPs and would welcome staff's comments on how they might approach encouraging greater uptake of this tool.

The relatively poor track record of reducing debt vulnerabilities in Fund programs is cause for concern. The Fund should continue to prioritize efforts to sharpen its debt sustainability tools, update relevant policies, and encourage better data collection. We support considering structural conditionality targeted at improving the governance and transparency with respect to the contracting and monitoring of debt obligations. Further guidance on judgment with regards to macroeconomic assumptions are also warranted. At the same time, we agree that advice on debt operations should be on a case-by-case basis underpinned by rigorous assessment of the trade-offs against deeper fiscal consolidation and adverse market reactions.

While the broad lessons have implications for the wide Fund membership, we appreciate staff's efforts to highlight the issues pertinent to small states (SS). Capacity limitations hinder program performance in SS. In this regard, we see scope for better tailoring of conditionality and program design in a manner that takes account of these members' capacity and specific circumstances. This approach is crucial to secure traction, country ownership, and successful completion of programs. Against this backdrop, it is regrettable that design and conditionality in some programs excluded building resilience to natural disasters even where the risks were evident from the outset. Going forward, we encourage staff to ensure shrewd application of the 2017 Staff Guidance Note on the Fund's Engagement with Small Developing States for both program and surveillance purposes. For those members vulnerable to natural disasters, the macroeconomic impact of building resilience must be brought into program setting. It is particularly important that conditionality under the RFI and the RCF remain limited and tailored so that SS do not face barriers to access these programs in times of rapid financial needs. That said, it is unclear how this workstream will integrate with that on Building Resilience to Natural Disasters in Vulnerable Countries. Staff's comments are welcome.

Finally, considerations to increase access norms and limits for PRGT cases are well placed. Significant perceptions of lack of evenhandedness are worrisome. In this regard, we look forward to the upcoming LICs Facility Review and hope it will help to assuage these concerns.

Mr. Meyer submitted the following statement:

We welcome the comprehensive stocktaking of Fund lending operations with the view to enhancing the effectiveness of IMF conditionality, building on country-ownership, and improving program outcomes. Effective conditionality and successful IMF programs are important for solving a country's balance of payments problems and safeguarding Fund resources. We note that the IMF programs during the review period (September 2011-end-2017) faced a challenging environment coupled with protracted structural challenges in some countries.

We welcome staff's analysis of success of Fund programs, based on their statutory goals, namely solving the member's balance of payments problems and achieving medium-term external viability while fostering sustainable economic growth. More transparency in the assessment of the vulnerability indicators used and more granularity on the definition of "success" of programs might be warranted. This includes the nature of successor programs as well as elements such as growth trajectories and impact on inequality. The robustness of the staff's definition of program success to the assumptions made in the analysis should also be tested.

We take note of the conclusion that program growth assumptions were often too optimistic, as well as of the trade-off staff mentioned between "realism and ambition" of program parameters. In that respect, we welcome efforts to increase the robustness of macroeconomic baselines and improve contingency planning and to reduce the repercussions of projection errors on policy design. This is relevant for both lending and surveillance policies.

We agree that national ownership of IMF programs is a key element of program success. Tackling perceptions of stigma, including through a robust communication strategy is another important element. We would like to stress the importance of well-designed conditionality that recognizes, as appropriate, country-specific circumstances and the need for structural reforms. The design of conditionality should continue to be based on the principles of macro-criticality. Regarding the trade-off between "gradualism and speed" put forward by staff, we think that ensuring a proper combination, prioritization and sequencing of reforms is of utmost importance to leveraging the capacity of program countries to implement these measures effectively. In general, we also agree that – depending on country circumstances and reform needs – fewer but deeper reforms, consistently underpinning each other, may yield better and more long-lasting results.

The review indicates that most programs targeted growth-friendly fiscal consolidation, but that, for a number of reasons, the adjustment was often of lower quality and less growth-friendly than envisaged. We welcome efforts to increase focus on the quality of spending to help ensure higher quality fiscal adjustment and preserving growth. We take positive note on the recommendation to use more granular fiscal conditionality while at the same time stressing the importance of a case-by-case approach to ensure flexibility and strong country ownership. We welcome the suggestion to improve the focus on the quality of social spending and the impact of program policies on poor and vulnerable groups. Alongside the Review of Conditionality, we also welcome the Fund's work on creating a strategy for social spending and we agree that social spending issues should be underpinned by early engagement with authorities on these topics. We welcome the suggestion to further review the experience with monetary conditionality.

According to the review, debt overshot projections in several programs although debt sustainability improved in most cases where initial debt vulnerabilities were high. We welcome staff's initiative to review and enrich the Debt Sustainability Analysis in the review of the framework for Market Access Countries (MAC DSA) in order to ensure its continued effectiveness and improve the reliability and transparency of its outcomes. We look forward to more guidance on the application of judgement in the Fund's framework, whilst recognizing the need for sufficient flexibility to cater for country-specificities. The experience with debt restructuring should be evaluated on a case-by-case basis. We agree that the consideration of debt operations needs to be underpinned by a comprehensive cost-benefit analysis.

We take note that even-handedness in conditionality was generally preserved, although the report finds that there was insufficient differentiation for fragile and small states. We look forward to follow-up work, including improving the tailoring of structural conditions for fragile and small states as well as low income countries, and access levels for PRGT facilities. We continue to support the Fund's efforts to strengthen sovereign borrower debt transparency and sustainability, both through reviewing the terms of its program conditionality and the Debt Limits Policy. Efforts to ensure debt sustainability in LICs should be complemented by a stronger focus on domestic resource mobilization and governance reforms in the design of IMF programs, while at the same time ensuring that LICs can meet their development goals.

We welcome strengthening the analysis of institutional, political and social capacity in program countries to deliver program objectives on a realistic and well-designed timetable. We welcome a better prioritization of structural conditions, adequately combined in a coherent framework, and continued cooperation with other institutions in shared areas of responsibility.

We are open to further discussions on the potential benefits and drawbacks of longer Fund engagement to support structural reform agendas - including exploring the use of PCIs as follow-up arrangements, while safeguarding IMF resources. We are also open to further discussions on how to deal with off-track programs, including through greater Board oversight and the use of staff monitored programs.

We welcome further improvements in data dissemination on Fund-supported programs to increase transparency and facilitate comparisons, including regular reports to the Board. In particular, we welcome staff's commitment to improve the MONA database.

Mr. Fanizza, Ms. Collura and Ms. Lopes submitted the following statement:

We welcome the Review of Conditionality, the extensive preparatory discussions and engagement with the Board, the authorities and the civil society. The set of papers reflect this effort – and we support the broad messages and most of the recommendations.

We associate ourselves with Mr. Meyer's statement. We also share Ms. Levonian, Ms. McKiernan, and Mr. Williams' paragraph on the pertinent issues to small states.

In addition, we would like to focus on the following points: ownership, program focus, and debt sustainability.

Ownership

"In responding to members' requests to use Fund resources and in setting program-related conditions, the Fund will be guided by the principle that the member has primary responsibility for the selection, design, and implementation of its economic and financial policies."[1] This is a crucial element of successful program design: it is up to the authorities to decide on their policies, and this is the only way to ensure ownership and long-lasting adjustment efforts. Program design and conditionality matter to the extent to which it can affect a country's buy-in. Parsimony and focus on the most constraining bottlenecks are fundamental – staff should make sure that conditionality reflects the actual needs of the country (more than easily available expertise) and that efforts are concentrated on addressing them (and not diverted to a long laundry list of measures). Also, program length can affect ownership; we believe that there are risks from longer program engagement if it contradicts parsimony or as reform fatigue starts to weigh.

Program focus – structural reforms and monetary policy

We tend to agree with the prominent role granted to structural policies in the paper, which reflects the structural nature of many of the issues that programs had to address during the sample period. We support the importance of building expertise on critical shared areas of responsibility. We also appreciate that the emerging approach to conditionality presents substantial issues as a trade-off, on which the final decision will depend on country circumstances. In this vein, we find the approach to NPLs reduction – that fully acknowledges the trade-off between speed and economic outcomes – balanced. However, we have three qualifications:

First, context matters. The positive outcome of a specific structural change can hinge on a certain institutional context – e.g., increasing the flexibility of some labor market features in an economy with non-contestable markets might just entail a transfer of labor income to companies' rents. This element needs to be considered when designing and determining the sequence of reforms.

Second, the focus on structural reforms makes it essential to assess their impact. We understand that it is an extremely complex undertaking, and one that cannot be implemented on a quarterly (or half-yearly) basis.

[1] Guidelines on Conditionality, Article A, paragraph 4.

Nonetheless, we encourage staff to consider this question going forward, especially of possible varying outcomes and unintended consequences.

Third, the increased structural focus of the programs should not distract from other crucial areas, notably monetary policy. We understand that inflationary pressures have been subdued in most countries and that there were no major issues arising during this period. However, and as several more recent cases have demonstrated, it is essential that the Fund maintains its expertise and re-sharpens its analysis. In this context, we look forward for the monetary policy review.

Debt sustainability and prejudgment of forthcoming discussions

We note that the report does not propose a change of policies regarding the way conditionality deals with public debt, focusing instead on the implementation of the Fund's current policies. We agree with this approach. However, we felt the report prejudges the discussion on the MAC-DSA and could lead to the approval of specific features, which have not yet been agreed upon. More specifically, the paper should refrain from assuming that the Board has already reached an agreement on the inclusion of a bottom-line assessment in the MAC-DSA – different views on this inclusion emerged in the January's informal Board meeting, as it is clear from Secretary's read out.

Mr. de Villeroché, Mr. Castets and Ms. Gilliot submitted the following statement:

We welcome this review of program design and conditionality and thank staff for their insightful set of documents. Adequate conditionality is critical for program success and in helping countries to restore macroeconomic stability. This first review since the global financial crisis is thus timely and draw lessons from past successful and less successful programs. The options for modification of the existing framework should be carefully articulated with the lessons of other ongoing reviews, the review of surveillance, the review of low-income countries facilities and the review of the debt sustainability analysis framework for market access economies and the upcoming strategy on social spending. Conditionality assessment should first and foremost target program success and concentrate on the corrective actions that would enhance the quality of adjustment and its positive impact on growth. Globally, we would see merit in deepening the analysis of how to improve the articulation between macroeconomic stabilization, that is often the most urgent priority, and longer-term strategies to deal with macrostructural fragilities. We associate ourselves with Mr. Meyer’s statement and wish to make additional remarks.

Enhanced attention needs to be given to the quality of the adjustment and its impact on growth. The report is insightful in this respect and we thank staff for having given more importance on the composition of fiscal adjustment and the protection of social expenditure in Fund-supported programs. There is room for improvement. Fiscal adjustment has proved to be often of lower quality than envisaged, namely in terms of revenue mobilization and current expenditure measures, with adverse impacts on growth and sustainability of the adjustment. If social spending is now better protected, it is mostly true for PRGT programs and is still not the case in a majority of GRA programs. Furthermore, investment spending is often the first to be cut to deliver on fiscal consolidation targets.

Against this background of adjustments that are often insufficiently growth-friendly, we would see merit in exploring longer engagements and enhancing the protection of growth-supportive spending:

First, domestic revenues mobilization (DRM) in PRGT-funded programs should be privileged overspending cuts. Priority should be given to improving tax and customs administration efficiency, reducing tax exemptions regimes, fighting against profit-shifting and tax avoidance and to increasing direct taxation (property, revenues tax) while avoiding overburdening a limited number of firms and sectors. We would appreciate if staff could elaborate on how the conditionality on tax revenues could be enhanced and on how to prevent low quality measures?

Second, efforts to protect social spending should be pursued and the related indicative targets require greater consistency to include social protection, health, education and inequality reduction strategies. Where the removal of subsidies constitutes a large share of the warranted fiscal adjustment, the conditionality should reflect an appropriate sequencing between the measures aiming at strengthening the social safety nets and the measures of removal. We encourage staff to closely articulate this review with the on-going discussion on the strategy on social spending.

Third, we note that investment spending is often first to be cut, endangering medium-term performances. While creating additional conditionality to protect public investment might constrain excessively the adjustment process, we would see merit ensuring a better protection of this spending. Could staff elaborate on whether they reflected on how to better protect public investment in Fund-supported programs?

Fourth, consistent with the above, fiscal conditionality should as much as possible set a gradual pace of fiscal adjustment, depending on country specific circumstances and debt sustainability assessment. In this regard, this chair raised regularly the issue of assessed fiscal multipliers prior to programs approval since, as pointed out by staff, the fiscal multiplier used by staff is often not mentioned in program documents.

Restoring public debt sustainability is often one of the main objectives of the program. In a significant number of programs, debt overshot projections and the assessments of debt sustainability were downgraded with, in most of these cases programs going off track, as clearly pointed out in the report. As we understand the causes of projection errors, we fully agree that judgment on the sustainability of public debt is key. To this end, use of adequate analytic tools from LIC DSF and MAC DSA frameworks could help provide more accuracy to staff's judgment. Enhancing the conditions on debt transparency, building on the modernized debt assessment frameworks, would also help address contingent liabilities issues and improve public finance governance. In this regard, we would notably encourage staff to explore the introduction of some conditionality preventing the reliance on collateralized debt. Given the small sample size of countries, the findings that may explain a program success through ex ante debt restructuring show little relevance. The experience with debt restructuring should be evaluated on a case-by-case basis and, conditionality should be designed to spur structural achievements while avoiding moral hazard behaviors.

We would welcome a better prioritization and sequencing of structural conditions as recommended by staff. In this regard, we would see the need to ensure a close articulation with the surveillance review and how to ramp-up structural reforms assessment in the Fund's surveillance. In this regard, it should be reflected on how to mobilize the knowledge and experience of the macrostructural analysis done for G20 economies. Since the design of Fund's engagements if often a matter of urgency, it is key that the criticality of structural reforms, notably labor and product markets reforms, is already well-established and discussed with the authorities and other competent institutions to be able to include them in the conditionality. Potential economic outcomes and impact on credit growth and growth should be carefully assessed when setting NPL resolution as a structural condition from the outset.

We welcome the willingness and expect tangible progress in structural conditionality tailoring and increased access norms and limits for PRGT-eligible countries. More needs to be done to enhance evenhandedness and provide low income countries with more accessible funding. Exceptional access to PRGT resources has scarcely been activated in practice and access loans are systematically lower than the official available threshold leading the Fund to provide far less than what could be lent. Additionally, in fragile and low-income countries with limited capacity, parsimony is key to avoid overburdening domestic authorities. We would therefore encourage staff to focus the structural conditionality on the continuum DRM-debt management-governance. We would appreciate if staff could present us with a break-down by areas of the structural benchmarks for fragile countries over the observed period.

Mr. Tombini, Mr. Saraiva, Mr. Fuentes and Ms. Florestal submitted the following statement:

We thank staff for the documents comprising the 2018 Review of Program Design and Conditionality (RoC 2018) and the extensive outreach. We associate ourselves with the objectives defined for this review and value the open dialogue with staff on its methodology, results and recommendations. In general, the overall assessment revealed strong performances in key areas, but it also exposed important weaknesses in program design and implementation that yielded underwhelming results and call for remedial actions. In this context, while the Guidelines on Conditionality (GoC) remain appropriate, specific guidance needs to be updated to address the recommendations made by the RoC 2018.

We generally concur with staff's stance regarding key trade-offs in program design, in particular the move toward more realism, gradualism and parsimony, as well as sharper debt-sustainability analysis (DSA). Those are not binary choices and the framework should be flexible to allow for judgment playing a prominent role in shaping the program in a well-balanced and tailored way. Lack of realism, especially when associated to growth projections, can have overwhelming effects and compromise program performance. We also consider parsimony important in program design, as it helps staff and authorities to focus on targets that are effectively critical for the attainment of program objectives. Relatedly, gradualism aligns program design with complex structural reforms, which frequently have been proven more protracted than anticipated.

Large forecast errors may be understandable amid the volatile post-GFC environment, but program design and structural reform agenda warrant more realism in projections. The compound effect of weak global macroeconomic conditions and sizeable exogenous shocks during the review period played a nontrivial role in the disappointing growth and public debt performance vis-à-vis staff projections. However, the consistent bias underlying staff forecast of these variables, in many cases understated the adjustment required to achieve program objectives and revealed a tendency to overrate the payoff of structural reforms. All things considered, while forecasting is not an exact science, we agree on the need to strengthen the assessment of the impact of program policies on growth and debt performances and intensify scrutiny of baselines to develop contingency plans. In this regard, we look forward to discussing the results of RES project on the impact of structural reforms in EMDCs.

With respect to the suggestion of moving more towards granularity, we caution against going too far in that direction. We understand that more granular conditionality could help improve the quality of program measures, but any move in that direction should be pondered not only against loss of flexibility, but also loss of ownership and the proliferation of conditionality. For instance, staff recommendation in favor of more itemized conditionality regarding revenue and spending targets could add operational rigidity potentially undermining policy independence and ownership and compromising program performance. Against this backdrop, we favor further granularity in data provision and policy dialogue, while paying more attention to capacity and institutional development, especially among LIDCs, small states (SS) and countries in fragile situation.

The discrepancy between the gaps identified in surveillance and the structural conditionality established in programs is an issue to be tackled in program design. While parsimony may explain why almost half the structural gaps identified in prior surveillance were not addressed in program conditionality, it should be further investigated whether, in some cases, programs were not adequately tailored to suit the needs of member countries. Those unaddressed gaps were particularly concentrated in non-core areas, which may have contributed to the exclusion of some crucial reforms irrespective of their macro-criticality. We understand that time inconsistency and staff's core bias could have influenced this outcome. However, better leveraging surveillance into program design could sharpen prioritization and sequencing of reforms, as well as help calibrating adjustment and devising supportive policies.

Despite progress, there is scope to improve tailoring and evenhandedness. Overall, survey results show positive perceptions of tailoring and uniformity of treatment among key stakeholders. Nevertheless, the low program completion rates among fragile states and the gaps between surveillance and conditionality in some small states suggest that there is room for further tailoring programs. Since most of the GRA and PRGT differences in access were explained by Fund policies, we believe that increasing PRGT access norms and limits, as recommended by staff, is an appropriate response to enhance evenhandedness and promote stronger underlying macroeconomic policies within this group. Moving forward, both the revamp of the MONA database and the ongoing Review of LIC Facilities can potentially help evenhandedness in program design and access.

The importance of DSA in program design warrants continued development of this tool. We take note of the increase in the share of programs that went off track in RoC 2018 compared to RoC 2011, amid a challenging post-GFC environment, and the role played by debt sustainability issues in this outcome. Hence, while judgement remains paramount, refining debt sustainability tools is critical to mitigate bias in the assessment, prevention and resolution of debt crisis and ensure more balanced consideration of debt operations. Debt restructuring should be taken with extreme caution and on a case-by-case basis, given that consensus on its macroeconomic effects is still inconclusive and its success depends on several other macro and microeconomic factors.

We commend the preservation of social spending in program design. The increased involvement of the Fund in issues related to social protection should help strengthen its engagement with member countries, especially when addressing trade-offs between program objectives and social outcomes. It is auspicious that health and education spending levels – regular fixtures among indicative targets – were broadly maintained as a share of GDP and public expenditure. Yet, clearer operational guidance is needed to support authorities' efforts in improving social spending effectiveness, as well as to devote special attention to complementing subsidy reform with measures to mitigate negative impacts on lower-income brackets. The strategy on engagement on social spending should provide valuable inputs in that regard.

While the broad lessons have implications for the wide Fund membership, we appreciate staff's efforts to highlight some of the issues pertinent to small states and countries in fragile situations. As suggested in the report, we see scope for better tailoring of conditionality and program design in a manner that takes account of these members' capacity and specific circumstances. This is crucial to secure traction, country ownership and, to achieve success. Going forward, we encourage staff to ensure shrewd application of the 2017 SGN on Engaging SS for both programs and surveillance purposes. For those members vulnerable to natural disasters, the macroeconomic impact of building resilience must be brought into program setting. We also look forward to the implementation of management's plan in response to IEO recommendations regarding the IMF's work in fragile states. Could staff clarify how the proposed workstream will integrate with that on Building Resilience to Natural Disasters in Vulnerable Countries and on strengthening the IMF's support to countries in fragile situations?

The more frequent use of SMPs in bringing programs back on track has to be coupled with efforts to increase Board oversight in the use of these instruments and an effective and periodic review of the use of conditionality in these cases. We call on management to ensure that SMPs do in fact include conditionality that are streamlined and less demanding than that required for a UCT arrangement. Similarly, conditionality under the RFI and the RCF has to remain limited and tailored so that SS do not face barriers to access these programs in times of rapid financial needs.

Finally, strengthening program ownership remains challenging, yet it is critical for success. Staff perceives the apparent decline in ownership as a possible driving force undermining adequate policy implementation and increasing the share of incomplete programs during the review period. Ultimately, the member's political will and institutional capacity to implement sustainable macroeconomic policies remain critical factors for program success. Therefore, the Fund should continue its work to elevate the availability and efficacy of capacity development activities and to promote closer collaboration and open dialogue with authorities to strengthen ownership.

Mr. Kaya, Mr. Benk, Mr. Just and Mr. Zaborovskiy submitted the following statement:

We thank staff for the candid and comprehensive set of papers and outreach to our office. The 2018 Review of Program Design and Conditionality (RoC) presents an important opportunity to strengthen one of the main pillars of the Fund's mandate, i.e. the financing operations to assist members to solve their balance of payments (BoP) problems. Since the Fund acts simultaneously as a lender and trusted policy advisor for economic adjustments, it is of utmost importance to ensure that Fund-supported programs are instrumental in achieving external viability and reinvigorating economic growth. While the overall positive tone of the RoC report seems appropriate and staff's proposals appear reasonable, we caution against over-optimism in interpreting the results of the assessment of program success and would have preferred a more nuanced implementation plan (road-map) to further boost effectiveness of Fund-supported programs.

Program success and its evaluation

The methodology to assess success of Fund-supported programs should be further advanced and employed for ex-ante and ex-post evaluations going forward. The new methodology for measuring program success is a welcome step operationalizing the concept of "success" while distinguishing between GRA and PRGT facilities and their goals. However, in view of the large number of "partially successful" programs (which one could also interpret as "partially-unsuccessful"), further refining the methodology to better capture the drivers of program success and failures is warranted. All off-track programs should be subject to higher scrutiny, including through greater Board oversight. We welcome staff's further elaborations on how to advance the IMF practices in dealing with off-track programs, including strengthening the Board's role in this process. We encourage staff to include the appropriate measures in the implementation road-map.

More prudent program assumptions could result in more realistic expectations about economic outcomes of Fund-supported programs, especially in cases with deep-rooted structural vulnerabilities. While increased scrutiny of program baselines, contingency planning, and realism tools in debt sustainability exercises can limit erring on the side of optimism, their implementation should not result in swinging the pendulum to extreme conservatism. The mixed growth outcomes of many programs prove that the Fund has not yet found the ultimate recipe for program success. We should further build on the RoC's finding that the IMF often does well in stabilizing a country's economy but is not so successful in translating this achievement into sustainable economic growth. Since the Fund has limited expertise in many areas which are critical for fostering sustainable economic growth, applying modesty in program ambitions might suit the institution better. Realism in expectations could positively contribute to realism in projections.

Macroeconomic and Structural conditionality

Directing macroeconomic conditionality towards policy rules rather than discretionary actions by the authorities, growth-friendly adjustment, and strengthened targeted social protection can improve program outcomes. We welcome staff's emphasis on the quality of fiscal consolidation and agree that systematic underestimation of the impact of adjustment on growth contributed to limited program success. We concur that in some instances, too granular fiscal conditionality could jeopardize parsimony, reduce flexibility, and potentially have adverse implications on ownership. Rather than micro-managing on the fiscal front, we prefer much stronger focus on fiscal policy rules and frameworks and their enforcement, as well as accountability and transparency. We strongly support the increased focus on the quality of social spending and the impact of program policies on poor and vulnerable groups. In order to make a difference, the program conditionality in this area, however, often needs to become more granular, better integrated with national social policy strategies and the assistance provided by development partners. Social spending floors should target more effectively the most vulnerable groups rather than recording gross volume of social budget expenditures.

Continued steps to improve the Fund's analytical tools to assess debt sustainability, as well as promoting debt transparency across the membership, would strengthen the efficacy of Fund programs. We note that the revised LIC DSF and the ongoing review of MAC DSA will provide the basis for staff reaching a clearer judgment of debt sustainability. We also emphasize the importance of calibrating appropriate fiscal targets which capture well all debt-creating flows and call for a more systematic reporting of such flows. Ensuring an appropriate monitoring and reporting of obligations, including closer scrutiny of contingent liabilities, should help in avoiding "debt surprises", not only during the program implementation period. We welcome the envisaged review of the Fund's debt limits policy, complemented by a possible guidance on collateralized debt in Fund programs. The Fund's evolving view on debt operations should be carefully communicated and any policy changes in this area must be approached with utmost caution.

Structural conditionality should be better prioritized, parsimonious and targeted to confront problems driving BoP needs. We agree with staff's recommendations to identify, prioritize, and sequence reforms based on macro-criticality. While keeping the programs' focus on selected few high-impact areas, conditionality – particularly on complex structural issues - should be phased to devise more granular and actionable sub-steps, properly reflecting the members' institutional and implementation capacity. We agree that NPL resolution and related conditionality should be considered at the outset, but also see scope for additional focus on the preemptive role of banking supervision and consumer protection in NPL build-up.

Ownership and evenhandedness

Program success will hinge on the ownership of the required adjustment measures by the authorities. The authorities' fundamental unwillingness or in-ability to implement many of the policies cannot be compensated by any form or volume of conditionality or/and prior actions. In this regard, the emphasis on the political viability of the policies and program measures should be strengthened. We also support the proposed recommendations to boost the authorities' ownership, including through better communication, stronger analysis of institutional and political capacity as well as deeper integration of national reform plans in Fund-supported programs.

Program design and conditionality should strike an adequate balance between flexibility to reflect country specifics and uniformity of treatment. We acknowledge the progress made by the Fund in ensuring evenhandedness and broadly agree with the respective RoC findings, but more needs to be done to address the lingering concerns of some stakeholders. Independent evaluations, data transparency, and user-friendly tools allowing effective cross-program analysis and comparisons (e.g. the revamped MONA database) are critical to make further progress in this area.

Implementation of remedial measures

A longer Fund engagement could be appropriate to address protracted balance of payment needs, although cautiously. In some circumstances a longer Fund involvement could be a suitable response to help countries address, through structural reforms, deep-seated problems and thereby sustain strong macroeconomic policies. In this regard, we deem it reasonable to explore options for a possible longer duration of EFF arrangements with due consideration of the implications for the revolving nature of the Fund's financing model or whether election cycles could counterbalance the intended objective. However, Fund financial assistance should not contribute to an increase in moral hazard or result in official debt exceeding private sector debt. Possibilities to combine financial and signaling arrangements along the process of structural transformation could also be considered. Any change in PRGT access limits and norms should be approached with the highest prudence and should not undermine the self-sustaining character of the Trust Fund. We remain concerned by the proposed changes to the blending exclusion given the risks posed by stricter requirements under GRA financing and the need for blenders to adjust more quickly.

Closer cooperation with other IFIs and better leverage of surveillance and technical assistance in program design continue to be relevant. The RoC reveals that a significant proportion of issues identified during previous rounds of surveillance are not adequately incorporated into programs. We note staff's recommendation to continue to build Fund expertise in critical areas of shared responsibility, but we highlight the need to balance the rewards stemming from an increased in-house expertise against the limited Fund resources to ensure that both financial and human capital resources are employed as efficiently and effectively as possible. Avoiding duplication of work carried out by other institutions with expertise in non-core areas should also be taken into account. The implementation plan would have benefited from additional measures to strengthen the cooperation with other IFIs, particularly with the World Bank, in areas of structural reforms, social protection and sustainable development goals.

Implementation of the 2018 RoC recommendations remains key. The proposed revision of the operational guidance to staff on the 2002 conditionality guidelines should not be seen as an end point but rather as the start of the implementation process. We also see merit in revisiting the proposed implementation road-map to reflect the outcome of the Board discussion. Without any further delay, the 2018 RoC recommendations should, to the extent possible, be applied to ongoing Fund-supported programs, especially where risks are elevated, and access is exceptional, to better safeguard the Fund's reputation and resources.

Mr. Rashkovan, Mr. Cools and Mr. Josic submitted the following statement:

We thank staff for an excellent set of papers and for the extensive and early outreach to the Executive Board. This has made it possible to deeply involve our authorities in the preparation of this important review.

We very much welcome the extensive review and broadly agree with the lessons identified. We associate ourselves with Mr. Meyer's statement and would like to add the following points for emphasis:

First, we strongly welcome the recommendation to sharpen the debt sustainability tools. We are convinced that it is important to be upfront about debt sustainability at the start of a program. We support work towards this end under the MAC DSA review and support careful implementation of the new LIC DSF. We also support the use of structural conditionality to improve the contracting of debt and ensure appropriate monitoring of (contingent) liabilities and we look forward to guidance on collateralized debt in Fund programs under de Debt Limits Policy Review.

Second, we strongly welcome the program success framework developed by staff. A more granular understanding of this framework, including in the role of judgement, however, would be welcome.

Third, while the broad lessons have implications for the entire Fund membership, we appreciate staff's efforts to highlight the issues pertinent to small states. Capacity limitations hinder program performance in small states. In this regard, we see scope for better tailoring conditionality and program design in a manner that takes account of these members' capacity and specific circumstances. This approach is crucial to secure traction, country ownership and successful completion of programs. Against this backdrop, it is regrettable that design and conditionality in some programs excluded building resilience to natural disasters even where the risks were evident from the outset. Going forward, we encourage staff to ensure shrewd application of the 2017 SGN on engaging small states for both programs and surveillance purposes. For those members vulnerable to natural disasters, the macroeconomic impact of building resilience must be brought into program setting. It is particularly important that conditionality under the RFI and the RCF remains limited and tailored so that small states do not face barriers to access these programs in times of rapid financial needs. That said, it is unclear how this workstream will integrate with that on Building Resilience to Natural Disasters in Vulnerable Countries. Staff's comments are welcome.

Mr. Jin, Mr. Sun and Ms. Cai submitted the following statement:

Effective design with well-crafted conditionality are key to the success of Fund-supported programs and more broadly, the Fund's role in safeguarding international monetary stability. We therefore welcome the 2018 Review of Program Design and Conditionality (2018 RoC), which takes a comprehensive look at Fund lending operations since the Global Financial Crisis. The review has provided some insightful observations on the Fund's lending operations and important lessons learned, and we thank Staff for the candid and objective discussion of their findings.

Overall, we believe there is a need for a more systematic reflection on how fiscal consolidation, debt limits, and growth relate and interact with each other. Consideration should be given to whether, by way of emphasizing too much on fiscal consolidation and absolute debt limits in lending conditions, we are underestimating the adverse impact of these requirements on growth, and in turn, leading to deceleration in growth and consequently a higher debt to GDP ratio in program countries. In our view, a distinction should be drawn between those expenditures on public investments and debt that support growth and those that do not, and staff should bear this in mind when setting fiscal consolidation targets and debt limits to mitigate adverse impact on growth.

In the meantime, we would also like to share our reactions to the specific findings from the 2018 RoC as follows:

Growth optimism. The general shift toward growth optimism is worrisome, considering that staff's growth projection has key implications for program design and eventual success. Staff should strive to be as realistic in their growth projections as possible. Going forward, we encourage staff to explore ways to better calibrate projections as circumstances evolve and objectively estimate productivity gains and capital investment, while developing contingency plans where needed.

Fiscal conditionality. The fact that the composition of fiscal adjustment in recent years shifted towards quicker and politically easier capital expenditure cuts raises concern. While quick and easy gains may be beneficial in the short run, they provide limited support for achieving long-term sustainable growth. Efforts should therefore be made to re-orient the focus of fiscal conditionality towards growth-oriented adjustments and improving the quality of fiscal management, such as enhancing the capacity of domestic resource mobilization. Productive spending and consumption spending need to be clearly distinguished when designing program conditionality. Meanwhile, continued emphasis is needed on adequately protecting social spending.

Public debt. In considering conditionality based on debt transparency, staff should take member countries' capacity constraints into full consideration. Attempts to raise debt transparency must go hand in hand with efforts to strengthen data collection and reporting capacity. Meanwhile, we take note from the report that public debt operations tend to be associated with greater program success. Are there cases where a program failed despite public debt operations? If so, what are the main reasons for failure?

Treatment of collateralized debt. Staff's treatment of collateralized debt in program design should be based on a comprehensive analysis on the use of this type of debt by the member country and the motivation behind its use, as well as the impact of such debt on the country's growth. Staff should avoid mechanically setting limits or restrictions on the use of collateralized debt solely based on quantitative indicators. We encourage staff to be open-minded and practical towards this debt instrument, particularly when it is backed by a project's own revenues and/or does not have adverse impact on the member country's repayment to the Fund.

Structural conditionality. We concur with staff that structural reforms should be better prioritized and sequenced based on macro-criticality. Staff should strive to strike a balance between parsimony and more conditionality when trying to address structural weaknesses, while accounting for country-specific circumstances. In the design of structural conditionality, staff should place greater emphasis on areas of Fund's expertise, while cooperation with other international organizations should continue to be strengthened in shared and non-core areas.

Ownership. Countries' ownership and adequate capacity are crucial for successful program implementation. We take positive note from the survey results that perceptions of program ownership remain broadly positive. To strengthen ownership, conditionality should build on member countries' own national policy agenda as far as possible. Evidence suggests that the abundant use of prior actions had not translated into higher program completion rates, but rather the opposite. Could staff share further insights on the possible reasons behind this outcome?

Technical assistance and monitoring. The 2018 RoC found a higher proportion of incomplete / off-track programs among fragile states. Conditionality should be supported by appropriate technical assistance that is tailored to a country's needs. Improving the usability, accuracy and replicability of the MONA data base can provide more up-to-date cross-country information, which is helpful for enhancing the ability to monitor and compare programs.

Program duration. We are open to extending program duration and encourage staff to further analyze the related impact on Fund's resources and member countries' potential growth. For countries whose BOP problems can be resolved in the short term, while facing structural problems in the long term, drawing programs with follow-up PCIs may be a potential way to provide continued support to necessary structural reforms.

Measuring program success. When assessing program success for PRGT countries, we see merit in adding employment rate into the indicator group in stage 2, given that enhancing employment is a key component of inclusive growth. We also recommend using poverty rate instead of social expenditure to assess the success of anti-poverty policy, since increasing social expenditure is not an end in itself, nor is social expenditure a substitute for pursuing sound policies to decrease poverty rate. Staff's comments are welcome.

We encourage staff to continue to monitor and review program design and conditionality with a view to improving the Fund's lending operations. The current guidelines that emphasize countries' ownership of policies, parsimony in conditions, tailoring policies to member circumstances, coordination with other multilateral institutions, and clarity in the specification of conditions continue to be relevant. Building on these existing guidelines, we encourage staff to update the guidance note in line with Board recommendations to facilitate effective implementation of Fund lending operations in a tailored, consistent, and evenhanded manner.

Mr. Ostros and Ms. Karjanlahti submitted the following statement:

We thank staff for a well-written and comprehensive review of Fund lending operations, including broad consultations as well as the informative background and case studies. This is a welcomed opportunity to ensure that IMF programs effectively resolve balance of payment pressures and thus guard the revolving nature of the Fund's resources. We agree that the guidelines on conditionality continue to be mainly appropriate but support the suggested update of the operational staff guidance note. We broadly agree with the general findings and key recommendations, while we also see the need for follow-up work in certain areas. We associate ourselves with Mr. Meyer's statement, and offer the following comments for emphasis.

We welcome staff's analysis of successful Fund-supported programs but missed some detail on the drivers. The analytical approach provides a good foundation, though more granular considerations on the definition of a successful program could have been considered. The review could also have benefitted from an even more detailed analysis of the drivers of typical successful and unsuccessful programs, also elaborating on the role of Post-Program Monitoring.

The shift toward growth optimism raises concern, especially as it seems to be linked to unsuccessful programs. While global developments may have influenced the increase in the optimism bias, the disappointing growth outcomes during program periods are noteworthy. Too optimistic projections affect the estimates of debt levels, quality of external and fiscal adjustments compromising program success. As noted in the report, most programs were considered to have risks slanted to the downside and optimistic growth assumptions understated the financing and adjustment required to achieve program objectives. We agree that more thorough discussions of downside risks, and development of contingency plans would be beneficial. This should aim for more realistic baselines, also when estimating the impact of adjustment on growth as well as the benefits arising from structural reforms.

Growing debt levels and vulnerabilities related to public debt call for increased scrutiny in Fund programs. Optimistic growth projections also cloud the credibility of assumptions related to debt sustainability. Clear judgement on debt sustainability is crucial and, in this regard, we welcome staff's efforts to improve analytical tools as part of the ongoing review of the MAC DSA framework. Regarding debt restructuring, past experiences should be evaluated carefully on a case-by-case basis and consideration of debt operations needs to be underpinned by a comprehensive cost-benefit analysis. The differentiation between reprofiling and restructuring cases is useful and should inform decisions for future country programs. We welcome the ongoing work to strengthen sovereign borrower debt transparency and sustainability, including the focus on contingent liabilities and collateralized debt, and support the ambition to strengthen advice given to program countries.

We are not convinced that longer program duration is the right approach. While we recognize there are implementation challenges related to particular structural reforms in some programs, the potential benefits of providing more time and flexibility do not outweigh the costs. Longer programs would increase political risks to program success, including the issue of reform fatigue, potentially compromising ownership. Rather, we see that long lags in reform implementation underscore the need for strong national ownership as well as persistence in the Fund's policy advice and technical assistance. Evenhandedness may also come into to play, as longer programs for some could lead to a general call for prolonged program engagement. In the end, to safeguard the Fund's revolving resources, we should to refrain from committing resources for a prolonged period.

The design of structural conditionality should be guided by macro-criticality. With regards to parsimony, we acknowledge that fewer, but deeper and well-designed, reforms may yield better and more long-lasting results and reduce the risk of reform fatigue. However, this should not lead to a dismissal of structural conditionality in critical areas. We agree with the conclusion that prioritization and sequencing of structural conditions is crucial for program success and encourage follow-up work on this. We would call for attention to the mismatch between gaps identified in prior surveillance and structural conditionality in programs, especially during a period where the volume of conditions increased markedly. However, as the principle of parsimony does not apply to surveillance, a total overlap should not be expected and would not be fit for purpose. Further analysis of the reasons for the dropped structural conditions would be useful.

Program design should strike the right balance between flexible and tailored conditions, considering both country-specific, external circumstances, and even-handedness among countries. Technical assistance and capacity development are essential complements to programs, especially in low-income countries, to manage implementation capacity. We would also support strengthening the analysis of institutional and political capacity in program countries to deliver program objectives in a realistic timetable.

We support the inclusion of non-core areas, such as governance/anti-corruption reforms, into the Fund's structural conditionality when assessed as critical for program success. Such conditions must be clearly designed to resolve macro-imbalances and macro-critical economic distortions. When deemed critical and efficient to resolve short- or medium-term macro-imbalances or build sustainable growth, conditionality in non-core areas such as inequality and climate change may also be considered. We agree with the conclusion that prioritization and sequencing of structural conditions is crucial for program success and encourage follow-up work on this.

Increased focus is needed on the composition of fiscal adjustment, including the effects on inequality and the vulnerable. We note that realized fiscal adjustments in IMF programs are often of lower quality and less growth-friendly than envisaged. Focus on delivering higher-quality adjustments is thus warranted. In addition, fiscal adjustments should be designed to fit country context with realistic assumptions related to the composition and its effect on growth. We are pleased that Fund-supported programs are increasingly emphasizing social aspects but believe more could be done to ensure the quality of social spending and the adequacy of social protection as well as addressing inequality concerns. Protection of the most vulnerable segments of the population could improve program ownership and contributes to securing macroeconomic stability.

We agree that clarity and transparency could be further enhanced in program documents. Up-to-date cross-country information is essential for monitoring and comparing programs and we welcome the IMF's commitment to improve the Monitoring of Fund Arrangements (MONA) database. Even-handedness could also be enhanced by such comparative information. Furthermore, the IMF could urge country authorities to improve in-country communication of program objectives and measures with stakeholders and, where necessary and possible, assist country authorities in these efforts.

We agree that coordination and collaboration with other institutions is important to program design, leveraging financing, and streamlining conditionality. It is positive that the surveys point to a generally effective Fund collaboration with other institutions. Coordination with partners should continue to be strengthened, especially on macro-critical structural policies outside the IMF's core responsibilities. We therefore look forward to the IEO's evaluation on the collaboration between the Fund and the World Bank.

Mr. Mouminah, Mr. Alkhareif and Mr. Rouai submitted the following statement:

We thank staff for an excellent work on the 2018 Review of Program Design and Conditionality (RoC) and outreach, which allowed our office to clarify a number of technical issues. We broadly support the RoC recommendations to improve program success and reduce risks.

The RoC process. Before commenting on staff findings and recommendations, we would like to make the following comments on the RoC:

First, as we had noted at the beginning of the RoC, and contrary to previous reviews, no concept note was prepared. A concept note is usually more structured and provides more details on the key issues to be reviewed. It would have allowed the Board to conduct a more informative engagement with staff on the issues for discussion. The concept note is also published and serves as a vehicle for gathering stakeholders' views on the review.

Second, we missed in the staff paper any reference to outreach to external stakeholders, in particular civil society organizations and other external advisors, noting that the 2018 RoC surveys were limited to staff, the Executive Board, and country authorities in countries with programs. Staff elaborations will be welcome.

Third, the last RoC was completed by the Board in 2012, almost seven years ago. Program design and conditionality are critical and every effort should be made to remain within the already extended 5-year review cycle.

We suggest that for the next RoC, staff may consider a similar approach to the surveillance review and conduct an interim RoC. In the same vein, we welcome ongoing improvements to the MONA database and look forward to periodic reports to the Board to ensure transparency and facilitate the monitoring and comparison of programs.

Fourth, we take note of staff recommendation not to update the 2002 Guidelines on Conditionality (GoC). We have an open mind on this issue and consider that an update would be useful to assess the consistency of the guidelines and the implications on program design and conditionality of recent developments in Fund's policies like evenhandedness, governance, fragile and small states, and the strategy for IMF engagement on social spending, to name a few. A review will also help in assessing if the guidelines remain appropriate to members' evolving needs.

Fifth, we appreciate Table 2 on the roadmap for the implementation of the proposed recommendations and note with satisfaction that many of them will be implemented in 2019.

RoC findings. We commend staff for their efforts to develop a methodology for the assessment of program success based on the objectives set in the GoC. We take note of staff conclusion that three-quarters of Fund-supported programs achieved some success in both the GRA and the PRGT. We have a mixed view, particularly regarding the objectives of achieving eternal viability and sustainable growth. We are also concerned by the conclusion that fiscal adjustment targets were often met but through less growth-friendly measures including cuts in capital spending. We note that only 9 GRA programs and 14 PRGT arrangements were assessed as successful, out of a total of 78. In addition, many countries relied on successor arrangements, which is an indication that programs were less effective in restoring external stability within the timeline of the initial programs, thus undermining the principle of temporary use of Fund resources. This finding is also corroborated by the increased reliance on EFF arrangements. In addition, as shown in the staff report (Main report ¶11 and footnote 11), the analysis of reviews and program completion rates shows a significant increase in the number of programs going off-track and the fact that such observations are not captured in the MONA database leads, as recognized by staff, to a bias towards higher implementation and success rates. Finally, on this point, under staff assessment methodology, data were unweighted, and we wonder if staff has tested a weighted analysis to assess program success on the basis of access?

Importance of program ownership. While it is true that members are confronted with protracted BoP problems and structural challenges, as reflected in the rise in structural conditionality, successor or longer programs are not a panacea for success as they were associated with lower program completion rates and unhelpful increase in prior actions, explained by staff as the result of weaker ownership (¶11), whereas the survey results indicate that perceptions of ownership remain broadly positive (¶52). Against this background, we support staff recommendations to enhance ownership, in particular, by strengthening the analysis of institutional and political capacity to deliver program objectives on a realistic timetable. We are not convinced, however, by staff suggestion to extend the duration of EFF arrangements to five years, as longer duration can exceed traditional electoral cycles and often trigger reform fatigue.

We welcome the focus of the RoC on the important topic of growth optimism, monetary conditionality, the quality of fiscal adjustment, and public debt.

The issue of optimistic baseline assumptions, in particular regarding growth and the impact of adjustment on growth, is a recurrent one. We encourage reviewing departments to be more assertive, during the review process, to challenge staff about the realism of the program design and macroeconomic variables, the impact of the planned policies on growth, and the quality of fiscal adjustment.

We welcome the coverage of evenhandedness in the review. We welcome the generally positive perception about evenhandedness but remain concerned by the lack of up-to-date cross-country data on conditionality and access, which may constraint comparing access between programs and alleviate concerns about the lack of evenhandedness. We look forward to the planned improvement to the MONA database to address such concerns.

On public debt, the ROC took note of the rapid and large accumulation of debt by many LICs and of the positive impact of debt operations on program success. The issue of the realism of program assumptions and the reluctance to recognize that debt may not have been sustainable are again noted as a factor behind the overshooting of debt projections and we look forward to the MAC DSA review to improve debt sustainability analysis.

Mr. Lopetegui, Mr. Di Tata, Mr. Morales and Ms. Moreno submitted the following statement:

> We thank staff for a comprehensive and well-written report on Program Design and Conditionality, which covers program performance between September 2011 and end-2017. As noted by staff, programs during this period faced protracted structural challenges requiring, in many cases, large-scale and long-lasting adjustment, within a context characterized by a persistently weak global environment. We have the following comments and questions on the report:
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> We broadly agree with the overall assessment of program success presented by staff. In particular, we concur that the main objective of Fund-supported programs is to resolve members' BOP problems and achieve medium-term external viability while fostering sustainable growth. Against this backdrop, we find it useful to differentiate between GRA and PRGT programs, given the differences in policy emphasis and the expected duration of the adjustment process in these two groups of countries.
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> We agree that, in general terms, the nature of post-program engagement can be used as a proxy for whether a member's BOP problems are resolved during the program. In some cases, however, repeated use of drawing arrangements may not have been a sign of program failure but rather of the protracted nature of the BOP problem or other idiosyncratic factors. Thus, a deeper analysis of those cases might be warranted to assess program success.
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> The report notes that growth and the anticipated public and private balance sheet adjustment (proxied by the public debt and NPLs, respectively) fell short of expectations. Staff attributes this failure to a general shift toward growth optimism in the 2018 sample period, compared with the 2011 sample, which is explained by unexpected developments, such as disappointing trading partner growth and lower than expected commodity prices; fiscal consolidation that was less growth-friendly than anticipated; and perhaps more worrisome, systematic underestimation of the impact of adjustment on growth, including through fiscal multipliers that were too low or by assuming overly optimistic payoffs from structural reforms. We agree with the report's recommendations to strengthen the analysis of the impact of program policies on growth, particularly under fixed exchange rate regimes, and to increase scrutiny of the realism of program assumptions. We would also add the possibility of considering, as part of fiscal conditionality, a QPC on the

current fiscal balance or a floor on capital spending to help ensure higher-quality fiscal adjustment.

We observe that there is an apparent disconnection between the high implementation rates of QPCs (90 percent) and SCs (80 percent) and the significant increase in the number of programs going off track. The report indicates that this could potentially point to weaker ownership. We find this explanation unclear and would like to know to what extent this disconnection could be due to deficiencies in program design. Another explanation seems to be provided in footnote 11, which notes that the assessed implementation data on QPCs and SCs that is captured in the MONA database do not include data of program reviews that are not completed, biasing implementation rates upwards. Moreover, we missed in the report some analysis of macroeconomic performance in countries after programs went off-track, including members' success in addressing program objectives without Fund support. Staff's comments on these issues would be welcome.

We broadly agree with the bottom line assessment of program success presented on pages 14-17. We support the use of two separate frameworks for GRA and PRGT programs and the inclusion of the evolution of vulnerability indicators for GRA cases. However, we have a few observations. First, in identifying debt operations in GRA cases as one of the key determinants of program success, we would be cautious about sending the message that debt restructuring always contributes to such success. As recognized by staff, public debt operations were relatively successful mainly in small and non-systemic program cases, but the case is less straightforward in other cases, particularly when public debt sustainability is uncertain. Second, in PRGT cases, the condition that programs avoid a substantial deterioration in DSA ratings seems to be a rather low bar to establish program success or partial success. How is "substantial deterioration" determined? Third, we notice that post-GFC programs fared better than commodity exporters and other developing countries. In this regard, we wonder if the less successful programs for commodity exporters were affected by insufficient flexibility to accommodate in part the impact of changes in commodity prices. Also, has staff attempted to compare program performance under fixed and flexible exchange rates?

On monetary conditionality, it would be important to better understand the reasons behind the large NDA misses for commodity exporters. Also, we would appreciate further elaboration on the staff's recommendation to consider reforms to modernize the review-based monetary policy conditionality framework.

We welcome the doubling of the share of programs in the 2018 RoC sample that included indicative targets or QPCs on social and other priority spending, as well as the fact that performance on social spending was broadly satisfactory. Going forward, we agree that further efforts are needed to improve the focus on the quality of social spending, social protection, and inequality. In this regard, we note that the use of indicative targets (as opposed to QPCs) may be an indication of lack of adequate information on the size and effectiveness of social policies, which makes it more difficult to protect the vulnerable from macroeconomic adjustment. Staff's comments are welcome.

Regarding public debt vulnerabilities, we notice that debt sustainability improved in one-third of Fund-supported programs, remained unchanged in roughly one-half of the arrangements, and deteriorated in the upper quartile of programs, most of which went off track. Given this record, we concur with staff on the need to sharpen debt sustainability tools, consider SCs to improve governance arrangements for the contracting of debt and ensuring appropriate monitoring of obligations, and review the Fund's debt limits policy, including by providing guidance on collateralized debt.

On structural conditionality, we note that the volume of conditions increased markedly during the assessment period owing to a shift to Fund-supported programs aimed at addressing structural problems. However, most SCs continued to be low- or medium-depth, with SCs in core areas of responsibility dominating conditionality. We also notice that critical reforms identified during surveillance, particularly those in non-core areas of responsibility, seem to have been excluded. In this regard, staff notes that over half the gaps observed in surveillance were in shared areas and non-core areas of responsibility. This raises the issues of correctly prioritizing and sequencing reforms based on surveillance by focusing on deeper reforms, building expertise in critical shared areas of responsibility, and enhancing collaboration with other institutions in non-core areas. Against this backdrop, parsimony could become an elusive goal, as it would require a careful balance between addressing important structural issues in shared and non-core areas and reducing non-critical PCs in core areas. In this connection, we are afraid that SCs are mixing deep reforms with the intermediate steps necessary to address them, especially in countries with low institutional capacity. Regarding the financial sector, NPLs evolve slowly and perhaps they constitute a narrow variable to reflect the evolution of private sector balance sheets. However, better data to analyze this issue may not be available.

We welcome that, in general, Fund technical assistance was deployed consistently with program priorities and country needs and that surveys point to generally effective collaboration with other institutions, particularly in non-core areas. This topic will benefit from further analysis under the upcoming IEO evaluation of IMF Collaboration with the World Bank on Macro-Structural Issues. We also take note that capacity was a key driver of strong implementation of SCs, which suggests the need for further efforts to better align capacity development activities with program reforms. Staff comments on how to better address the issue of weak institutional capacity, including through technical support in collaboration with other international institutions, would be welcome. In addition, we would appreciate staff's comments on how to deal with the challenging structural areas of labor and product market reforms, including by relying on Fund expertise.

A related question that permeates the whole report is to what extent there is a justification for longer EFF arrangements in view of the protracted and structural nature of the BOP needs faced by several GRA countries. At this stage, we do not have a clear answer to this question. Although we agree that a more gradual approach may work better in some cases, protracted programs may lead to reform fatigue, affecting the Fund's reputation. A short follow-up Board paper by staff on the trade-offs involved would be welcome.

We agree that ownership cannot be measured by a single indicator or metric and should be examined along several dimensions. Thus, we support the approach taken in the paper to draw on surveys, program completion rates, and lessons from case studies. We welcome that the surveys indicate that perceptions of ownership remain broadly positive and that three-quarters of all respondents believe that program design was sufficiently flexible. We wonder if this perception applies also to commodity exporters. We take note that regression analysis points to a negative association between PAs and completion rates. We concur with staff that SMPs could be a useful option for managing program interruptions, and that well-designed national reform plans, effective communication, and more attention to political economy risks could help improve completion rates.

We welcome that the 2018 RoC surveys suggest that UFR decisions are perceived as mostly evenhanded. Although conditionality and program design included some tailoring to reflect members' circumstances, we note that the reform burden on fragile states, although broadly in line with the average for the overall sample, may have been too heavy to manage, which suggests that more attention should have been paid in those cases to tailoring conditionality according to capacity constraints. We would also highlight the importance of completing the MONA revamp to improve up-to-date cross-country information on access and conditionality. We notice that pooled regressions of both GRA and PRGT programs suggest that the differences in access levels are largely explained by Fund policies, with the EA dummy remaining an important driver of access in GRA cases (mainly because of the sizable effects of large BOP crises), and a strong relationship between PRGT access norms and the size of adjustment.

We concur with staff that there is no need at this stage to update the Guidelines on Conditionality, but that implementation of the recommendations would require updating the Operational Guidance Note on Conditionality.

Ms. Riach and Mr. Hemingway submitted the following statement:

We thank staff for the comprehensive stocktaking of Fund lending operations with the view to enhancing the effectiveness of IMF conditionality, building on country-ownership, and improving program outcomes. Effective conditionality and successful IMF programs are important for solving a country's balance of payments problems and safeguarding Fund resources. We welcome the headline findings that a majority of IMF programs are at least partially successful and encourage staff to continue learning the lessons from past programs to improve performance in the coming years. We associate ourselves with Mr. Meyer's statement and provide the following comments for emphasis.

Realism

Optimism bias has had significant impact on programs and we believe more can be done to pre-empt the impact of forecast errors on program performance. In particular, we take note of the conclusion that program growth assumptions were often too optimistic, as well as of the trade-off staff mention between "realism and ambition" of program parameters. We also note that programs tended to be more successful where GDP growth forecasts proved to be broadly accurate. That said, we are conscious optimism bias has been a feature of many economic forecasts during the review period and the problem is not limited to Fund programs. Nonetheless, consistent with staff recommendations and the initial discussion of the Comprehensive Surveillance Review, we encourage greater use of risk scenarios and discussion of contingency plans to help keep programs on track where forecast errors materialize.

The review also provides compelling evidence that debt restructuring has a significant impact on outcomes. We believe the experience with debt restructuring should be evaluated on a case-by-case basis. We agree that the consideration of debt operations needs to be underpinned by a comprehensive cost-benefit analysis. We also note that in practice it is impossible for the Fund to remain neutral on debt sustainability in program cases as it has a key role in determining the need for relief, and that this cost-benefit analysis should recognize there are costs to both action and inaction. Following the evidence from the review, we encourage staff to further consider how Fund policies can minimize situations in which necessary debt restructurings are too little or too late. In this context, we welcome the new debt sustainability tools at the Fund's disposal and encourage staff to continue developing and sharpening their analysis. This requires continued efforts to produce robust analysis based on realistic assumptions and scenarios.

Granular and Parsimonious Conditionality

We agree that national ownership of IMF programs is a key element of program success and we believe that focused programs, well aligned with country priorities and capacity, could help increase ownership. In general, we agree that fewer but deeper reforms, consistently underpinning each other, may yield better and more long-lasting results, and emphasize that the design of conditionality should continue to be based on the principles of macro-criticality. In addition, the evidence suggests that alignment of conditionality and a national reform agenda appears to work well. Whether aligned with a formal national strategy or not, we stress the importance of well-designed conditionality that recognizes, as appropriate, country-specific circumstances and the need for structural reforms. The design of conditionality should also continue tailored to the capacity of the authorities. As has been previously agreed, tailoring and prioritization is particularly important in fragile states given capacity constraints. We were therefore somewhat disappointed that the data confirmed anecdotal evidence that there has been insufficiently strict prioritization in these countries. We encourage further efforts in this area.

While the broad lessons have implications for the wide Fund membership, we also appreciate staff's efforts to highlight the issues pertinent to small states. Capacity limitations hinder program performance in small states. In this regard, we see scope for better tailoring of conditionality and program design in a manner that takes account of these members' capacity and specific circumstances in line with the 2017 SGN on Engaging Small States. This approach is crucial to secure traction, country ownership and successful completion of programs. Against this backdrop, it is regrettable that design and conditionality in some programs excluded building resilience to natural disasters even where the risks were evident from the outset. This is particularly relevant to small states, though it could apply to any member. We therefore emphasize that, for those members vulnerable to natural disasters, the macroeconomic impact of building resilience must be brought into program setting.

The type of adjustment made will also affect perceived and actual outcomes, with consequences for ownership. The review indicates that most programs targeted growth-friendly fiscal consolidation, but that the adjustment was often of lower quality and less growth-friendly than envisaged. We therefore welcome the recommendation to use more granular and prioritized fiscal conditionality, as well as suggestions to improve the focus on the quality of social spending and greater consideration of the impact of program policies on poor and vulnerable groups. Clearly this should not undermine flexibility, parsimony or the ability to engage countries on a case-by-case basis. We therefore also welcome the Fund's work on creating a strategy for social spending alongside the Review of Conditionality and agree that social spending issues should be underpinned by early engagement with authorities.

Program management

The global context likely drove demand for longer programs during this review period. Indeed, staff highlight the increased use of EFFs compared to previous periods, reflecting the period was dominated by less acute but more persistent structural challenges, requiring large-scale and long-lasting adjustment. There has also been significant demand for successor programs, including programs that were of a signaling nature to help anchor macroeconomic policies and structure reforms. Looking across the programs since 2002 demonstrates the varied demands placed on the Fund depending on the global context and reflects positively on the adaptability of the Fund's toolkit. Nonetheless, reflecting upon recent experience, we are open to further discussions on the potential benefits and drawbacks of longer Fund engagement to support structural reform agendas - including exploring the use of PCIs as follow-up arrangements – while safeguarding IMF resources. We stress that, as was true with respect to the EFF use during the period covered in the 2011 Review of Conditionality, having the option to agree longer programs should not be used if the circumstances do not justify it, but believe the recent experience highlights the potential benefit of additional flexibility.

Management of off-track programs seems critical to increasing the success of programs overall. Indeed, one of the starkest findings in the staff paper is the sharp divergence in outcomes between on-track and off-track programs. As a result, we would welcome further discussions on how to deal with off-track programs, including through greater Board oversight and the use of staff monitored programs.

Implementing the Review of Conditionality

Finally, we agree with the staff conclusion that implementation will be largely a case of changing institutional culture and approach. Staff provide a very clear and concise set of conclusions, suggesting “a move toward more realism, granularity, gradualism, and parsimony in programs, as well as sharper DSAs to mitigate any bias in judgement and ensure more balanced consideration of debt operations, where warranted.” This is easy to say but will be hard to do, so we were grateful for the roadmap highlighting where staff expect to see findings reflected. Nonetheless, we emphasize the need for continual efforts to embed conclusions.

Mr. Mahlinza, Mr. Mojarrad and Mr. Raghani submitted the following statement:

We thank staff for the comprehensive set of papers, their recent outreach with our offices and the efforts to take account of Directors’ views from previous discussions, including on the technical issues examined in February 2019.

We recognize that Fund-supported program performance under the 2018 Review of Program Design and Conditionality (RoC) period has been relatively good, notwithstanding major macroeconomic and structural challenges facing members following the global financial crisis (GFC). Program implementation during 2011-2017 was generally satisfactory according to criteria based on: (i) resolution of balance-of-payment (BOP) problems during the program period in GRA cases; (ii) progress toward a sustainable macroeconomic position in PRGT cases. Moreover, staff consider that success of a program, particularly in GRA cases, can be assessed based on whether it was followed by another drawing program, with the assumption that in view of their protracted nature, BOP problems in PRGT cases normally take longer than one program to resolve.

In our view, however, caution is required in drawing conclusions on overall program success solely from the above-mentioned metrics and criterion, given their limitations in fully capturing outcomes. In particular, we wish to highlight that:

There has been a sharp increase in the number of programs going off-track. In addition, the measure of program success based on achieving external viability and sustainable growth has been mixed, partly owing to the impact of more adverse external developments, but also to the negative impact of the composition and size of adjustment on growth.

In the bottom-line assessment laid out in Paragraphs12 and 13 of the report, the category "partially successful programs"–which comprises about half of both GRA and PRGT programs—arguably reflects more unsuccessful rather than successful programs. This category includes cases where the weaknesses that initially gave rise to imbalances persist even after program completion. These persistent weaknesses include macroeconomic vulnerabilities or BOP needs in some GRA cases and a deterioration of DSA rating in some PRGT countries. The category also includes cases where the program failed to achieve material improvement in core indicators, especially in PRGT countries, such as social spending, capital expenditure, revenue mobilization, inclusive growth, inflation or external reserves. Program success should not be measured strictly against program benchmarks as the program itself could be conceivably ill-designed or some of the constraints hindering its success may not be visible at the time of program design. Instead, measuring success against changes to a larger set of macroeconomic indicators, with due consideration to changing circumstances would be more pertinent.

The analysis of program success in the four analytical groups examined warrants greater scrutiny. While it is understandable that post-GFC programs—all involving advanced economies—fared better than those of commodity exporters and other developing countries, performance of political/economic transformation countries, which had both the highest success and failure rates of all groups, merits further analysis. Staff's elaboration on the wide heterogeneity of program performance within the latter group would be appreciated.

Against the backdrop of overall broadly unchanged program success rates compared to the 2011 review, we view the 2018 RoC as an important milestone to improve significantly the performance of Fund-supported programs going forward. In this vein, the identification of the root causes of program successes and failures is an important first step to informing improvements going forward. We wish to make comments on some of the key factors impacting program performance and on the main recommendations.

Growth Assumptions

We note from staff analysis that growth disappointments in the period under review can be largely attributed to global projection errors, as well as the initial program underestimation of fiscal multipliers, and overestimation of structural reform and investment payoffs. Therefore, the staff recommendation to increase scrutiny of the realism of program baselines, better calibrate downside risks and develop contingency plans is pertinent. The distinction between realistic and conservative assumptions is of the essence to program performance.

On the recommendation to strengthen the discussion and analysis of the impact of program policies on growth, we underscore the necessity to scale up technical assistance (TA) to address data and capacity limitations in many developing countries which impede analysis of the drivers of growth. Moreover, the macro frameworks for designing policies do not always integrate medium-term growth effects of public investment and human resource development programs, leaving room for discretion that could also be contributing to gaps in the estimation of investment payoffs. In our view, efforts are needed to sharpen the programming framework. We appreciate staff comments on whether and how refinements can be achieved.

Fiscal Adjustment

The findings of lower-than-expected quality of fiscal adjustment, limited focus on the quality of social spending and on social protection and inequality more generally warrant, as proposed by staff: (i) increased focus on the quality of social expenditures and on the impact of policies on vulnerable groups; and (ii) possibly the use of granular fiscal conditionality to achieve specific objectives. However, such granularity should not come at the expense of parsimony and flexibility, and fiscal conditionality—both quantitative and structural—should be strictly macro-critical and relevant to program objectives, and extensively discussed in advance with country authorities to reflect their views and ensure full ownership and durability.

Granular social spending targets can prove unduly constraining and should remain indicative. In the report on “A Strategy for IMF Engagement on Social Spending”, scheduled for Board discussion on May 2, 2019, staff propose specification of quantitative targets for social spending “at the sectoral or social program level". While we agree that "floors" on certain types of social expenditures could safeguard spending in that specific area, they could also put pressure on limited budget resources and may further constrain budget allocations to other key sectors, especially in a context where fiscal space may be increasingly reduced, and/or external financing become scarcer, as is the case for most developing economies. Staff comments are welcome. Moreover, certain types of social spending can be transversal in that they affect multiple sectors and should not be fragmented. For instance, investment in roads or bridges in remote areas in developing countries typically increases market access for agricultural products and improves access to health and education services.

Additionally, the cost of meeting security challenges faced by some members, especially in conflict-affected and fragile states, should be better reflected in program design, and contingent plans and adjusters better integrated in programs.

Debt Sustainability

We support the recommendations to fine-tune estimation of financing needs and sharpen debt sustainability tools to minimize judgment errors and prevent undershooting of debt projections, although we recognize that unidentified factors are important contributors.

We are also in favor of introducing structural conditionality to enhance developing countries' debt negotiation capacities, where needed, while ensuring proper monitoring of actual and contingent obligations. In this regard, countries facing limited technical capacity would benefit from targeted Fund TA. We also agree with the proposal to examine guidance on collateralized debt in Fund programs in the context of the upcoming Review of Fund's Debt Limits Policy (DLP), as these obligations have become prominent in commodity exporting developing countries. At the same time, the inclusion of collateralized debt should not form the basis for a general tightening of the DLP that would unjustifiably affect other members.

The current high debt levels facing many low-income developing countries (LIDCs) mostly reflect spending requirements to close infrastructure gaps and meet sustainable development goals (SDGs) in unfavorable global growth and terms of trade environment. As such, it is important for the DLP review to allow countries greater flexibility to meet their infrastructure financing needs while preserving debt sustainability. This requires improving domestic revenue mobilization and the quality of fiscal adjustment and securing external financing on concessional terms, since even under the best-case scenarios, domestic revenue mobilization will be insufficient to meet SDGs' financing requirements. Furthermore, given the vulnerability of many developing countries and small states to large swings in commodity prices and to climate change and natural disasters, flexibility in debt conditionality is paramount to help them cope with unforeseen shocks while building resilience.

We note the greater success rate of programs involving debt restructuring and, therefore, support more systematic inclusion of such operations in program design and financing as needed and to Fund's increased engagement with creditors in countries where debt sustainability is at risk—as is the case for many commodity exporters impacted by the sharp commodity price decline since 2014-2015—in line with Fund lending into arrears policy and drawing on experience accumulated over the years.

Structural Conditionality

We note that the increase in the number of SCs is inconsistent with the call of the 2011 RoC and the IEO recommendations for increased parsimony and well-focused conditionality in line with program objectives. Greater prioritization of SCs is, therefore, warranted, taking into consideration that delays in implementation may also be explained by not adequately taking into account the sensitivity or political economy aspects of some reforms, the time needed to build capacity and consensus, or the appropriate pace and sequencing.

Overall, we see merit in staff recommendations to identify, prioritize and sequence structural reforms under Fund-supported programs based on macro-criticality and drawing on surveillance and TA. It is also important for the Fund—consistent with its core functions—to enhance collaboration with development partners while building expertise on critical shared areas of responsibility, and to be more realistic in reform implementation timetables and payoffs. As we stressed in the recent discussion on the review of LIC facilities, longer program tenures are warranted on a case-by-case basis.

Program Ownership and Communication

We find staff recommendations to enhance program ownership, and close the gaps identified in surveys reported in the papers, appropriate. In support of program ownership, macroeconomic objectives and structural reforms should be consistent with multi-year national development plans and priorities to the extent possible. Ownership could also be strengthened if staff discuss with the authorities alternative options for adjustment and reform. Fund outreach to civil society organizations (CSO) is critical to support buy-in, but it is also important to recognize the limitation of CSO involvement in program discussion and design.

Communication between the Fund and the general public on program objectives—and, particularly their social implications—is also essential but needs to be balanced against potential public sensitivities regarding intrusion into domestic matters. Relatedly, while we underscore the importance of political economy aspects of Fund programs, caution is required in discussion of the extent of political support for reforms and its link with election cycles, as this could unduly influence internal political debate.

Use of SMPs should be encouraged in cases of program interruptions or significant structural reform delays to build track record, garner domestic support, and strengthen the institutional capacity and political commitment to deliver on program objectives. At the same time, use of SMPs should be de-stigmatized by limiting their frequency and duration and by starting or resuming the formal program swiftly upon satisfactory attainment of the SMP objectives. Easier access of countries under SMPs to a rapid disbursement facility (RFI or RCF)—where needed and especially for fragile and small states—could also help alleviate the stigma.

Building Resilience in Fragile Countries and Small States

We appreciate staff's efforts to highlight the issues pertinent to fragile countries and small states. Like other Directors, we see scope for better tailoring of conditionality and program design in those members in a manner that takes account of their limited capacity and specific circumstances, with the view to secure traction, country ownership and successful completion of programs. We encourage staff to implement the IEO recommendations on fragile states and shrewdly apply the 2017 Staff Guidance Note on Fund's Engagement with Small Developing States for both program and surveillance purposes. For those members vulnerable to natural disasters, the macroeconomic impact of building resilience must be brought into program setting.

Uniformity of Treatment and Evenhandedness

We continue to be concerned about evenhandedness gaps in program design, conditionality, and access. In this context, we support the recommendations to improve data dissemination on Fund-supported programs to facilitate comparisons. We also see merit in the proposal to better tailor SCs in small states to build resilience.

Further, the Fund should address the issue of overburdened conditionality for fragile states, while the ongoing review of LIC facilities should consider increasing access under PRGT arrangements in a meaningful fashion, bringing it closer to practices under the GRA—including through greater use of blending—and in line with the evolution of these countries' key macroeconomic indicators. Despite the Board clarification in November 2016, norms in some PRGT programs continue to be treated as a ceiling. Treatment of access norms in particular, and the RoC recommendations in general, may require a change of culture.

We also feel that the IEO—as an independent relevant body—can play an important role in assessing uniformity of treatment and evenhandedness in program design and conditionality as it did for surveillance. Staff comments are welcome.

Tradeoffs

In the tradeoffs presented in the report to improve program design and conditionality and reduce related risks, we support more realism (without being unduly conservative), granularity (with the caveats outlined above), gradualism, parsimony as well as greater emphasis on debt operation options.

Finally, we expect the Operational Guidance Note on Conditionality to be updated to integrate Board decisions and clearly reflect the caveats presented in the discussions.

Mr. Mozhin, Mr. Palei and Mr. Snisorenko submitted the following statement:

We welcome the discussion on the Review of Program Design and Conditionality and thank staff for a comprehensive set of papers. Indeed, the period under the Review (2011-2018) was marked by persistent and diverse structural challenges for many Fund members, including advanced economies. The Fund also expanded the scope of its activities to new macro-critical issues, which historically were outside of its core areas of expertise. It also created challenges for the design and conditionality of the Fund's programs. We welcome and support most of the recommendations in the report. We also see additional room for improvements and offer a few related suggestions.

We welcome staff's attempt to define and assess program success. Making distinction for GRA- and PRGT-eligible members allowed staff to uniformly apply similar benchmarks across a very diverse membership. Clear definition of the program success is an important step for the Fund towards greater accountability and more efficient communication. From the transparency point of view, we note that reliance on the Vulnerability Exercise and staff's judgement, in our opinion, makes understanding the methodology for success assessment in the GRA group more difficult. We would appreciate staff's comments on this issue.

We also appreciate the efforts to enhance the monitoring of Fund arrangements (MONA database). The database is now more comprehensive and user friendly. We look forward to continuous reliance on it in our own work and hope that external experts will use it in their analysis.

At the same time, we need more clarity in defining the situations of programs being "off-track". The lack of a clear definition or broadly-accepted formal guidance on this matter hampers accountability in program performance and the effectiveness of conditionality. If the Fund cannot determine the status of the arrangement as being "off-track" it frequently also affects the cycle of Article IV consultations. Say, the Board approves a program and moves a country to a 24-month cycle. The program immediately goes off-track. However, the status of the program remains poorly defined and uncertain. Under such circumstances Article IV consultations are unduly delayed. For some countries it may mean that they don't have proper Article IV consultations for three or four years. Disturbingly, there are many such cases, not just a few. Such delays are unacceptable, and they should be a part of our deliberations on a new framework for delayed Article IV consultations. We would like staff to elaborate on the current definition of the program being "off-track" and on possible steps to come up with a timely, clear, and broadly accepted definition of "off-track" programs.

We support the focus in Fund-supported programs on debt vulnerability issue. We agree with staff that a clear judgment on debt sustainability is crucial for program design and support staff's recommendation to sharpen our tool for debt sustainability analysis. It is not a surprise that programs involving debt operations tend to be more successful. We favor more consistent consideration of debt operations in the Fund's programs, subject to a comprehensive cost-benefit analysis.

The report is thought-provoking in its assessment of structural conditionality in Fund-supported programs. One of the persistent challenges in applying structural conditionality in the programs is identifying and addressing critical reforms in non-core areas of expertise. We realize that expanding the programs to the non-core areas and using related conditionality requires extensive cooperation with other multilateral bodies and good understanding of their methodologies and views. We should continue to search for more efficient modalities for close collaboration and design of conditionality in the macro-critical areas less familiar for the Fund. Parsimonious reliance on such conditionality and its well-sequenced tailoring to more traditional conditionality is critical for program success. We also believe that the guidance to staff should call for explicitly and transparently presenting the case for including unusual conditions into the program.

We favor adopting a more formal mechanism for monitoring evenhandedness in designing the programs and applying conditionality. More should be done to address lingering perceptions of the lack of evenhandedness in the Fund's programs. We know that general perceptions of the balance between tailoring and evenhandedness in the use of the Fund's resources tend to be positive. However, in our view, it is essential to address the risks of deviations from high standards in this area. The Fund needs to come up with a better designed monitoring of perceptions. In the area of surveillance, we adopted a formal grievance mechanism, albeit it is not very effective. We should come up with more efficient solutions for both surveillance and programs. For example, multiple references to the possible lack of evenhandedness during the Board discussion of the program could serve as an alert or a trigger for a more in-depth consideration of the program's conditionality. We invite staff to comment on the costs and benefits of adopting a more formal mechanism of monitoring evenhandedness.

With these remarks, we thank staff once again for a set of good papers and look forward to further discussions on possible improvements in the program design and conditionality. We would be grateful to staff for describing the next steps in this direction.

Mr. Inderbinen and Mr. Tola submitted the following statement:

We welcome the 2018 Review of Program Design and Conditionality (RoC) and thank staff for their thorough analysis and the close involvement of the Board in the course of the review. The review highlights the importance of Fund-supported programs in helping member countries solve balance of payments (BoP) problems, achieve macroeconomic stability, and promote sustainable growth. Analysis of this review revealed a mixed picture with regard to program success, as well as a stark increase in the number of programs going off-track. This suggests that there is room for improvement. To this end, it is important to draw lessons from the experience with past programs implementation to ensure that program design and conditionality remain appropriate and are continuously adapted to the evolving nature of BoP problems.

We agree that the Guidelines on Conditionality remain broadly appropriate, but that it is necessary to (i) update the Operational Guidance Note on Conditionality and (ii) deliver on key ongoing and planned workstreams (e.g., MAC DSA and DLP reviews). We broadly support most of staff's recommendations. However, we have reservations about increasing the duration of Fund programs. Also, in the LIC instrument space, we emphasize that safeguarding the self-sustainability of the PRGT is paramount. We have the following comments on specific recommendations:

We support efforts to address over-optimism in program assumptions and to improve contingency planning. It is essential that assumptions, including on the growth impact of in-vestment, fiscal policy and structural reforms, be realistic. Realism is also important to avoid negative confidence effects from missed program targets. The tradeoff between realism and ambition may be difficult to resolve at the outset, given the uncertainty inherent in macroeconomic projections. But better contingency planning could facilitate adaptability while maintaining the coherence of program policies.

Fiscal conditionality should be more granular. This would help to ensure that fiscal consolidation—often an indispensable element of Fund-supported programs—is achieved without unduly hampering growth. To this end, both the composition of measures across different revenue and spending categories as well as the efficiency of individual measures should be enhanced. We caution against an excessive focus on social spending relative to other spending categories and advocate a comprehensive approach in striving for higher quality fiscal spending.

We support continued work to strengthen debt-related Fund policies and tools. We note staff's finding that debt operations have been a key determinant of program success in countries with high debt vulnerabilities. Sharpening DSAs to arrive at clear and reliable judgements is thus crucial. In addition to more realistic assumptions, including on growth and fiscal policy targets, this will necessitate greater debt transparency and a more comprehensive debt coverage, including to account for risks from contingent liabilities. In the context of the Review of the Fund's Debt Limits Policy, we would underline the importance of developing guidance on collateralized debt, given its increasing importance and the related risks.

Parsimony and prioritization in structural conditionality is important. Concentrating reform efforts on the most relevant issues is important, also given political economy constraints and limited implementation capacity in many member countries. Aside from its core areas, we see merit in the Fund building expertise in some critical shared areas of responsibility, notably pension reform as well as labor and product market reform. More generally, however, the Fund should concentrate on issues where it enjoys a comparative advantage and can generate value added.

We have reservations on increasing program length. We concur that it takes time for structural reforms to be implemented and bear fruit. Nonetheless, longer programs are not in line with the revolving nature of Fund resources. A potential extension of the length of EFF arrangements and the initial duration of ECF arrangements should only be considered in conjunction with the introduction of clear safeguards for Fund's resources. We see merit in staff's suggestion of a greater use of successor PCIs, to continue structural reform efforts after the program conclusion.

We support further efforts to strengthen ownership, given its critical role for program success. We see merit in encouraging the development of national reform plans. Close engagement with the authorities, e.g. in developing more granular and focused fiscal conditionality, and accommodation of country characteristics should be helpful in ensuring that program conditions and the authorities' objectives are well-aligned. Improved communication with stakeholders and the broader public also promises to foster buy-in for necessary reforms.

Evenhandedness is critical. We welcome the revamp of the MONA database, which will facilitate comparison and transparency. In order for the Board to assess the even-handed application of policy, it is essential that program documents be explicit on how conditionality, including on structural reforms, relate to program goals. Program documents also need to be transparent on the use of prior actions and the 're-programing' of structural conditions. The revised Operational Guidance Note will need to be explicit to this end.

Mr. Ray and Ms. Preston submitted the following statement:

We thank staff for an excellent set of papers that draw some important lessons for program design and conditionality to improve the chance of program success. These lessons come as no surprise, but we value the rigorous analytical basis from which they are derived.

Our bottom line is that we need to sharpen our focus on what matters in Fund programs, resolving balance of payment problems and restoring stability of members. With that as a priority, we must be more realistic across a number of fronts, not only in relation to program growth assumptions. We need to be realistic about how far political capital will stretch; about the depth of technical capacity in small and fragile states; and about how long reforms really take. We need to think harder about debt restructuring operations and the appropriate sequencing and prioritization of reforms. We regularly weigh up these trade-offs. Staff's analysis shows we haven't been consistently getting these judgements right. Operationalizing these findings, without a change in policy requires a change in culture and approach. In a rules-based institution this will be challenging.

75 percent of programs have had some degree of success. On the other hand, 75 percent of programs have had some degree of failure. Clearly there is room for improvement. We support the definition of success as articulated in the paper. Developing a robust definition for 'program success' is challenging, not least because it is difficult to assess the counterfactual. For example, what would the outcome for a member facing a balance of payment crisis look like without Fund involvement? We also wonder if the definition of 'success' should hold the same weight in all program cases. For example, is it more important to be successful when the program involves a larger financial contribution or greater reputational risk for the Fund? Staff views are welcome. Have programs involving exceptional access been more successful? The definition of success developed in this review should serve as a helpful benchmark of IMF effectiveness and program performance over time. We support its use both in real time and during the next review of conditionality. Could the success of each program be assessed at its conclusion using this framework?

Keep. It. Simple. Program design must focus on what is critical to restoring stability. The most striking lesson for us from this review is that Fund programs are most successful when we get the macro framework right. With that in mind, program design should focus on parsimony and target the minimum number of conditions required to restore stability. We should recall the lessons of program design originating from the Asian Financial Crisis and seek to avoid 'conditionality creep' in Fund programs. Staff's findings show that implementation delays for structural conditions are increasing. Low priority, politically difficult reforms that have limited economic impact risk undermining program ownership and burning constrained political capital.

Not delivering on such reforms can also impact market perceptions of program success.

Programs with small and fragile states must also be tailored and streamlined, with fewer conditions and a focus on what is critical. We are disappointed by staff's finding that programs have been hampered by an excessively expansive agenda which failed to adequately reflect low capacity. Program design must be undertaken with respect to institutional capacity which necessitates a focus on the actions critical for dealing with the balance of payment problem and restoring stability. For this reason, we have reservations about adding to the list of 'must have' program conditions and are concerned that the inclusion of conditions targeted to 'building resilience to natural disasters' (while an important objective) could be at the expense of conditions that are critical to restoring stability in that moment. We would prefer that a judgement-based, country-specific approach is taken including in relation to vulnerability to natural disasters, in line with the 2017 SGN on Engaging Small States. We would seek to avoid a blanket approach.

Realistic program growth assumptions are necessary to improve chances of program success. Staff find that in too many programs, risks are to the downside and that a large majority of programs adopted an optimistic baseline. Doing this understates the adjustment required and the financing needs while overstating debt sustainability. Acknowledging that economic forecasting is a delicate art, we wonder if the revamped MONA database provides an opportunity to better assess whether program assumptions are too optimistic in real time. Would staff consider developing benchmarking tools to help inform decision making, drawing from past successes? More broadly are there 'characteristics of successful programs' gleaned from the MONA database that could help inform program design going forward? Inevitably, global parameters play a role in forecast errors, but we caution against program assumptions being too finely tuned such that they can't withstand some disappointment. Sensitivity analysis should be conducted and the presentation of staff contingency plans in the event of a downside scenario should be mandatory.

Clear judgements must be taken on debt sustainability. Debt sustainability analysis is crucial for program design. Staff find that programs involving debt operations are more successful than those without. We strongly support considering steps for debt operations sooner in program design where debt is clearly unsustainable with the caveats that the private sector must be bailed in and that the Paris Club must be engaged where necessary. Where debt operations do proceed, we should be conscious of the legal complexity and high cost of such operations and should take active steps to ensure the

Fund has the appropriate expertise to assist. We look forward to sharper tools to help mitigate bias in judgement on debt sustainability and ensure more balanced consideration of debt operations.

We share staff's concern that fiscal adjustment has not always been growth friendly, thereby delivering a lower quality of adjustment. But we have reservations about increasing the granularity of fiscal conditionality. This would run counter to the reviews findings on parsimony and would risk undermining ownership. Further, protecting levels of spending does not ensure that spending is either necessary or effective. Major adjustments to the quality of spending often take considerable time to design and deliver and can be politically challenging. We are cautious of demanding that authorities spend political capital on reforming the quality of government expenditure in the midst of a balance of payments crisis. Moreover, we see a potential tendency to overburden fiscal policy as the adjustment mechanism either because the macro-assumptions are not realistic or because other policy levers required to facilitate adjustment (exchange rate flexibility or monetary policy) are off the table.

Lastly, although staff turnover did not feature in the review, we consider this a factor that could also impact program success. A three-year program could involve at least two teams given staff assignments are usually 18-24 months. Different sets of people designing and then reviewing program performance can be problematic, not least for incentives to design a successful program. Staff comments are welcome.

We agree that staff guidance should be updated but ask that the Board has the opportunity to review changes before approval. We are open to a follow-up paper on longer duration of Fund arrangements.

Mr. Gokarn submitted the following statement:

We thank staff for the very candid and comprehensive papers, their outreach to our office and their earlier presentation to the Board. The detailed analysis of program performance, which forms the basis of the recommendations for changes in program design and conditionalities, yields significant lessons for such changes and these have been clearly laid out in the paper. We broadly support the approach and the lessons drawn from the analysis of the variability of performance across programs and look forward to their integration into an appropriately amended framework.

However, we do feel that more elaborate analysis might be useful prior to finalizing lessons. While the analytical groupings used in the exercise are useful, additional value could perhaps be derived from clustering program countries by indicators such as per capita income, region, size, etc. An essential question in evaluating program performance is why a program worked in one country but didn't in a "similar" country. The analytical groupings define similarities in particular ways, but there are other criteria for similarity, which could be exploited in this exercise. Could staff comment?

That said, we broadly agree with staff recommendations with respect to each broad category of conditionalities. We note that conditionalities in the monetary domain are most likely to be met, reflecting ownership and the degree of control over implementation, while those in the fiscal and structural domains face greater challenges. In this regard, the refinement of the fiscal conditionalities framework, with an emphasis on safeguarding social protection programs, for example, is welcome. However, more inputs into the cost and outcomes implications of such programs need to be provided as the Fund's understanding of these deepens. Could staff indicate how learnings from the workstream on social protection will be integrated into the conditionalities framework?

Structural conditionalities clearly face several issues which have emerged from the analysis. Importantly, the sometimes-missing connection between program objectives and structural reform recommendations poses threats to the Fund's credibility and stronger linkages between the two need to be made to increase the prospects for a program's success. Priority and sequencing of these reforms are critical, and we support greater attention being paid to these issues. Can any (or more) lessons be drawn on these issues from the analytical exercise? We also see merit in some flexibility in program timeframes, if warranted by key structural changes being recommended and would welcome a paper on this issue. On the debt issue, while we agree with the proposed approach, we also support Mr. Fanizza's point that an agreement on the bottom-line assessment in the MAC-DSA should not be presumed.

The various trade-offs involved in program design are well articulated in the paper. Realism in macroeconomic forecasts is a key requirement and the suggestion that some pessimistic scenarios be developed to gauge potential program performance. This could be very useful in dealing with some of the other trade-offs. For example, to return to the point about timeframes, these should ideally emerge from staff assessment of how long it would take for the key conditionalities to show results. A standardized three-year duration may be good for perceptions of evenhandedness but does not take into account the several differences across program countries that have been noted in the papers. Regular reviews, in any case, provide a reasonable way to monitor each program.

On the important issue of ownership, the papers provide useful insights. The use of a national economic strategy as a foundation for programs is likely to strengthen ownership, as is greater pre-program engagement with a wide range of stakeholders. In this context, the use of policy support facilities in conjunction with programs, in our view, would help prevent programs from going too far off track. This has the potential to enhance the Fund's "trusted adviser" role, by continuing to constructively engage in a formal and structured way with members even in bad times for a program. However, the resource implications of this need to be taken into account. Could staff comment on these?

We agree with staff on the appropriateness of the Guidelines on Conditionality, which we see as a high-level framework, flexible enough to accommodate periodic changes in the operational aspects of the conditionalities framework. However, as conditionalities encompass a larger number of domains and become more granular, this flexibility may be tested. Could staff comment?

Finally, we welcome a differentiated approach to small states. We associate ourselves with the views expressed by Mr. Rashkovan, Ms. Levonian, Mr. Tombini and others on this issue. Recognizing capacity constraints in small states and designing programs that can work within these is necessary. Parsimony, involving prioritization and sequencing, is key to this approach. Also, building resilience, whether to deal with immediate natural disasters or longer-term environmental threats, should be part of the default program design.

Mr. Tan, Mr. Abenoja and Ms. Ong submitted the following statement:

We thank staff for a candid and thorough set of papers, their extensive work and useful case studies, and outreach. Overall, we found the analysis compelling and the recommendations sensible. We also appreciate the explicit links between the RoC and risks identified in the Risk Report. The pivotal question moving forward is how the high-level findings of the 2018 RoC are translated into operational improvements.

We think Fund programs during the review period have performed reasonably well under the circumstances. Measuring program success and disentangling its drivers is a challenging task, and we welcome that staff has formulated a methodology for doing so. That said, we have some reservations about the use of Vulnerability Exercise (VE) ratings to assess GRA program success given that the VE is relatively opaque and ratings are not available for all countries. Staff's comments are welcome. Since there is an inherently high degree of imprecision here, we would take the results of the methodology as indicative. On this basis, we agree that Fund programs have generally supported members in addressing BOP needs and macroeconomic vulnerabilities, although there is clear scope for improvement. Going forward, we would suggest overlaying the Fund's benchmarks and proxies with a better understanding of how country authorities perceive program success.

It is important that the RoC delivers more guidance to staff on how to manage the trade-offs outlined. The staff assessment points to scope for greater realism, gradualism, granularity and parsimony in future programs. While we broadly agree, the appropriate balance between these competing tensions must be determined on a case-by-case basis, given that country circumstances can vary substantially. The refinements to the operational guidance note should aim to offer staff more guidance or resources on how to make these difficult decisions. Staff's case studies yield important granular insights in this regard, for instance, on the types of product market reform conditionality that have been more effective. On specific trade-offs:

Realism vs. ambition. We note that persistent forecast over-optimism is attributable to global forecasting errors, as well as unrealistic macroeconomic assumptions about the impact of policy adjustment and the trajectory of growth. The former affects both lending and surveillance activities, and we emphasize the need to improve model risk management and refine forecasting tools. On the latter, we agree on the need for greater scrutiny of macroeconomic assumptions. We agree that a greater focus on scenario building and contingency planning can make programs more robust to forecasting errors. Could staff comment on the extent to which overoptimistic baselines might stem from behavioral drivers such as the need to "sell" a program to the Board or to country authorities, and whether and how this can be addressed?

Gradualism vs. speed. There is a fine line between leveraging momentum for change to front-load reforms and overloading a program. As recent experience has reminded us, the appropriate pace of adjustment may not only be dictated by domestic constraints such as capacity and ownership, but also external factors, such as the need for decisive action to restore investor confidence. That said, we agree that in some cases a longer implementation horizon is necessary to facilitate structural adjustment, particularly where reforms require institution-building or have strong socio-political consequences. We are open to considering the pros and cons of longer EFFs via a follow-up board paper. More broadly, we emphasize that beyond speed, attention must be paid to the appropriate sequencing of reforms, particularly structural conditionality.

Granularity vs. flexibility. We are concerned about the finding that fiscal adjustment in programs was often of lower quality than envisaged. In principle, more targeted conditions could steer adjustment in a more growth-friendly direction. However, like Mr. Tombini, we encourage caution in making conditionality overly rigid. Achieving fiscal targets often requires authorities to navigate competing interests, and our sense is that this task is challenging enough without imposing additional constraints on how country authorities should do so. To avoid compromising ownership, it will be critical to ensure that country authorities are fully bought in and closely consulted in shaping any more granular conditions.

Parsimony vs. more conditionality. Members seeking Fund programs typically have pressing BOP needs or limited domestic capacity. In either case, parsimony and pragmatism are key, not only in the number of conditions imposed, but in what the program seeks to achieve. Conditionality should be restricted to those areas that are critical to the achievement of program objectives (e.g. addressing the BOP need). This is also pivotal to reinforcing country ownership.

Like other directors, we appreciate staff's efforts to highlight the issues pertinent to small states. Capacity limitations hinder program performance in small states. We see scope for better tailoring of conditionality and program design in a manner that takes account of these members' capacity and specific circumstances, including their vulnerability to natural disasters, in line with the 2017 SGN on Engaging Small States. This approach is crucial to secure traction, country ownership and successful completion of programs.

Findings of the RoC should feed back into other related workstreams of the Fund. We take positive note that there are synergies between this review and the ongoing work on LIC facilities, the MAC DSA, Fund engagement on social spending, and other workstreams.

Beyond this, the RoC's findings should feed into the Fund's broader research agenda. For instance, the upcoming analytical work on the role of exchange rates in external adjustment can help inform program design, particularly given the findings regarding the composition of external adjustment. Could staff comment on whether there will be further analytical work undertaken, e.g. on fiscal multipliers or the distributional impact of various adjustment measures?

We also see a role for sound HR planning in ensuring program success. We often hear that program design is more an art than a science. This points to the importance of hands-on experience and communication skills. HR policies, including HR incentives and turnover and rotation policies, should be scoped with this in mind.

Mr. Kaizuka, Mr. Saito, Mr. Ozaki and Mr. Komura submitted the following statement:

Lending is one of the three-core pillars of the Fund's work. The Fund needs to improve its effectiveness through regular reviews.

We are of the view that staff made a comprehensive analysis and proposed sensible recommendations in the 2018 RoC. Overall, we support a move toward more realism, granularity, gradualism, and parsimony in programs, while decisions should be made on a case-by-case basis with considering the tradeoffs this report mentions. We also broadly support the individual recommendations in each section.

Based on the newly introduced methodology for candid assessments of program success, the 2018 RoC evaluates that three-quarters of programs achieved some success while one-quarter was unsuccessful. Considering challenging environment after the global financial crisis, we appreciate that the three-quarters resulted in success or partial success. At the same time, the Fund needs to understand reasons behind the success and unsuccess and thereby improve program design and conditionality.

Fund-supported programs are expected to act as catalysts for attracting other funds, instead of relying only on own resources. A next review could assess whether programs have improved over time in terms of the catalytic role.

In the following, we would like to offer some specific comments:

Program Implementation and Completion and Ownership

There is a close relationship between program completion and success. Around 60 percent of unsuccessful programs went off-track. Furthermore, during the 2018 RoC period, the share of off-track programs doubled compared to the last RoC period. We are also surprised at and concerned about significant underperformances in five core indicators of PRGT programs showed in Figure 7. Could staff elaborate on why the performances of PRGT-programs turned out to be less satisfactory?

We consider that insufficient ownership would exist in the background of off-track programs and weak implementations. We appreciate staff's efforts on examining ownership along several dimensions as requested. The staff recommendations drown from those examinations are sensible.

- It is extremely important that programs with well-designed national reform plans have higher completion rates. We support the related recommendation. On top of that, the plans should be internally and publicly well-communicated in countries, as well as well-designed, to become strong foundations for their programs and ensure ownership. Since it is expected to take time to develop them, we consider it important for staff to start discussing at the early stage of programs and even in bilateral surveillance before entering programs for countries with vulnerabilities.

- A relationship between granular conditionality and ownership should be considered for each country on a case-by-case basis. We support a move toward more granularity. However, it is true that there are tradeoffs between granularity and flexibility. In particular, we understand that less flexible conditionality may have adverse impacts on ownership, especially in cases that conditionality touches upon politically sensitive issues. However, we would like to underscore that granular conditionality could be rather preferable in those cases to ensure implementations of politically sensitive but necessary reforms. We ask staff to closely communicate with country authorities in considering granular conditionality.

We recognize staff's efforts for promoting wide understanding of program in a program country to obtain assurances on program implementations irrespective of political developments. Such efforts are important especially for large programs. We highly appreciate and ask staff to continue efforts.

Program design and conditionality should fully take institutional capacity into considerations. We repeatedly underscore the importance of further integration of lending and capacity development of the Fund. In this regard, could staff elaborate more on the associated recommendation, "strengthening analysis of institutional capacity?" Program design and conditionality should always reflect institutional capacity of the targeted countries. In this regard, Figure 18 illustrates that the fraction of off-track programs is high for the political/economic transformation group. On average, these countries would have lower institutional capacity. What would be important specifically for programs in the group to address off-track problems? Does staff consider that early engagement with wide IDIs helps to improve institutional capacity amid political/economic transformations? In contrast, country teams should decide on a case-by-case basis whether a program should reflect political reality, with considering a level of political sensitivities by issues. If policy advice and conditionality excessively compromise with political reality, they may not be economically optimal.

Figure 18 also describes the fraction of EFF programs completed all or most reviews is around 80 percent while one of SBA programs is below 50 percent. Does staff consider that some of the SBA programs were actually involved with persistent structural challenges and therefore should have chosen EFF arrangement?

Macroeconomic Policy Conditionality and Program Design

We note that programs during the 2018 RoC period entailed growth optimism and the optimism significantly affected program success. This report mentions that optimism stemmed from disappointing global growth and commodity prices, the underestimation of fiscal multipliers, and the overestimation of structural reform payoffs. We expect staff's continuous efforts on more accurate projections while we understand the difficulty. Specifically, we encourage staff to conduct within- and cross-country analysis on more accurate estimations of fiscal multiplier and payoffs from structural reforms. In addition, staff reports would need to explicitly mention and explain the validity of those assumptions. In this vein, information about typical assumptions in peer countries would be also valuable for assessing the validity.

We are concerned about lower-than-envisaged quality of fiscal adjustments. It is extremely important that staff's analysis indicates that revenue mobilization in programs for developing countries to underperform, and capital spending often fell short of initial targets with spending cuts often coinciding with shortfalls in revenue and/or grants while higher-than-envisaged revenues were used to support infrastructure investment. In addition, while Figure 7 shows that social spending were well protected but does not tell quality of realized social spending. Against this backdrop, fundamentally, the Fund should try to solve the underperformances of revenue mobilization. Strategies on expenditure and revenue in the medium-term, including MTRS, would be valuable tools on this front. The Fund would also need to analyze and consider preferable sequencing among revenue mobilization measures, taking expected revenues, distributional effects, and feasibility of implementations into considerations. In addition, we agree with staff that more granular conditionality could ensure quality of fiscal adjustments. To complement granular conditionality, staff would need to discuss contingency plans for an optimal fiscal policy response, including an expenditure and revenue balance and a level of capital expenditure and social spending, when revenue shortfalls occur.

The Fund should work on rising debt vulnerability issues, together with other tools, from program design and conditionality. We strongly support all proposed recommendations, including Review of Fund Debt Limits Policy. This report shows that optimistic growth assumptions, contingent liabilities and off budget, and policy slippages including higher non-concessional loan debt, in addition to FX depreciations, higher interest rates, and idiosyncratic factors, are important drivers for disappointing outcomes. In this regard, first, on contingent liabilities and off budget issues, we would like to emphasize the importance of debt transparency. Programs can incentivize for program countries to improve debt transparency, for instance, by publishing information or submitting it to the Fund as prior actions in some recent programs. Second, on policy slippages including higher non-concessional loan debt, we share the staff's view that programs have repeatedly, and maybe excessively, accommodated fiscal slippages and higher debt limits.

Structural Conditionality and Program Design

SCs should be critical and parsimonious. We agree with staff that discussions about prioritization and sequencing among reforms need to be strengthened. We encourage country teams to discuss and explicitly explain prioritization and sequencing among reforms in staff reports. We also ask staff to show in staff reports how program countries utilize technical assistance which would be identified in discussions about prioritization and sequencing among reforms.

It would be valuable if an Operational Guidance Note on Conditionality can describe "where appropriate" more specifically, in recommending "considerations on NPL resolution and related conditionality at the outset." In this vein, the Fund may need to clarify how countries should incorporate NPL resolution reforms among all other financial sector reforms, including recovering financial stability and improving regulations.

While we would not actively request further considerations, we are open to discussions about longer duration EFFs and ECFs if there exist some needs. In that case, the Fund should carefully argue their purposes, expected benefits and costs, comparison between one longer duration programs and a combination of current EFF and ECF and successor non-financial tools, like PSI and PCI, and resource safeguards. As our first consideration, we believe that just lengthening their duration may not be very effective and other complementary mechanisms, especially for enhancing ownership and avoiding that all programs simply choose the longest durations, for example, by introducing norms for duration, would be warranted. In addition, since lending and surveillance are related, there should be a consistent approach in both activities. For example, MAC-DSA could be done over the longer time horizon beyond five years.

Evenhandedness

Transparency plays a critical role in ensuring evenhandedness. Transparency enables the Board to assess whether design and conditionality of each program are established in an evenhanded manner. In this vein, we appreciate staff's efforts on making the MONA database more user-friendly, including the demonstration ahead of the board meeting. In assessing evenhandedness, it is always helpful to go back to the definition. Evenhandedness means that "countries in similar circumstances be treated similarly." We all should keep in mind that it is often the case that evenhandedness is discussed by just considering whether one is treated similarly with others, without carefully checking whether circumstances are similar.

We consider that it is not appropriate to compare access levels between GRA-programs and PRGT-programs in the context of evenhandedness and derive a recommendation to raise access norms and limits for PRGT-programs because they are very different in terms of purposes, applicable countries, financing conditions, and financial structures. We can agree on the increase in access norms and limits for PRGT-programs itself, as long as self-sustainability of PRGT-facilities is maintained. However, the reason why we can support the increase is not because access between GRA-programs and PRGT-programs are not evenhanded but because the increase is needed to avoid access erosions.

Mr. Villar, Mr. Guerra, Mrs. Del Cid-Bonilla, Ms. Arevalo Arroyo and Mr. Montero submitted the following statement:

We thank Staff for the informative set of papers on the 2018 Review of Program Design and Conditionality (RoC) and for their engagement with Directors. We broadly agree with the RoC recommendations and will provide some specific comments and qualifications.

We agree with the overall assessment of program success. However, as discussed earlier this year, shortcomings remain on measurement of success. We consider that beyond the need for more granularity in the definition of program success, judgement could still be required when evaluating cases where follow-up programmes have been necessary. Moreover, irrespective of the type of follow-up arrangement, the increase in the presence of successor programmes (in the GRA) requires additional analysis. We would appreciate staff comments regarding the odds for success of a successor program. Does this point to the need of additional time to implement the structural conditionality agenda?

The degree of program success is tied to the specific circumstances of the given period which includes increased ownership issues and intensified structural conditionality challenges. We notice with interest that those countries undergoing political/economic transformation had the highest success and failure rates. Additionally, we note there has been a large increase in programs that went off-track. While the staff analysis points to the lack of ownership as one of the most important aspects explaining failure to reach objectives, we believe consideration should also be given to the fact that recent programs have included a higher number of structural conditionality, possibly reflecting insufficient prioritization. Staff comments are welcome. On off-track programs, we consider that further use of Staff Monitored Programs could be an option to explore. Also going forward staff can evaluate the possibility of an ad-hoc report to the Board on trends in off-track programs.

We support staff recommendations on increased scrutiny of the realism of program baselines and strengthening the analysis of the impact of program policies on growth. Evidence suggests that the positive effects of growth-friendly fiscal adjustment and structural reforms to boost productivity growth, may require a longer-term perspective. In this regard, we support a more granular approach to fiscal conditionality and quality of social spending, where relevant, to help ensure higher-quality fiscal adjustment. However, flexibility and a case-by-case approach should be taken into consideration.

Achieving fiscal targets with less growth-friendly measures do not set the foundations for a sustainable fiscal stance.

We support further analysis to consider reforms to modernize the review-based monetary policy conditionality framework. We agree with staff that although the implementation of monetary conditionality was strong, this was facilitated by the global conditions during the evaluation period. Monetary conditionality mainly relied on quantity-based targets with limited use of the review-based approach.

Regarding public debt, we believe integrated policy advice and clear judgement are key in program design. Even so, this does not call for over-simplified assessments, but rather, to ensure sound assessment on debt sustainability. This should be taken into account for the Review of the MAC DSA including work to improve the analytical framework, especially by supporting debt transparency, as underlined by the G20. Relatedly, we look forward to the upcoming review of the Debt Limits Policy, including examining possible guidance on collateralized debt.

Caution is warranted when establishing conclusions on debt operations and these should not lead to clear-cut prescriptions given that results are based on a very limited sample of countries. The higher incidence of success in cases of restructuring among countries with high vulnerabilities does not necessarily support causality. In any case, this remains a very delicate issue where perverse incentives, potential impact on multiple stakeholders and contagion effects need to be considered. Ultimately, we would caution against automatism and would support ample room for ad-hoc decision making by the Board.

Structural conditionality is an area with room for improvement. An initial adequate and realistic definition of structural objectives, as well as focused prioritization and sequencing of reforms remains imperative to help build ownership, avoiding reform reversal and fatigue and contributing to success. In general, we agree that, depending on country circumstances and needs, fewer but deeper reforms may yield better and long-lasting results. Finally, we consider there is scope for further analysis in a follow-up paper on a possible longer duration of EFF arrangements.

Ms. Pollard and Ms. Crane submitted the following statement:

We thank staff for the informative set of papers and helpful bilateral outreach and strongly support the recommendations of the Review of

Conditionality (ROC). We particularly appreciate the focus of the review on program outcomes. The methodology developed for this review provides a useful set of data on outcomes, which can be cut in different ways and used to assess trends in the success of IMF programs. We look forward to its ongoing use.

The ROC reminds us that program success depends not just on resolving a country's balance of payments problems but also achieving external viability while fostering economic growth (for PRGT programs progress rather than resolution is key). Thus, as staff note the composition of adjustment is critical and too often unsatisfactory, leading to weaker than expected growth outcomes hindering balance sheet repair.

The recommendations for strengthening program conditionality rightly focus on improving growth-orientation, debt transparency/sustainability and parsimony. We are keen to see the recommendations robustly implemented through clear, specific additions to the Operational Guidelines for staff, with ongoing attention from review departments and the Executive Board to ensure they are fully applied in country cases.

Growth-orientation. IMF programs need to be both realistic about growth prospects, and strongly focused on adjustment policies and structural reforms that can boost growth. We agree that greater use of alternate scenarios and contingency planning can be helpful, and strongly support more analysis of the impact of program policies on growth to improve the realism of baseline projections. Can staff comment on whether there are other tools that could be used to enhance the realism of growth projections, for example through the use of confidence intervals for growth projections, an enhanced internal review process that deploys more cross-country comparisons, or the application of the growth realism tool from debt sustainability analysis?

We welcome the analysis in the report on the quality of fiscal adjustment and agree that improving the quality of adjustment will bolster the growth-orientation of IMF programs. Although policymakers need some flexibility in meeting fiscal objectives, greater granularity to improve the growth orientation of revenue and expenditure measures could be useful in certain cases. We also would like to see a greater recognition that bolstering growth, combined where necessary with improvements in revenue mobilization, can be key to improving fiscal balances.

Public Debt. We strongly concur that IMF programs need sharper attention to debt sustainability. We also believe higher expectations on debt transparency, including contingent liabilities and collateralized debt, are essential to avoid debt surprises, and agree that conditionality, combined with capacity development when needed, could support this effort. We look forward to the upcoming Board discussion of the Debt Limits Policy and the MAC DSA. On debt operations, restructuring should not be approached lightly, but nor should it be avoided if needed to restore debt sustainability even if the evolving creditor landscape makes the path less clear.

Parsimony. We underscore staff's point that fewer, but deeper structural reforms may yield better results. To this end, programs should support a parsimonious set of specific objectives—in fragile states this could be one or two—with tightly aligned structural conditionality. The charts on conditionality in Kosovo and Mali (pgs. 35/36 in the Supplementary Information paper) provide an excellent example of how structural conditionality can and should be conceived and presented. The integration of capacity development information into these charts make them even more useful. We urge staff to consider promoting this as a best practice in the Operational Guidelines, in the service of parsimony. Such an approach could achieve parsimony of objectives, without requiring an arbitrary cut-off on number of conditions. In fragile states, for example, this would allow for a series of small, achievable intermediate steps as program conditions, to build momentum, provided they are tied to deeper, more meaningful reforms.

Ownership. We appreciate the additional analysis on country ownership. Fostering ownership requires difficult judgement calls on when to lean in and when to pause and allow the authorities more time to build the public support necessary to sustain reforms.

Length of program. Staff provide a thoughtful exploration of the potential benefits and risks of longer programmatic engagement through the EFF. We agree that the risks of reform fatigue and the downsides of tying up GRA resources for a longer period must be balanced against the complexity of addressing some structural challenges. We are particularly concerned about the potential for protracted periods of off-track programs. In our view, the combination of a 3–4 year EFF and a follow-on PCI to support ongoing structural reforms seems appropriate for most cases, but we are open to staff doing additional analysis on program length.

Mr. Geadah, Ms. Abdelati and Ms. Choueiri submitted the following statement:

We thank staff for the well-prepared reports and for the useful preparatory discussion with the Board and engagement with our office. We welcome this comprehensive stock-taking of programs in the post-GFC period, and its overall findings on factors associated with program success as well as lessons to be drawn for future design of conditionality. We agree that program design could benefit from more realism in terms of the macroeconomic baseline. We support the lessons drawn and the updating of the guidance note subject to a few points below.

On the issue of ownership and conditionality, we underscore the need to remind staff that "the Fund must be guided by the principle that the member has primary responsibility for the selection, design, and implementation of … policies". Like Mr. Fanizza, we believe that parsimony and focus on the most critical constraining bottlenecks is essential, and staff should make sure that conditionality reflects the actual needs of the country, and that efforts to implement them are not spread too thin. We therefore underscore the staff's lesson drawn to better prioritize structural conditionality, noting that the number of conditions has increased by about one third since the last Review. As noted in paragraph 45, capacity constraints have affected implementation in fragile states, and limiting the number of conditions could allow them to focus limited resources on successful completion of a few key reforms. We also see a need for the authorities to be more involved in the design of structural conditions in order to enhance ownership and program success and look forward to staff's views.

We support staff's emphasis on more realistic implementation timetables and adequate capacity development, where needed, and in particular in the case of fragile states. We associate ourselves with the paragraph on issues related to small states in the Gray by Ms. Levonian, Ms. McKiernan, and Mr. Williams.

We also agree with Directors' calls for more focus on assessing the impact of structural reforms and would like to see future staff attention to this request. In addition, we see a need to emphasize appropriate sequencing. We note that the removal of subsidies is often a large part of the fiscal adjustment, and conditionality in this area should reflect adequate analysis of the impact on affected groups, and appropriate sequencing of measures aiming to strengthen the safety net. We note the limited focus in Fund programs on the quality or effectiveness of social spending, an area we hope will get more attention in the future. We also share the concern regarding shortfalls in capital expenditures leading to lower growth. We would appreciate staff views and whether they consider this an important recommendation worth highlighting.

We support staff's suggestions for more consideration of tradeoffs in program design and conditionality, with a nuanced approach to reach the appropriate balance based on country conditions. We agree with most but not all of the conclusions as presented in paragraph 71. We accept staff's conclusion in favor of more granularity in terms of revenue and spending measures to improve the quality of fiscal adjustment without overburdening the program with excessive conditionality. However, this may not apply in the case of structural conditionality, especially those that are outside the core areas of the Fund, unless the authorities are more involved in the design of the conditions. We see merit in staff flexibility and country involvement in the design of structural conditions, which would promote ownership and program success and also important for the reputation of the Fund as a credible partner.

Regarding evenhandedness, we are among those who have concerns with respect to both conditionality and access decisions. In some cases, there is considerable differentiation between country program documents in conditionality, language, and in access. We believe that further work is needed in this area, which may go beyond the need for adequate program tailoring. The finding that regression analysis explained only 70 percent of the variation in access levels calls for greater scrutiny. We would have liked to see more of these concerns reflected in the report, and specific comparisons of cases with differentiated conditionality, and perhaps some delving into the reasons for high conditionality in some cases.

Regarding the country groupings in Appendix 1, we had previously questioned the grouping of "political transformations", which is now called "political/economic transformation" consisting of 14 programs, including ECF, SBA, EFF, and PLL programs. We wonder if some countries classified under 'post-GFC' may be described as in political/economic transformation, for example Kosovo. One could argue that all commodity exporters and many developing countries in the last column are undergoing economic transformations, at different speeds. Could staff comment on whether they considered alternative country groupings?

We note that debt vulnerabilities did not improve across the board. Staff attributes this to errors in growth forecasts, exchange rate depreciations, or to "higher fiscal deficits and other residual factors." In addition to more realistic program projections, we agree that more accurate debt data, including closer scrutiny of contingent liabilities, and sharpening of DSA tools would be welcome. We also look forward to the Review of the Fund's Limits Policy for further insights.

We welcome the improvement in data dissemination through the expanded access to the MONA database . This will increase transparency and facilitate comparisons, and we welcome staff's commitment to improve the database in response to feedback from users.

We are open to staff preparing a paper on the possibility of longer program horizon beyond a 4 year EFF.

The Chairman made the following statement:

I would like to welcome you to this very important Board meeting, which is the 2018 Review of Program Design and Conditionality.

I am tempted not to say anything, not to waste any time, but I want to stress a few things. It is an important piece of work, and it is the first review that we are conducting since the great financial crisis, so I know that Directors have all participated actively and that the team has reached out thoroughly. I know that Directors have participated in quite innovative ways in addressing those issues, and the team told me that it has been productive and helpful. For those who have joined the Board recently, we have the iLab, which is an innovation lab which groups can access and try to deal with an issue in a slightly different way, in a more informal, and in some cases, productive way. That was the method that was used by the staff and that Directors participated in with great results.

The other thing that I would mention is that the framework that was used to assess, borrowed from some of Directors' suggestions during the informal meetings and borrowed also extensively from some of the work that was done by the Independent Evaluation Office (IEO). We will continue to take into account the IEO's recommendations when it comes to the implementation phase.

The staff representative from the Strategy, Policy, and Review Department (Ms. Koeva Brooks) made the following statement:

I thank Directors for their comments and engagement throughout this long process. Let me turn to the two areas in which there were outstanding questions that we had not answered in the written responses to technical questions. The first one was related to evenhandedness, and then there was a question about the pros and cons of a monitoring mechanism. What we would like to point out is that there are important differences between use of Fund resources (UFR) and surveillance cases, and the former tend to have more frequent Board meetings and faster moving issues than the latter, and this is something that was noted by the Board in the context of the 2011 Review of

Conditionality. Balancing the principles of tailoring on one hand and evenhandedness can also be much more difficult in a UFR context.

The Board plays an important oversight and monitoring role with respect to programs, including issues related to uniformity of treatment and evenhandedness. The approval of a program request or the completion of reviews should provide the Board with frequent engagement, so in this context, the staff do not see the case for additional mechanism given the risk of reducing the flexibility and the speed with which the Fund reacts to a member's evolving needs.

Instead, the Review of Conditionality focuses on measures to support the Board in its existing monitoring function. The revamped Monitoring of Fund Arrangements (MONA) database that has information about programs and periodic standardized reports on ongoing programs will improve transparency and give the Board the enhanced tools to raise any issues and concerns in real time, and really effect change in the program.

A second part of the evenhandedness question was related to how we see the role of the IEO. The staff sees IEO evaluations of past Fund programs as an important external monitoring mechanism for program design and conditionality issues, including concerns about uniformity of treatment. This is consistent with the IEO's broader role in its terms of reference to enhance the learning culture of the Fund, strengthen the Fund's credibility, and support the Executive Board's institutional governance and oversight responsibilities. Evenhandedness has been a key issue of focus for the IEO, and Chapter 3 of its 2014 report on Recurring Issues for a Decade of Evaluation sets out some of the findings in that regard.

The second area on which there was an unanswered question was related to our plans for review of monetary policy conditionality. As the paper notes, inflation was not a major factor or a major issue in programs during the period of the Review of Conditionality, but it has reemerged as a key issue in a number of ongoing programs. In light of this, the staff feels that a comprehensive review of the Fund's monetary conditionality is necessary, and this will be a joint work between the Strategy, Policy, and Review Department (SPR) and the Monetary and Capital Markets Department (MCM), together with other departments, and with planning likely to begin over the summer.

Mr. Palei made the following statement:

I appreciate today's answers in the beginning of the Board meeting. First, I will thank the staff once again for a very good report, for the outreach, for the written answers, and additional answers in the Board, and we have already praised the staff for all the good things they have done in this review. In my comments, I will only focus on the room for improvement, and I will be rather blunt and simple so that everything is clear.

The Chairman is correct that we should not waste this opportunity to review conditionality. It does not happen frequently, and Mr. Mouminah reminded us that it has been a while since we had the previous review, so we do not know when we will have the next opportunity. We might as well say everything today.

The main concern we have is that our work with off-track programs essentially remains a black box, and we should change this unacceptable situation. We have more off-track programs, and the staff provided evidence of this in the review. Currently the MONA database does not offer any meaningful information on the quality of design of conditionality in off-track programs. We do not know whether the problems with these programs are related to the design of the programs or to the ownership of the authorities. We do not find it productive simply to refer to weak ownership, as the staff seems to do in the written answers to questions 32 and 33. When we do not know what the issue is, we cannot just say most likely it is ownership. We should do better than that.

We fully agree with Mr. Kaya and his colleagues that "all off-track programs should be subject to higher scrutiny, including through greater Board oversight." To do that, we need to better define what "off track" means, not just at the very end of the program, as the staff did for the analytical purposes in the review, but in real time. We need to understand when the program is off track, and everybody should agree that we have a problematic situation. We need an operational definition for tracking the programs in real time.

It is not enough to offer Directors to look in the MONA database to find out whether the review is delayed by 6 or 12 months. The staff should monitor and report to the Board on a regular basis so that the Board can properly reflect on the program performance in a systematic fashion. There was broad support for additional scrutiny over the off-track programs, which I believe is not reflected in the summary of the gray statements. In addition to our statement and Mr. Kaya's statement, Mr. Meyer called "for further discussions on how to deal with off-track programs, including through greater Board oversight in the use of Staff-Monitored Programs." Mr. Meyer is an important Executive Director, Mr. Merk is an important Alternate Executive Director, so a large group of Executive Directors associated with this gray statement: Mr. Ostros, Mr. Rashkovan, Mr. Fanizza, Mr. de Villeroché, Ms. Riach, and I probably missed some. There is a broad support to address the issue of off-track programs.

Mr. Merk made the following statement:

We thank the staff for their insightful reports and for the smooth process overall, which was facilitated by the early and continuous engagement on this important topic. Mr. Palei has mentioned that Mr. Meyer has issued a detailed gray statement reflecting a common European view on the Review of Conditionality. I will refrain from rereading our gray statement but would like to highlight a few select points from a German perspective for emphasis.

On the analysis of program success, let me reiterate our appreciation for the substantial efforts that the staff has put into this area despite some remaining differences in views on the specific methodology. We consider this work highly valuable, and we particularly welcome the analytical focus on the statutory goals of Fund programs, as well as the appropriate differentiation between General Resources Account (GRA) and Poverty Reduction and Growth Trust (PRGT) programs. We further welcome efforts to improve the quality of spending and take positive note of the recommendation to use more granular fiscal conditionality.

We also agree that depending on country circumstances and reform needs, better prioritization and streamlining of structural conditions may yield better and more long-lasting results. However, fewer conditions in such cases would need to go hand in hand with an adequate depth and quality of the reforms.

We look forward to follow-up work on improving the tailoring of structural conditions for fragile and small states as well as low-income countries (LICs). Taking note of the staff's recommendations in the realm of PRGT access norms and blending resources, we contend that these issues should not be conflated with the Review of Conditionality and should, rather, be discussed in a separate Board meeting.

With regard to the staff's recommendation to consider longer Fund engagement, we are open to further discussions on the potential benefits and drawbacks. Nevertheless, we remain not convinced that longer Extended Fund Facility (EFF) programs could improve program success, not least considering the rising risk of reform fatigue. We support exploring the use of Policy Coordination Instruments (PCIs) as follow-up arrangements, which should feature prominently in the future discussions.

We agree that the guidelines on conditionality remain broadly appropriate. In this context, given that several recommendations are suggested to result in an update of the staffs' guidance, we would favor rather selective changes to the guidance paper and see merit in a Board discussion on the intended update. For instance, we expect that the high standard for structural benchmarks set in the current 2014 revised operational guidance of the 2002 conditionality guidelines, where "deviations serve as indicators that the Fund-supported program may be off track", will be maintained.

Lastly, regarding the staff's written response to technical question No. 41, in our view, the use of prior actions needs to be driven by the criticality of the respective reforms for program success, rather than alternative considerations suggested by staff, which we interpret as less or weaker prior actions. The staff's comments on that point would be welcome.

Mr. Ostros made the following statement:

I thank the staff for excellent work and for a lot of outreach to our office. This is a model of how we can work with broad workstreams that are complicated and where we can contribute all the way, so my congratulations for the staff's efforts in that respect.

I also think that the report is candid and very interesting to read for stakeholders outside the Fund, and I hope that the publication of the report will spur some discussion, because we do a lot of good things, but this is a complicated field, and there is always room for improvement. I also like that approach.

Clearly adding realism to both our macroeconomic projections as well as program design is a priority area. It is clear that we have had an optimism bias that can be somewhat attributed to the external environment, but it is clear that some of that optimism bias comes from program design issues.

First, we need to be more realistic on the effect that adjustment has on growth, both when it comes to the fiscal multipliers, which we have discussed for many years, but also the risk of overestimating growth impact of structural reforms in the short run. There is room to improve the analysis, and I agree with Ms. Pollard and Mr. Kaizuka that this could be an interesting field to pursue further.

Second, we need to be more realistic on the assessment of debt sustainability. We have done good work when it comes to LIC Debt Sustainability Analysis (DSA) framework. Now we have the DSA for market access countries (MAC DSA) framework ahead of us. This is a good opportunity to change our methodology slightly to be even more realistic in assessing debt sustainability. We support the recommendation of approving conditionality related to transparency and management of debt. That is also important.

Third, we need to be more realistic on the quality of adjustment. It is clear that many countries have been reverting to less growth-friendly policies than anticipated during the program design. Increasing granularity might be beneficial, but we must be clear that that comes with a cost, with less flexibility and maybe risk for less ownership. I agree with the conclusions, but it is not self-evident that granularity will always improve a program's outcome.

We appreciate the challenges that are raised when it comes to implementation of structural reforms and the outcome of the structural reforms, but we do not see lengthening of the programs as a solution to that. Rather, having fewer well-designed deep structural conditions is critical for program success in the programs, as is having more national reform strategies that are connected to the programs so as to get increased ownership, but we do not believe that the length of the program is the key. On the contrary, we should be mindful that program engagement should respect the stabilization objective, and therefore we should not take an overly long perspective when it comes to program length. Perhaps it could be worth considering how we use the post-program monitoring (PPM) to explore how we can promote structural reforms after the program has been concluded. I am struggling a bit with how to connect the PPMs with the PCIs that are also discussed as a way of moving forward, but I would like to hear the staff's comments on that.

When it comes to ownership, part of our constituency's experience is that sometimes there is only a window of opportunity to do things in the beginning of a program, so sometimes there might be a situation where it would be optimal to do fiscal adjustment over a longer period of time, but it is only possible if it is done very early because then the political window of opportunity is open for that, so that should also be considered.

Mr. Lopetegui made the following statement:

Let me first thank the staff for the way this process has been conducted. We have best practices here in terms of how to facilitate Board engagement.

We broadly agree with the recommendations of the paper. Let me emphasize a few points. First, on the methodology elaborated by the staff to assess program success, we are very happy with it, and this should be retained and enhanced going forward. Let me associate myself with Mr. Merk's comments on the methodology.

With about 75 percent of programs achieving full or partial success, the report notes that growth and anticipated public and private balance sheet adjustment fell short of expectations. Part of this is probably due to growth optimism but also to underestimation of the impact of adjustment on growth, perhaps including through fiscal multipliers that were too low or by assuming overly optimistic payoffs from structural reforms. We agree with the recommendation to strengthen the analysis of the impact of program policies on growth, particularly under fixed exchange rate regimes, and to increase the scrutiny of the realism of program assumptions.

On the quality of the fiscal adjustment, we would suggest considering as part of fiscal conditionality performance criteria on the current fiscal balance or a floor on capital spending to help ensure better quality of fiscal policy.

On public debt vulnerabilities, we concur with the staff on the need to sharpen debt sustainability tools, consider structural conditions to improve governance arrangements for the contracting and monitoring of debt, and to review the Fund's Debt Limits Policy, including by providing guidance on collateralized debt. We would be cautious about sending the message that the restructuring always contributes to program success as public debt operations were relatively successful mainly in the small and non-systemic program cases.

On monetary conditionality, I thank the staff for the response, and we support further analysis of this part of program design.

On the structural conditionality, we note that the volume of conditions increased markedly during the assessment period. However, most conditions continue to be low or medium depth with benchmarks in core areas of responsibility dominating conditionality. We also notice the gaps related to critical reforms identified during surveillance, particularly in non-core areas. This raises the issues of correctly prioritizing and sequencing reforms based on surveillance, building expertise in critical shared areas of responsibility, and enhancing collaboration with other institutions in non-core areas.

We welcome that in general Fund technical assistance (TA) was employed consistently with program priorities and country needs, but we also take note that capacity was a key driver of a strong implementation of structural conditions, which suggests the need to further efforts to better align capacity development and program reforms. Still, we note that the reform burden on fragile states may have been too heavy to manage, suggesting that more attention should be paid in those cases.

On the question about the need for longer arrangements in the face of protracted and structural balance of payments needs, we agree that the more gradual approach may work better in some cases, though longer programs may be constrained by political cycles and lead to reform fatigue. A short follow-up Board paper discussing the tradeoffs involved would be welcome.

Finally, we welcome that perceptions of ownership remain broadly positive and that the majority of responders believe that program design was sufficiently flexible. We take note that the survey analysis points to a close link between prior actions and completion rates. We concur with the staff that the SMPs could be a useful option for managing program interruptions and that well-designed national reform plans, effective communication, and more attention to political economy risks could help improve completion rates.

Mr. Castets made the following statement:

We thank the staff for the in-depth analysis of the Fund’s conditionality, which sets good ground for today’s discussion. We particularly appreciated the staff’s thoughtful answers to our written questions. We have expressed our views in detail in our written statement, where we associated ourselves with Mr. Meyer’s written statement, but I would like to stress a few points this morning for emphasis.

The first point is that we remain convinced that the priority of this review should be to find ways to improve the quality of adjustment under Fund-supported programs so as to limit the adverse impact of this adjustment on growth, as this is the best way to increase the chances of program success. To do so, we would see merit in reflecting further on the program's length and on the adequacy of conditionality, and we were also pleased to see in the staff's report some concrete recommendations or options in this regard.

First, on program length, we support the staff's suggestion of a follow-up Board paper to reflect on an increase of the EFF's maximum duration. We have been advocating for the Fund to have longer programs in order to allow more time for gradual and more growth-friendly adjustments and also to allow for macrostructural reform implementation. This would also help to avoid adverse effects linked to the addition of successive arrangements and the political costs of new program negotiations. Nonetheless, we recognize that this is not a silver bullet, and it greatly depends on each member's specific circumstances.

Second, on conditionality, we see a need to further adapt our framework. On creating new floors in order to protect capital expenditures—as Mr. Lopetegui just mentioned—we thank the staff for stating clearly the pros and cons in the written answer to our question. We agree that we must look carefully at the tradeoffs between maintaining flexibility while enhancing the quality of the adjustment. Still, the figures on the impact of the Fund's programs on the level of public investment are alarming, and this could mean a durable reduction of potential growth in the concerned members. We would appreciate if the staff could elaborate on how it will pursue its work on this important issue.

We would be cautious about the idea of creating a ceiling for current expenditure, especially where we encourage an increase in social spending. There could be a contradiction between our different conditions. For example, as regards the teachers' or doctors' salary, we could count those both as social spending and a current expenditure. We are convinced that we have to find a way to better protect social spending even if we have made significant progress on that front. A gradual approach might be adequate, starting with indicative targets, as we have now, and if those targets are missed at several reviews, transforming them into performance criteria could be an option. We would be interested to hear the staff's comments on that idea.

On this aspect of the quality of adjustment, we would support a carefully calibrated target on revenue performances where the staff assesses that there is a larger fiscal potential.

Finally, on structural conditionality, we would insist on prioritization, sequencing, and parsimony. We look forward to the upcoming staff paper on this issue, and we would appreciate if the staff could indicate how this working paper will be articulated with this review. For us, the main issue is the expected impact on growth, and we know how challenging it is to assess that and how it helps in achieving the objective of the program. We will need more discussion in staff's report and will call for building on the work done by the macrostructural units within the Fund.

Mr. Rashkovan made the following statement:

I thank Ms. Koeva Brooks and the whole team for the extensive outreach, which has been exemplary and has helped lay the ground for today's discussion. We have issued a short gray statement, as we associated ourselves with Mr. Meyer's statement, and we broadly agree with the recommendations and find the tradeoffs adequately described. We agree that the 2002 guidelines on conditionality have withstood the test of time and think this review will provide a good basis for the Staff Guidance Note. Let me focus on a few points.

First, on the implementation of the Review of Conditionality, it will be key to ensure that the implementation of today's review duly factors in related workstreams. This week, we have discussed social spending and resilience to natural disasters, and we appreciate that the staff mentioned in Table 2 on the conditionality roadmap that these workstreams should feed into the guidance. However, the operational guidance is operational, and we would appreciate the staff's comments on whether this is the right vehicle to introduce fundamental policy conclusions.

Second, on cooperation with other institutions, ownership is key, but I would like to touch on a different kind of ownership, the ownership of the Fund on the conditionality which is outsourced for good reasons to other institutions, for example, the World Bank—for example, the land reform in Ukraine. Obviously this is a matter for the World Bank, and the World Bank did come up with a proposal for land reform. However, this reform did not address the balance of payments issues, which has warranted the Fund's engagement on land reform. So, yes, the Fund needs to defer where possible to international development institutions (IDIs) or Regional Financing

Arrangements (RFAs) with more expertise. However, it should at all times keep control over the process.

The Fund should ensure that its concerns are effectively addressed. This is what the 2014 operational Guidance Note has to say on this: “Monitoring responsibilities of the multilateral institutions or RFAs should be clearly delineated, while bearing in mind that the Fund bears the ultimate responsibility for establishing and monitoring its conditionality.” We could not agree more and call for further addressing this issue.

Third, on evenhandedness and transparency, this issue ties with parsimony. As several Directors have already mentioned, it is better to have fewer well-monitored conditions than a too-long laundry list. Reasonable parsimony is also a precondition for evenhandedness. Mr. Mozhin requests a more formal mechanism to deal with evenhandedness, and Mr. Mahlinza, Mr. Mozhin, and Mr. Raghani asked the IEO to play a role there. We share these ideas and are interested to debate how to better operationalize evenhandedness.

We should also emphasize that the revamped MONA is a major step that allows comparison, and we want to thank the staff for this. We continue to find it important to open up MONA to the outside world to generate an informed debate among academics and civil society and for our authorities to use it. However, we understand that because of licensing fees, MONA will have a less elaborate interface for the outside world than it will for us. Will this impact the usability of the database for civil society and our authorities? That would reduce the impact of the MONA revamp, and we would appreciate if the staff could elaborate on the cost considerations and the tradeoffs which were made.

Finally, I will say something on debt, program duration, and program success. On debt, we have been clear in our gray statement that we should be up front from the outset of a program on debt restructuring when needed. Questions on debt restructuring should be discussed in depth in a document submitted to the Board when approving the program. We also subscribe to the staff’s suggestions for guidance on collateralized debt when reviewing the Debt Limits Policy, as also supported by Mr. Lopetegui and Mr. Inderbinen.

To reflect on the comments of Mr. Ostros, Mr. Lopetegui, and Mr. Castets on longer EFF engagement, there are different views in the Board, so let us have a debate on the pros and cons. In other words, we fully support further discussions here at the Board.

Finally, on program success, we look forward to having a discussion on the vulnerability exercise in the context of the Comprehensive Surveillance Review (CSR) to better understand the role of judgment.

Mr. Fanizza made the following statement:

I thank the staff for their work and particularly for the intense dialogue they have had with us. It has been productive, and we welcome the result of the review and its recommendations. We associate ourselves with Mr. Meyer's written statement, and I have only one issue and three remarks to make.

The issue concerns process. There is a table which describes the roadmap for the implementation of the recommendation of the review, which makes a clear reference to the fact that the MAC DSA will have a clear bottom line assessment of the position of the country. This has not been decided by the Board yet. In fact, the preliminary discussion that we had showed that Directors had diverse positions on this issue, so I would request that the reference be deleted. I do not want to be taken badly. I strongly support the review. I have three more issues.

First, we all agree that ownership is the key for success of the program. Conditionality is not something that is used to impose policies or choices but has to be used as a tool to build ownership around reforms. Consequently, it is essential that it focuses only on key aspects, big ticket items, as a means to provide a framework and support the authorities in their efforts, rather than indicating a detailed roadmap for reforms, which do not work, as we have seen.

The second point is that we fully share Mr. de Villeroché's views on the limited relevance of the Fund regarding the relation between debt operations and program success. The sample is too small to make a conclusion.

Finally, we are very happy to hear that the review of monetary policy conditionality will take place soon. We worry that the focus on structural policy has distracted staff from focusing on appropriate monetary policy, conditionality, and program design.

Mr. Raghani made the following statement:

Let me start by joining the previous speakers in thanking the staff for the analysis and report. We appreciate the outreach with our office. I cannot agree more with the Chairman and her introductory remarks, that this is a very important exercise, and the IEO recommendations will be helpful in implementing the prescription under this review. We have issued an extensive joint gray statement with Mr. Mahlinza and Mr. Mojarrad. Therefore, I will limit my intervention to a few points.

I would just restate that program performance since the last review has been relatively good, although there are reasons for not being overly satisfied. For instance, there has been a sharp increase in the number of programs going off track. Measurements of program success warrant more reflection and factors behind program success or failure can be further scrutinized. We ask the staff to reflect on these issues for the next review of program design and conditionality, which I agree with Mr. Palei, should come sooner than later.

Second, we broadly support the recommendations laid out in the report to enhance program design and conditionality. Those recommendations address the performance gaps identified in the staff's assessment. Nevertheless, there are areas for fine-tuning and others for clarification.

Regarding the quality of fiscal policy, we have expressed support for the proposal to increase focus on social expenditures. We thank the staff for their response to Question 22, however, our concern is not whether a social spending floor is warranted under PRGT programs. In fact, we strongly favor such conditionality given the focus of PRGT programs on poverty reduction. We could caution against multiple sector social spending targets. More specifically, we are concerned with setting a quantitative floor for each social sector. This can be counterproductive, as we explained in our gray statement.

On structural conditionality, while we understand that the scale of challenges following the global financial crisis can explain the increase in structural measures, the surge in structural conditionality over the period under review and even more recently is concerning. In such a context, we support strictly prioritizing and sequencing structural reforms under Fund-supported programs and based on macrocriticality and drawing on surveillance and TA. The Fund should also better leverage the expertise of other institutions such as the World Bank regarding structural reform.

Finally, we wish to stress the importance of carefully examining evenhandedness gaps in access to Fund resources and in program conditionality, including the overburdened conditionality often facing fragile states. We look forward to the update of the operational Guidance Note on conditionality.

Ms. Riach made the following statement:

I thank the staff for the substantial outreach ahead of this meeting. There is an enormous amount of good work that has gone into this paper and far more than can be reasonably touched upon in a four-minute intervention; so having issued a reasonably lengthy gray statement and having associated myself with Mr. Meyer's statement, I will limit these remarks to one comment and a few more specific points on where we should focus follow-up work.

First in general, I want to emphasize how important conditionality is to the Fund. Ultimately programs and the conditions in them are how most people know the institution, and this drives our reputation. Where programs go well, the Fund's reputation is enhanced, and where they go badly, the Fund's reputation gets tarnished and can take a very long time to recover. Since the Fund's role is to support members when they need help, it will inevitably be lending during difficult times, so expecting all programs to be fully successful is unrealistic. Therefore, the framing of this paper to learn the lessons from success and failure has got to be the right one. We support the conclusions and hope the lessons learned will increase the success of future programs.

This brings me to my second point on where the staff and management need to focus their efforts. These points are all in the paper, but I would emphasize the criticality of taking the optimism bias out of underlying forecasts, including through greater use of scenarios and risk-based approaches, increasing the granularity of fiscal conditionality without undermining the principle of parsimony, and thinking more about the sequencing and prioritization of reforms, particularly in fragile states and those with low capacity.

But follow-up from this review should not just be left to staff and management. Reading of the gray statements suggests that there are at least three areas where further discussion at the Board would be useful. These are: the approach to debt restructuring, which is undoubtedly sensitive, but if we get it right has the potential to have a big impact on outcomes; how we manage off-track programs, where I appreciate the additional information the

MONA database will provide, and I appreciate that we receive information in the work program implementation paper, but like Mr. Palei, I still see scope for significantly more engagement when reviews have been delayed or missed; and longer programs, where the key thing is having the right tools to support countries that ask for the Fund's help. The last few years have shown that there are situations where Fund engagement on persistent structural issues is warranted. We note many gray statements flagged openness to discussing this issue, and I look forward to future engagement at the Board.

Mr. Kaizuka made the following statement:

Let me join the others to appreciate the staff's work on this important issue, and I really enjoyed the constructive and productive and stimulating outreach engagement with us.

Let me the three particular issues, the first of which is ownership. I appreciate the staff's effort to make a quantitative evaluation of ownership, which is very difficult. It is almost impossible. It is understandable that the staff would come up with a qualitative evaluation instead. The important thing is how we can ensure the countries' ownership of the reform program. The existence of the national medium-term strategy compiled by the countries is crucial. In this regard, we welcome the current work on the medium strategy, such as the MTRS, the Medium-Term Debt Management Strategy (MTDS), and the Disaster Resilience Strategy (DRS), which was recently discussed at the Board in the context of natural disasters.

Secondly, on debt sustainability, debt vulnerability issues, I fully agree with the three recommendations of the paper, which include sharpening the DSA tools, improving the governance arrangement for contracting debt, and ensuring appropriate monitoring obligations and review of the Debt Limits Policy, including examination of possible guidance on collateralized debt.

In this regard, we look forward to the substantive discussion in the coming Board item on the MAC DSA and the Debt Limits Policy. I would emphasize that reliable debt data sets and the debt transparency are key preconditions for any of these recommended actions. I would also underscore that together with the debt-related work, domestic resource mobilization and public financial management infrastructure governance should play a mutually complementary role.

Finally, on the longer duration arrangement, we are quite open to further discussions. Having said this, we believe the Fund's existing toolkit, including SMPs or PCIs, would enable Fund engagement with a longer-term horizon. Also, it is not desirable to set a priori longer duration; in other words, duration norm should be a current one, and a longer duration arrangement should be considered on a case-by-case basis, taking into consideration the unique features of particular countries. In doing so, the important thing should be the medium-term reform commitment of the country in the form of a national strategy. Otherwise, the simple extension of the duration could not bring any better fruit.

Mr. Inderbinen made the following statement:

We join others in extending our thanks to the staff for the excellent engagement since January. From the previous remarks, it has become clear that Ms. Koeva Brooks and her team have become something of a standard-setting body in terms of setting the bar for outreach in important issues such as this.

I would like to make comments on two areas. One is on program length, and the other is on evenhandedness and how this relates to the work on the operational Guidance Note that the staff envisages going forward.

Like some other chairs, we would be cautious in drawing conclusions at this stage on the need to extend the length of arrangements both in the GRA and in the PRGT sphere, and we should look quite carefully into the various reasons why successor programs are requested. One obvious reason is the need for more time to implement structural reforms, but there may be other reasons that have more to do with policy slippages or simply with price considerations when considering refinancing options once a program comes to close. We would need to take a good look at these reasons and balance these carefully against the principle of the Fund's revolving resources and appropriate measures to uphold this principle, and Mr. Merk and Mr. Ostros have made important comments in this regard. We also share the comment made by Mr. Kaizuka that there might be alternatives to look at SMPs, the PPMs, and PCIs. That should all come into the discussion going forward.

Second, on evenhandedness, we do share some of the concerns expressed by Mr. Mahlinza, Mr. Mojarrad, and Mr. Raghani, and also by Mr. Geadah, and addressing these concerns of evenhandedness and conditionality is important and will likely remain a constant challenge going forward. As Ms. Koeva Brooks has mentioned in her remarks, one avenue to ensure evenhandedness is through robust Board oversight. Board oversight is based on the documentation that is provided by staff in program contexts, and it is fair to say that program documents are invariably of a high-quality, and they are very readable. Where I do think they could score better is in explaining conditionality and in particular also structural conditionality—for instance, how structural benchmarks are linked to program objectives, what reasons there are for structural conditions not being met or being met under a delayed schedule or being reprogrammed or modified going forward, why prior actions have been requested in certain areas. In short, area departments should be more forthcoming and explicit on how conditionality is set in the context of Fund arrangements. One avenue to achieve this is in the work that the staff will be engaging on in revising the operational Guidance Note, and we would encourage them to take a particular look at the Guidance Note from this angle. That also circles back to the discussion we had yesterday on the importance of the Guidance Note in the social spending sphere.

Mr. Kaya made the following statement:

We thank the staff for the rich analysis presented in the papers and the informative engagement with our office throughout the whole review process. We issued a comprehensive gray statement which is broadly supportive of the methodology and recommendations of the DSA tool. Some caution is warranted when interpreting the results. I would like to add three points.

First, macroeconomic stabilization is at the core of the Fund's mandate. It should be fulfilled impeccably. This entails a timely response to countries' balance of payments needs with emergency financing underpinned by an adequate macro framework, a well-calibrated policy mix to restore investors' confidence, and avoiding lingering adverse effects on a country's growth potential.

We will need to continue our efforts in advancing our expertise in the core areas—fiscal, monetary, exchange rate, economics, debt sustainability, capital flows—based on strengthened financial program, and hopefully a new more integrated policy framework. There is a lot of work to accomplish here, and we are looking forward to the outcomes of all these ongoing and planned workstreams, including the MAC DSA and Debt Limits Policy reviews and the respective Board discussions. The Fund's ability to learn from experience should also be boosted by better defining and addressing the issues of off-track programs.

Second, parsimony is well targeted, and sequenced conditionality is critically important but cannot substitute ownership. Like Mr. Ray, Mr. Tan, Mr. Tombini, and other Directors, we caution against micro-managing on the fiscal and structural fronts. We would prefer to focus also on sound policy roles, especially given the progress made in employing fiscal frameworks and public financial management reforms to achieve better fiscal outcomes and countries' buy-in. We see merit in further reviewing the experience with monetary conditionality and more broadly monitoring exchange rate policies and frameworks.

We support Ms. Levonian and Mr. Geadah's call for greater involvement of the authorities in formulating conditionality. A well-targeted and results-based approach on social spending could also improve outcomes of Fund-supported programs.

Third, the consistent and timely implementation of the review's recommendations, as well as strengthened cooperation with other IFIs, are critical. The proposed roadmap is a technical implementation tool, but as rightly pointed out by the staff and echoed by Ms. Riach and Mr. Ray and other Directors, the implementation will be largely a case of changing the institutional culture and approach, including the HR strategy, motivation, talent management, and others. The outcome of this review will benefit three of the Fund's core pillars, lending, surveillance, and capacity development, which are highly interlinked and reinforce each other.

Ms. Levonian made the following statement:

I thank the staff for the excellent and innovative set of papers and response to questions and outreach. I agree with Mr. Lopetegui and others that this has been a best practice. We issued a gray statement, so I will be brief in emphasizing a few points.

First, as the Chairman and others emphasized, this review is a rare moment for the Fund to comprehensively reflect on the key pillar of its operations. As Mr. Castets and Mr. Rashkovan and others have said, the interconnectedness is important, in particular with lending and surveillance, and capacity development further underscores the importance of this review. In this context, we join others in emphasizing the criticality of incorporating surveillance and TA into program design and conditionality. It is regrettable that the review has uncovered gaps in this process in several instances, but it is positive that the gaps have been uncovered.

Second, similar to the lessons from the 2012 Review of Conditionality, it is disappointing that the Review of Conditionality in 2018 has shown, among other things, an increasing number of programs going off track, a shift toward growth optimism and debt overshooting. Nevertheless, a main positive from the current review is that it has furnished the Fund with an abundance of information on factors that impact program performance. The imperative now is how to draw on these lessons and experiences to improve the design of conditionality.

Third, while we broadly endorse the recommendations, we would like to reiterate the value of tailoring conditionality to country-specific situations and capacity considerations. Once done, we are optimistic that this review and the ensuing arrangements will help to boost policy traction, minimize stigma, and buttress country ownership, all which are key elements for better program performance. Regarding the length of program, I agree with Mr. Rashkovan that there are pros and cons, and we should have that debate.

Fourth, we welcome the review roadmap in Table 2. Updating operational guidance for staff is a necessary first step toward implementing the recommendations, but even more critical will be the staff's adherence to the guidance, and I am curious as to whether this guidance would apply only on a forward basis or if it would also apply to existing programs.

Finally, we see much value in an ex ante assessment similar to the ex post evaluation in the five analytical areas as presented in the tables in the accompanying case studies. We would consider this a useful template to track progress along those broad areas.

Lastly, regarding the off-track programs, I would associate myself with Mr. Palei and Ms. Riach.

Ms. Mahasandana made the following statement:

We thank the staff for the excellent reports and their outreach. We issued a gray statement, so today I would like to make only two additional points. First, we found the recommendations of the review reasonable but quite high-level. Therefore, we feel that implementation will be a key. We welcome the implementation roadmap in the paper, but as other Directors already mentioned, we are looking forward for the operational guidance and support the plan to update operational guidance. In this regard, could the staff comment on whether there are plans to assess how well the Guidance Note has been implemented to date? For instance, have program documents fulfilled expectations for more detailed justifications for conditions outside the Fund's core areas? Have programs effectively made use of floating tranches as an option to combine ownership and flexibility? We would also highlight that the Guidance Note remains a very broad document. It would be important to make available to staff adequate resources to support them in striking the right balance between the risk tradeoff.

My second point is on the work of program design. It is entwined with our mandates on surveillance and capacity development, as has been mentioned by a few Directors. Therefore, we need to consider them as an integrated framework. For example, as the paper has pointed out, program design should draw reference from structural gaps identified in surveillance, but equally we need to consider why country authorities did not already address this longstanding gap before they ran into balance of payments difficulties and what this implied for country ownership. A more coherent root cause analysis of factors affecting surveillance outcomes would inform program design and strengthen reform implementation. Similarly, as the review has pointed out, structural conditions need to be prioritized and well sequenced based on criticality, but equally important is to consider sequencing with complementary capacity-building efforts. Countries would stand a more realistic chance of program success if they had a capacity to implement these measures. It is also critical that the rationale and benefits of structural conditions are communicated clearly to all stakeholders. It is vital to help sustain broad support for an economic program.

Mr. Tombini made the following statement:

I would like to join others in thanking the staff for the exemplary outreach. I welcome the findings of this review. While the overall assessment of conditionality and program design is positive, there are areas of mixed performance that require corrective action. We generally concur with the staff regarding the key tradeoffs in program design, in particular the move toward more realism, gradualism, parsimony, and sharper DSA. We issued a detailed gray statement, so I will highlight a few issues for emphasis.

On the fiscal side, we share the staff's concern that fiscal adjustment has not always been growth-friendly, thereby delivering low quality adjustment. The rigidities in current spending in most countries and lower capital investment contributed to weakened medium-term growth. Further work on the implementation of fiscal consolidation is required to provide clear guidelines, especially among LIDCs. That being said, we agree with the preservation of social spending in program design, yet we believe clear operational guidance is needed to increase its effectiveness. As discussed yesterday, it is important to pay special attention to ways to mitigate the negative impact of program measures, for instance, fuel subsidy reform, especially on low-income brackets. In a related matter, like Mr. Fanizza, I caution against any reference in the report that could pre-empt the ongoing discussion on the MAC DSA.

Regarding the proposal of moving toward more granularity, we suggest that a more nuanced approach, guided by country-specific conditions, be adopted to avoid proliferation and ensure ownership and proper balance with flexibility, a point also made today by Mr. Ostros. In this regard, we associate ourselves with Mr. Mahlinza, Mr. Mojarrad, and Mr. Raghani regarding the need for fiscal conditionality to be strictly macrocritical and relevant to program objectives and extensively discussed in advance with country authorities to reflect their views and ensure full ownership.

Given the increasing complexity of the structural reforms agenda and its protracted nature, especially in the post-global financial crisis context, prioritization and sequencing become ever more critical. The staff will likely play a very constructive role by presenting a menu of options with estimated payoffs and optimal sequencing, but it is key to have the authorities in the driver's seat to retain ownership in this important area.

We appreciate the focus on the specific issues related to small states and countries in fragile situation. While program design conditionality should always take proper account of capacity constraints and the specific circumstance of those countries, this approach is of the essence for program success.

Relatedly, we appreciate the progress on building resilience to natural disasters and look forward to the implementation of the Board-endorsed IEO recommendation on IMF engagement with fragile states. We reiterate our call for Board oversight in the use of SMPs, particularly if the use will be scaled up. Our main concern is ensuring that SMP conditionality is not as demanding as the upper credit trance (UCT) level conditionality.

Mr. Jin made the following statement:

We welcome the 2018 Review of Program Design and Conditionality and thank the staff for the candid and objective discussion of their findings. In addition to our gray statement, I would like to make three more comments.

First, political economy risks, including the impact from election cycles, as well as member countries' capacity constraints, should be more deeply taken into account in program design. A better assessment of the political feasibility of policies, recommendations, and efforts to solicit consent from different political groups will be helpful to increase traction and program success.

Second, a more systematic assessment of interaction between fiscal consolidation and debt limits and growth of a country is needed. Extensive fiscal consolidation and too-rigid debt limits in lending conditions may lead to excessive deceleration of growth and, consequently, higher unemployment and social unrest. Productive spending and consumption spending need to be clearly distinguished when designing program conditionality.

Third, guidelines regarding collateralized debt in program design should be made on a project-specific basis. For collateralized debt which is backed by a project's own revenues and/or does not have an adverse impact on the member country's repayment to the Fund, undue limits or restrictions that will crowd out productive financing should be avoided.

Mr. Rosen made the following statement:

The United States agrees that this Review of Conditionality is one of the most important policy reviews as it goes to the core of the Fund's mission to stabilize economies in challenging times and to foster economic growth. We congratulate the team on this report. It is forthright on both the many successes as well as some of the shortcomings of Fund programs, as Ms. Levonian has already mentioned. A key conclusion of the report is the need to improve the growth orientation of Fund programs. As Mr. Castets and Mr. Tombini pointed out, program conditions need to promote more growth-friendly fiscal adjustment and focus on structural reforms that will lead to the greatest impact on economic growth. We would add that targeting programs that raise overall median income is also critical so that the benefits of growth are shared as widely across the population as possible.

We urge particular attention to how program conditions can support private sector development, and we agree with the report's finding that labor, product, and financial market reforms should play a central role. We would emphasize improving regulatory reform to improve the ease of doing business and to maximize the growth prospects for the private sector of the economy. We encourage the staff to leverage the knowledge and expertise of the multilateral development banks in these areas. We agree with Mr. Merk that prior actions can be important as a precondition to programs and should not be discarded at this stage.

We agree with Mr. Ostros regarding debt sustainability. We welcome the attention in the review to the need for careful debt management and greater attention to debt transparency to avoid debt surprises. We look forward to the upcoming review of the DSA and Debt Limit Policy, where we can focus in greater detail on how Fund conditionality can better support improvements in debt management.

We would also underscore the importance of tackling corruption in cases where it is macrocritical. I note that governance conditionality was covered only lightly in the paper. Anti-corruption needs to be front and center in many Fund programs, given its dramatically negative impact on growth.

On lengthening of the programs, we are open to examining this but are cautious, like Mr. Merk, regarding whether this will lead to more positive outcomes. This review has highlighted that structural issues can take time to address. We agree with Mr. Merk and others who stress that focusing on fewer but deeper structural reforms may yield stronger benefits. We believe that it is critical that program conditions are reduced in number to only those that really move the needle and are made much clearer to the program country.

Mr. Mahlinza made the following statement:

I thank the staff for the comprehensive set of reports and their outreach. We issued a joint gray statement with two other Directors and would like to emphasize a few points. First, the 2018 Review of Conditionality represents an important milestone in an effort to improve the performance of Fund-supported programs. The recommendations of this review should help us see improved outcomes on program performance in the main. For this reason, we broadly agree with the recommendations and the key tradeoffs with some caveats, as outlined in our gray statement. Like others, we agree with the need for increased scrutiny of macroeconomic baselines and better contingency planning.

On the use of more granular conditionality, we are of the view that while this may improve the quality of fiscal adjustment, this should not come at the expense of parsimony and loss of flexibility. In this regard, we agree with Mr. Tombini that granular conditionality and respect of spending targets could potentially undermine policy independence and, hence, compromise program ownership. Furthermore, we agree that conditionality should be relevant to the program objectives and discussed extensively with the authorities to ensure ownership. This also applies to structural conditionality where pace and sequencing should be considered.

On debt, we support the proposal to sharpen the debt sustainability tools, as well as the introduction of structural conditionality to enhance debt negotiation capacities where needed. We look forward to the review of the Debt Limits Policy, including the proposal to examine guidance on collateralized debt.

We would also like to express our appreciation to the staff for their efforts in highlighting issues concerning fragile states and small states. We agree that there is scope for better tailoring of conditionality and program design to take into account their specific circumstances and help them achieve more success with Fund programs.

Finally, we want to underscore the need to carefully update the guidelines on conditionality in line with their recommendations, taking into account the concerns and nuances brought up by Directors in this discussion. In view of the nature of the recommendations, we strongly agree with the staff that their implementation will require a change in culture and approach; hence, implementation will be crucial, and more effort should be put into thinking about this going forward.

Mr. Geadah made the following statement:

We thank the staff for the comprehensive documents, valuable analysis, and the outreach. I thought the papers were very good, and my appreciation goes to those who worked on it. We also appreciate the staff's written responses and the many insightful points made in the gray statements. We agree that ownership is a key factor for program success. However, it is very difficult to measure ownership, and I am not sure that using program completion as a measure is very useful. Perhaps at some point we can look more into what constitutes strong ownership.

Several gray statements inquired about the reasons behind having a large number of off-track programs. The staff attributes it possibly to weakened ownership. Like Mr. Lopetegui, we wonder if the increase could be related to program design, including forecast errors. Mr. Villar also asked if the numerous conditions, which could reflect insufficient prioritization, could explain failure to reach each the objective. The staff acknowledged that it is difficult to judge whether a specific set of structural conditions were genuinely critical for program success.

We wondered if there was sufficient attention to political, social, or legal realities. I agree with Mr. Palei's comments with regard to monitoring of off-track programs. We appreciate the staff's candor in highlighting that the observation that the large majority of program objectives were in line with program conditions and vice versa must be treated with caution. Program objectives are typically stated in very broad terms. We hope that the Guidance Note will say that the overall objective should be well spelled out and each condition justified by providing its objective and criticality. We also expect to see more prioritization and streamlining of conditionality going forward and hopefully a significant reduction in the number of conditions.

Like Ms. Levonian, we would like to see greater early engagement of the authorities in setting conditionality. Although the current conditionality guidelines say that the primary responsibility for the design of a program lies with the authorities, there have been at times inadequate justification for the proposed conditions or its formulation.

We agree with those who call for an independent evaluation for monitoring evenhandedness. We realize that this is a difficult subject but it is important given differences in conditionality and access.

With respect to fragile states, we welcome the responsiveness of staff in updating the guidance on analyzing institutional capacity and better tailoring conditionality. Finally, we are still not clear on the country classifications in Appendix 1 as part of the responses to Question 10. It would have been useful to have the criteria spelled out.

Mr. Mouminah made the following statement:

I thank the staff for the excellent work on the 2018 Review of Program Design and Conditionality and for their outreach. It is one of the best and highly appreciated engagements. As indicated in our gray statement, I broadly support the staff recommendations to improve program success and reduce risks. I would like to highlight some of the points we have raised.

First, on the review process. Since the last review was completed almost seven years ago, I suggest that the staff may consider a similar approach to the surveillance review and conduct an interim Review of Conditionality, and in this light, I welcome ongoing improvement of the MONA database and look forward to periodic reports to the Board to ensure transparency and facilitate the monitoring and comparison of the programs. It is a very good step that we started this, and extremely positive in terms of transparency, but we can improve it together. Some of the points that have been raised by Mr. Palei are a good starting point.

Second, on the review findings, I commend the staff for their efforts to develop a methodology for the assessment of the program's success. I take note of the staff's conclusion that three quarters of the Fund-supported programs achieve some success. Like other Directors, however, caution is required when drawing conclusion on the overall success given the limitation of the new methodology. Like Mr. Ray, we proposed including in the methodology a weighted analysis to assess the program success on the basis of access. In this vein, we share the concerns expressed by Mr. Palei regarding the absence of a formal definition of off-track programs, and I join him in calling on the staff to address this gap. We want a proper understanding of the reasons why the program that went off track to prevent other programs from going in the same direction. This is the essence. Other than just talking about the number of successes, how do we bring the others and have a deep understanding of what are the causes and bring them to be success?

Third, on the proposal to lengthen the EFF, we have different views, but I remain to be convinced given that longer duration can exceed traditional electoral cycles and often trigger reform fatigue and may impact the revolving nature of the Fund's financing. In my view, and as review has shown, what is more important for program success is countries' ownership and the authorities' commitment to reforms and the ability to implement them. Prior action, excessive conditionality, or lengthening the program is not the solution for success of the program. The staff's recommendation of ensuring a well-integrated national reform plan as an anchor for a Fund arrangement is welcome and appreciated.

This may entail a deep analysis of the governance model, including institutional and political capacity to deliver the program objectives in a realistic timeframe and timetable with periodic internal reviews at the authorities' level. This is the essence of making sure that there is an understanding of program ownership at the authorities' level.

Mr. Ray made the following statement:

We issued a gray statement, and I will let it stand for itself. I am intervening last because I promised the staff I would say nice things about them, but I am hardly alone in that. This is an excellent set of papers, as everybody has said, and an exemplary process, including consultation with authorities, as well as with the Board. We greatly appreciated and enjoyed the constructive outreach on an interesting and intellectually challenging topic that goes to the heart of the Fund's business. We also appreciated the staff's efforts to answer the questions posed in gray statements, and I believe the staff answered every question one way or another before we started this morning's discussion, and that is excellent.

The other thing that we appreciated was that the Board's views were garnered throughout the process, and they have been reflected in the final product, and that is why I think the staff is getting all the plaudits they are getting.

Picking up on Mr. Palei's intervention on this issue, we acknowledge the recent efforts to enhance reporting on potentially off-track programs. We too were pleased with the inclusion of the table on the work program implementation update and saw it as a useful first step to improve transparency around program progress. But listening to Mr. Palei this morning, we agree that it would be worth investigating whether more could be done to improve Board oversight.

I have a few points on tailoring. On fiscal granularity, we have some reservations about increasing the granularity of fiscal conditionality and would prefer that authorities retain flexibility. This will be consistent with the review's findings on parsimony and ownership. Major adjustments to the quality of spending take considerable time and often take considerable political capital, and we are cautious of demanding the authorities spend political capital on reforming the quality of government spending and in the midst of a balance of payments crisis.

Similarly, on conditions for natural disaster resilience, we acknowledge that in certain cases they would be program critical, including around the level of reserves, but we are hesitant to call for them to be included in all programs where a country is prone to natural disasters. I come from one, and in the highly unlikely event that Australia comes to the Fund with a balance of payments need, the last thing we would be worried about would be natural disaster resilience.

Our bottom line is that we need to sharpen our focus on what methods in Fund programs result in members' balance of payments problems and restoring stability, and with that as a priority, we must be more realistic not just about growth assumptions; we need to be more realistic about how far political capital will stretch, about the depth of technical capacity in small and fragile states, and about how long reforms actually take.

We agree that we need to think hard about debt restructuring operations and the appropriate sequencing and prioritization of structural reforms. Operationalizing all of this without a change in policy will be challenging. It is not just a matter for authorities and the staff. It is also a matter for those of us sitting around this table. We need to be more willing to ask hard questions of one another and hold each other to account.

Mr. Villar made the following statement:

I start by thanking the staff for the informative set of papers and for their outreach and the responses to the gray statements. We agree with the overall assessment of program success, and we notice that there is a bias toward overestimating roles that may lead to overcompliance in external adjustment and undercompliance in fiscal adjustment. We support the staff's recommendations about increased scrutiny of the realism of program baselines.

We also agree on the importance of strengthening the analysis of the impact of program policies on growth. Everything suggests that the positive effect of growth-friendly fiscal adjustment and of structural reforms may require a longer-term perspective. In that context, we concur that there is scope for possible longer duration of EFF arrangements. However, it is clear that this will require further analysis in a follow-up paper to discuss the pros and cons of this possibility.

The increased presence of successor programs and the large increase in programs that went off track are sources of concern. As mentioned in our gray statement, going forward, the staff could evaluate the possibility of an ad hoc report on trends in off-track programs. Their increase may be associated with the fact that the recent programs have included a higher number of structural conditionalities. Indeed, structural conditionality is an area with room for improvement, including by redoubling efforts to prioritize conditionality based on criticality. We agree with the staff that depending on country circumstances and needs, fewer but deeper reforms may yield better and long-lasting results.

On the monetary policy, we notice that ceilings for monetary aggregates continue to dominate program conditionality despite more countries evolving toward more flexible operational targets and forward-looking policies. We support the staff proposal to review experience and consider reforms to modernize the review-based monetary policy conditionality framework.

Regarding public debt operations, the staff's document shows that they tended to be associated with greater program success but mainly in small and non-systemic program cases. This does not call for oversimplified assessments but rather as proposed by staff, to ensure sound assessment on debt sustainability through sharpening debt sustainability tools.

We also agree with the staff proposal to consider structural conditions for improving governance arrangements for the concept of debt and ensuring appropriate monitoring of obligations, including closer scrutiny of contingent liabilities. Relatedly, we look forward to the upcoming review of the Debt Limits Policy, including examining possible guidance on collateralized debt.

Mr. Gokarn made the following statement:

We join others in thanking the staff for an excellent set of papers, the very useful and deep outreach, and their answers to questions, and for the introductory remarks as well. We issued a gray statement but would like to emphasize three points.

The first is on process, and we appreciate the case for taking full advantage of this review given the relatively low frequency with which reviews occur, and that is natural because we need to accumulate evidence before we can make a review, so we need a reasonable length of time. At the same time, there are parallel workstreams that are feeding into this process. We have just heard a number of references to them, whether it is the MAC DSA, Mr. Fanizza, Mr. Tombini talking about not pre-empting the conclusions of those reviews. The working paper on structural reforms will be very important in shaping our views on how these fit into conditionality framework. Yesterday's discussion on social protection clearly provided some inputs as well. There is an ongoing series of inputs which somehow need to be built into an evolving conditionality framework even before the next review is formed. We need to be able to balance this framework with the new inputs that keep coming in, and from that perspective, the view on the guidelines for conditionality we expressed was that it is a high-level framework that is flexible enough to accommodate these continuing inputs. That is something we need to emphasize.

The second issue is about the duration of programs. We are supportive of a position that allows for more flexibility in this regard. In a sense, duration is also endogenous to program design. It is not something that can be imposed externally and then design other conditions or lay out other conditions around it. From that perspective, we would like to see a little more thinking on whether more time will contribute to the success, particularly given the increasing importance of structural conditionalities, which are clearly very difficult to predict in terms of implementation, outcome, reflecting all number of country-specific conditions.

The third point I would like to make is on small states, and we appreciate the differentiation that is coming into this discussion, the recognition that different countries have different capacities to implement programs. In this context, small states, fragile states, these various categories, the importance of parsimony, of prioritization of structural reforms, of sequencing and resilience—all of these are important features that can be built explicitly into small state programs.

Mr. Daïri made the following statement:

I join other Directors in expressing our appreciation to the staff for the excellent set of papers and their exemplary outreach and comprehensive responses to Directors' questions. We issued a detailed joint gray with Mr. Mahlinza and Mr. Raghani in which we agreed with the staff's recommendations and the tradeoff in particular. I will therefore limit myself to a few points.

I see room for improving how to assess program success. We need to concentrate more on outcomes in terms of overall improvement in economic and social indicators rather than on implementation of conditionality. In this regard, I agree with Mr. Palei and Mr. Mouminah and other Directors on the need to strengthen MONA to enable improved assessment of program implementation, which should not be limited to implementation of conditionality but should also be extended to progress made toward reaching program objectives.

I agree with Mr. Fanizza and Mr. Kaizuka that conditionality should aim at improving ownership, which is the critical element for the success of any program. While difficult to assess beforehand, ownership would be strengthened if sufficient involvement of the authorities at an early stage is ensured at the level of the program design and related conditionality, including through consideration of alternative scenarios and policy options, as well as the constraints facing the authorities.

We do not agree that the Board can effectively ensure evenhandedness in its decision making process at the current juncture. After all, Directors cannot have full information on all previous program approvals and reviews at any point in time. Moreover, it will be difficult for them to assess which countries are facing similar circumstances. For this reason, we see merit in considering IEO involvement in this area, the same way the IEO did the assessment of evenhandedness in Fund surveillance, although we have some problems with the process, which does not seem to be efficient.

Finally, I agree with Mr. Fanizza and Mr. Tombini as well as other Directors on the need to avoid prejudging the outcomes of the MAC DSA.

The staff representative from the Strategy, Policy, and Review Department (Ms. Koeva Brooks), in response to questions and comments from Executive Directors, made the following statement:

I thank Directors for the follow-up questions and comments. I will try to address as many of those as possible, and if I miss something, I am happy to follow up bilaterally afterward.

On the off-track programs, we heard Directors' views, and we will need to reflect on how to respond to it. We see scope for the MONA database to be utilized in that respect and to provide reports which are clear so that one can see how delayed programs are. That being said, we do not have a legal definition of what constitutes an off-track program. But ultimately with more information, and standardized information, that should allow the Board to request briefings, including from the area departments where some of those programs are.

Second, I just want to clarify that there is no intention to preempt the DSA review or any other review. We would be happy to take another look at the language subject to the Transparency Policy to ensure that we do not give that impression.

There was a question about the role of prior actions and how we see those. Ultimately those are important for the success of the program at the onset, but ultimately the overarching principles are ownership and parsimony, and this remains so.

There was a question about how we see the use of the PPM as opposed to the PCI. They both happen and could happen after a program that uses resources. The PPM is mostly to safeguard Fund resources, and it is used in cases where there is high access. When it comes to the PCI, the simple way we think about it is that it is a program without the money. It is really a macro framework, and conditionality and could be a very useful commitment device for the authorities to continue the reforms that they had started or to have the Fund's expertise in order to do that. We have seen cases of this in Serbia and Seychelles.

The remainder of the questions were in one way or another related to the operational guidance that we plan to prepare. The first one was about fiscal granularity and how it would be implemented. We acknowledge that there are important tradeoffs here, and we are certainly not arguing for this granularity to be applied in every case. Exactly how it would be applied is the issue we will take up in the operational guidelines, including through good examples of how that could be done. The input from the other reviews, the social spending review for instance, is another area we plan to bring into the operational guidelines.

We also take the point about the importance of formulating conditionality in a clear and transparent way, and this is an area in which we do plan to follow up in the operational guidelines, similarly with further guidance on structural conditionality, drawing on the workstreams that we have on the impact of structural reforms and the working paper, which was referred to in our answers.

But ultimately what we will strive to do with the updated operational guidelines is to prepare what we would think of as a menu of how to do a good program, which in some ways is quite different from the current version, which is more process-oriented. It is an ambitious undertaking, and it may take us a bit of time, but we will consult along the way, and as is the case with all Guidance Notes, they are ultimately shared for information, but any Board member can request a meeting to have it discussed further.

The Chairman asked the staff to comment on how the work on the operational guidelines would coexist with other workstreams that were underway.

The staff representative from the Strategy, Policy, and Review Department (Ms. Koeva Brooks), in response to questions and comments, made the following statement:

> This paper was probably the one that was started furthest back in the past. It was started more than 18 months ago. It has been written by a large team of about 30 people. We have had links to pretty much every single one of those other workstreams. For example, we had a member who was also working on the MAC DSA, one who was on the social protection workstream, and so on. This has been one way to make sure that we talk to each other, and we are working toward the same goal.
>
> In that sense, this review provides the framing and the motivation for much of this work that the Board will see in the coming months, but we will continue to ensure that we are building the same house.

The staff representative from the Strategy, Policy, and Review Department (Mr. Steinberg), in response to questions and comments from Executive Directors, made the following statement:

> There was a question on the MONA. Before I get to that, I would like to thank all Directors for their collaboration throughout the process. It has been very helpful, and it has been a long process as well.
>
> The question was whether we were going to make the MONA available externally. As of now, the full MONA database has been and will be available externally. It is just not very usable. It is an Excel spreadsheet. We are working on making it available externally, but visualizations will be somewhat different under different software and also because there are different security requirements for each one of these. We are working on making it available externally. There is no intention to make it only available internally. The new visualization that we have internally, which we find to be very useful, will eventually be made available externally, only slightly different. The timetable will be slightly different as well, and that will also require slightly more resources. Thank you.

Mr. Castets made the following statement:

> We would like to follow-up on three aspects where I am not sure I heard the staff's answers. The first one is on capital expenditure protection. It is a key issue for our chair, so I ask the staff to elaborate on how it will pursue a discussion on this aspect.

Second, we ask the staff to reflect on the difficult issue of how to better protect social spending and this idea of transforming indicative targets into performance criteria when indicative targets are missed several times in a row.

The third aspect is on structural conditionality. It will be helpful to understand how this work paper will fit into our discussion. It is not very traditional to have a working paper coming into a review, so it will be helpful to understand how this will go together.

Mr. Palei made the following statement:

Ms. Koeva Brooks was very clear in her answer that we are going to address the issues related to off-track programs, and I understand there was broad consensus. On the next steps, I understand it will be reflected in the summing up, but the staff wrote an excellent paper, and it is very clear, and there is table 2, called the 2018 Review of Conditionality roadmap. Mr. Kaya in his gray statement suggested that dealing with off-track cases should be added to this roadmap. However, we have a strict Transparency Policy. We cannot really amend the text of the papers. Maybe the press release should include this reference somehow in addition to the summing up.

Mr. Rashkovan remarked that the visualization of MONA was useful. He encouraged Directors to pay attention to the accuracy of the underlying data before making conclusions.

The staff representative from the Strategy, Policy, and Review Department (Ms. Koeva Brooks), in response to further questions and comments from Executive Directors, made the following additional statement:

On capital spending, one option would be to use floors on capital spending. What we are trying to be careful about is not to say that every program should have that, so specifying under what conditions it makes sense to go down that route, because that would mean less flexibility in other areas. this is the type of example that one could develop further in the operational guidelines.

On the social spending and moving indicative targets to performance criteria, this is a complicated issue. Moving from indicative targets to performance criteria, one has to be careful about to what extent these are measurable and can be presented in a way that will not run into issues of misreporting. Guidelines on how to do this and under what circumstances it would make sense to do this would be provided in the operational guidelines.

On the structural conditionality, I would not want to overstate the importance of this working paper. It is just one working paper together with many others, there is a lot of work on this issue of the payoffs from structural reforms. What the operational Guidance Note could do, for instance, is provide references and have a catalogue of places that teams could go for the available information. It can provide examples from other countries, and what the empirical results show from that analytical work.

The following summing up was issued:

Executive Directors welcomed the first comprehensive stocktaking of the Fund's lending operations since the 2008 global financial crisis. They noted the finding that three-quarters of Fund-supported programs had achieved success or some success, despite the extremely challenging post-crisis environment. Directors agreed that there is room for improvement, drawing lessons for future program design from success and failure and case studies. They broadly agreed with the findings and, with some caveats, supported the key recommendations, some of which would require further discussions in the upcoming reviews of relevant Fund policies.

Growth optimism

Directors shared the assessment that growth assumptions were often too optimistic, driven largely by global forecasting errors and the underestimation of the impact of policy adjustment and overestimation of structural reform payoffs. Directors thus welcomed the proposals to increase the scrutiny of baseline assumptions, deepen the discussion of risk scenarios, and improve contingency planning in program design. While inflation was not a major issue during the period, Directors supported exploring reforms to modernize the review-based monetary policy conditionality framework.

Quality of fiscal adjustment

Most Directors saw room for more granular fiscal conditionality, particularly capital spending floors or revenue targets, to help improve the quality, composition, and growth orientation of fiscal adjustment. At the same time, they stressed the need to retain sufficient flexibility and take due account of member countries' implementation capacity. Where relevant, Directors also supported focusing on the quality of social spending and prioritizing structural conditions on social issues. They favored taking a case-by-case approach and streamlining conditions to maintain parsimony. Directors emphasized the importance of close collaboration with other international financial institutions, as appropriate, and of early engagement with country authorities, which would also help strengthen ownership.

Public debt

Directors welcomed the comprehensive analysis of debt vulnerabilities, which were a key concern during the review period. In cases of high debt vulnerabilities, the review found that, based on a limited sample, programs that included debt operations tended to be more successful than those without such undertakings, but mainly in small and non-systemic cases. While the positive impact of debt restructuring on program outcomes could not be generalized, Directors saw a need to mitigate bias in judgment on debt sustainability and to carefully evaluate, on a case-by-case basis, the costs and benefits of debt operations. Directors also noted various factors at play in programs that experienced a large overshooting of public debt, most of which went off track. They welcomed ongoing efforts to improve debt transparency, strengthen data reporting capacity, and sharpen debt sustainability analysis (DSA) tools. For PRGT-supported programs, enhancing domestic resource mobilization and the quality of investment is also important, which could help strengthen the Fund's catalytic role in mobilizing external concessional financing. Directors looked forward to further discussion of debt-related issues in the context of the reviews of DSA for market access countries and of the Fund's debt limits policy, including plans to update guidance on the treatment of collateralized debt in the program context.

Structural conditionality

Noting the marked increase in the volume of structural conditions, Directors called for further prioritization of reforms critical to specific program objectives to ensure both the parsimony and depth of structural conditionality. They agreed that the selection of conditions should be informed by structural gaps identified in surveillance and technical assistance, and involve collaboration with relevant institutions. A number of Directors called on the Fund to continue building expertise in shared areas of responsibility such as labor, product, and financial market reforms, which are key to competitiveness and private-sector-led growth. Some Directors felt that the Fund should further strengthen cooperation with other international institutions, notably the World Bank, on emerging issues such as governance and anti-corruption.

Given difficulties with implementation of structural conditions, Directors stressed the need for more realistic implementation timetables and estimates of reform payoffs. Most Directors welcomed, or were open to considering, the proposed follow-up paper to explore the case for longer-duration arrangements in the General Resources Account (GRA) for members seeking to address large and persistent structural challenges, along with appropriate measures to safeguard Fund resources. Some Directors expressed concern that longer engagement could increase the risk of reform fatigue and undermine the revolving nature of Fund resources. Directors generally saw merit in greater use of successor Policy Coordination Instruments to support ongoing structural reforms.

Ownership

Reflecting the lessons from case studies, Directors highlighted the benefits of anchoring Fund-supported programs with integrated national reform plans and improving two-way communication to support broad public buy-in. They welcomed plans to strengthen the analysis of institutional and political capacity. Where programs have gone off track, Directors encouraged greater use of staff-monitored programs (SMPs) to ensure monitoring of macroeconomic policies while authorities build support for delayed critical reforms. More broadly, Directors called on staff to consider ways to de-stigmatize SMPs, promoting their use for building a policy track record, which would help facilitate access to Fund resources.

Tailoring and uniformity of treatment (evenhandedness)

Directors welcomed the finding that Fund-supported programs were generally well-tailored to country needs and perceived as being consistent with the principle of uniformity of treatment. However, they saw scope for better tailoring and streamlining program objectives and structural conditions, particularly for fragile and small states, in light of their economic circumstances and capacity constraints. Many Directors also encouraged staff to ensure the application of the 2017 Staff Guidance Note on the Fund's Engagement with Small Developing States, and to integrate critical resilience-building measures into the programs.

Directors noted the concerns among some stakeholders regarding the perceived lack of evenhandedness in program access, both within and between the GRA and PRGT. They acknowledged that differences in access are largely driven by underlying Fund policy frameworks. They were generally open to further discussion on the proposals to increase PRGT access norms and limits, and to promote more blending of GRA and PRGT resources, while maintaining PRGT self-sustainability. They looked forward to further discussion in the context of the forthcoming review of facilities for low-income countries.

Directors welcomed ongoing efforts to improve the Monitoring of Fund Arrangements (MONA) database, and looked forward to periodic reports to the Board on program performance. These efforts will enhance transparency, support the monitoring and evaluation of programs on a timely basis, and improve Board oversight including with respect to evenhandedness—an area in which a number of Directors also saw a role for the Independent Evaluation Office. Directors also noted that the observed increase in off-track programs warrants close scrutiny, including by the Board. Some Directors called for further consideration of ways to improve the Board's monitoring of delays in program implementation.

Next steps

Directors recognized the multiple tradeoffs involved in program design and the potential benefits of a shift toward more realism, granularity, gradualism, and parsimony. They agreed that the Guidelines on Conditionality remain broadly appropriate, and that most of the recommendations could be implemented through a revised Operational Guidance Note and delivery of related workstreams. Directors considered that successful implementation of the recommendations would require a change in culture, and continued adaptation and learning.

APPROVAL: October 5, 2021

CEDA OGADA
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

Program success

Methodology

1. ***From the transparency point of view, we note that reliance on the Vulnerability Exercise and staff's judgement, in our opinion, makes understanding the methodology for success assessment in the GRA group more difficult. We would appreciate staff's comments on this issue.***

2. ***We have some reservations about the use of Vulnerability Exercise (VE) ratings to assess GRA program success given that the VE is relatively opaque and ratings are not available for all countries. Staff's comments are welcome.***

- In designing the program success methodology, staff has tried to strike a balance between parsimony, ease of communication, and transparency. VE ratings are confidential due to market sensitivity, however they provide a comprehensive and parsimonious gauge of vulnerabilities.

- Aggregated VE ratings are currently shared periodically with outside parties but individual ratings are not shared due to market sensitivities and concerns that the Fund would be seen as a rating agency. That said, the forthcoming comprehensive surveillance review (CSR) plans to look at ways in which information from the VE could be shared more broadly.

3. ***We also wonder if the definition of 'success' should hold the same weight in all program cases. For example, is it more important to be successful when the program involves a larger financial contribution or greater reputational risk for the Fund? Staff views are welcome.***

4. ***Under staff assessment methodology, data were unweighted, and we wonder if staff has tested a weighted analysis to assess program success on the basis of access?***

- Given the general objectives of the RoC to assess program design and performance, the analysis considers program success based on the objectives as set forth in the Guidelines on Conditionality and the PRGT Trust, on a non-risk weighted basis.

- Other exercises, e.g., the Fund Risk Report, consider the broader implications of program success or failure for the Fund's resources and reputation, taking into account the size and profile of programs.

- The program success outcomes weighted by the size of access are reported below.

Percent of success categories, weighted by size of program access

	Successful	Partially Succe	Unsuccessful
% GRA	24	40	36
% PRGT	19	54	27

Percent of success categories, simple average

Percent o	Successful	Partially Succe	Unsuccessful
GRA	32	43	25
PRGT	28	48	24

5. *Have programs involving exceptional access been more successful?*

- Figure 17 in the supplementary information provides evidence on success rates of exceptional vs normal access programs. Exceptional access programs had both somewhat higher success and failure rates that non-exceptional programs, although the differences do not appear to be statistically significant.

6. *Could the success of each program be assessed at its conclusion using this framework?*

- For PRGT programs, in principle the metric to assess success (the updated DSA risk rating and performance against the five core indicators) could be compiled at the conclusion of a program, provided all the data are available. In practice, national accounts and prices data may become available after the final review in some countries.

- For GRA programs, it would not be possible to make a full assessment of program success initially, since a judgment on whether the balance of payments (BoP) problems were resolved would depend on the materialization (or not) of a successor program in the subsequent two-year period. However, it would be possible to assess progress made in addressing external vulnerabilities, subject to the availability of the VE rating for that country.

7. ***In PRGT cases, the condition that programs avoid a substantial deterioration in DSA ratings seems to be a rather low bar to establish program success or partial success. How is "substantial deterioration" determined?***

- The decision to calibrate stage one of the PRGT methodology in this way reflects the often slow-moving nature of LIC-DSA risk ratings, and its underlying indicators. It is not always realistic for external debt to improve during the course of a single Fund arrangement. Please see figure 14 in the supplementary information for our specific calibration.

8. ***When assessing program success for PRGT countries, we see merit in adding employment rate into the indicator group in stage 2, given that enhancing employment is a key component of inclusive growth. We also recommend using poverty rate instead of social expenditure to assess the success of anti-poverty policy, since increasing social expenditure is not an end in itself, nor is social expenditure a substitute for pursuing sound policies to decrease poverty rate. Staff's comments are welcome.***

- For the assessment of PRGT program success, the choice of social spending (an intermediate variable) as opposed to the outcome (poverty rate) was driven by several considerations. The poverty rate is a slow-moving variable, unlike social spending. It would be difficult to assess whether, and to what extent, any observed reduction in poverty (or lack thereof) is attributable to program policies. Regarding unemployment rates, similar concerns exist.

9. ***An essential question in evaluating program performance is why a program worked in one country but didn't in a "similar" country. The analytical groupings define similarities in particular ways, but there are other criteria for similarity, which could be exploited in this exercise. Could staff comment?***

10. ***Could staff comment on whether they considered alternative country groupings?***

- The analytical groupings for the 2018 RoC were chosen based on their specific relevance during the sample period, reflecting the structural nature of the challenges faced by the membership.

- Based on Board engagement during the review, these groupings have been supplemented with fragile and small state groupings, along with continued focus on the broader and well-established GRA-PRGT groupings.

- While beyond the scope of the 2018 RoC, the new MONA-Tableau pages could facilitate analysis based on different groupings, which may reveal additional trends and issues.

11. ***We would appreciate staff comments regarding the odds for success of a successor program. Does this point to the need of additional time to implement the structural conditionality agenda?***

- For PRGT, program performance remained unchanged or improved in 77 percent of successor programs, relative to the original program. This rate is 86 percent for GRA countries in the success sample.

12. ***While it is understandable that post-GFC programs—all involving advanced economies—fared better than those of commodity exporters and other developing countries, performance of political/economic transformation countries, which had both the highest success and failure rates of all groups, merits further analysis. Staff's elaboration on the wide heterogeneity of program performance within the latter group would be appreciated.***

- The RoC analysis suggests that program ownership as proxied by program completion is an important factor in success. The bifurcation in success within the political/economic transformation group mirrors program completion rates which show a relatively evenly split between completing programs or and programs that went quickly off track (see Figures 8 and 18 of the main paper, respectively).

13. ***Could staff elaborate on why the performances of PRGT-programs turned out to be less satisfactory?***

- The GRA and PRGT success statistics are not directly comparable as they are based on different methodologies. Nonetheless, the regression analysis on success factors indicates that negative commodity shocks and fragility may have played some role in the slightly poorer performance, on average, in the PRGT.

Macroeconomic policy conditionality and program design

- Growth Optimism:

14. ***Can staff comment on whether there are other tools that could be used to enhance the realism of growth projections, for example through the use of confidence intervals for growth projections, an enhanced internal review process that deploys more cross-country comparisons, or the application of the growth realism tool from debt sustainability analysis?***

- Staff will consider increased scrutiny of realism of program projections during the production and review process. This could take several forms, including growth realism tools that assess projections with due consideration to confidence intervals. The RoC also recommends dealing with uncertainty through better calibration of risks, further discussion of downside scenarios and developing contingency plans. This could be integrated in the internal review process, recognizing potential market sensitivity issues.

15. ***Could staff comment on the extent to which overoptimistic baselines might stem from behavioral drivers such as the need to "sell" a program to the Board or to country authorities, and whether and how this can be addressed?***

- The similarities in the (average) growth forecast errors for both programs and surveillance in the 2018 RoC period, as well as broadly accurate growth forecasts for both programs and surveillance in the earlier 2011 RoC period, point more towards systematic but period-specific drivers of forecast error, rather than systematic program-specific biases.

16. ***On the recommendation to strengthen the discussion and analysis of the impact of program policies on growth, we underscore the necessity to scale up technical assistance (TA) to address data and capacity limitations in many developing countries which impede analysis of the drivers of growth. Moreover, the macro frameworks for designing policies do not always integrate medium-term growth effects of public investment and human resource development programs, leaving room for discretion that could also be contributing to gaps in the estimation of investment payoffs. In our view, efforts are needed to sharpen the programming framework. We appreciate staff comments on whether and how refinements can be achieved.***

- The RoC recommends strengthening the discussion and analysis of the impact of program policies on growth, including on fiscal multipliers and the payoffs from structural reforms.

- To this end, staff could consider leveraging existing realism tools that are already a key part of the Fund's debt sustainability analysis. For example, the recently updated LIC-DSF includes enhanced tools to assess the realism of macroeconomic projections (e.g., projected fiscal adjustment and its impact on growth as well as consistency between public investment and growth).

- Fund staff continues to research the impact of structural reforms in EMDCs (see Table 2, page 55).

17. ***Could staff comment on whether there will be further analytical work undertaken, e.g. on fiscal multipliers or the distributional impact of various adjustment measures?***

- The RoC does not propose any further analytical work on fiscal multipliers or the distributional impact of adjustment, given the extensive literature. Rather, the RoC recommends leveraging the existing literature more consistently in discussion and staff analysis.

Monetary Conditionality:

18. ***Has staff attempted to compare program performance under fixed and flexible exchange rates?***

- Program performance is broadly similar under fixed and flexible exchange rates and the differences are not found to be statistically significant.

Quality of Fiscal Adjustment:

19. ***We would appreciate if staff could elaborate on how the conditionality on tax revenues could be enhanced and on how to prevent low quality measures?***

20. ***Could staff elaborate on whether they reflected on how to better protect public investment in Fund-supported programs?***

21. ***We also share the concern regarding shortfalls in capital expenditures leading to lower growth. We would appreciate staff views and whether they consider this an important recommendation worth highlighting.***

- The RoC proposes consideration of more granular PCs or ITs where relevant for meeting program objectives. This could include, for example, a floor on capital spending or revenue performance, or a ceiling on current expenditure. Staff's intention is not to be more granular than these broad subcategories. The RoC also recommends further prioritization of SBs on social sector issues or capital investment management, to help ensure higher-quality fiscal adjustment, including higher levels of public investment.

- Nevertheless, staff recognizes the tradeoffs and risks. More granularity could jeopardize parsimony, reduce flexibility and potentially have adverse implications for ownership, highlighting the importance of a case-by-case approach and streamlining conditionality in other areas. Further guidance in this area will be provided in the update of the Operational Guidance Note on Conditionality.

22. ***While we agree that "floors" on certain types of social expenditures could safeguard spending in that specific area, they could also put pressure on limited budget resources and may further constrain budget allocations to other key sectors, especially in a context where fiscal space may be increasingly reduced, and/or external financing become scarcer, as is the case for most developing economies. Staff comments are welcome.***

- In line with the broader proposal for more granular fiscal conditionality, staff agrees that social spending floors should be considered and set on a case-by-case basis, taking into account budgetary and other financing constraints under GRA-supported programs. However, under PRGT-supported programs, where poverty reduction is a focus, a social spending floor (IT or PC) is presumed.

23. ***Could staff indicate how learnings from the workstream on social protection will be integrated into the conditionalities framework?***

- The recommendations of the workstream on social protection will be reflected in the update of the Operational Guidance Note on Conditionality, which is scheduled for FY20.

Public debt

24. ***Are there cases where a program failed despite public debt operations? If so, what are the main reasons for failure?***

- Figure 14 shows that there were programs in the 2018 RoC sample that involved debt restructuring and were unsuccessful, based on the program success methodologies.

- There were two such programs - 1 GRA and 1 PRGT. The GRA program was followed by a successor disbursing arrangement and did not show any improvement in vulnerability ratings over the program period. In the PRGT program, debt remained "in distress". These programs were therefore judged to be unsuccessful, consistent with the program success methodologies.

Structural conditionality and program design

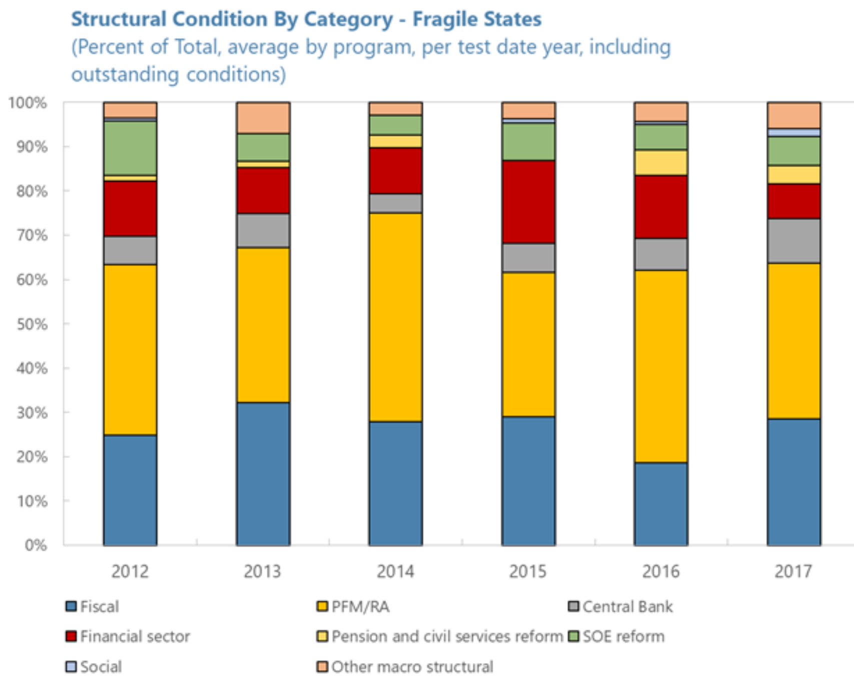
25. ***Priority and sequencing of these reforms are critical, and we support greater attention being paid to these issues. Can any (or more) lessons be drawn on these issues from the analytical exercise?***

- Based on the subsample, the RoC finds that 84 percent of program objectives were covered by structural conditions, suggesting that conditionality was generally well aligned with program objectives. Conversely, 94 percent of structural conditions were consistent with program objectives. However, the RoC finds that program objectives were typically stated in very broad terms; examples include enhancing economic growth, achieving macroeconomic stability, reducing poverty, and improving investor confidence. Hence, the observation that a large majority of program objectives were in line with structural conditions (and vice versa) must be treated with caution.

- Additionally, the discussion on the justification, prioritization and sequencing of structural conditions was found to be very limited, with staff reports rarely discussing how structural conditions would help achieve program objectives. Further analysis on structural conditionality is part of a forthcoming IMF working paper (Andritzky, Munkacsi and Wang, "Structural Conditionality in IMF Programs").

26. ***We would appreciate if staff could present us with a break-down by areas of the structural benchmarks for fragile countries over the observed period.***

- Figure 20 in the main paper provides a breakdown of structural benchmarks by area for fragile states during the period. The chart below provides a breakdown of structural conditions by year. Fiscal conditions include revenue and expenditures measures and debt management reforms, while revenue administration is included under public financial management/revenue administration. These categories remained broadly stable during the period, underpinned by revenue policy and administration measures.



27. ***There is an apparent disconnection between the high implementation rates of QPCs (90 percent) and SCs (80 percent) and the significant increase in the number of programs going off track. The report indicates that this could potentially point to weaker ownership. We find this explanation unclear and would like to know to what extent this disconnection could be due to deficiencies in program design. Another explanation seems to be provided in footnote 11, which notes that the assessed implementation data on QPCs and SCs that is captured in the MONA database do not include data of program reviews that are not completed, biasing implementation rates upwards. Moreover, we missed in the report some analysis of macroeconomic performance in countries after programs went off-track, including members' success in addressing program objectives without Fund support. Staff's comments on these issues would be welcome.***

- The disconnect between high implementation rates and deterioration in program completion rates is in part explained by the fact that the MONA database does not capture implementation data for reviews that were not completed (i.e., "off-track" programs). The underlying reasons for the deterioration in completion rates are difficult to establish with certainty.

- Perceptions of factors contributing to unsatisfactory implementation varied, with MCs/RRs pointing to weak capacity and lack of ownership, and CAUTs focusing on unexpected developments or exogenous shocks (Figure 3, supplement). Staff's regression analysis suggests that better institutional capacity, as proxied by income level and regulatory quality, was a crucial factor for program completion (Table 7, supplement), while political developments and external shocks were insignificant. A sizable unexplained component may reflect an "ownership" factor not captured by regression variables.

- The quantitative and qualitative analysis of macroeconomic performance in the RoC (section III of the main paper, and related material in the supplementary information) includes those programs from the 2018 RoC sample that went off track. For example, paragraph 31 of the main paper notes that most programs that saw debt sustainability deteriorate went off track. More generally, Figure 8 of the main paper shows that off-track programs tended to have much lower success rates.

28. ***We note that the use of indicative targets (as opposed to QPCs) may be an indication of lack of adequate information on the size and effectiveness of social policies, which makes it more difficult to protect the vulnerable from macroeconomic adjustment. Staff's comments are welcome.***

- According to the IMF Guidelines on Conditionality (2002), indicative targets (ITs) may be established for the part of an arrangement for which they cannot be established as quantitative performance criteria (PCs) because of substantial uncertainty about economic trends.

- The Guidance Note on IMF Engagement on Social Safeguards in Low-Income Countries (2018) further explains that social spending targets can be established as a PC when necessary. However, PCs should not be used if there are concerns about the quality of data.

- The selection of PCs versus ITs should take into consideration country-specific circumstances and be guided by the principles in designing and setting conditionality. PCs are normally established when the underlying variables can be clearly specified, objectively monitored, and are critical for achieving program goals.

- Strengthening adherence to Government Finance Statistics reporting of social spending to improve data quality and timeliness is essential to establish credible quantitative conditionality that is critical to achieve program objectives.

29. ***While the staff analysis points to the lack of ownership as one of the most important aspects explaining failure to reach objectives, we believe consideration should also be given to the fact that recent programs have included a higher number of structural conditionality, possibly reflecting insufficient prioritization. Staff comments are welcome.***

- The increase in the number of structural conditions coincides with the rising number of structural challenges across the membership. However, regression analysis does not suggest that the number of structural benchmarks was a key driver of program completion rates. More generally, program objectives tended to be defined in very broad terms (e.g., attain robust and more inclusive growth) making it difficult to judge whether a specific set of structural conditions were genuinely critical for program success.

- Staff concurs to redouble efforts to prioritize conditionality based on criticality (page 38, paragraph 46, main paper). This includes laying out more clearly the considerations on the choice of structural conditions in Fund-supported programs.

30. ***In addition, we would appreciate staff's comments on how to deal with the challenging structural areas of labor and product market reforms, including by relying on Fund expertise.***

- In the 2018 RoC sample, structural conditions on LMRs and PMRs remained very limited, accounting for less than 3 percent of all structural conditions. Fund expertise in these areas is being enhanced by ongoing initiatives, including interdepartmental macro-structural training, the mainstreaming of the macro-structural pilot initiative, and the finalization of the work on structural reforms in EMDCs.

- In addition, collaboration with other institutions that have expertise in non-core areas remains important, such as with the World Bank on governance and corruption. Furthermore, it is important to fully leverage surveillance findings in the design of future programs (see page 36, paragraph 42 of the main paper).

31. ***Does staff consider that some of the SBA programs were actually involved with persistent structural challenges and therefore should have chosen EFF arrangement?***

- The RoC has not looked specifically at this question. However, the broader findings of optimistic growth projections, including underestimation of the impact of adjustment and the overestimation of structural reform payoffs could indicate that the scale of structural challenges were not fully appreciated in some programs. In such cases requiring large and more persistent structural reforms, an EFF may well have been more appropriate.

Ownership

32. ***We would like staff to elaborate on the current definition of the program being "off-track" and on possible steps to come up with a timely, clear, and broadly accepted definition of "off-track" programs.***

33. ***We welcome staff's further elaborations on how to advance the IMF practices in dealing with off-track programs, including strengthening the Board's role in this process.***

34. ***Figure 18 illustrates that the fraction of off-track programs is high for the political/economic transformation group. On average, these countries would have lower institutional capacity. What would be important specifically for programs in the group to address off-track problems? Does staff consider that early engagement with wide IDIs helps to improve institutional capacity amid political/economic transformations?***

- The definitions of off-track programs used in the RoC are provided in Appendix II of main paper. Programs are considered: ***quickly off track*** if at most one review was completed and at least two reviews were not completed at the end of the program; ***off track mid-program*** if at least two reviews were completed and at least two reviews were not completed at the end of the program (i.e., the program did not come back on track). Note that "off track" is a classification for analytical purposes of this paper and does neither constitute a legal term nor is defined in Fund policy.

- The RoC proposes more use of SMPs to help address the issue of off-track Fund-supported programs, particularly in the GRA. SMPs could be a useful (currently underutilized) option for helping manage extended program interruptions, which are often associated with weak ownership and program performance. SMP-related documents would also provide information to the Executive Board and the public on discussions in the context of off-track programs.

- The recently launched MONA-Tableau pages provide easily accessible information about the status of reviews of ongoing program, including if they are delayed by more than six or 12 months.

- Capacity building, including in collaboration with other institutions, can play an important role, including in political/economic transformations. Based on survey results, the RoC concludes that the Fund generally collaborates effectively with other institutions (page 42, paragraph 50, main paper). Besides aligning technical assistance well with program conditions (see page 34, paragraph 38 and Figures 22 and 23, supplement), collaboration with other institutions should also be harnessed to enhance expertise in shared and non-core areas of Fund responsibility.

35. ***We support exploring greater use of follow-up SMPs and would welcome staff's comments on how they might approach encouraging greater uptake of this tool.***

36. ***The use of policy support facilities in conjunction with programs, in our view, would help prevent programs from going too far off track. This has the potential to enhance the Fund's "trusted adviser" role, by continuing to constructively engage in a formal and structured way with members even in bad times for a program. However, the resource implications of this need to be taken into account. Could staff comment on these?***

- A greater uptake of follow-up SMPs would entail establishing and communicating the many potential benefits of the SMPs. In this regard, it will be important for staff to emphasize that SMPs are a transitional instrument to build support for critical reforms in preparation for a return to a UCT program, as opposed to a permanent, remedial class of program.

- Staff anticipate that any additional resources would be limited as SMP missions would largely substitute for those of UCT programs, so mission frequency may not be materially different.

37. ***We invite staff's comments on whether greater involvement of the authorities in setting conditionality would enhance ownership and ultimately program success.***

38. ***We also see a need for the authorities to be more involved in the design of structural conditions in order to enhance ownership and program success and look forward to staff views.***

- The Conditionality Guidelines establish the principle that the primary responsibility for the design of the program lies with a member's authorities. The resulting program conditionality needs to resolve the underlying BoP problem during the program period in GRA cases, or help members maker significant progress toward a stable and sustainable macroeconomic position in PRGT cases.

- Case studies show that in successful, high-ownership programs, design generally reflected national reform plans (e.g., Jamaica, 2013 EFF; Rwanda, 2015 PSI and 2016 SCF). This suggests that ownership may be improved by working more closely with country authorities on program conditionality and, especially, by coordinating design with any national reform programs.

- Case studies also show that outreach to the public supports ownership and program implementation. While the surveys point to a significant improvement in outreach relative to 2011, scope remains to expand outreach to in-country civil society organizations (CSOs).

39. ***Could staff elaborate more on the associated recommendation, "strengthening analysis of institutional capacity?"***

40. ***Staff comments on how to better address the issue of weak institutional capacity, including through technical support in collaboration with other international institutions, would be welcome.***

- As noted in the RoC, staff proposes to update guidance on analyzing institutional capacity. The idea would be to better tailor structural conditions to the country's capacity. Where institutional capacity in a certain policy area is unclear or lacking, the program should first identify and help build that capacity through technical assistance. The updated Operational Guidance Note on Conditionality will cover these issues in more detail.

41. ***Evidence suggests that the abundant use of prior actions had not translated into higher program completion rates, but rather the opposite. Could staff share further insights on the possible reasons behind this outcome?***

- Prior actions (PAs) are not a substitute for ownership and, as the evidence shows, are actually a leading indicator of weak ownership. A key reason may be that PAs were often used in countries where institutional capacity and the ability to reform were weakest.

- This finding suggests the need for a more judicious application of PAs, including greater tailoring of such measures to the authorities' political and institutional constraints, especially in fragile states or those in political transition. To this end, staff is proposing to update guidance on the use of PAs (see Table 2).

Tailoring and evenhandedness

42. ***It is unclear how this workstream will integrate with that on Building Resilience to Natural Disasters in Vulnerable Countries. Staff's comments are welcome.***

43. ***Could staff clarify how the proposed workstream will integrate with that on Building Resilience to Natural Disasters in Vulnerable Countries and on strengthening the IMF's support to countries in fragile situations?***

44. ***It is unclear how this workstream will integrate with that on Building Resilience to Natural Disasters in Vulnerable Countries. Staff's comments are welcome.***

- The workstream on Building Resilience to Natural Disasters in Vulnerable Countries will inform both Fund policy advice in the context of surveillance and program design. On the latter, Fund programs could support the implementation of a macro-critical elements of a Disaster Resilience Strategy (DRS), including through tailored conditionality, financing to address potential BoP problems, and targeted capacity-building in areas of Fund expertise.

- The PSI/PCI or precautionary SCF/SBA are the most suited instruments as an insurance against adverse shocks. If an urgent BoP need arises when hit with an adverse exogenous shock, such as natural disasters, RFI or RCF will be available to the country members.

- In the program context, collaboration with the World Bank and other IFIs could also leverage expert advice to support the authorities' resilience-building objectives guided by a nationally-endorsed DRS and catalyze additional donor support.

45. ***We wonder if the revamped MONA database provides an opportunity to better assess whether program assumptions are too optimistic in real time. Would staff consider developing benchmarking tools to help inform decision making, drawing from past successes?***

- Realism tools are a key part of the Fund's debt sustainability analysis. The recently updated LIC-DSF includes enhanced tools to assess the realism of macroeconomic projections (e.g., projected fiscal adjustment and its impact on growth, as well as consistency between public investment and growth). The ongoing MAC DSA review is also considering ways to enhance realism tools, including for real exchange rate and financing term projections. These frameworks apply to both program and surveillance cases alike.

- In addition, staff will explore whether the MONA database could be leveraged for assessing forecast realism.

46. ***Are there 'characteristics of successful programs' gleaned from the MONA database that could help inform program design going forward?***

- The RoC regression analysis that look at factors driving program success, and completion rates (itself a key driver of program success) draw heavily on data from the MONA database, e.g., on completion status, number of prior actions and structural benchmarks, initial program length and number of reviews at program application. See sections III and VII.F of the background supplement for more details.

Implementation, risks and other issues

47. ***We thank staff once again for a set of good papers and look forward to further discussions on possible improvements in the program design and conditionality. We would be grateful to staff for describing the next steps in this direction.***

- Implementation of the RoC recommendations will take place on a number of fronts. A large number of proposals require a significant update of the Operational Guidance Note on Conditionality. Other recommendations will feed into ongoing and planned workstreams, such as the MAC DSA, DLP and monetary conditionality reviews.

- If there is sufficient Board interest, staff will also produce a follow-up paper considering the case for longer EFFs to support members with challenging structural reform agendas.

48. ***We agree with staff on the appropriateness of the Guidelines on Conditionality, which we see as a high-level framework, flexible enough to accommodate periodic changes in the operational aspects of the conditionalities framework. However, as conditionalities encompass a larger number of domains and become more granular, this flexibility may be tested. Could staff comment?***

- The RoC acknowledges a tradeoff between granularity and flexibility as well as between parsimony and more conditionality. More granular conditionality should be based on criticality which does not necessarily imply a larger number of conditions. In the structural reform domain, the RoC finds scope to improve the design and tailoring of structural conditionality. As improved design and tailoring improve impact, programs can feature fewer but deeper reforms.

49. ***We missed in the staff paper any reference to outreach to external stakeholders, in particular civil society organizations and other external advisors, noting that the 2018 RoC surveys were limited to staff, the Executive Board, and country authorities in countries with programs. Staff elaborations will be welcome.***

- The Fund invited online comments from external stakeholders, including CSOs. This was followed by a conference call with Fund staff to discuss their views. The key points from these consultations are summarized in Box 1 of the supplementary information.

- A survey was also sent to CSOs but the response rate was quite low and insufficiently representative to include results in the RoC report.

- During the Annual Meetings in Bali, staff engaged with CSO representatives and sought their input and expectations on the upcoming RoC report.

50. ***Although staff turnover did not feature in the review, we consider this a factor that could also impact program success. A three-year program could involve at least two teams given staff assignments are usually 18-24 months. Different sets of people designing and then reviewing program performance can be problematic, not least for incentives to design a successful program. Staff comments are welcome.***

- High staff turnover could in theory have an impact on program success. This is an issue that could be considered in the context of HR-related discussions. While it is difficult to say whether this was an important factor during the 2018 RoC period, data on program completion (a key driver of success) indicate that more than half the programs that went off-track during the 2018 RoC period did so quickly. In such cases, staff turnover is unlikely to have been a key factor in the programs going off track.