

STATEMENT BY THE MANAGING DIRECTOR ON THE EVALUATION BY THE INDEPENDENT EVALUATION OFFICE OF PROLONGED USE OF FUND RESOURCES

Executive Board Meeting
September 20, 2002

1. We welcome this first report of the Independent Evaluation Office (IEO), and would like to express our appreciation for the extensive work that has gone into it.¹ The high standard of the report shows that this office should make a major contribution in improving the Fund's work. We are in general agreement with many of the report's findings, and plan to conduct an internal review of how we utilize a number of recent policy initiatives to address the problems identified in the report.

2. One of the important contributions of the report is to raise the question of when prolonged use is a problem, and if so, why. Prolonged use—in some cases—reflects benefits to a member of longer-term involvement with the Fund. It is therefore important to recognize that there are tradeoffs to be considered in addressing the problems associated with prolonged use, and that a sustained period of engagement is not always detrimental. We would appreciate hearing the views of Executive Directors on this important issue.

3. In turning to the report's concrete recommendations, we agree with the need to strengthen surveillance procedures, particularly for program countries. At the conclusion of the 2002 biennial surveillance review, the Executive Board took important steps toward this objective. Most importantly, the Board clarified that surveillance in program countries include a reassessment of economic conditions and policies from a fresh perspective, and agreed to enable greater flexibility in the timing of Article IV consultations to allow them to occur at points in the budget or program cycle when they may be most beneficial. A guidance note—incorporating these recommendations—has already been issued to the staff. The report's recommendation for conducting systematic ex-post assessments of programs would appear to be another promising avenue.

4. Similarly, in the recommendations concerning program design and implementation, we see a great deal of congruence with the findings of the review of

conditionality. As in the IEO report, the review of conditionality emphasized the importance of the principles of country ownership, streamlined conditionality, tailoring programs to member's circumstances, and effective coordination with other multilateral institutions for the successful design and implementation of Fund-supported programs. These principles are incorporated in the new draft guidelines on conditionality, to be discussed by the Board on September 16th, and will be subsequently disseminated to staff.² The guidelines provide a framework for moving forward, but they are really only the beginning of a process that will require continued attention.

5. The report calls for greater selectivity in extending Fund financial support. The principle of selectivity has been discussed, and reaffirmed, by the Board, and it is included in the draft of the new conditionality guidelines. As the report acknowledges, the judgment of whether to extend or withhold financial support will often be an exceptionally difficult one. With this in mind, we need to ensure that our procedures for entering into arrangements with members include careful and explicit assessments of the conditions for successful program implementation, particularly when a member has a poor track record of implementation. Some of the other recommendations in the report, such as the stress it places on an assessment of the political support for the adjustment program, may help in this regard.

6. The policy initiatives already underway, and described briefly above, should go some way to reduce the incidence of inappropriate prolonged use of the Fund's general resources by members. The report, however, also suggests that specific policies be tailored to the Fund's relations with those of its members that are deemed prolonged users. We will be particularly interested in hearing the views of Executive Directors on whether they view special (and more restrictive) policies to be appropriate or whether they see a broader, preventive approach as being sufficient.

¹A Fund staff response to the Report, discussing some technical aspects, has also been distributed to the Board.

²SM/02/276, August 23, 2002.

7. Looking ahead, Management will establish an internal task force to examine and make recommendations on how the issues raised in the present report can best be addressed going forward, taking account of the views of Executive Directors. The task force's main objectives would be to prioritize the report's recommendations and propose a strategy to most efficiently implement agreed-upon priorities. In doing so, we will ask the task force to look at (i) how best

to build on current policy initiatives to address the problems identified in the report; (ii) other recommendations that can improve program design to achieve a better balance between ambition and realism; and (iii) whether issues not already included in the work program need to be studied further. We propose to return to the Board early next year for a discussion of the recommendations of the staff task force.