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2018 REVIEW OF PROGRAM DESIGN AND CONDITIONALITY

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International Monetary Fund
Washington, D.C.

2018 REVIEW OF PROGRAM DESIGN AND CONDITIONALITY

EXECUTIVE SUMMARY

The 2018 Review of Program Design and Conditionality (RoC) is the first comprehensive stocktaking of Fund lending operations since the global financial crisis (GFC). The review assesses program performance between September 2011 and end-2017. Programs during this period were defined by the protracted structural challenges faced by members and hampered by the persistently weak global environment. In this challenging environment, and with strong encouragement from the membership, the Fund stepped up efforts to provide financial support to member countries. Programs catalyzed additional financing, cushioned adjustment, and supported poverty reduction and growth. The key findings of this review are as follows:

- Successful programs supported by the General Resources Account (GRA) resolve balance of payment (BoP) problems and achieve external viability, while fostering economic growth. Programs supported by the Poverty Reduction and Growth Trust (PRGT) aim to help members make significant progress toward a sustainable macroeconomic position. Measured against these objectives, three-quarters of programs achieved some success, with program completion an important driver, in both the GRA and the PRGT.

- Program growth assumptions were often too optimistic. Similar to surveillance, this reflected global projection errors in the post-GFC environment, the underestimation of fiscal multipliers, and the overestimation of structural reform payoffs. Programs with more realistic macroeconomic frameworks were often more successful in achieving the above objectives. *Lesson: Increase the scrutiny of macroeconomic baselines and improve contingency planning.*

- Although most programs targeted growth-friendly fiscal consolidation, the adjustment that materialized was often of lower quality than envisaged. Nevertheless, social spending was generally protected as a share of GDP. Over a third of programs, mostly in low-income countries (LICs), targeted a fiscal expansion to support growth and poverty reduction. *Lesson: Use more granular fiscal conditionality to improve the composition of adjustment, and increase focus on the quality of spending.*

- Debt sustainability improved in most cases where initial debt vulnerabilities were high, and programs involving debt restructuring tended to be more successful than those without. Nevertheless, in several programs, most of which went off track, debt overshot projections by a significant margin, reflecting disappointing growth, unexpected

exchange rate depreciation, higher fiscal deficits, and other residual factors. *Lessons: Sharpen debt sustainability analysis (DSA) tools to inform staff bottom-line judgments, improve the coverage of public debt to provide a more accurate picture of debt vulnerabilities, and review the Fund's Debt Limits Policy (DLP), including guidance on collateralized debt.*

- The number of structural conditions (SCs) increased, reflecting the rising structural challenges. Conditionality remained largely focused on the Fund's core areas of responsibility, despite rising critical reform needs in shared (e.g., labor and product market reforms) and non-core areas. Nevertheless, focus on gender inequality was an important innovation. Implementation of SCs remained relatively strong but delays increased, possibly contributing to forecast errors. In general, program implementation was well supported by capacity development and collaboration with other institutions. *Lessons: Better prioritize SCs, continue to build expertise in shared areas of responsibility, and use more realistic implementation timetables.*

- Lower program completion rates suggest increasing ownership issues, as politically-complex structural challenges intensified. Strong ownership occurred where programs incorporated national reform plans, there was a robust communication strategy, and/or implementation capacity was strong. Engagement with Civil Society Organizations (CSOs) increased but room for improvement remains. *Lesson: Apply identified good practices in reform design and implementation; improve communication to support broad public buy-in; and consider greater use of Staff-Monitored Programs (SMPs) to address off-track programs.*

- Fund-supported programs were generally perceived to be evenhanded (consistent with the principle of uniformity of treatment), though some stakeholders have concerns about conditionality and access decisions. Conditionality was generally well tailored to country needs and program objectives but there was insufficient differentiation in approach for fragile and small states. Regarding access, differences within, and between, the GRA and the PRGT, are explained mostly by the Fund's lending frameworks. *Lessons: Improve data dissemination on Fund-supported programs to facilitate comparisons. Streamline SCs in fragile states and tailor SCs to resilience building in small states. Consider increasing PRGT access limits and blending possibilities for LICs.*

To improve program success and reduce risks, certain tradeoffs in program design need to be re-assessed. These include the tradeoffs between realism and ambition; granularity and flexibility; gradualism and speed; parsimony and more conditionality; and in some cases, between debt operations and fiscal adjustment. **The RoC suggests a move toward more realism, granularity, gradualism, and parsimony in programs, as well as sharper DSAs to mitigate any bias in judgment and ensure more balanced consideration of debt operations, where warranted.** The application of these principles may justify longer Fund program engagement in some cases. The RoC recommendations would involve limited additional costs but would require a further change in culture and approach, consistent with the IMF's commitment to learning.

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Acronyms and Abbreviations

AMC	Asset Management Companies
AML/CFT	Anti-Money Laundering and Countering Financing of Terrorism
AREAER	Annual Report on Exchange Arrangements and Exchange Restrictions
BoP	Balance of Payments
BRM	Base/Reserve Money
CAUT	Country Authorities
CCPA	Climate Change Policy Assessments
CD	Capacity Development
COM	Communications Department
CPR	Crisis Program Review
CSO	Civil Society Organization
DLP	Debt Limits Policy
DSA	Debt Sustainability Analysis
DSF	Debt Sustainability Framework
EA	Exceptional Access
ED	Executive Director
ECF	Extended Credit Facility
EFF	Extended Fund Facility
EM	Emerging Market
EMDC	Emerging Market and Developing Country
EPE	Ex Post Evaluation
FAD	Fiscal Affairs Department
FTE	Full-Time Equivalent
GDP	Gross Domestic Product
GFC	Global Financial Crisis
GoC	Guidelines on Conditionality
GRA	General Resources Account
HIPC	Heavily Indebted Poor Countries
ICC	Inflation Consultation Clause
IEO	Independent Evaluation Office
IT	Indicative Target
LIC	Low-Income Country
LIDCs	Low-Income Developing Countries
LMR	Labor Market Reforms
MAC	Market Access Countries
MC	Mission Chief
MONA	Monitoring of Fund Arrangements
MPCC	Monetary Policy Consultation Clause
NDA	Net Domestic Assets
NIR	Net International Reserves
NPL	Non-performing Loan

OLS	Ordinary Least Squares
PCI	Policy Coordination Instrument
PCL	Precautionary Credit Line
PFM	Public Financial Management
PLL	Precautionary and Liquidity Line
PMR	Product Market Reforms
PRGF	Poverty Reduction and Growth Facility
PRGT	Poverty Reduction and Growth Trust
PRSP	Poverty Reduction Strategy Paper
PSI	Policy Support Instrument
QPC	Quantitative Performance Criteria
RA	Revenue Administration
RES	Research Department
RR	Resident Representative
RoC	Review of Program Design and Conditionality
SB	Structural Benchmarks
SBA	Stand-By Arrangement
SC	Structural Condition
SCF	Standby Credit Facility
SMP	Staff-Monitored Program
SOE	State-Owned Enterprise
SPC	Structural Performance Criterion
TA	Technical Assistance
TFP	Total Factor Productivity
UCT	Upper Credit Tranche
UFR	Use of Fund Resources
VAT	Value Added Tax
VE	Vulnerability exercise
WB	World Bank
WDI	World Development Indicators
WEO	World Economic Outlook
WGI	Worldwide Governance Indicators

INTRODUCTION

1.   The 2018 Review of Program Design and Conditionality (hereinafter the "2018 RoC") is the first comprehensive stocktaking since the global financial crisis (GFC). The 2018 RoC examines the performance of Fund-supported programs between September 2011 and end-2017, assessing the extent to which programs met their objectives.[1] In doing so, the RoC considers the role of program design and the implementation of the *Guidelines on Conditionality* (GoC) (IMF, 2002a), including member ownership, as well as other factors affecting outcomes (e.g., external shocks). The RoC examines conditionality in a broad sense, considering the underlying macroeconomic and structural policies, and the specific methods used in Fund arrangements to ensure the achievement of program goals.[2] Based on this analysis, the RoC draws lessons for the design of future programs to ensure that they adapt to the evolving needs of the membership.

2.   The 2018 RoC builds on recent Fund and Independent Evaluation Office (IEO) studies and complements other (ongoing) Fund policy reviews. The 2018 RoC follows the 2011 RoC (IMF, 2012a) and the 2015 Crisis Program Review (CPR) (IMF, 2015c), recent IEO reports on the IMF and Euro Area crisis countries, Fragile States, Social Protection, and Structural Conditionality, as well as important Fund workstreams, all of which have had important implications for program design.[3] In addition, the 2018 RoC supports ongoing Fund policy reviews, including the Review of Facilities for Low-Income Countries (LICs), the Debt Sustainability Framework (DSF) Review for Market Access Countries (MAC), the Review of the Fund's Debt Limits Policy (DLP), the Strategy for IMF Engagement on Social Spending, and the workstream on Building Resilience in Developing Countries Vulnerable to Large Natural Disasters.

3.   The 2018 RoC period was characterized by major structural challenges for large parts of the membership. The preceding 2011 RoC juxtaposed a period of relative global economic stability (2002–2007) with that of the GFC (2007–2011), which eclipsed the regional crises of previous decades. In contrast, the 2018 RoC period was dominated by less acute but persistent structural challenges, requiring large-scale and long-lasting adjustment. Taking into account the specific challenges, this paper analyzes the following analytical country groups (Appendix I):

- ***Post-GFC*** <u>countries directly affected by the GFC</u>, particularly in the euro area, which experienced a protracted period of recovery and adjustment, as is typical following financial crises.

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[1] The 2018 RoC sample includes 133 Fund-supported programs ongoing between September 2011 and December 2017: 70 programs supported by the PRGT ("PRGT programs"), including under the Standby Credit Facility (SCF), Extended Credit Facility (ECF), and 11 Policy Support Instrument (PSIs); 51 programs supported by the GRA ("GRA programs"), including under the Stand-By Arrangement (SBA), Extended Fund Facility (EFF), and Precautionary and Liquidity Line (PLL), and 1 Policy Coordination Instrument (PCI). The 2011 RoC covered 159 programs from 2002 to September 2011 (95 PRGT and 64 GRA), including the first wave of GFC programs. The 2015 CPR covered 32 GRA programs during 2008–15.

[2] See "Conditionality in Fund-Supported Programs – Purposes, Modalities, and Options for Reform" (IMF, 2009).

[3] Section II of the background supplement includes more information on key studies, Fund workstreams, and reforms since the 2011 RoC.

- **_Political/economic transformation_** countries that faced <u>major political transitions</u> (e.g., Arab Countries in Transition), or <u>economic transformations</u> from public to private sector-led growth.

- **_Commodity exporters_** (mainly PRGT-eligible) that experienced a major and persistent terms-of-trade shock caused by the sharp <u>decline in commodity prices</u> from late-2014.

- **_Other developing countries_** (the remaining PRGT-eligible members) that continued to focus on <u>development</u> and <u>poverty reduction</u> goals.

4.   **The difficult task of tackling these structural challenges was exacerbated by the persistently weak global environment.** Global economic activity remained sluggish during this period, as headline and potential growth disappointed repeatedly. Global inflation also remained very low, worsening nominal growth (IMF, 2015a). Hence, weak external demand weighed heavily on all countries, hampering adjustment and efforts to tackle structural issues.

5.   **The remainder of this paper is organized as follows.** Section II evaluates overall program performance and describes program trends, setting up the major themes for this review. Section III assesses the macroeconomic outcomes of programs in more detail—focusing on the optimism in growth forecasts, inflation outcomes, the less-than-optimal path of fiscal consolidation, and the evolution of debt vulnerabilities. Section IV delves deeper into the design and implementation of structural reforms. Sections V and VI evaluate the implementation of the conditionality principles of ownership and uniformity of treatment (evenhandedness). Section VII assesses the implications of the RoC recommendations. Section VIII provides conclusions for the review, setting out important trade-offs that need to be weighed when considering how to improve program performance. The final section proposes issues for discussion.

PROGRAM SUCCESS

6.   **A Fund-supported program should aim to resolve a member's Balance of Payment (BoP) problems and provide adequate safeguards for Fund resources.** The GoC state that Fund-supported programs should be directed primarily toward the following macroeconomic goals: (i) solving the member's BoP problem without recourse to measures destructive of national or international prosperity; and (ii) achieving medium-term external viability, while fostering sustainable economic growth.

7.   **These objectives are operationalized differently under the General Resources Account (GRA) and the Poverty Reduction and Growth Trust (PRGT).** Programs supported by GRA resources are designed to resolve the member's BoP problem during the program period.[4] In contrast, the purpose of programs supported by the Extended Credit Facility (ECF) (the primary instrument in the PRGT) is to help PRGT-eligible members with protracted BoP problems implement their economic programs and make significant progress toward a stable and sustainable

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[4] Specifically, the policy measures that need to be taken to resolve a member's BoP problem should be undertaken during the program period. Such policies must be implemented in a manner that will lead to a strengthening of the member's BoP before repurchases begin.

macroeconomic position. PRGT programs also put a greater emphasis on growth and poverty reduction. These differences in objectives are also reflected in differences in the balance between financing and adjustment (Figure 1). PRGT programs appear to be more catalytic—outside official support is larger than Fund support—and often entail less adjustment, as financing is used to support growth and poverty reduction objectives.[5]

Figure 1. Planned External Adjustment Versus Financing

Fund programs were designed to play a catalytic role in attracting financing in PRGT programs.

Adjustment Versus Financing (Percent of BoP need; includes drawing arrangements only; IMF financing on a gross basis)

Adjustment 1/ ■ IMF financing ■ IFIs and bilateral support 2/ ■ Others 3/

1/ Current account adjustment, excluding official transfers.
2/ Including official current and capital transfers.
3/ Financial account.

There is large heterogeneity in planned adjustment vs. financing, both between and within the GRA and PRGT.

Adjustment versus Financing
(Percent of GDP; includes drawing arrangments only; IMF financing on a gross basis)

■ Interquartile range   ● Median

1/ Current account adjustment, excluding official transfers.
2/ Including official current and capital transfers.

Sources: IMF staff reports, WEO, and IMF staff calculations.

Solving BoP Problems

8.   The nature of post-program engagement can be taken as a proxy for whether a member's BoP problems is resolved during the course of a program. The frequency of successor program engagements—defined in this RoC as a Fund-supported program that follows another Fund financial arrangement within two years—is often considered to be an important indicator of whether Fund arrangements have failed to resolve BoP needs. However, it is important to distinguish between the different types of successor Fund-supported programs:

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[5] Section VII.A of the background supplement provides details on the methodology used to decompose BoP adjustment, including the definition of BoP needs used for this analysis.

- In the GRA, the RoC considers successor programs of a signaling nature as including Policy Coordination Instruments (PCIs),[6] and arrangements of a financial nature that are treated as fully precautionary or involve low access.[7] Such programs would indicate the absence of either an actual or a large BoP need requiring Fund financing. In contrast, a drawing successor arrangement would indicate the presence of a persistent BoP need.[8] While there was an increase in the number of GRA arrangements with successor programs in the 2018 RoC sample, 12 out of the 19 were followed by programs of a signaling nature to help anchor macroeconomic policies and a structural reform agenda, and the remaining 7 were followed by drawing arrangements, which tended to be Extended Fund Facility (EFF) arrangements (Figure 2), highlighting the protracted and structural nature of the BoP needs (Figure 3).[9] 20 GRA programs were not followed by any successor arrangement, and 13 are still ongoing.

Figure 2. Usage of EFF Arrangements

The EFF reemerged as an important GRA facility during the 2018 RoC period.

Ongoing Fund GRA Financial Arrangements, 1990-2017
(Number of programs)

Other GRA (FCL, PCL, PLL, PCI, FCTA, FCTD, and outright purchase)
EFF
SBA (precautionary at approval) 1/
SBA (non-precautionary at approval)

1/ Started in 1990.

Source: MONA.

- In the PRGT, the protracted nature of the BoP problem means that repeated use of ECF arrangements is expected. Two-thirds of PRGT-eligible countries had at least one Fund arrangement during 2010–17, of which about one-half maintained program engagement with the Fund during at least six of the last eight years, consistent with the protracted nature of the BoP problem that ECF arrangements help resolve. Program performance remained unchanged or improved in 77 percent of successor programs (relative to the original program).

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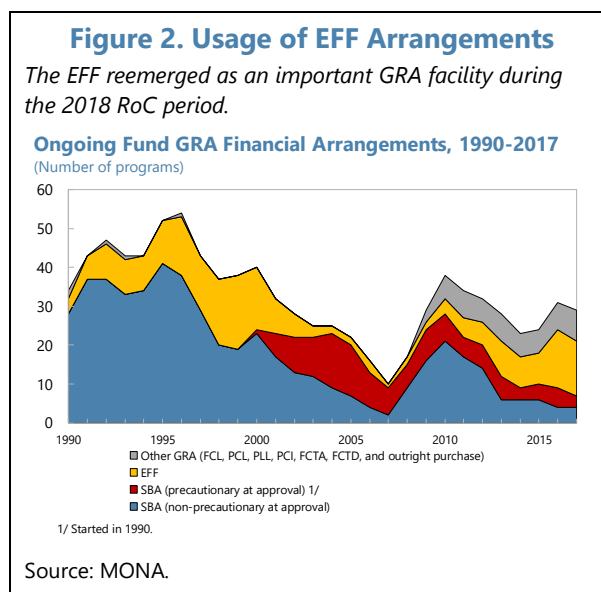
[6] The PCI is a form of technical assistance (TA) that is available to the entire membership and is not an instrument in the GRA. Nonetheless, for the purposes of the discussion in this section, it is included with GRA arrangements because the PCI-supported programs followed GRA arrangements in the sample under review.

[7] Low-access programs are defined as programs with annualized access of less than one-quarter of the annual exceptional access (EA) threshold.

[8] In this paper, a "drawing arrangement" refers to cases where a member actually made a drawing, and "precautionary arrangements" are those arrangements that were treated as fully precautionary by the member.

[9] The EFF was established in 1974 and was heavily used in the mid-1990s after the collapse of the Soviet Union. In the 2000s, there were very few stand-alone EFF arrangements, with the facility mainly used by LICs graduating from low-income status to blend GRA resources with Poverty Reduction and Growth Facility and Exogenous Shocks Facility (PRGF-ESF) resources. Although the Review of the Fund's Lending Toolkit in 2009 retained the EFF because of its use to graduating LICs, stand-alone EFF arrangements reemerged following the GFC, reflecting the structural BoP needs and beneficial repayment terms.

Figure 3. Key Program Trends

There was a shift from SBA to EFF arrangements...

GRA Programs by Instrument/Facility, 2002-17
(Percent of total in each time period)

■ Precautionary 1/   ■ SBA (drawing)   ■ EFF
1/ Precautionary SBA, PCL, and PLL
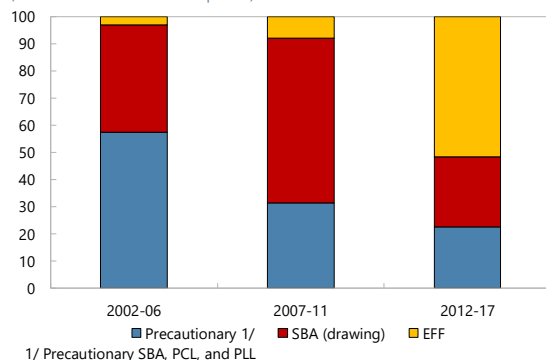
...as well as an increase in the share of successor arrangements.

GRA Programs: Successor Versus New, 2002-17
(Percent of total in each time period)

■ Successor Fund-supported programs   ■ New Fund-supported programs

The ECF remained the major PRGT instrument...

PRGT Programs by Instrument/Facility 2002-17 1/
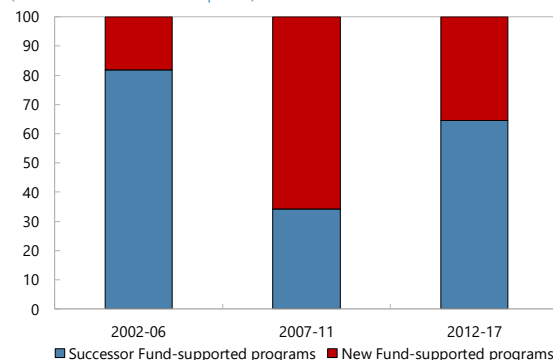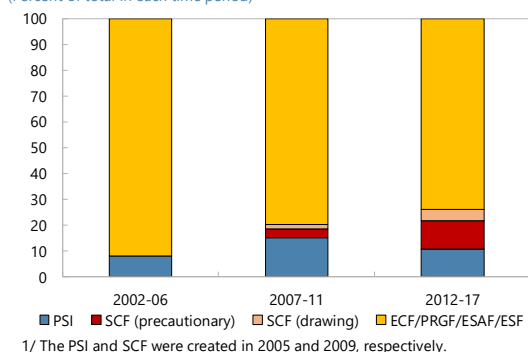(Percent of total in each time period)

■ PSI   ■ SCF (precautionary)   ■ SCF (drawing)   ■ ECF/PRGF/ESAF/ESF
1/ The PSI and SCF were created in 2005 and 2009, respectively.

...and the share of successor arrangements was unchanged.

PRGT Programs: Successor Versus New, 2002-17
(Percent of total in each time period)

■ Successor Fund-supported programs   ■ New Fund-supported programs
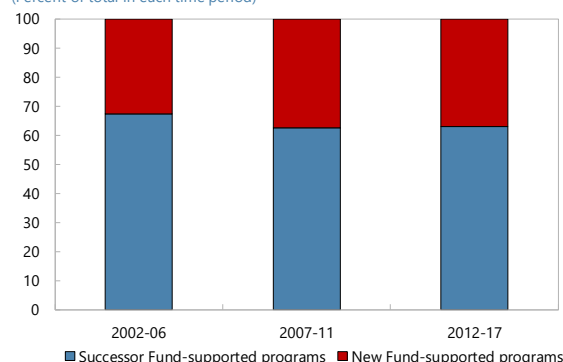
Sources: MONA and IMF staff calculations.

External Viability and Economic Growth

9.   Assessing whether programs helped achieve external viability and sustainable growth requires looking at a range of macroeconomic indicators. The RoC examines the following flow and stock indicators, common across the GRA and PRGT: (i) the current account, including the growth of import and export volumes; (ii) international reserves; (iii) growth; (iv) fiscal balance; (v) public debt and market access; and (vi) the stock of non-performing loans (NPLs) (Figure 4).

10.   The macroeconomic indicators reveal a mixed picture, with significant improvements in most *flow* indicators failing to translate into *stock* adjustments, as growth disappointed. The adjustment in *flows* (current account and fiscal balance) proceeded broadly as planned; in most cases, reserve targets were met or came close to reaching projected levels. However, growth and the anticipated public and private sector balance sheet adjustment—proxied by public debt and NPLs, respectively—fell short of expectations, as well as outcomes in the 2011 RoC period. In part, these

findings are explained by the composition of adjustment, which weighed on growth and negatively impacted balance sheet repair.

Figure 4. Program Macroeconomic Outcomes

Current account outcomes were often better than envisaged.

Distribution of Current Account Projection Errors, T+3
(Percent; errors: actual minus projected)
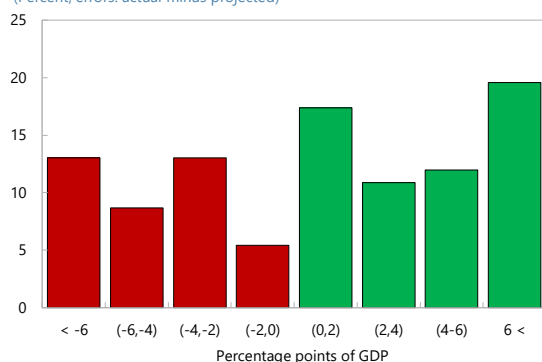
External adjustment out-performed expectations, in some cases reflecting significant import compression.

Distribution of Import Volume Growth Projection Errors
(Percent; errors: actual minus projected; annualized proj. errors between T and T+3)
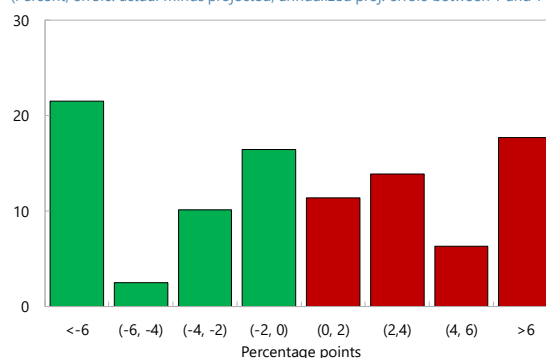
Reserve accumulation did not show systematic projection errors.

Distribution of Gross International Reserves Accumulation Projection Errors, T to T+3 (Percent; errors: actual minus projected)
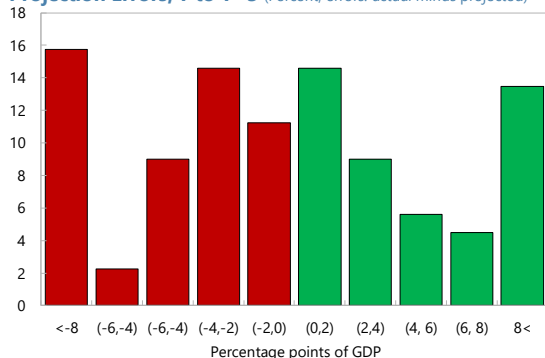
Weaker-than-projected growth...

Distribution of Growth Projection Errors, T+3
(Percent; errors: actual minus projected)
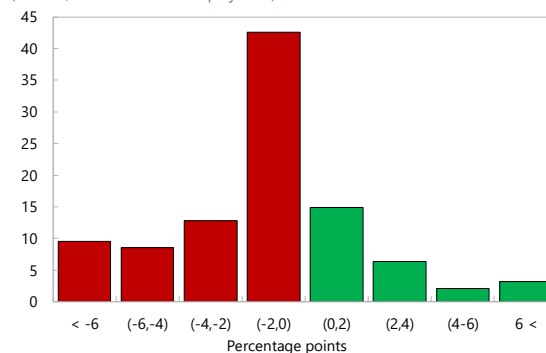
...contributed to weak public balance sheets....

Distribution of Public Debt Projection Errors, T+3
(Percent; errors: actual minus projected; excludes debt restructuring cases)
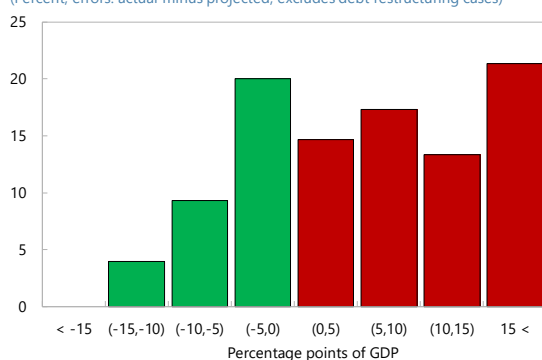
...and held back the repair of private balance sheets.

Non-Performing Loans: GRA Programs
(Percent of lending)
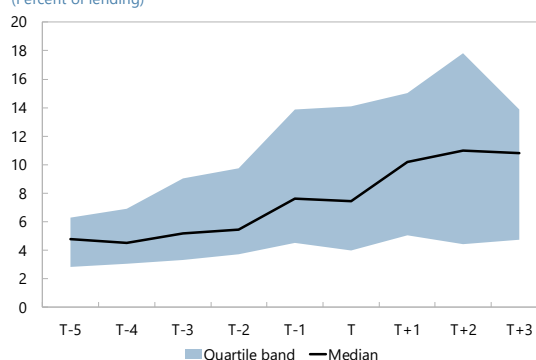
Sources: WEO, IMF country reports, and IMF staff calculations.

- External adjustment often proved to be better than envisaged—in some cases this was due to significant import compression rather than export growth. Import compression reflected the disappointing growth outcomes. In addition to lower-than-expected external demand, weak average export growth likely reflected difficulties in achieving external adjustment under fixed exchange rate regimes and currency unions. During the 2018 sample period, two-thirds of GRA program countries had non-floating exchange rates.

- Fiscal adjustment targets were often met but through less growth-friendly measures than initially planned (Section III.C).

Implementation and Completion Rates

11.   Program implementation and completion data (*intermediate indicators)* provide further insights. The implementation rate of quantitative performance criteria (QPCs) was around 90 percent, while implementation of structural conditions (SCs) reached 80 percent, including those "implemented w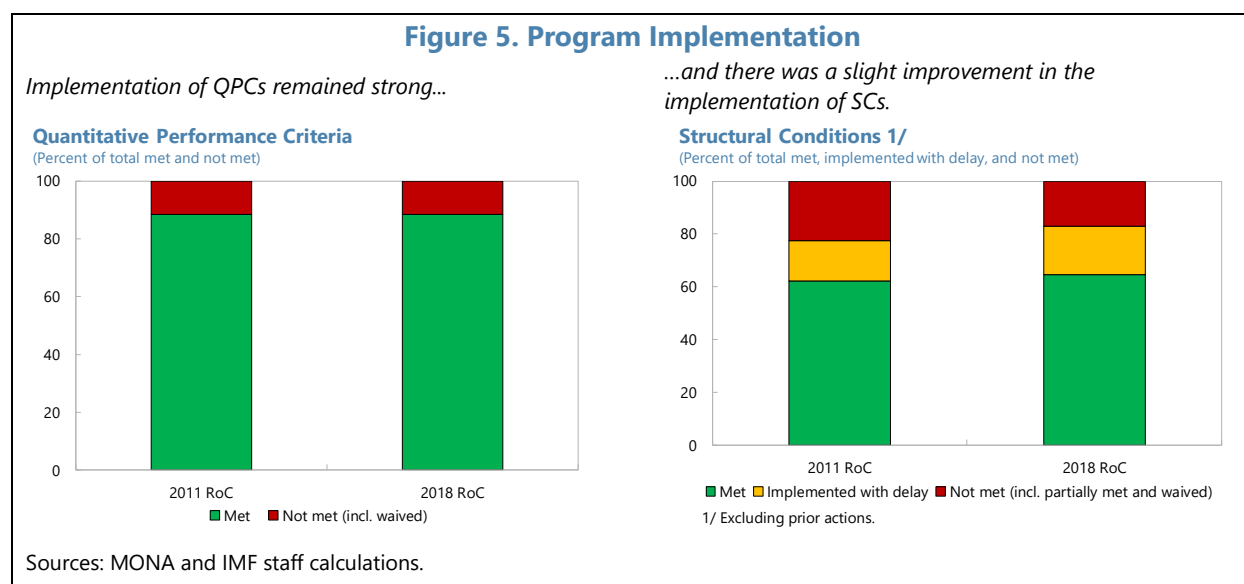ith delay" (Figure 5).[10] This performance was broadly in line with that of the 2011 RoC sample. However, analysis of review and program completion rates reveals a significant increase in the number of programs going off track, both quickly and by mid-program, which is not captured by the "assessed" implementation rates above.[11,12] This could potentially point to weaker ownership (Figure 6 and Section V).

Figure 5. Program Implementation

Implementation of QPCs remained strong...

...and there was a slight improvement in the implementation of SCs.

Quantitative Performance Criteria
(Percent of total met and not met)

Structural Conditions 1/
(Percent of total met, implemented with delay, and not met)

■ Met ■ Not met (incl. waived)

■ Met ■ Implemented with delay ■ Not met (incl. partially met and waived)

1/ Excluding prior actions.

Sources: MONA and IMF staff calculations.

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[10] SCs include structural performance criteria, structural benchmarks (SBs), and prior actions (PAs). A more detailed discussion of the methodology for counting SCs can be found in Andritzky, Munkacsi, Wang (forthcoming).

[11] The assessed implementation data on QPCs and structural conditions that is captured in the MONA database do not include data of program reviews that are not completed (i.e., for programs that go off track and remain off track) thus biasing implementation rates upwards.

[12] See Appendix II for definitions.

Figure 6. Program Completion

An increasing share of programs went off track.

Program Completion Rates
(Percent of programs; excluding in-progress programs)

Legend:
- ☐ Replaced
- ☐ Completed all reviews
- ☐ Completed most reviews
- ☐ Off track mid-program
- ☐ Quickly off track

Sources: MONA and IMF staff calculations.
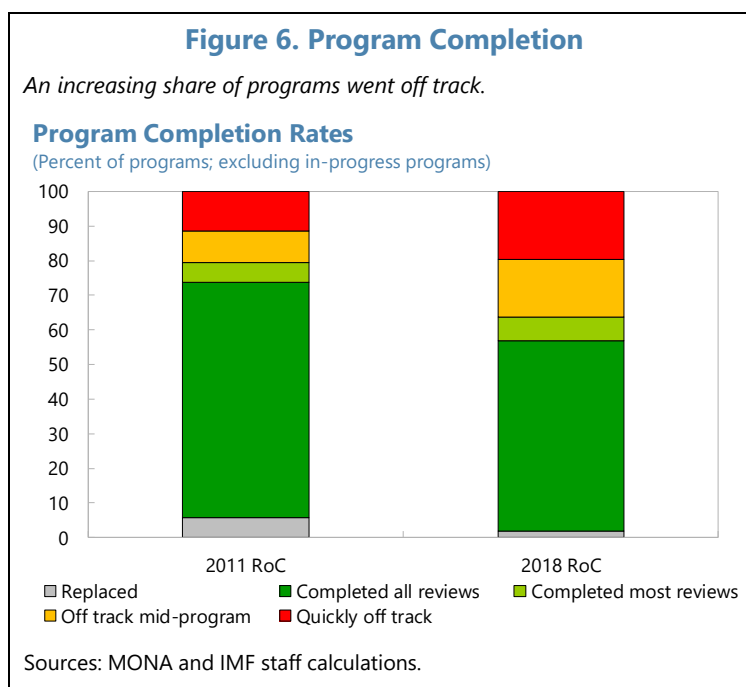
Bottom-Line Assessment

12.   A more systematic assessment of program success requires a methodology that can be applied in a variety of circumstances across a diverse membership. As noted above, there are important differences under the GRA and PRGT in how Fund-supported programs operationalize the overall objectives as specified in the GoC. The RoC therefore develops two separate frameworks to assess program success. For each framework, programs are classified in one of three categories: "successful," "partially successful," and "unsuccessful." In the GRA, the nature of post-program Fund engagement and the evolution of vulnerability indicators are considered as measures of resolving a BoP problem and achieving medium-term viability, respectively.[13] In the PRGT, program success is measured using a different set of indicators tailored to the specific objectives of the LIC facilities, including the evolution of external debt vulnerabilities, social spending, capital expenditure, revenue mobilization, real GDP growth, and inflation.

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[13] The vulnerability exercise (VE) is based on a multisectoral approach to detecting risks that could make a country vulnerable to BoP pressures (Ahuja, Syed, and Wiseman, 2017). It encompasses a more expansive set of indicators than those listed above, as well as country teams' judgment. As part of the VE, IMF staff evaluates vulnerabilities in the fiscal, external, and domestic financial sectors, as well as financial and asset pricing risks, where appropriate.

13.   The consolidated (unweighted) assessment of all programs indicates that three-quarters of Fund-supported programs were at least partially successful (Figure 7).[14]

- **GRA.** One-third of GRA programs are assessed as successful, one-quarter as unsuccessful, and the remainder as partially successful. Successful arrangements typically managed to both reduce vulnerabilities and eliminate or significantly reduce the BoP need. Partially successful programs accomplished one of these two objectives. Unsuccessful arrangements typically saw a persistence or deterioration of vulnerabilities and were often followed by a drawing successor arrangement. In the sample under review, key determinants of success include program completion (proxy for ownership), forecast realism (Section III, A), and a debt operation in countries with high debt vulnerabilities (Section III, D).[15]

- **PRGT.** About 25 percent of PRGT programs are assessed as successful, about 50 percent as partially successful, and about 25 percent as unsuccessful. Successful PRGT arrangements avoided a substantial deterioration in DSA ratings and achieved the program targets in at least three of the five core indicators. Partially successful PRGT programs avoided a substantial deterioration in DSA ratings and achieved the program targets in one or two of the core indicators. Unsuccessful programs had DSA ratings that substantially deteriorated or remained in distress and/or met none of the program targets in the five core indicators. In the sample under review, success factors include program completion (proxy for ownership), an absence of fragilities, and, to some extent, favorable commodity prices.

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[14] This exercise is based on a subset of programs with end-dates prior to end-September 2018, for which there are sufficient data available. In the GRA, this includes 28 out of 52 programs, since 13 programs are still ongoing and 11 program countries were without a VE rating. In the PRGT, this includes 50 programs based on data availability, out of a sample of 81 programs, 23 of which are still ongoing.
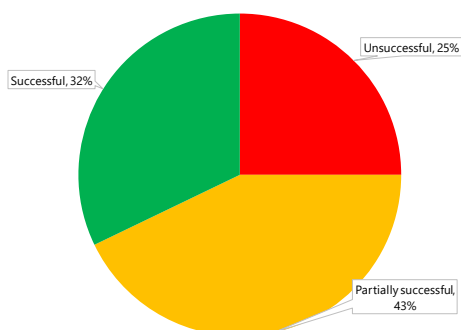
[15] Section III of the background supplement presents the methodological details supporting the assessment of program success, and further analysis of success factors.

Figure 7. Program Success

Three-quarters of GRA programs achieved some success.

Program Success: GRA
(Percent of completed programs)

Unsuccessful, 25%

Successful, 32%

Partially successful, 43%

Most GRA programs followed by drawing successor arrangements tended to be unsuccessful.

Drawing Successor Program 1/

After program

Before program	H	M	L
H	67%	17%	0%
M	17%	0%	0%
L	0%	0%	0%

In contrast, most GRA programs with successor signaling arrangements tended to be at least partially successful.

Signaling Successor Program 1/

After program

Before program	H	M	L
H	22%	22%	0%
M	22%	11%	11%
L	0%	0%	11%

But less than half of those GRA programs with no successor arrangement were fully successful.

No Successor Program 1/

After program

Before program	H	M	L
H	23%	38%	0%
M	0%	38%	0%
L	0%	0%	0%

Three-quarters of PRGT programs were at least partially successful.

Program Success: PRGT
(Percent of completed arrangements)

Unsuccessful, 24%

Successful, 28%

Partially successful, 48%

Social spending ITs were met in most cases, but a majority saw capital expenditure, revenue, and growth shortfalls.

Performance in Five Core Indicators: PRGT
(Percent of total)

Categories: Social spending IT, Capital expenditure, Revenue (excl. grants), Real GDP growth, Inflation

Legend: Met (green), Not met (red)

Sources: VE indicators, MONA, and IMF staff calculations.

1/ The number in each cell represents the percent of programs experiencing the corresponding transition, as a share of all programs within the same successor category. The transition matrices highlight the change in vulnerability ratings (low (L)/ medium (M)/ high (H)) between the VE exercises immediately before and after the program.

14.   **Analytical groups had varying levels of success (Figure 8)**. Post-GFC programs fared better than commodity exporters and other developing countries. Political/economic transformation cases had both the highest success and failure rates of all groups.

Figure 8. Program Success by Analytical Group and Completion

Program success varied across analytical groups.

Completion rates were a strong predictor of success.
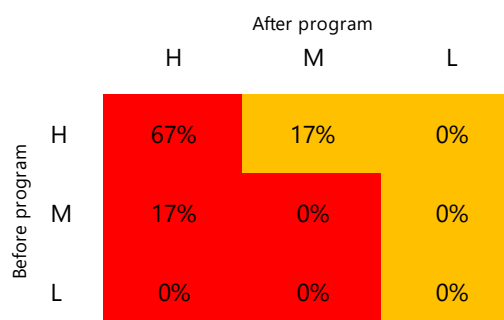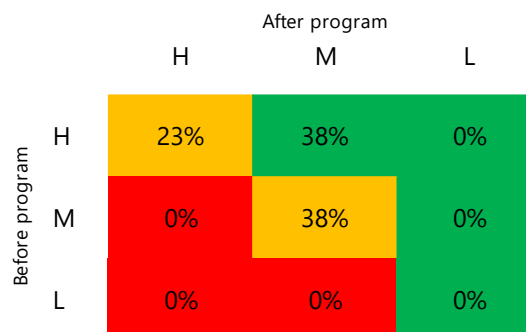
Source: IMF staff calculations.
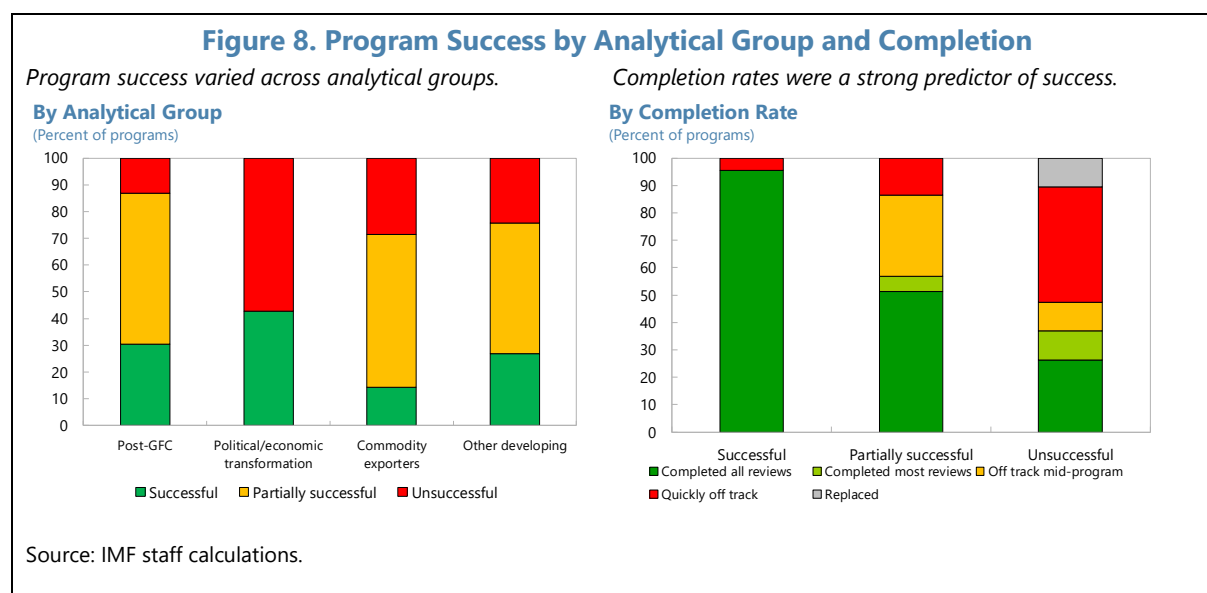
15.   **Program success during the period was constrained by the scale of the challenges.** Achieving success during this period often required the implementation of difficult measures to address protracted issues, and typically in an uncertain environment. At the same time, evidence suggests that Fund-supported programs may have been "risky" by design, with overly optimistic baseline assumptions (Section III, A). Success is thus relative, and one could conclude that Fund-supported programs performed reasonably well given the circumstances and the degree of program ambition, and that repairing the global economy after the GFC may simply have required more time.

MACROECONOMIC POLICY CONDITIONALITY AND PROGRAM DESIGN

A. Growth Optimism

16.   **Growth outcomes were disappointing, marking a break with previous experience.** In the period covering the 2011 RoC sample, forecasts were broadly accurate or only mildly optimistic for both program and surveillance countries. However, in the 2018 sample period, there was a general shift toward growth optimism.[16] This trend occurred in both Fund surveillance and Fund-supported programs, suggesting that common underestimated factors were important drivers,

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[16] Forecast errors are defined as actual less projected growth rates. Thus, negative growth forecast errors indicate an optimistic forecast (higher growth forecast) relative to the actual outturn.

including the downward trend in global productivity growth after the GFC (IMF, 2015a) (Figure 10).[17] On average, growth outturns disappointed by slightly more than one percentage point over the short run and about 1½ percentage points over the medium term—with the largest forecast errors occurring for political/economic transformation countries and commodity exporters.

17.   In most cases, growth optimism was intrinsic to program design, and ultimately appears to be a key factor influencing program success (Figure 9). Two-thirds of program request documents noted that macroeconomic risks were slanted to the downside, only around 15 percent assessed risks to be broadly balanced, and very few cases pointed to a favorable balance of risks. This indicates that a large majority of programs adopted an optimistic baseline. Optimistic growth assumptions understated the financing and adjustment required to achieve program objectives, with consequences for program implementation and success. Where growth met or overperformed projections, programs tended to be more successful in achieving the objectives

Figure 9. Growth and Program Success

Programs tended to be more successful where GDP growth forecasts turned out broadly accurate.

Average Growth Projection Errors for T+1 to T+3
(Percentage points; based on 28 completed GRA programs; forecasts as of year T)

Sources: MONA and IMF staff calculations.

stated above (Section II), while programs with the largest growth disappointments were typically unsuccessful.
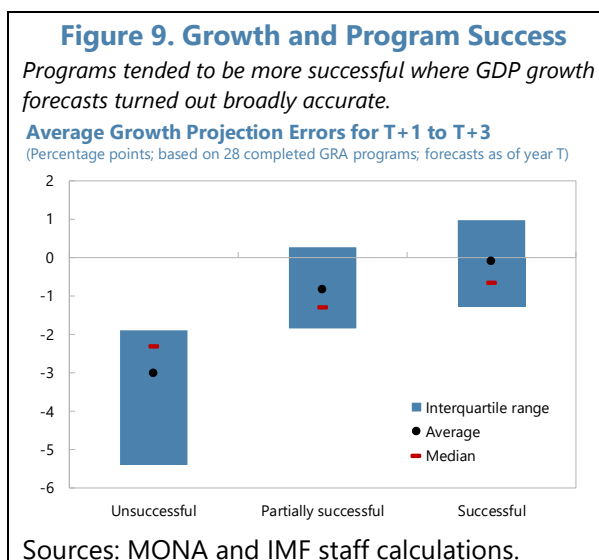
18.   Global developments played an important role in growth optimism. Regression analysis suggests that disappointing trading partner growth and lower-than-expected commodity prices explain around one-quarter of the short-term growth forecast errors.[18] This is consistent with the observed shift in forecast errors for both program and surveillance countries. The impact was particularly striking for commodity exporters, where the sharp drop in commodity prices contributed about one-third of the short-term forecast error.

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[17] See also An, Jalles, and Loungani (2018), discussing that the ability to predict turning points, particularly recessions, is limited—for both private and official (e.g., IMF) forecasts.
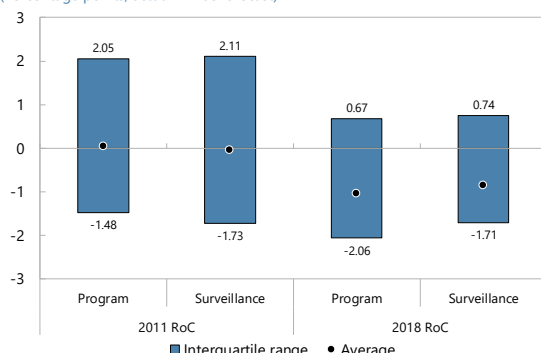
[18] See Section VII.B of the background supplement for the methodology used to estimate the decomposition of growth forecast errors.

Figure 10. Growth Optimism

Both program and surveillance cases saw a shift to disappointing growth outcomes.

Short-Term Growth Forecast Errors, T+1
(Percentage points; actual minus forecast)

This shift occurred for both near- and medium-term growth.

Short- and Medium-Term Growth Forecast Errors
(Percentage points; actual minus forecast)
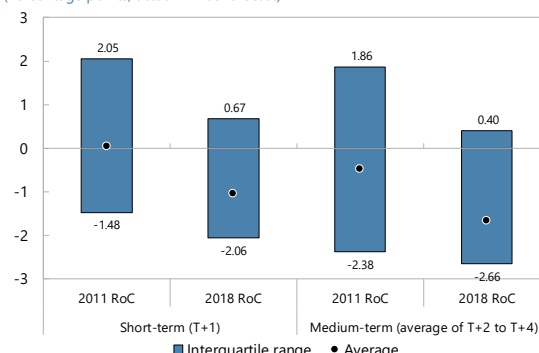
Both external and domestic factors contributed to errors.

Short-Term Growth Forecast Errors: Estimated Contributions
(Percentage points; 2018 RoC sample)
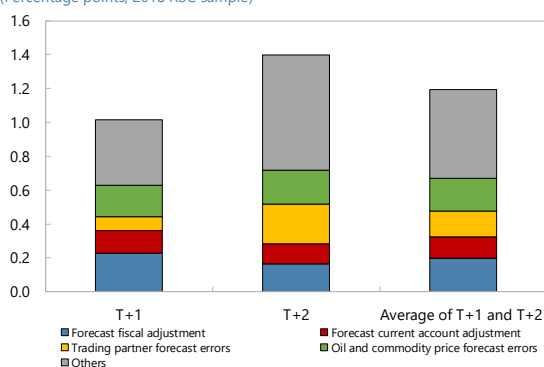
In particular, total factor productivity growth disappointed.

Medium-Term Growth Forecast Errors by Factor Input 1/
(Percentage points; annualized average)
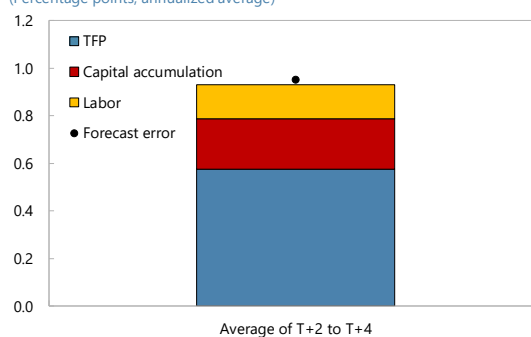
1/ Data constraints limit the sample to 28 countries.

Sources: Penn World Tables (version 9.0), WEO, and IMF staff calculations.

19.   Programs also appear to have systematically underestimated the impact of adjustment on growth. The regression analysis suggests that staff underestimated the growth impact of adjustment, both public and private, and together, these factors account for another quarter of growth projection errors.[19] This could reflect that the ex-post quality of adjustment was less-growth friendly than anticipated, and/or that assumed fiscal multipliers were too low. Fiscal multipliers were only mentioned in around 15 percent of program request documents. Even as awareness of the issue increased after the GFC, few Fund-supported programs recognized the uncertainties and risks to the outlook if multipliers proved to be larger than anticipated.

20.   The remaining large and unexplained component of growth forecast errors could relate to an overestimation of productivity gains and capital investment, and some idiosyncratic factors. Since regression results include a large and unexplained residual of about

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[19] The analysis captures private-sector adjustment through the projected current account adjustment and public-sector adjustment through the planned fiscal adjustment. The impact on growth was greatest during episodes of large fiscal adjustments.

50 percent, growth accounting was used to explore the errors related to each of the key factor inputs (TFP, capital, and labor), as well as qualitative analysis.[20] For most groups, lower-than-envisaged Total Factor Productivity (TFP) growth was a major contributor. This could indicate that assumed payoffs from structural reforms were overly optimistic, that staff overestimated confidence effects, or that projections did not fully internalize the impact of the downward trend in global productivity on potential output. For other developing countries, lower-than-projected capital accumulation was an important factor, consistent with a less growth-friendly fiscal consolidation than anticipated (see below). Other idiosyncratic factors also played a role in projection errors, including natural disasters (Solomon Islands, 2012 ECF), political transitions (Tunisia, 2013 SBA), and conflict (Ukraine, 2014 SBA).[21] Furthermore, data limitations in some developing countries hampered analysis of the drivers of growth, with knock-on effects to projections.

> **Recommendations**
>
> - **Increase scrutiny of the realism of program baselines.** Better calibrate risks, discuss downside scenarios, and develop contingency plans.
>
> - **Strengthen the discussion and analysis of the impact of program policies on growth**, including fiscal multipliers and the pay-offs from structural reforms.

B. Monetary Conditionality

21.   During the 2018 RoC period, most Fund-supported programs saw inflation decline and modestly undershoot forecasts, driven in large part by global trends (Figure 11). On average, inflation declined in both GRA- and PRGT-supported programs and undershot projections in most programs, consistent with growth optimism, and reflecting the weak global environment. Forecast errors were relatively small compared with the previous RoC period, and consistent with the errors in surveillance countries during the period.

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[20] Section VII.C of the background supplement presents details of the growth accounting methodology.

[21] See Section I of the case studies.

Figure 11. Inflation Outcomes and Monetary Policy Conditionality

On average, inflation in Fund-supported programs declined during the 2018 RoC period.

Inflation Outcomes
(Percent of change)

Inflation also undershot program projections, consistent with surveillance cases, largely reflecting global trends.

Inflation Forecast Errors
(Percentage points; average errors from T+1 to T+4; actual minus forecast)
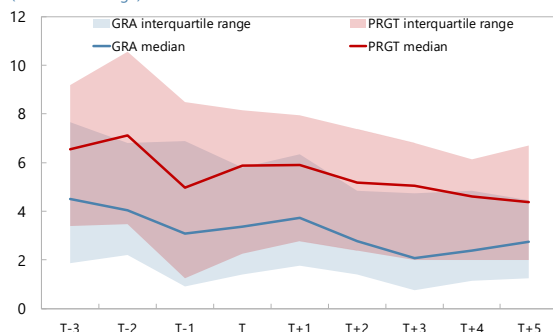
Quantity-based conditionality dominated program design...

Landscape of Monetary Conditionality 1/
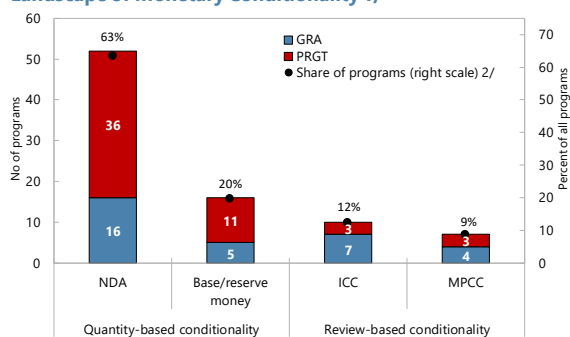
1/ QPCs only.
2/ Out of 82 programs that included monetary conditionality.
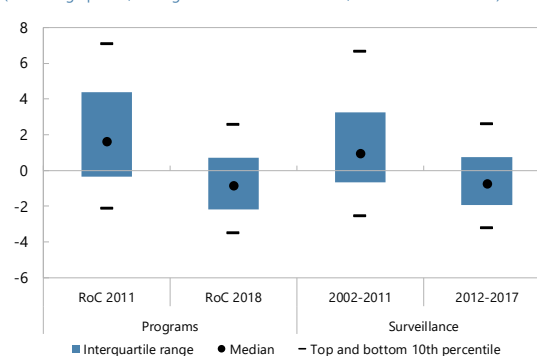
...while use of MPCCs was limited in countries with monetary aggregates and 'other regimes'.

Monetary Conditionality by Type of Framework
(Number of programs)
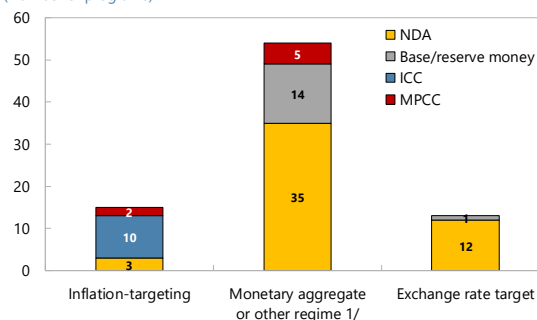
1/ Other regimes are those where the country has no explicit stated nominal anchor, but rather monitors various indicators, or where no information is available.

Inflation performance was similar across different types of conditionality...

Inflation Forecast Errors by Monetary Conditionality
(Percentage points; median of the average forecast errors during program years)

1/ There is no monetary conditionality in countries with limited scope for monetary policy (currency unions, currency boards, dollarized/euroized economies).

...but overshooting was extreme in some cases.

Inflation Forecast Errors by Monetary Conditionality: Top Quartile (Percentage points; median of the average forecast errors during program years)
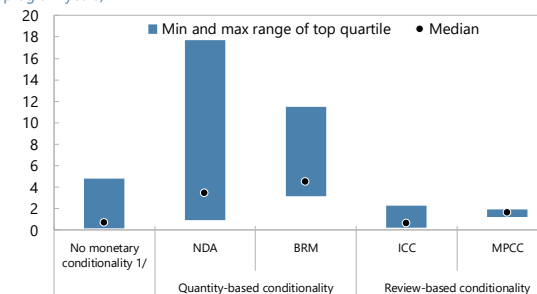
1/ There is no monetary conditionality in countries with limited scope for monetary policy (currency unions, currency boards, dollarized/euroized economies).

Sources: MONA, WEO, and IMF staff calculations.

22.   Monetary conditionality mainly relied on quantity-based targets, with limited use of the review-based approach to conditionality.[22] Ceilings on monetary aggregates—net domestic assets (NDA) and base/reserve money (BRM)—continued to dominate program conditionality, particularly in PRGT arrangements. Inflation consultation clauses (ICCs)[23] were only used in inflation-targeting countries, while Monetary Policy Consultation Clauses (MPCCs)[24] were mostly adopted in countries with evolving monetary regimes. In countries with IT regimes that staff did not consider to be "fully-fledged," conditionality was tailored to include NDA targets (Moldova, 2010 ECF-EFF; Georgia, 2012 SBA-SCF; and Armenia, 2010 ECF-EFF) or MPCCs (Armenia, 2014 EFF; and Ghana, 2015 ECF). Overall, the use of MPCCs remained limited, despite more countries evolving towards more flexible operational targets and forward-looking policies (IMF, 2014b).[25]

23.   Implementation of monetary conditionality was strong, though inflation outcomes were facilitated by global trends. Observance of targets was high across both GRA and PRGT programs, particularly for review-based conditionality. Implementation rates for BRM targets were somewhat lower, and there were large NDA misses for commodity exporters. Inflation forecast errors were similar across all forms of conditionality, likely helped by global trends. Programs employing ICCs saw the lowest forecast errors, which may reflect a stronger capacity to implement monetary policy at the onset. However, there were cases of significant inflation overshooting, where errors tended to be driven by major shocks (i.e., military conflict, supply-side shocks, large depreciations, and embezzlement schemes), rather than failure to implement conditionality (GRA: Ukraine, 2014 SBA; Maldives, 2009 SBA; and PRGT: Mozambique, 2015 SCF; Malawi, 2010 and 2012 ECFs; Tanzania, 2010 PSI).

Recommendation

- **Review experience with ICCs and MPCCs** and consider reforms to modernize the review-based monetary policy conditionality framework.

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[22] In analyzing monetary policy conditionality, the sample of 133 Fund-supported arrangements in the 2018 RoC was limited to 82 (30 GRA; 52 PRGT), after dropping programs with no monetary policy QPCs, such as those involving members of currency unions, those with currency board arrangements, or fully dollarized/euroized economies.

[23] ICCs were introduced in 1999.

[24] MPCCs were introduced in 2014 to facilitate a transition to forward-looking monetary policy regimes.

[25] For more details on the standards that should be observed under the MPCC policy, please see IMF (2014b). There were 55 countries in the 2018 RoC sample with at least some scope for independent monetary policy. According to IMF (2014b), "the universe would include countries with monetary-targeting regimes, other monetary policy regimes, and crawling pegs/crawl-like arrangements in the Annual Report on Exchange Arrangements and Exchange Restrictions (AREAER)."

C.   Quality of Fiscal Adjustment[26]

24.   Fiscal plans aimed to mitigate the contractionary impact of consolidation on growth, particularly in post-GFC and political/economic transformation programs (Figure 12).[27] Revenue measures typically focused on broadening the tax base, reducing distortions, and improving revenue administration. Around a quarter of post-GFC programs planned base-broadening tax measures, with another quarter envisaging rate-raising measures combined with the elimination of exemptions to decrease distortions. Most developing country programs focused on domestic revenue mobilization, including measures to strengthen the tax and customs administrations, and raise or introduce new taxes, particularly VAT. Spending measures in most programs centered on improving efficiency, including reductions in current subsidy and wage bill spending, to free up resources for growth-enhancing public investment, while protecting priority health and education spending, particularly for developing countries.

25.   However, the realized (ex post) fiscal adjustment was often of lower quality than envisaged. In other developing countries, capital spending often fell short of initial targets, with spending cuts often coinciding with shortfalls in revenue and/or grants.[28] Revenue mobilization tended to underperform, often due to inconsistent institutional development and insufficient political will (IMF, 2018a). That said, where revenues did turn out higher than envisaged (e.g., Mauritania, 2010 ECF), they were used to support infrastructure investment. In post-GFC countries, implementation of current expenditure measures generally lagged, possibly due to political constraints, particularly where programs envisaged wage bill measures, energy subsidy reform, or pension reforms. Instead, the composition of adjustment shifted towards revenues and quicker and politically easier capital expenditure cuts. In some cases, however, revenues overperformed, due to positive macroeconomic developments, efforts to strengthen tax compliance, and strong reform implementation (e.g., Armenia 2010 ECF; Portugal 2011 EFF; and Serbia 2015 SBA). For commodity exporters, the collapse in oil prices resulted in a much larger-than-projected decline in revenue, leading to capital expenditure cuts.

26.   Social expenditure was generally protected in Fund-supported programs. More than half of programs in the 2018 RoC sample included indicative targets (ITs) or QPCs on social and other priority spending—more than double the share in the previous RoC period.[29] In the PRGT and

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[26] See Section II of the case studies for further details.

[27] It should be noted that some other developing and commodity exporter programs planned for expansionary fiscal policy to scale up investment. The 2018 RoC uses the terms fiscal *consolidation* and fiscal *adjustment* interchangeably.

[28] An analysis of half of the developing country programs with planned consolidation indicates that grants were often lower than envisaged at program approval. Nonetheless, as Figure 12 shows, capital expenditure fell by more than grants.

[29] This reflects the marked increase in conditionality on social policy in PRGT programs after the 2009 PRGT reform, which called for program design to support policies that safeguard social and other priority spending—and, whenever appropriate, to increase it (IMF, 2002c and 2014). GRA policy does not call for a generalized inclusion of conditionality on social policy.

GRA, around 90 and 20 percent of programs, respectively, included conditionality on social spending.[30] Performance against ITs on social spending was broadly satisfactory, and comparable to other types of ITs, with about 70 percent met across the PRGT and GRA. In cases where ITs were not met, technical or administrative challenges combined with weak absorptive capacity were often cited (e.g., Tunisia, 2013 SBA; and Grenada, 2014 ECF). Social assistance spending and health and education spending were common elements of ITs, and these were broadly maintained as a share of GDP and expenditure (Figure 12). For PRGT countries, real expenditure growth in these categories remained positive, on average, even under fiscal consolidation programs.[31] Over the longer run, protecting social spending should also help support better social outcomes.[32]

27. **Nevertheless, there was limited focus on the quality of social spending, and on social protection and inequality, more generally.** Though case studies suggest that there was broad coverage of social issues in program Memoranda of Economic and Financial Policies (MEFPs), only one-quarter of programs included a SC related to social issues (excluding pension reforms).[33] In most cases, SBs focused on social sector reforms (e.g., cash transfer programs or education expenditure frameworks), with few focused on protecting capital spending or improving the quality or effectiveness of social spending. While SCs on social sector issues often aimed at mitigating the impact of energy subsidy reform on the poor and vulnerable groups (e.g., Ukraine, 2014 SBA and 2015 EFF), authorities' survey responses suggest that there is scope for significant improvement in assessing the social and welfare impact of program policies.[34] Strengthening data quality remains key to enhancing conditionality in these areas.

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[30] For example, Jamaica's 2013 EFF arrangement and 2016 SBA included floors on social spending, which were all met. In addition, program documents discussed in detail the authorities' commitment to reduce the adverse impact of adjustment on vulnerable groups by improving the existing social protection framework.

[31] Identifying the impact of IMF-supported programs on social spending is econometrically difficult given the sometimes-large changes in key macro variables during crisis episodes. While findings from empirical studies are mixed, some point to the association between IMF-supported programs and the protection of social spending (Clements, Gupta, and Nozaki, 2013; and IMF, 2017a).

[32] See Gupta, Verhoeven, and Tiongson, 2002; Bradley and others, 2011; Bradley and Taylor, 2013; and Rubin and others, 2016. The 2011 RoC noted the positive relationship in developing countries between social spending and selected social indicators such as gross secondary school enrollment rates and mortality rates for children younger than five years old.

[33] Pension reforms were excluded from the RoC analysis, given that they do not always focus on strengthening the adequacy of pension systems. The process for IMF engagement on social spending, including spending on pensions, will be discussed in the forthcoming Board paper *A Strategy for IMF Engagement on Social Spending*.

[34] The 37 program request documents in the 2018 sample that mentioned energy subsidy reform also mentioned mitigating measures to protect the poor. Section I of the background supplement includes details of the 2018 RoC survey results on social protection and inequality issues.

Figure 12. Quality of Fiscal Adjustment 1/

Adjustment was primarily geared toward consolidation...

Distribution of Fiscal Consolidation and Expansion 2/
(Number of programs)
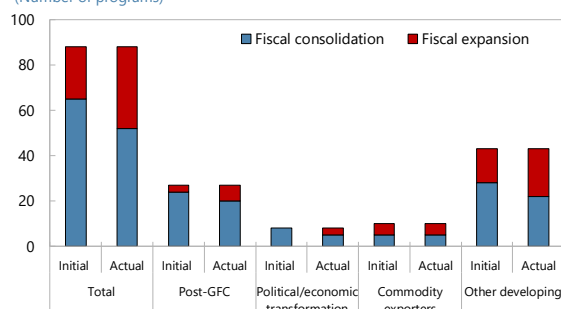
2/ 88 programs in the sample: 27 post-GFC; 8 political/economic transformation; 10 commodity exporters; 43 other developing.

Social ITs have become increasingly prevalent...

Social ITs in PRGT Programs
(Number of ITs per review)
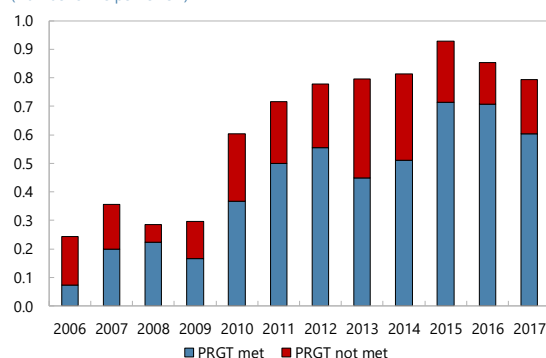
Social spending was generally protected as a share of GDP in programs with social ITs...

Education and Health Spending Before and After Program Initiation (Percent of GDP)

...but the composition often differed across programs.

Contributions to Fiscal Consolidation
(Percent of GDP; annualized average)
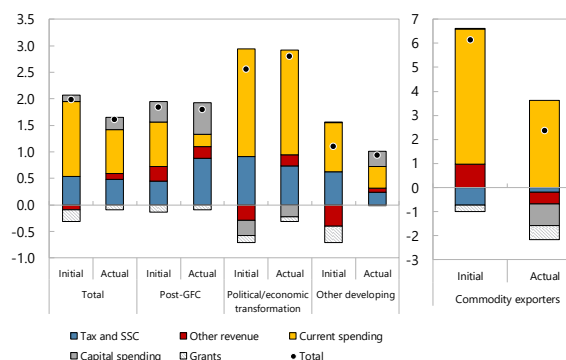
...including in GRA programs.

Social ITs in GRA Programs
(Number of ITs per review)
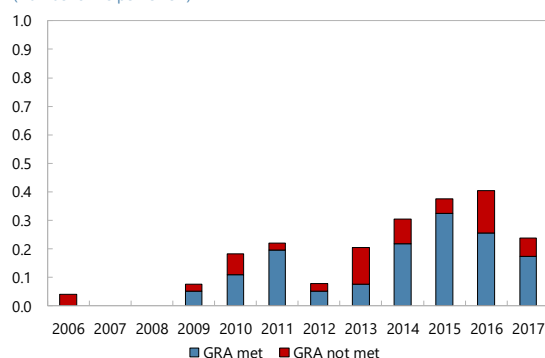
...as well as a share of government expenditure in PRGT programs, despite some small declines.

Education and Health Spending: PRGT Programs
(Percent of government expenditure)

Sources: WDI, WEO, and IMF staff calculations.
1/ Based on cyclically-adjusted data. Consolidation (expansion) denotes an increase (decrease) in the cyclically-adjusted primary balance.
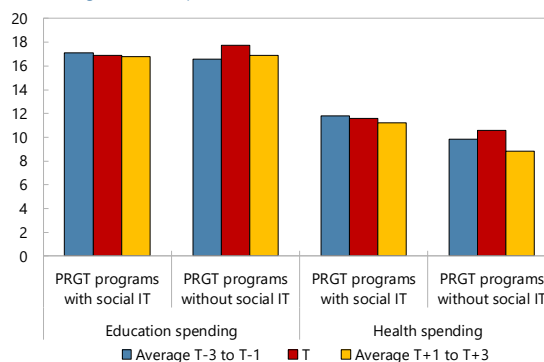
> **Recommendations**
>
> - **Use more granular fiscal conditionality.** Where relevant for meeting program objectives, PCs or ITs (e.g., a floor on capital spending or revenue performance, or ceiling on current expenditure), as well as prioritizing SBs on social sector issues or capital investment management, could help ensure higher-quality fiscal adjustment, including higher levels of public investment. Nevertheless, 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.
>
> - **Increase focus on the quality of social spending and the impact of program policies on poor and vulnerable groups.** This should be underpinned by early engagement with authorities on the topics, and continued development of Fund policy advice on sustainable social spending, drawing on the expertise of international development institutions, including to strengthen data quality.

D. Public Debt

28.   Public debt vulnerabilities were a pervasive issue for Fund-supported programs during the period. In post-GFC advanced economies, high debt levels were a legacy of the GFC, including the materialization of contingent liabilities and lower potential GDP growth. Initial debt levels in emerging markets (EMs) and LICs were much lower, with the latter benefiting from debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative. However, this period saw a large and rapid accumulation of debt in many LICs, in part driven by easy global financing, especially new non-concessional lending, and accelerated by the massive commodity price shock of 2014 in commodity-producing countries.

Evolution of Public Debt Vulnerabilities

29.   In one-third of Fund-supported programs, debt sustainability improved, particularly in those where initial vulnerabilities were high. For GRA programs, the risk assessment implied by staff's statistical model,[35] which does not incorporate judgment, shows a significant improvement in sustainability. The share of programs where debt was assessed as "unsustainable" by this model, declined from about 25 percent prior to approval of Fund arrangements to around 10 percent at end-program (Figure 13).[36] In the PRGT (LIC DSA), most programs involving countries at "high risk"

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[35] This probit model was developed by staff for internal purposes to provide a probabilistic assessment of debt distress for a MAC seeking IMF support. The model focuses on defaults and restructurings in Fund-supported arrangements between 1990 and 2013. The model-generated probabilities of distress are compared to probability thresholds to classify countries into sustainability categories. See Section VII.D of the background supplement for more details. New models are being developed in the context of the ongoing MAC DSA Review.

[36] The probit model assessed debt to be "unsustainable" at program approval in 11 programs. By end-program, the

or in "debt distress" (prior to approval of arrangements) saw a reduction in the risk rating. While this success was somewhat offset by a deterioration in other PRGT cases, performance was relatively strong compared to the increase in the risks of debt distress in the Low-Income Developing Countries (LIDCs) group as a whole, from 2013 onwards.[37] These findings are also supported by analysis of debt projection errors, which shows that around a quarter of GRA and PRGT programs overperformed initial projections, mainly due to fiscal deficit overperformance.[38]

30.   **In roughly one-half of the arrangements, the assessment of debt sustainability did not change, though in some cases this masked a gradual erosion of fiscal buffers.** More than 50 percent of GRA and PRGT programs experienced no change in the statistical risk assessment (GRA) or bottom-line debt sustainability assessments (PRGT). In most of these cases, debt was already sustainable (GRA) or at moderate or low risk (PRGT). Similarly, most programs also only saw a modest overshooting of debt projections. Programs in the interquartile range saw debt targets missed, on average, by around 5 percent of GDP. Fiscal deficit slippages, exchange rate depreciation and higher real interest rates were the main contributing factors. While the overshooting was relatively modest, it still implied a reduction in fiscal space relative to initial program baselines.

31.   **Debt sustainability deteriorated in the upper quartile of programs, and most of these went off track**.[39] Debt projection errors in one-sixth of the sample were extremely high, averaging 18 percent of GDP in GRA cases and 32 percent of GDP in PRGT cases. In the majority of these cases, programs went off track, with only around 25 percent reaching completion. A range of exogenous and domestic factors were at play:

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model assessed debt sustainability to have improved in 9 of these programs: to "sustainable with high probability" in 5 programs and to "sustainable but not with high probability" in 4 programs. Of these 9 programs, 6 involved debt operations.

[37] The increase in debt vulnerabilities of LIDCs is well documented in the 2018 LIDC report (IMF, 2018b). Between end-2013 and end-2017, there were two other non-program countries that deteriorated into debt distress (South Sudan and Congo), and an additional seven countries saw ratings downgraded to high risk while in non-program status (Mauritania, Ghana, The Gambia, Lao P.D.R., Cameroon, Zambia, and Ethiopia).

[38] Public debt projection errors were calculated by comparing public debt projections at arrangement approval with actual outcomes at T+3, drawing on data from the program approval DSA and the most recent DSA available. Projection errors were decomposed to determine the key drivers of the errors, using the standard MAC and LIC DSA categorization. Analysis covers programs approved before end-2015 and without debt restructuring during the program period.

[39] GRA cases judged to experience significant deterioration include those moving from "sustainable with high probability" to "sustainable but not with high probability" or "unsustainable" under the probit model, which does not incorporate staff judgment. For the PRGT, significant deterioration applies to those moving from "moderate" to "high risk," and those moving from "high risk" to "debt distress."

- **GRA.** The leading causes of deterioration in debt sustainability were fiscal slippages (Serbia, 2011 SBA, Tunisia, 2016 EFF), lower growth (Greece, 2010 SBA; Portugal, 2011 EFF), bank recapitalization costs (Serbia, 2011 SBA), and assumption of SOE liabilities (Portugal, 2011 EFF). Other cases involving large projection errors were driven by: policy slippages (North Macedonia, 2011 PCL); conflict and security issues, with resulting fiscal loosening and disappointing growth outturns (Tunisia, 2013 SBA; Ukraine, 2014 SBA); and shocks to key trading partners (Armenia, 2014 EFF; Georgia, 2014 SBA).

- **PRGT.** Risk rating downgrades were affected by conflict (Central African Republic, 2012 ECF; Yemen, 2014 ECF); the 2014 commodity price shock and natural disasters (Chad, 2014 ECF and Haiti, 2015 ECF, respectively); and the uncovering of previously undisclosed debt (Mozambique, 2013 PSI). Some of these countries saw very large projection errors. Policy slippages, contingent liabilities and off-budget guarantees, and governance/public financial management (PFM) weaknesses were all recurring themes in countries experiencing very large debt projection errors (Table 1).[40]

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[40] These findings are consistent with existing IMF studies (e.g., LIC-DSF discussion and Mooney and de Soyres, 2017).

Figure 13. Evolution of Public Debt Vulnerabilities

In the GRA, debt sustainability improved in about one-third of the programs, partly reflecting debt restructuring.

DSA Risk Assessment: GRA Probit Model 1/

		End-program, or latest (percent)			
		Share at program approval	Unsustainable	Sustainable but not with high probability	Sustainable with high probability	Share at end-program (percent)
Program approval	Unsustainable	26.2	4.8	9.5	11.9	9.5
	Sustainable but not with high probability	14.3	0.0	4.8	9.5	21.4
	Sustainable with high probability	59.5	4.8	7.1	47.6	69.0

Sources: IMF staff calculations.
1/ Based on 42 observations.

In the PRGT, the improvement was less pronounced, but there was a notable reduction in high-risk cases.

DSA Risk Assessment: LIC DSA 1/

		End-program 2/ (percent)			
		Share at program approval	Debt distress	High risk	Moderate risk	Low risk	Share at end-program (percent)
Program approval	Debt distress	11.3	1.9	0.0	7.5	1.9	11.3
	High risk	22.6	5.7	7.5	9.4	0.0	13.2
	Moderate risk	37.7	3.8	5.7	24.5	3.8	52.8
	Low risk	28.3	0.0	0.0	11.3	17.0	22.6

1/ Based on 55 observations.
2/ The first DSA after the program, or latest.

Average projection errors (and their causes) varied across analytical groups.

Decomposition of Public Debt Projection Errors
(Percentage points of GDP; T to T+3 cumulative; without debt restructuring)

Large projection errors are concentrated in small groups.

Decomposition of Public Debt Projection Errors
(Percentage points of GDP; T to T+3 cumulative; without debt restructuring)
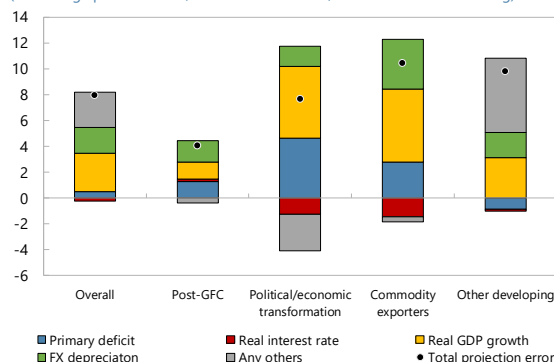
In the GRA, exchange rate depreciation, growth disappointment, and fiscal slippage were the main causes of projection errors.

Decomposition of Public Debt Projection Errors: GRA
(Percentage points of GDP; T to T+3 cumulative; without debt restructuring)
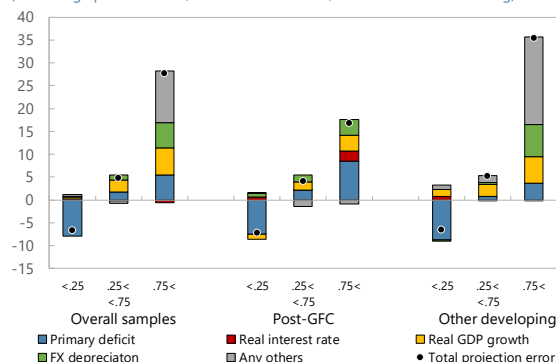
These factors also played a role in the PRGT, but large residuals were the driving force in large-error cases.

Decomposition of Public Debt Projection Errors: PRGT
(Percentage points of GDP; T to T+3 cumulative; without debt restructuring)

Sources: IMF country reports, WEO, and IMF staff calculations.
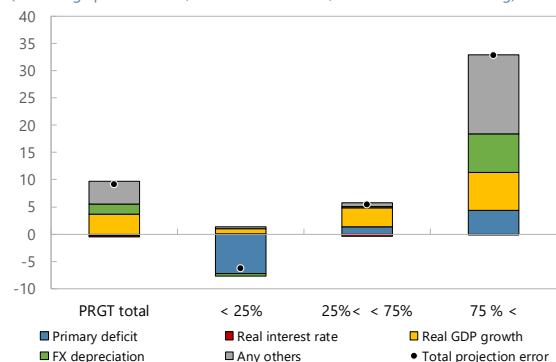
Table 1. High Public Debt Overshooting: Other Developing Countries

Country	Program Completion 2/	Decomposition of debt projection error 1/						Drivers								Comments
								Exogenous				Domestic				
		Total	Primary deficit	Real interest rate	Real GDP growth	Exchange rate depreciation	Other	Weather	Commodity prices	Security	Other	Policy slippage	Contingent liabilities / guarantees	Governance / PFM	Other	
Niger - ECF 2012	L	8	8	-5	3	5	-2	✓	✓	✓					✓	Drought; decline in commodity prices; deterioration of the security environment; failure of envisaged oil export pipeline to materialize.
Benin - ECF 2010	C	13	0	-3	0	1	14					✓			✓	Breach of nonconcessional borrowing ceiling to finance development spending for MDGs.
Cabo Verde - PSI 2010	C	17	12	1	14	-1	-9					✓			✓	Scaling up of public investment; improvements in recording of debt.
Mauritania - ECF 2010	C	18	-13	-4	-1	-5	40								✓	Delays in restructuring debt to Kuwait.
Rwanda - PSI 2013	IP	21	1	0	0	6	14		✓				✓			Currency depreciation due to commodity price shock; higher-than-anticipated investment in the form of off-budget guarantees.
Malawi - ECF 2010	QOT	27	6	-4	3	9	13		✓			✓	✓	✓		Cashgate scandal caused large spillovers to the exchange rate and growth; deterred donor support.
Malawi - ECF 2012	C	32	4	1	4	4	19	✓	✓				✓	✓		Cashgate scandal caused large spillovers to the exchange rate and growth; deterred donor support; poor spending controls also played a role.
São Tomé and Príncipe - PRGF 2009	QOT	32	16	1	9	-3	8				✓	✓				Growth was slower than anticipated due to the impact of the global financial crisis; authorities failed to take mitigating measures.
Grenada - ECF 2010	QOT	35	19	1	9	4	2					✓				Expansionary fiscal policy in the context of weak growth and elections.
São Tomé and Príncipe - ECF 2012	OT	35	-11	0	13	3	30								✓	Oil production did not materialize, resulting in lower-than-anticipated growth and debt-financing (instead of drawdown of National Oil Account).
Gambia, The - ECF 2012	QOT	36	11	11	3	-4	14	✓		✓		✓	✓	✓		Severe droughts; policy slippages; materialization of contingent liabilities in the form of off-budget transfers to parastatals.
Central African Republic - ECF 2012	QOT	41	0	-6	17	5	27			✓						Civil war and armed conflict.
Mozambique - PSI 2013/SCF 2015	OT/QOT	78	3	-1	1	52	24		✓				✓	✓		Revelation of previously undisclosed debt led to freeze in donor support; major exchange rate depreciation.

1/ Percentage points of GDP; cumulative from T to T+3.
2/ C = completed all reviews, IP = in progress, L = largely implemented, OT= off track, QOT= quickly off track.
Note: Program completion status as of end-September 2018.
Sources: IMF country reports, WEO and IMF staff calculations.

Public Debt Operations

32.   A clear judgment on debt sustainability is crucial for program design. The Fund may only lend if debt is assessed to be sustainable in the medium term under the GRA and PRGT. If debt is not sustainable, the Fund is precluded from lending unless the member takes steps to restore debt sustainability, including through either debt restructuring or the provision of concessional

financing. Under exceptional GRA access, public debt should be sustainable with high probability, or if debt is sustainable but not with high probability, the Fund may lend if financing provided by sources other than the Fund improves debt sustainability and enhances safeguards to Fund resources. Under normal access where there is uncertainty on the question of debt sustainability, the policy gives the Fund options of either relying on the catalytic approach or for the member to undertake some form of debt operation. Under exceptional PRGT access, countries should have a comparatively strong adjustment program and ability to repay the Fund. It is generally understood that countries either in debt distress or at high risk of debt distress should restructure their debt or obtain debt relief in order to restore debt sustainability by upgrading the debt distress rating to at least moderate. The recently reformed LIC DSF provides strong analytical underpinnings for assessing debt sustainability, and the ongoing review of the MAC DSA framework is exploring improvements to analytical tools to inform staff's bottom-line judgment on debt sustainability.

33. **Public debt operations tended to be associated with greater program success, but mainly in small and non-systemic program cases.** The RoC looked at cases where debt vulnerabilities were high before approval of Fund arrangements (Figure 14) and compared the relative success of programs that did and did not include debt restructuring. In the GRA, this included 17 cases where debt was "unsustainable" or "sustainable but not with high probability" at program approval, based on the results of the probit model described above. In the PRGT, the analysis focused on 16 countries with LIC-DSA ratings either at "high risk" or in "debt distress" at program approval. About 40 percent of these programs involved debt operations: seven GRA-supported programs and six PRGT-supported programs. Evidence suggests that those involving debt operations saw a higher share of program success than those that did not involve debt operations.[41] In spite of delays, debt operations were relatively successful in small island states (e.g., Seychelles, 2009 EFF; St. Kitts and Nevis, 2011 SBA; Grenada, 2014 ECF; Jamaica, 2013 EFF). In contrast, delays in debt operations in larger and more systemic economies (Greece, 2012 EFF; Ukraine, 2015 EFF) limited their potential benefits.

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[41] In most cases, program success is based on the same methodology as set out in Section II. In cases where this assessment is not available, the latest VE ratings and/or DSA assessments are used.

Figure 14. Public Debt Restructuring and Success in Programs with High Debt Vulnerabilities

There was a higher degree of program success where debt restructuring was involved.

Program Success: GRA With and Without Debt Restructuring (Percent of programs)
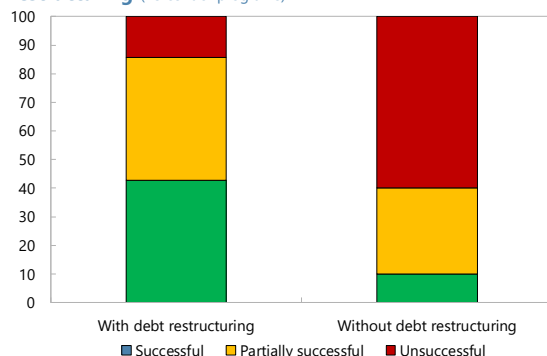
Program Success: PRGT With and Without Debt Restructuring (Percent of programs)
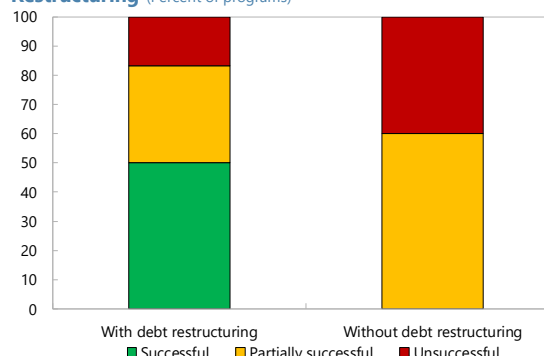
Sources: VE indicators, WEO, and IMF staff calculations.

34.   However, in some cases, there was a general reluctance to recognize that debt may not have been sustainable. Judgment on debt sustainability appears to have been tilted in favor of large fiscal adjustments and optimistic macro-frameworks in at least two cases with high debt levels—Greece (2010 SBA) and Ukraine (2014 SBA).[42] The related-EPEs challenged the initial judgment that debt was sustainable (Greece), and sustainable with high probability (Ukraine).

35.   The pros and cons of public debt operations have been well documented in the literature.[43] On the one hand, debt operations provide immediate debt service relief and curtail the debt-stabilizing primary balance, which reduces the required fiscal adjustment. This, in turn, can minimize the negative impact on growth and facilitate a recovery of competitiveness, where debt ratios are sensitive to the real effective exchange rate. On the other hand, debt operations result in loss (at least temporarily) of market access and higher risk premiums once market access is regained. They can also weaken balance sheets of the domestic financial system and generate spillovers to other countries. The scale of the pros and cons also depends on the type of debt operation in question: restructuring (a reduction in the nominal value of the principal) tends to have larger potential implications than reprofiling (e.g., an extension of maturity). A growing literature suggests that the timely implementation of debt operations can be more beneficial than the alternative of (unrealistically) large fiscal adjustments.[44] There is growing experience of specific design features that help achieve this objective (e.g., Jamaica, 2013 EFF).[45]

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[42] Section IV of the background supplement discusses the key findings of recent Fund studies of public debt operations.

[43] Sturzenegger and Zettelmeyer (2006).

[44] Guzman, Ocampo, and Stiglitz (editors) (2016).

[45] See Section IV of the background supplement.

36.   Nevertheless, the policy solution is not always straightforward, particularly in cases where public debt sustainability is uncertain. In some cases, policy prescriptions may be clear: if debt is sustainable, fiscal adjustment is usually sufficient to address debt vulnerabilities; if debt vulnerabilities are so large that the required fiscal adjustment is economically and/or politically infeasible (e.g., Seychelles, 2009 EFF), restructuring is inevitable. The solution may be less obvious where debt sustainability is uncertain. In such cases, the Fund has flexibility to call for debt reprofiling if appropriate, which could be a useful option, particularly if concessional official financing cannot be mobilized in sufficient amounts to restore debt sustainability and meet program financing assurances. However, debt operations need to be considered on a case-by-case basis, underpinned by a comprehensive cost-benefit analysis. Ultimately, restructuring or reprofiling to improve debt sustainability requires distributing the burden of adjustment among various stakeholders in a way that best preserves or restores financial stability and economic growth.

37.   Debt sustainability and related program design issues will be considered in several ongoing and upcoming Fund workstreams. The MAC DSA Review is currently developing methodologies to better assess the extent of debt overhang and the realism of program assumptions, with a view to potentially helping mitigate any bias in judgment on debt sustainability and ensuring more balanced consideration of debt operations where applicable, including under normal access. Furthermore, although not a major issue during the 2018 RoC period, the presence of collateralized debt has proved to be a complicating factor, when considering the case for debt operations in several recent programs.[46] In this context, staff is currently examining possible guidance on collateralized borrowing in Fund-supported programs, in the context of the forthcoming Review of the Fund's DLP.

PRGT Case Studies

38.   For the PRGT, case studies shed further light on the factors driving the large debt projection errors and highlight broader lessons for program design. The RoC looked at a diverse sample of the programs with very large errors, ranging from those that went off track quickly (The Gambia, 2012 ECF and São Tomé and Príncipe, 2012 ECF) to those that continued to completion (Malawi, 2012 ECF, Niger, 2012 ECF, and Rwanda, 2013 PSI).[47] Key findings include:

- Underlying drivers of residuals in projection errors were only partially identified.

- Overoptimistic program baselines were a key factor behind projection errors in some cases.

- The materialization of contingent liabilities and off-budget guarantees were recurring themes.

- Conditionality evolved in response to shocks, but some programs appear to have repeatedly accommodated fiscal slippages and higher debt limits relative to the revised targets.

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[46] Collateralized debt can complicate seniority of claims of different creditors and set hurdles for burden sharing, which can create uncertainty about the feasibility of debt operations.

[47] See Section III of the case studies.

> **Recommendations**
>
> - **Sharpen debt sustainability tools**, including more realistic macroeconomic assumptions and better assessments of debt overhang, to help mitigate any bias in judgment on debt sustainability and ensure more balanced consideration of debt operations, where applicable.
>
> - **Consider SCs on improving governance arrangements for the contracting of debt and ensuring appropriate monitoring of obligations**, including closer scrutiny of contingent liabilities (e.g., SOE liabilities and off-budget guarantees).
>
> - **Review the Fund's Debt Limits Policy**, including examining possible guidance on collateralized debt in Fund programs.

STRUCTURAL CONDITIONALITY AND PROGRAM DESIGN

A. Criticality and Parsimony

39.   Structural conditionality in Fund-supported programs should be both critical and parsimonious. As set out in the GoC, SCs should be of *critical* importance for achieving the goals of the member's program or for monitoring program implementation, or necessary for the implementation of specific provisions of the Articles of Agreement.[48] SCs should also be applied parsimoniously (i.e., limited to the minimum necessary). Within the broader program goals set out in Section II, the objectives of individual programs should be as narrow and concrete as possible to be able to set the most critical conditions to achieve them. Assessing whether these principles have been implemented requires an analysis of the *depth*, *focus*, and *volume* of SCs. The 2018 RoC assesses each of these dimensions, following the same methodology as the 2011 RoC and the IEO 2008 report: *depth* is defined as the degree and durability of SCs, with measures separated into high-, medium-, and low-depth categories; *focus* is assessed by categorizing SCs into *core, shared*, and *non-core* areas of responsibility;[49] and *volume* is defined as the number of conditions per program year. As a further insight into the criticality of SCs, the 2018 RoC also considers: (i) the consistency of SCs with program objectives; and (ii) the structural policy gaps identified in surveillance.[50]

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[48] See ¶13 of the GoC. For conditions outside core areas of responsibility, the Revised Guidance Note on Conditionality requires more detailed explanation of their criticality along with a strong justification.

[49] See Appendix II for definitions of depth and focus.

[50] ¶7 of the GoC notes that program goals could build on issues identified in surveillance and TA. The 2011 RoC recommended that surveillance and TA needed to be better leveraged in program design.

40.   The volume of conditions increased markedly with the shift to Fund-supported programs aimed at tackling structural problems. After a decline in the 2011 RoC period, the average number of SCs per program approval year rose by 30 percent in the 2018 sample period, coinciding with the shift in GRA programs from SBA to EFF arrangements (Figure 15). Most SCs continued to be low- or medium-depth, while SCs in core areas of responsibility continued to dominate conditionality.

Figure 15. Counting Structural Conditions

The number of SCs increased.

Average Annual Number of Structural Conditions by Program Approval Year (Average of each program year's median)

Depth did not change significantly...

Average Structural Depth by Program Approval Year
(Percent of total; 2018 RoC sample; high-, medium-, and low-depth conditions)

...remaining higher in GRA than PRGT arrangements.

Average Structural Depth: GRA Versus PRGT
(Percent of total high-, medium-, and low-depth conditions)

SCs remained focused on core areas of responsibility.

Structural Conditions by IMF Area of Responsibility
(Percent of structural conditions)

Sources: MONA and IMF staff calculations.

41.   Although SCs were generally consistent with program objectives, the justification of measures, and discussion of prioritization and sequencing was often limited. An analysis of a random sample of 12 programs reveals that, in the vast majority of programs, SCs and program objectives were consistent (Figure 16). However, program objectives were often so broad (e.g., attain robust and more inclusive growth, or support the transition to a dynamic, emerging market economy) that it is difficult to judge whether a specific set of SCs were genuinely critical for program success. While most program documents provided some rationale for SCs, they rarely discussed the

wider set of potential reforms, and how these should be prioritized or sequenced, to help achieve program objectives.[51]

42.   Moreover, a mismatch between SCs and gaps identified in prior surveillance, suggests that critical reforms may have been excluded, particularly those in non-core areas of responsibility. Over half the gaps raised in surveillance were in shared areas, such as labor and product market reforms, and non-core areas like governance, anti-corruption,[52] or statistics. This reflects the increasing importance of macro-critical structural challenges outside the core areas of Fund responsibility. In principle, there should be significant overlap between program SCs and the structural gaps identified in surveillance, but in practice almost half the gaps were not covered in conditionality. Two-thirds of the excluded gaps were in shared and non-core areas, with the majority of SCs remaining heavily focused on core areas. Although parsimony necessitates that not all gaps should be addressed, it is not obvious that SCs in core areas were always the most critical to achieve program goals.

43.   SCs on labor and product market reforms remained limited. Labor market reforms (LMRs) and product market reforms (PMRs) can help foster wage and price flexibility to restore cost competitiveness and promote external adjustment through internal devaluation in countries with fixed exchange rate regimes. LMRs and PMRs can also help raise medium-term growth potential.[53] However, LMRs and PMRs accounted for less than 3 percent of all SCs, with most concentrated in a few post-GFC programs (Greece, Portugal, and Kosovo). Moreover, LMRs to reduce structural unemployment or increase labor force participation, and PMRs to enhance competitiveness or diversification were rarely turned into SCs (see Figure 17). These reforms were even less common in PRGT countries and countries with more flexible exchange rates. With relatively low Fund capacity in these areas, success often depended on collaboration with other institutions.

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[51] Edwards (1989), Murphy, Shleifer, and Vishny (1992), Dewatripont and Roland (1995), and Hausmann, Rodrik, and Velasco (2005) point out that implementation success could depend on the sequence of reforms.

[52] In April 2018, the IMF Executive Board approved a new Framework for engagement on governance, with more expansive coverage of: (i) fiscal governance; (ii) financial sector oversight; (iii) central bank governance and operations; (iv) market regulation; (v) rule of law; and (vi) AML/CFT. Many of these areas are classified as "core" and "shared" in the 2018 RoC analysis (see Appendix II). For the 2018 RoC, the following governance and corruption measures are classified as "non-core:" anti-corruption legislation and related criminal codes, establishing and enhancing anti-corruption authorities, and on improving transparency.

[53] See IMF (2015a), Blanchard and Gali (2010), Cacciatore and Fiori (2016), Cacciatore and others (2016), Anand and Khera (2016), Munkacsi and Saxegaard (2017), Kugler and Pica (2004), Berger and Danninger (2005), Bokan and Hallett (2008), Lusinyan and Muir (2013), Andres, Arce, and Thomas (2014), Eggertson, Ferrero, and Raffo (2014), Fernandez-Villaverde, Guerrón-Quintana, and Rubio-Ramirez (2014), or Vogel (2014), among others. In addition, IMF (2015c) presents case studies.

Figure 16. Consistency of Structural Conditions with Program Objectives and Surveillance Gaps 1/

Program objectives were well covered by SCs...

...and SCs were consistent with program objectives.

Share of Objectives Covered by Structural Conditions (Percent of total)
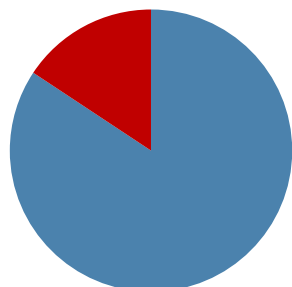
■ Covered ■ Not covered

Share of Structural Conditions Consistent with Objectives by IMF Area of Responsibility (Percent of total)

Consistent: by area of responsibility
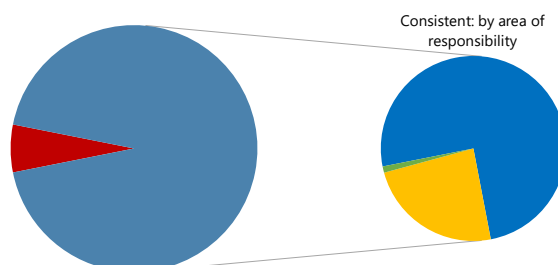
■ Inconsistent ■ Core ■ Shared ■ Non-core

Surveillance gaps were not well-covered by SCs, particularly those in other macro-structural areas...

Share of Surveillance Gaps Not Covered by Structural Conditions by Sector (Percent of total)

Not covered: by sectors

■ Covered ■ Fiscal
■ PFM and RA ■ Pension and civil service reform
■ SOE reform/energy reform/climate change ■ Central bank
■ Financial sector ■ Other macro-structural

...with SCs instead focused on core areas, especially fiscal and financial measures.

Share of Surveillance Gaps and Structural Conditions by Sector (Percent)
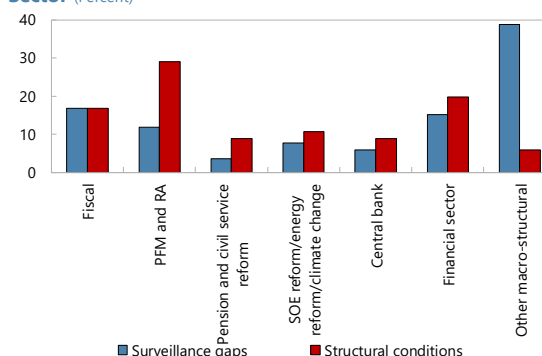
■ Surveillance gaps ■ Structural conditions

Sources: MONA and IMF staff calculations.
1/ "Other macro-structural" includes: (i) social, gender, inequality, and poverty; (ii) labor market reforms; (iii) governance, including corruption; (iv) product market reforms and competition; and (v) other (e.g., trade or national accounts statistics).

44.   Conditionality on gender inequality was an important innovation during the period to support higher and more inclusive growth. Several programs included SBs aimed at reducing gender inequality, including spending on public nurseries and other facilities to enhance the ability of women to actively seek jobs and improve women's labor force participation (Egypt, 2016 EFF); studying options for lowering payroll taxes for women and youth (and identifying offsetting parametric changes in the pension system) to promote formal employment and stimulate aggregate demand (Jordan, 2016 EFF); and updating and adopting a new national gender policy (Niger, 2017 ECF). In all these cases, it will be important to monitor the effectiveness of these measures over time. While not included in conditionality, Mongolia's 2017 EFF arrangement discussed how to create conditions for more inclusive job-creating growth, finance female entrepreneurs, and support better social outcomes to support higher female participation in the economy.

B. Implementation[54]

45.   The assessed implementation of SCs remained relatively strong. The share of conditions that were met or implemented with delay rose slightly from 76 percent in the previous RoC to 82 percent in the current RoC (Figure 17, top panels), driven by the performance of GRA programs. This result is consistent across different Fund arrangements, areas of responsibility, and sectors. As expected, implementation rates were higher for lower-depth SCs than for high- and medium-depth SCs. Regression analysis suggests that capacity, as proxied by income level and regulatory quality, is a key driver of strong implementation. Another regression analysis suggests that the shift to review-based conditionality had no impact on implementation.[55]

46.   However, SCs were modified more frequently during this period, possibly reflecting overambitious initial design and/or insufficient prioritization or sequencing. The average share of modified SCs increased relative to the previous RoC, in both GRA and PRGT programs (Figure 17, middle panels). Flexibility was somewhat higher for SCs in the financial sector, and for shared and non-core areas, such as pension and civil service, social sector, and other macrostructural reforms. In most cases, test dates for SCs were reset for delayed implementation following slippages, with only a small share of unmet SCs—mostly in core areas— turned into PAs. The higher share of delays and modifications may reflect the higher-than-expected reform implementation difficulties in the difficult post-GFC period, as well as the need for more rigorous prioritization and sequencing. For example, Serbia's 2015 SBA saw several high-depth SCs on state-owned enterprise (SOE) restructuring implemented with delay or modified to a series of lower-depth SCs, to reflect capacity constraints or pushback from vested interests. In some programs, delays in implementation and modifications of SCs may have contributed to growth forecast errors.

47.   Implementation in some key structural areas proved particularly challenging:

- **LMR and PMR.** Gaining public support and national ownership for these measures was difficult, given the short-term costs and the delayed benefits, and the lack of space for macro policy support to offset these costs or frontload the benefits.[56] In Greece and Portugal, some LMRs were reversed even before program-end. PMRs tended to be more granular in some countries (e.g., sectoral liberalization in Greece), straining the principles of criticality and parsimony. In contrast, PMRs aimed at general frameworks over a wide range of sectors (investment codes, competition law) or at strategic sectors (mining code) tended to be more successful and easier to design and monitor (e.g., Portugal) than reforms aimed at fixing distortions in specific markets.

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[54] See Section IV of the case studies for further details.

[55] See Section VII.E of the background supplement for more details of the regression methodology.

[56] IMF (2015a) and IMF (2016a) discuss the role of the macro policy mix on the impact of reforms on growth and employment.

- **Financial sector reforms.** Conditionality varied depending on the financial stability challenges, ranging from urgent measures to stabilize and restructure the banking system, to longer-term structural improvements in regulation and supervision. Notably, NPLs rose for several countries, weighing on credit growth and bank and corporate profitability (Cyprus, 2013 EFF; Greece, 2010 SBA and 2012 EFF; Ireland, 2010 EFF; and, Portugal, 2011 EFF), often reflecting improved recognition of asset impairment. While NPLs started to decline toward the end of the program in some cases (Ireland and Portugal), in others NPLs have remained elevated (Cyprus and Greece), reflecting the difficulty and complexity of NPL-workout. In some cases, measures to deal with rising NPLs were delayed by the need to first stabilize the financial system (see Box 1).

48.   Given these implementation challenges, a longer period of program engagement could be required. Even if program objectives are specific, reforms are well prioritized and sequenced, and ownership is high, implementation of SCs often takes time. In survey responses, around one-quarter of Mission Chiefs/Resident Representatives (MCs/RRs) and Executive Directors (EDs) thought that program duration was insufficient to accomplish program objectives, while country authorities (CAUTs) noted that successor programs often provided necessary policy support.[57] A well-paced reform agenda can prevent overstraining implementation capacity and smooth adjustment, as some reforms weigh on growth in the short run, while paying off only later.[58] However, in some cases, a longer timetable can exceed the political window of opportunity and trigger reform fatigue. Depending on circumstances, drawing programs could focus on macroeconomic stabilization, with follow-up PCIs (available in the absence of a Fund financing need) used to support medium-term structural agendas. Serbia serves as an example of this type of extended engagement with the Fund, to facilitate the design and execution of an ambitious reform agenda. In some specific cases (e.g., after a commodity price collapse in a country with limited capacity), longer Fund arrangements (e.g., five years) could also improve implementation by allowing a more realistic pace of deeper structural reforms (e.g., to diversify the economy). The risk of protracted periods of off-track programs would have to be managed carefully, with appropriate safeguards, to help ensure the revolving nature of Fund resources.[59]

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[57] Section I of the background supplement provides more detail on the survey responses of key stakeholders.

[58] Related, Afonso and Jalles (2012) find that a longer duration of fiscal consolidation contributes to its success.

[59] A "defunct arrangement" feature was introduced for the ECF in 2013, allowing termination of arrangements if no review has been completed for 18 months. This feature was designed to allow a more efficient use of scarce PRGT resources by unlocking funds that would otherwise be available to other PRGT-eligible members. However, automatic termination of GRA arrangements is inconsistent with the current principle of assurances that prevents the cancelation or reduction in access during the period specified in the arrangement.

Figure 17. Implementation and Modification of Structural Conditions

Implementation rates improved in GRA programs....

Implementation: GRA Versus PRGT 1/
(Percent of total met, implemented with delay, and not met)

■ Met ■ Implemented with delay ■ Not met (incl. partially met and waived)
1/ Excluding prior actions.
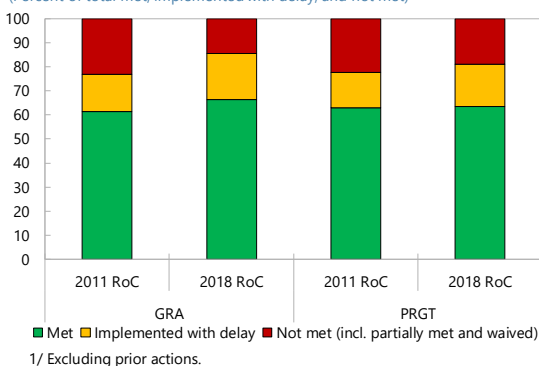
...and remained somewhat stronger in core areas.

Implementation by IMF Area of Responsibility 1/
(Percent of total met, implemented with delay, and not met)

■ Met ■ Implemented with delay ■ Not met (incl. partially met and waived)
1/ Excluding prior actions.
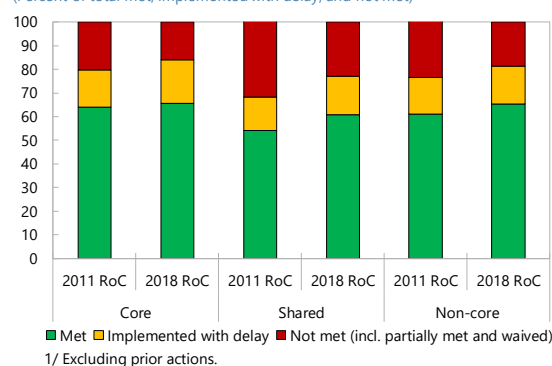
Flexibility increased, with fewer PAs in PRGT programs...

Share of Modified Conditions: GRA Versus PRGT
(Percent of overall structural conditions)

■ Modified to PA ■ Modified without transforming to PA ■ Modified test date only
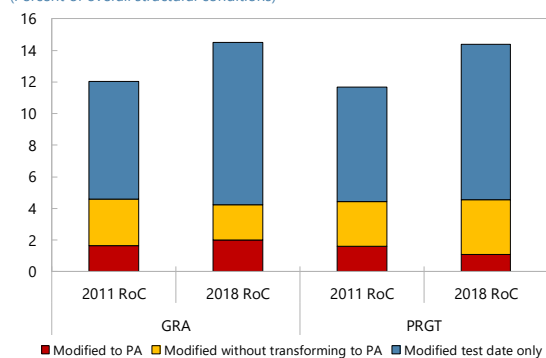
....with flexibility most extensive in non-core areas.

Share of Modified Conditions by Sector, 2018 RoC
(Percent of overall structural conditions)

■ Modified to PA ■ Modified without transforming to PA ■ Modified test date only
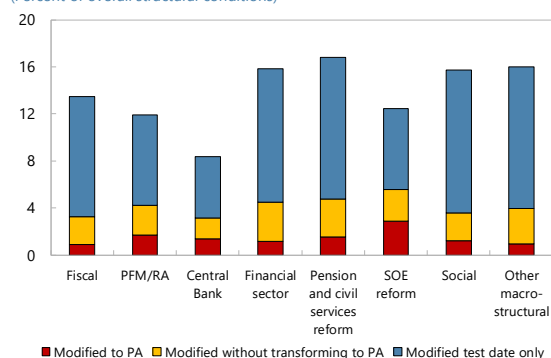
The relationship between SCs and the allocation of TA is weak due to differences in capacity across countries...

Structural Conditions and Technical Assistance Per Program

1/ Including prior actions and outstanding structural conditions.
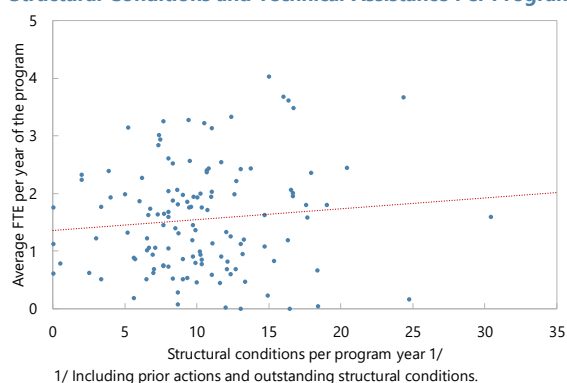
...but the focus of SCs and TA was broadly consistent.

Share of Structural Conditions and Technical Assistance by Sector (Percent)

1/ Including prior actions and outstanding structural conditions.
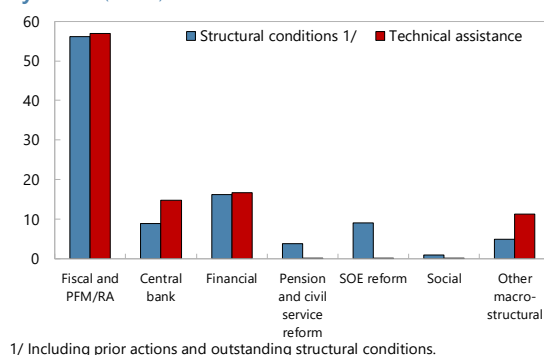
Sources: MONA and IMF staff calculations.

Box 1. Financial Sector Reforms

Post-GFC arrangements saw the highest shares of SCs on the financial sector. One out of five SCs in post-GFC arrangements are on the financial sector, reflecting the significant impact of the GFC on private sector balance sheets, and the strong macro-financial linkages of corporate and household sectors. Financial sector conditions range from bank recapitalization, resolution and privatization, strengthening of supervision and regulation, and NPL resolution.

Despite being largely effective in stabilizing the financial sector, programs could not prevent the build-up of large NPLs that proved difficult to resolve. NPLs rose for several post-GFC countries, weighing on credit growth and on bank and corporate profitability. Cyprus, Greece, Ireland, and Portugal saw NPLs rise by an average of 10½ percentage points, despite all having financial stability as one of the program priorities. NPLs started declining only after the end of the program for Ireland and Portugal but remained elevated until now for Cyprus and Greece, holding back the resumption of credit growth. Experience from these countries reflects the challenge of reducing NPLs within the program period:

- **NPLs evolve slowly, and a typical cycle exceeds the duration of a Fund-supported program.** The shock to private sector balance sheets, shortly after which Fund-supported programs begin, do not immediately pass through to NPLs, as firms and households first find ways to meet repayments, and banks and regulators practice forbearance. Tighter loan classification and provisioning standards within a program boost the measure further, as the true level is revealed. As a result, NPLs rise at the start of programs and peak only at the end.

- **Overoptimistic macro and asset recovery forecasts lead to an underestimation of the extent of the NPL problem.** Expectations that growth recovers and, as a result, asset values rise during the course of the program reduce the urgency of dealing with NPLs. This also underestimates provisioning and capital needs, with recapitalizations sometimes failing to provide banks with sufficient buffers and incentives to address distressed loans.

- **Stabilization of the banking system is a prerequisite for NPL resolution, but often means that the issue is only tackled midway into the program.** Programs often initially focus on ensuring banks have sufficient liquidity and capital and on resolving distressed entities. The objective was to reduce uncertainty, regain market confidence, and minimize spillovers. Where bank vulnerabilities were significant, programs included earmarked funds for cleaning up the banking sector from the outset (e.g., Cyprus, Greece, Ireland, Ukraine). While these steps eventually helped facilitate NPL resolution, they also delayed implementation of NPL resolution strategies.

- **Strategies to resolve NPLs require complex reforms that take time to design, legislate, and implement.** Enforcement and insolvency frameworks need country-specific refinements to create incentives for creditors and borrowers to restructure loans. Political opposition to these reforms slows down legislation. Weaknesses in the court system are often additional impediments, therefore requiring judicial reforms that take even more time to implement. For example, in Ireland, legal and political constraints took time to resolve. Also, banks often lack the expertise and tools needed to implement loan restructuring, including the ability to properly assess affordability.

- **There are tradeoffs between the speed of NPL reduction and economic outcomes.** For example, faster NPL resolution through write-offs could destroy value, while bespoke loan restructuring maximizes value but takes time. NPL sales to centralized Asset Management Companies (AMCs) can help jump-start a distressed asset market but involve large fiscal costs.

Financial sector conditionality played an increasing role in LICs. Conditionality in LIC programs usually focused on building financial stability infrastructure to ensure financial deepening and inclusion, without creating risks to financial stability. Therefore, the primary focus of SCs was often on banking supervision, anti-money laundering, or basic regulation, supported by TA to build capacity.

49.   In general, **Fund technical assistance (TA) was deployed consistently with program priorities and country needs.** TA inputs to other developing countries and commodity producers amounted to 0.63 and 0.70 FTEs per program, respectively, compared to 0.47 full-time equivalents (FTEs) per post-GFC program. This prioritization of TA to countries with lower capacity—rather than to those with the highest number of SCs—explains the relatively weak link between TA and the number of SCs (Figure 17, bottom panels). TA was focused on core areas of Fund responsibility and broadly aligned with the topical distribution of SCs in core areas. Shared conditions on pensions and civil service and SOE reforms received very little Fund TA, and teams had to rely on other development partners, such as the World Bank.

50.   Surveys point to generally effective Fund collaboration with other institutions. The GoC underscore the need for coordination with other multilateral institutions in designing and monitoring conditionality, particularly in shared and non-core areas of responsibility. Survey responses of MCs and RRs show that most teams collaborated effectively with the World Bank and other development partners, particularly when reforms covered shared and non-core areas such as the investment code and social policies in the context of subsidy reforms (Tunisia, 2013 SBA) and SOE restructuring and government rightsizing (Serbia, 2015 SBA). However, in some cases, greater collaboration was deemed to be desirable— e.g., in Greece where issues on the division of labor emerged (IMF, 2017b).

Recommendations

- **Identify, prioritize, and sequence reforms based on criticality**, drawing on structural gaps from surveillance and TA to ensure an integrated approach.

- **Continue to build expertise in critical shared areas of responsibility (e.g., labor and product market reforms)**, and enhance collaboration with other institutions that have expertise in non-core areas.

- **Consider NPL resolution and related conditionality at the outset**, where appropriate, recognizing the tradeoff between the speed of NPL resolution and economic outcomes, the complexity of the process, and the time needed to successfully complete reforms.

- **Apply greater realism in implementation timetables and estimated reforms payoffs, while considering longer Fund engagement to support structural reform agendas**, including greater use of successor PCIs and, in some cases, longer duration EFF arrangements and longer initial duration ECF arrangements (i.e., five years), with appropriate safeguards to preserve the revolving nature of Fund resources.[60]

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[60] Any changes to the duration of extended arrangements under the EFF would need to be considered in a follow-up paper. Allowing approval of ECF arrangements up to five years from the outset will be discussed as part of the 2018-19 Review of LIC Facilities.

OWNERSHIP

51.   Country ownership is a critical ingredient for Fund program design and performance but remains difficult to measure. The definition of national ownership highlights that the responsibility to formulate and carry out program policies lies with country officials, with the understanding that implementation is in the country's best interest (IMF, 2002b). As such, the GoC assign primary responsibility for program design to CAUTs, and responsibility for establishing conditionality to the Fund. This approach is intended to foster greater flexibility in program design, encourage greater ownership and, as such, strengthen program implementation. While straightforward to define, ownership cannot be measured by a single indicator or metric, and RoC analysis therefore examines ownership along several dimensions, drawing on surveys, program completion rates, and lessons from case studies.

Survey Evidence

52.   Survey results indicate that perceptions of ownership remain broadly positive. Around half of MCs and RRs rated ownership as "very high" or "high," while a third rated ownership as "moderate." In addition, MCs, RRs, EDs, and CAUTs, overwhelmingly agreed that program quantitative performance criteria targeted the appropriate macroeconomic variables and that structural reforms were consistent with national reform priorities, pointing to strong ownership. Relatedly, a majority of respondents agreed that program objectives were consistent with domestic economic and social priorities, though results were less positive than in 2011, perhaps reflecting the challenges arising from the increase in structural conditionality. Three-quarters of all respondents believed that program design was sufficiently flexible to accommodate external shocks.

53.   Fund outreach with Civil Society Organizations (CSOs) appears to have strengthened, but there is still room for improvement. Survey results point to a more favorable view of Fund outreach, perhaps reflecting Fund efforts to deepen engagement with CSOs (Figure 18). Improved outreach was a notable feature of program design that helped support ownership in successful programs (e.g., Jamaica, 2013 EFF; Rwanda, 2013 PSI and 2016 SCF). Despite this progress, a significant share of MCs/RRs, CAUTs, and EDs disagreed that CSOs were actively involved in program design and implementation discussions. Furthermore, around a quarter of MCs and RRs thought the authorities had not communicated the benefits of the Fund-supported program to civil society.

Figure 18. Ownership

Despite improvement, only a third of survey respondents felt that CSOs were actively involved in programs.[1]

CSOs were actively involved in discussions of IMF-supported programs (Percent of responses)

CSOs were actively involved in discussions of IMF-supported programs

■ Strongly agree ■ Agree ■ Neutral ■ Disagree ■ Strongly disagree ■ Don't know ■ Not applicable

A large share of political/economic transformation programs went quickly off track.

Program Completion Rates by Analytical Group
(Percent of programs; 2018 RoC sample, excluding in-progress programs)

□ Replaced ■ Completed all reviews ■ Completed most reviews
□ Off track mid-program ■ Quickly off track

Longer-term EFF arrangements and PSIs tended to perform better than some shorter-term programs.

Program Completion Rates by Type of Facility
(Percent of programs; 2018 RoC sample, excluding in-progress programs)

□ Replaced ■ Completed all reviews ■ Completed most reviews
□ Off track mid-program ■ Quickly off track
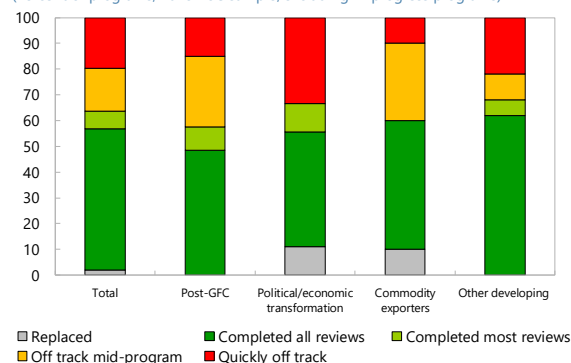
The use of prior actions remained broadly unchanged, though picked up slightly in GRA arrangements.

Number of Prior Actions by Program Approval Year
(Annual average of each program year's median)

■ Overall ■ GRA ■ PRGT

The number of prior actions was highest in political/economic transformation cases...

Number of Prior Actions by Analytical Group
(Annual average)
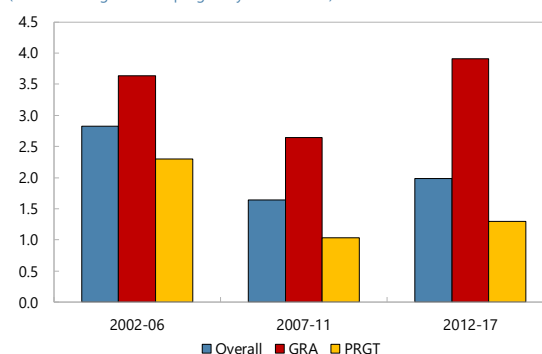
...and in off-track programs, more generally.

Number of Prior Actions by Program Completion Rate
(Adjusted by number of reviews, including program approval)
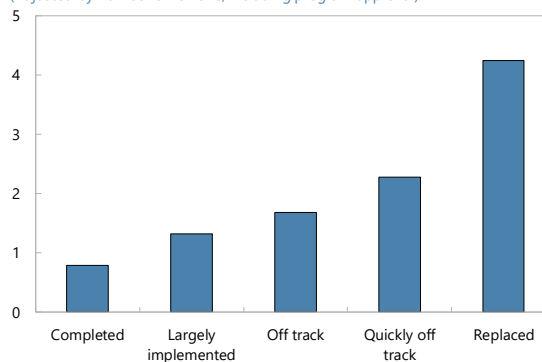
Sources: 2011 and 2018 RoC surveys, MONA and IMF staff calculations.
1/ In the 2011 RoC survey "Neutral" and "Not applicable" were not provided as response options.

Completion Rates

54.   While conditionality implementation rates remained relatively strong, completion rates deteriorated, possibly indicating a moderate weakening in ownership. The share of completed programs declined, and the proportion of programs that went off track mid-program roughly doubled during the period (Figure 6). Completion rates varied slightly across the four analytical groups, and more significantly across types of programs. EFF and EFF-ECF arrangements, which were generally of longer duration than SBAs, had higher completion rates. Nearly all PSIs were completed, possibly reflecting the fixed review schedule. 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. Further regression analysis suggests that better institutional capacity was a crucial factor for program completion. In contrast, political developments and external shocks were insignificant and only weakly associated with completion rates, respectively, suggesting that program design was sufficiently flexible.[61]

55.   Prior actions (PAs) and low completion rates tend to go hand-in-hand. There was a small increase in PAs in GRA-supported programs and no change in PRGT cases. Across analytical groups, political/economic transformation cases—facing difficult and urgent reforms, coupled with the lack of a track record—saw the highest number of PAs. The evidence suggests that while PAs may have been effective in implementing a specific measure, their abundant use did not translate into higher program completion rates, but rather the opposite (Figure 18). Regression analysis points to a negative association between PAs at arrangement approval and completion rates. While this finding is consistent with the notion that many PAs may indicate weak ownership, it also indicates that PAs are not a substitute for ownership. More guidance may be needed on the application of PAs.

Staff-Monitored Programs (SMPs)

56.   More use of SMPs may help address the issue of off-track Fund-supported programs, particularly in the GRA. During the 2018 RoC sample period, there were 12 SMPs: one-half were aimed at building a track record, and two-thirds of these were successful and paved the way to a Upper Credit Tranche (UCT) successor arrangement (Afghanistan 2015, Chad 2013, Iraq 2016, Madagascar 2015).[62] During this period, SMPs were not used to bring existing programs back on track, despite some notable successes in this regard during the 2011 RoC period, including in GRA countries (Djibouti 2004, Kosovo 2011). Given the observed reduction in program completion rates and increase in off-track programs, SMPs could be a useful (currently underutilized) option for helping manage extended program interruptions, which are often associated with weak ownership and program performance. Authorities could request an SMP to ensure monitoring of macroeconomic policies, while they build political support for critical reforms, whose delay has

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[61] Section VII.F of the background supplement presents more details of the regression methodology and results.

[62] The other half of SMPs during this period aimed to clear arrears. Section V of the background supplement examines members' experience using SMPs to build track records and clear arrears.

interrupted the program. SMP-related documents would also provide information to the Executive Board and the public on discussions in the context of off-track programs. There is however a need to de-stigmatize SMPs.

Case Studies: Lessons

57.   Some important lessons stand out from case studies that cover a varying degree of ownership.[63] Key findings include:

- *National reform plans.* Programs that benefit from well-designed national reform plans tend to have higher completion rates. In high-ownership cases among both GRA- and PRGT- supported programs, design (and associated discussions in staff reports) generally reflected national reform plans (e.g., Jamaica, 2013 EFF; Rwanda, 2015 PSI and 2016 SCF). Further, national economic program oversight committees (e.g., Jamaica, 2013 EFF) can be effective in supporting program implementation. Conversely, where programs quickly went off track, national plans received little discussion.

- *Communication.* Outreach to the public supports ownership and reform implementation. While staff reports and program documentation often do not discuss plans for communicating program strategies or measures to the public,[64] some good examples stand out (see above). These highlight the importance of outreach to civil society, including non-governmental organizations. However, as communication is often treated as a separate issue, there could be scope for better integrating such strategies into program discussions.

- *Track record and implementation capacity.* As noted above, continued attention to policy implementation track records and reform implementation capacity is critical to support ownership. Where applicable, staff reports gave credit to the authorities for strong track records. For countries without clear track records (e.g., in some new programs), staff reports generally considered forward-looking aspects, including the country's administrative capacity and TA needs. In fact, most of the case studies related to ownership had concurrent TA, largely for implementation of fiscal and public financial management reforms.

- *Political economy.* While no consistent pattern is found between the political cycle and ownership, additional attention to political economy risks would be prudent. Most staff reports, especially at arrangement approval, discussed the extent of the political base for reforms, the election cycle, and risks of political or social instability. However, discussions were usually brief and did not always explicitly state the political constraints that may complicate the implementation of specific reforms.

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[63] See Section V of the case studies.

[64] Although staff teams generally meet with CSOs and despite improved communication with CSOs (see above), staff reports do not typically report on CSOs or broader non-government inputs that benefit program discussions—a finding confirmed by the preliminary results of the surveys of MCs and RRs. This makes it hard to gauge "broader" societal ownership outside the authorities themselves.

> **Recommendations**
>
> - **Encourage well-integrated national reform plans as an anchor for Fund arrangements.**
>
> - **Improve two-way communication with the broader public to support buy-in.**
>
> - **Encourage voluntary use of SMPs, particularly in the GRA**, to ensure monitoring of macroeconomic policies, while the authorities build political support for the critical reforms, whose delay has interrupted the program.
>
> - **Strengthen analysis of institutional and political capacity to deliver program objectives on a realistic timetable**. Provide additional guidance on the use of PAs and analyzing institutional and political capacity.

TAILORING AND UNIFORMITY OF TREATMENT (EVENHANDEDNESS)

58.   The GoC require that Fund lending decisions be both tailored and evenhanded. Use of Fund Resources (UFR) decisions must reflect both member country circumstances and uniformity of treatment (¶¶4 and 5, IMF, 2002a). Balancing tailoring with evenhandedness does not require that member countries be treated identically—but, rather, that *countries in similar circumstances be treated similarly*. This inevitably requires judgment because country circumstances (e.g., BoP problems, track record, and implementation capacity) vary significantly, and, as the Executive Board noted in the 2011 RoC, this is particularly challenging in the UFR context.

59.   While general perceptions of tailoring and evenhandedness in UFR tend to be positive, some stakeholders continue to raise concerns. The 2018 RoC surveys of MCs, RRs, EDs, and CAUTs broadly support a view that UFR decisions are mostly evenhanded, including with respect to the tailoring of conditionality and access decisions. Nevertheless, a significant minority of respondents indicated concerns in these areas (Figure 19), which resonates with issues raised previously and reported by the IEO and the G24.[65] There are perceptions about the lack of evenhandedness of access both within the GRA and between the GRA and PRGT. As noted in the forthcoming 2018-19 Review of LIC Facilities, these could have been reinforced by the observed and projected erosion of PRGT access limits relative to GDP and to gross financing needs.

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[65] IEO (2013) and G-24 (http://www.imf.org/en/news/articles/2017/10/12/cm101217-intergovernmental-group-of-twenty-four-on-international-monetary-affairs-and-development).

Figure 19. Perceptions of Tailoring and Uniformity of Treatment

Perceptions of the tailoring of conditionality are generally positive but a significant minority has concerns.

Access decisions are viewed as broadly evenhanded, though a few stakeholders continue to raise concern.

IMF Conditionality: Survey Results
(Percent of respondents to the statement:
"Fund-supported programs have similar conditionality across countries with similar characteristics and qualifications")

IMF Financing Decisions: Survey Results
(Percent of respondents to the statement: "Programmed financing fairly reflected the country's balance of payments needs, strength of the agreed policy adjustments and reforms, and capacity to repay the IMF")

Sources: 2018 RoC surveys.
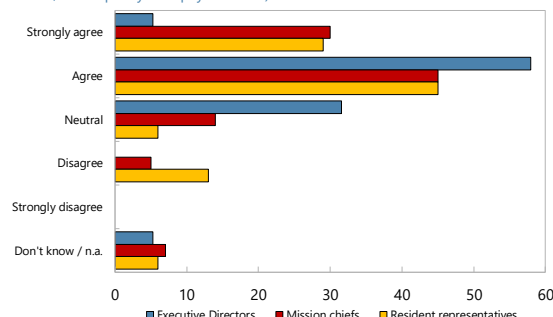
60.   More fundamentally, the lack of up-to-date cross-country information on conditionality and access is viewed as a constraint in monitoring and comparing programs. Following the "2007 IEO Evaluation of Structural Conditionality in IMF-Supported Programs", the IMF made the MONA database public. However, in its recent update to this study, the IEO (Structural Conditionality in IMF-Supported Programs: Evaluation Update) pointed to *"significant shortcomings in the usability, accuracy and replicability of the [MONA] database, which limits its value as a monitoring or tracking tool."* These issues were echoed by the Executive Board and external stakeholders in the run-up to the 2018 RoC. The ongoing MONA revamp, scheduled for completion in 2019, will be critical for addressing these underlying concerns.

Tailoring Conditionality

61.   Evidence suggests that conditionality was generally tailored to country needs and program objectives during the period. Conditionality and program design typically included some tailoring to reflect members' circumstances, and the provisions of the applicable Fund facility or instrument. For example, quantitative conditionality for LICs included external debt limits to maintain debt sustainability while ensuring adequate external financing,[66] and monetary policy consultation clauses were increasingly incorporated into programs of EMs and LICs with evolving monetary policy regimes. Analysis also indicates tailoring of structural conditions across groups, reflecting salient economic characteristics: fragile states had relatively more conditions relating to PFM and revenue administration, while political/economic transformation programs put more emphasis on SOE reform and the financial sector (Figure 20).

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[66] The 2014 reform of the Fund's DLP tightened links between debt vulnerabilities and the use and specification of public debt conditionality.

62.   Nevertheless, there appears to be scope for further tailoring in Fund-supported programs for fragile and small states:[67]

- **Fragile states.** The "*2012 Staff Guidance Note on the Fund's Engagement with Countries in Fragile Situations*" (IMF, 2012b) calls for a strict, prioritized and gradual structural agenda in the UFR context, reflecting capacity constraints. However, the overall number and depth of SCs in fragile state programs during this period were broadly in line with the average for the overall sample (Figure 21). While implementation rates were similar across groups, a higher proportion (about half) of fragile state programs did not complete all

Figure 20. Tailoring and Uniformity of Treatment

While the general focus of structural conditions was similar across country groups, conditions were tailored to reflect country-specific economic circumstances.

Structural Conditionality by Category
(Percent of total; average by program per group; including outstanding conditions)

Sources: MONA and IMF staff calculations.

reviews and went off track, and fragile states also had lower success rates than other countries. This suggests that programs may have been hampered by an excessively expansive agenda, which failed to adequately reflect low capacity and specific sources of fragility.
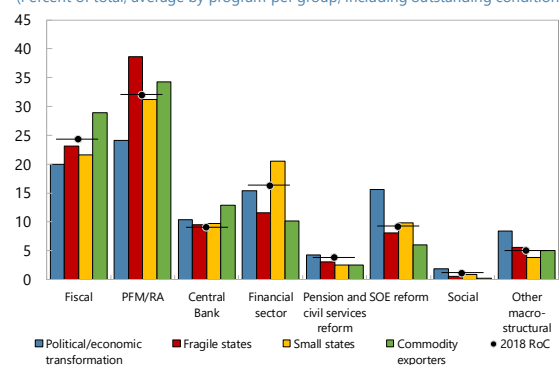
Figure 21. Number and Depth of Structural Conditions

The number of SCs varied across groups and were notably higher in political/economic transformation cases.

Number of Structural Conditions by Analytical Group
(Annual average; including oustanding conditions)
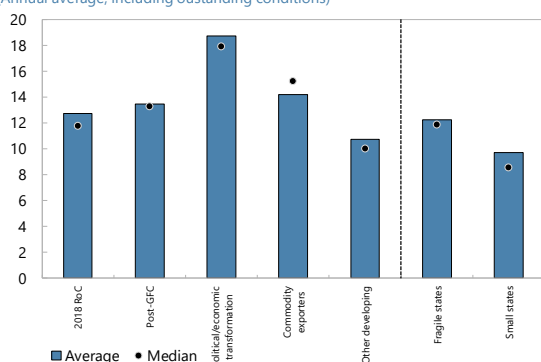
SCs tended to be deeper in political/economic transformation cases, and post-GFC cases.

Average Structural Depth by Analytical Group
(Percent of total; including outstanding conditions)

Sources: MONA and IMF staff calculations.

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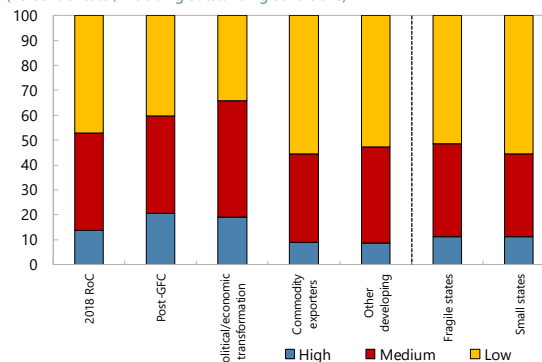
[67] Section VI of the background supplement elaborates on the often-unique challenges faced by fragile and small states.

- **Small states**. The revised [2017 Staff Guidance Note on the Fund's Engagement with Small Developing States](#) calls for a focus on (i) growth-friendly fiscal consolidation, particularly in heavily-indebted small states; (ii) reforms to deepen the financial sector; and (iii) reforms to build resilience to frequent and severe shocks from natural disasters (IMF, 2017). Program conditionality in the few small state programs in the 2018 RoC period was justifiably focused on PFM, revenue administration, the financial sector, and SOE reform. However, in some cases, conditionality did not include resilience building to natural disasters, despite this being a program objective or a key program risk (Solomon Islands, 2011 SCF and 2012 ECF; Grenada, 2014 ECF). Further tailoring to support resilience building efforts is needed, informed by IMF-WB joint Climate Change Policy Assessments (CCPA).[68] Such tailoring would help build buffers, enhance disaster preparedness, strengthen institutions, and coordinate capacity building. A Fund-supported program with resilience building as its core objective could also help catalyze climate change financing, for which access procedures of other donors and institutions can often be complex.

Access

63.   **Access decisions should be determined by a range of country-specific factors, as well as underlying GRA and PRGT policies.** In principle, determination of levels of access to Fund resources in individual arrangements should reflect factors that are common across GRA and PRGT arrangements: (i) the country's BoP need; (ii) program strength and capacity to repay; and (iii) the amount of the member's outstanding use of Fund credit and its record in using Fund resources in the past. At the same time, there are differences in the lending frameworks of the GRA and PRGT. For example, PRGT resources are limited[69] and have access norms[70] and limits.[71] That said, PRGT-eligible countries are not restricted to reliance on PRGT resources and have the right to access GRA resources on the same terms and conditions as other members, including based on staff's assessment of a member's capacity to repay.

64.   **During this period, there were significant differences in access at arrangement approval, both within the GRA, and between GRA and PRGT programs.** Analysis points to much larger variation in access within the GRA sample, compared to the PRGT, mostly driven by EA GRA

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[68] Jointly with the Bank, comprehensive Climate Change Policy Assessments (on pilot-basis) have been conducted for Belize (2018), Seychelles (2017), and St. Lucia (2018). The CCPA for Seychelles informed SBs under the ongoing PCI program approved in December 2017.

[69] The PRGT's self-sustained financing framework seeks to provide new concessional lending at an average annual level of SDR 1¼ billion in perpetuity without the need for additional grant contributions from the Fund's membership.

[70] PRGT access norms are neither ceilings nor floors for the level of access to PRGT resources: they should help to inform the assessment of access levels but should not be misconstrued as access limits or entitlements. While norms can provide a focal point for the assessment of the appropriate level of access—particularly when data is poor—individual access decisions should be determined case-by-case, based on: BoP needs; program strength; outstanding use of Fund credit and record of past use; and capacity to repay the Fund that is informed by DSA.

[71] In contrast to the GRA, there is a global cumulative access limit under the PRGT of 300 percent of quota in EA cases.

cases (Figure 22). Moreover, there was a large disparity between average GRA and PRGT access levels, with access at arrangement approval in GRA program cases 3 percent of GDP higher on average than PRGT cases during the period.

Figure 22. Access

Access was higher in the GRA sample than in the PRGT sample, largely reflecting EA and small island countries with high quota/GDP ratios.

Average Access at Program Approval
(Percent of GDP; 2012-17)

Distribution of Access Levels
(Number of programs; 2012-17)

Sources: Fund Financing Arrangements database and IMF staff calculations.
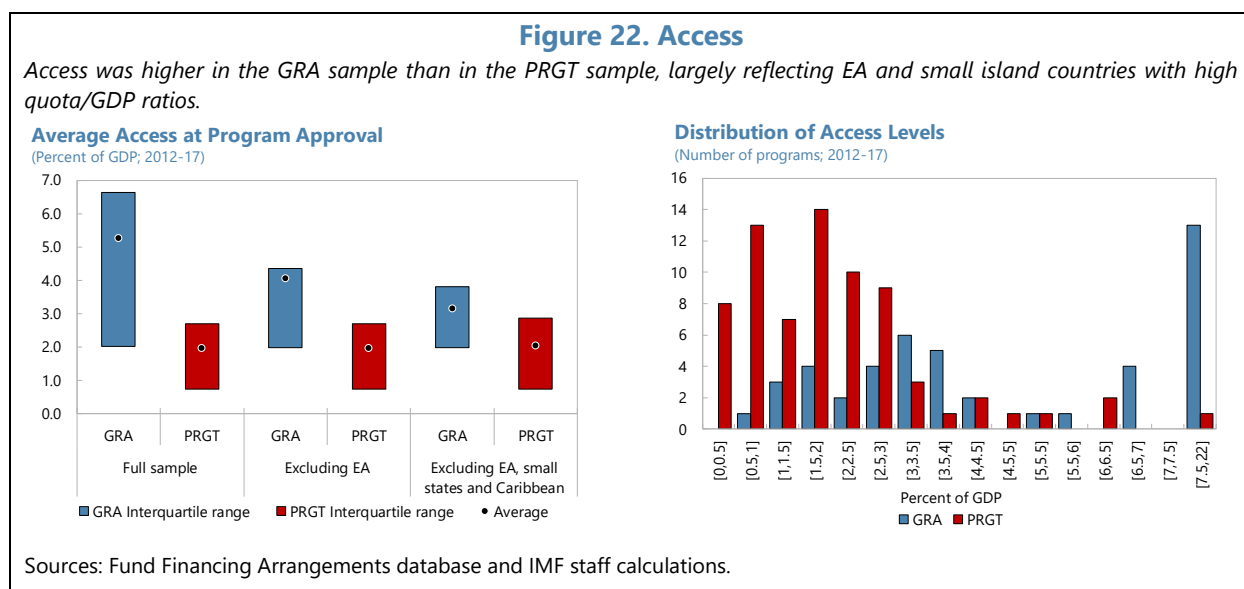
65.   Regression analysis explains a large share—almost 70 percent—of the variation in access decisions.[72] Pooled regressions of both GRA and PRGT programs suggest that the differences in access level are largely driven by Fund policies (i.e., EA policy and PRGT access norms). Separate regressions were estimated for the PRGT and GRA because of the differences in applicable policies. In the GRA, the analysis finds that gross financing needs, capital account crisis, and the normal access limit were important explanatory variables. However, the EA dummy remains an important driver of access, most likely capturing the sizeable effects of large BoP crises, above and beyond those of a typical capital account crisis. In the PRGT, there were strong links with PRGT access norms and the size of adjustment, confirming that the strength of policies matters in access decisions.

66.   Policies regarding the access of PRGT-eligible countries to financial support from the Fund were clarified by the Executive Board in November 2016.[73] The principle that access to Fund resources should be determined on the basis of the standard criteria, including balance of payments need, program strength, and capacity to repay the Fund, informed by DSA, was reaffirmed. Directors also underscored that "access norms, as used in PRGT facilities, are neither a ceiling nor a floor on the level of access provided in PRGT-supported arrangements. Norms should help inform the assessment of access levels and should not be misconstrued as access limits or entitlements." In line with this clarification, access levels in programs with PRGT-eligible countries in the period since November 2016 have, on average, deviated by a much wider margin from the

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[72] See Section VII.G for further details on the methodology and regression results.

[73] See *Financing for Development: Enhancing the Financial Safety Net for Developing Countries—Further Considerations (IMF 2016).*

relevant norm than in the prior period, with several countries facing large BoP needs in the wake of the commodity price shocks.

> **Recommendations**
>
> - **Revamp the MONA database and introduce periodic, standardized reports to the Board** to ensure transparency and facilitate the monitoring and comparison of programs.
>
> - **Improve tailoring of SCs for fragile and small states**: for *fragile states*, analyze sources of fragility more systematically and streamline objectives and related SCs, by focusing on short-term realistic measures, taking into account capacity constraints; and for *small states*, focus SCs on resilience building to natural disasters, where appropriate.
>
> - **Consider increasing PRGT access norms and limits**, promote blending of GRA and PRGT resources, and increase the flexibility of SCF arrangements while maintaining PRGT self-sustainability. These issues will be discussed in the forthcoming 2018-19 Review of LIC Facilities.

IMPLEMENTATION AND RISKS

67.   The RoC recommendations require implementation on multiple fronts (Table 2). Staff does not see a need at this stage to update the GoC. Instead, recommendations will be implemented by: (i) updating the Operational Guidance Note on Conditionality; (ii) delivering ongoing and planned workstreams (e.g., MAC DSA and DLP reviews, and monetary policy conditionality review); and (iii) if there is sufficient Executive Board interest, producing a possible follow-up paper to consider longer duration EFFs to support structural reform agendas.

68.   The budgetary impact is not expected to be significant, in the context of efforts already planned to strengthen Fund lending and policies. The cost of updating the Operational Guidance Note on Conditionality will be manageable, and subsequent implementation will likely require a change in culture and approach, rather than significant additional investment or practices/processes. Most other proposals (e.g., sharper MAC DSA tools, continued building of expertise in critical shared areas of responsibility, and monetary policy conditionality review) are part of ongoing or planned workstreams that are already included in the medium-term budget. The proposals for Communication Department (COM) TA and work to explore longer Fund engagement would entail additional costs, which would need to be considered alongside other priorities within the existing budget process.

69.   If successfully implemented, the recommendations should reduce risks to lending operations, and the Fund more generally. Many of the proposals should increase the likelihood of program success and reduce the risks to the use of Fund resources. The recommendation to improve forecast realism, MAC DSA tools, debt transparency, and tailoring to fragile and small states, as well as to develop contingency planning, could also have positive spillovers to Fund surveillance. Better prioritization of reforms based on surveillance and TA gaps would support

further integration of core functions. Improved program design, performance, and communication would also help protect the Fund's reputation. While longer programs could increase short-term risks to the revolving use and adequacy of Fund resources, these could be mitigated with appropriate safeguards. Over time, successful longer programs should also reduce risks by lowering the frequency of successor arrangements.

CONCLUSION

70.   With strong encouragement from the membership, the Fund stepped up efforts to provide financial support to member countries during the difficult post-GFC period. The 2018 RoC period was dominated by persistent structural challenges that required large-scale and long-lasting adjustment. At the same time, the protracted recovery from the GFC also weighed heavily on external demand, hampering macroeconomic adjustment and creating headwinds to difficult structural reforms. This risky and uncertain environment provided the backdrop for most Fund-supported programs, as the institution faced difficult dilemmas and tradeoffs on how to achieve program success in such an environment. Ultimately, the Fund took significant risks to support the membership, as acknowledged in the staff reports accompanying most program requests. In this context, the limited success of some Fund-supported program should not come as a surprise.

71.   Program design and conditionality involve significant tradeoffs. Based on the lessons from the 2018 RoC, certain tradeoffs need to be re-assessed:

- *Realism versus ambition*. More scrutiny of program baselines is required, but forecasting is an imperfect science, and some degree of error should be expected. Program design should tackle uncertainty through analysis of downside scenarios and contingency planning. However, there could be an inevitable trade-off as less ambition could potentially undermine reform momentum.

- *Granularity versus flexibility*. More granular conditionality, for example on revenue and spending measures, could help deliver higher quality of adjustment. However, this would also imply a significant reduction in program flexibility, and the ability to respond to shocks. This could also test ownership in an often-difficult political environment.

- *Gradualism versus speed*. Implementation of complex reform agendas in the face of protracted structural challenges requires time, ownership, capacity building, and substantial financing. Therefore, a more gradual approach, which would justify longer EFF arrangements, may work better. Alternatively, disbursing programs could focus on macroeconomic stabilization with PCIs used increasingly to support medium-term structural agendas. However, a planning horizon longer than four years may not always work with political cycles and may increase the risks of reform fatigue.

- *Parsimony versus more conditionality*. Given the deep-seated structural challenges that the membership faces, the Fund needs to continue building expertise on structural issues. The design and tailoring of structural conditionality will need to be improved to maximize the impact of reforms. Fewer but deeper reforms may yield better results. Achieving parsimony may require

the Fund to attach more conditionality to critical shared and non-core areas of responsibility at the expense of non-critical traditional core areas.

- *Debt operation versus adjustment*. Sharper DSA tools would help mitigate any bias in judgment on debt sustainability and ensure more balanced consideration of the trade-off on a case-by-case basis.

72.   Ultimately, these tradeoffs need to be carefully weighed to mitigate risks to the Fund. Paying more attention to *realism, granularity, gradualism, parsimony and in some cases debt operation options*, when weighing program design tradeoffs, would improve the chances of program success.

ISSUES FOR DISCUSSION

73.   Directors may want to consider the following issues:

- Do Directors agree with the overall assessment of program success?

- Do Directors agree with the RoC recommendations?

- How do Directors view the trade-offs and risks inherent in program design?

- Do Directors agree that the Guidelines on Conditionality remain broadly appropriate, but that staff guidance should be updated in line with recommendations?

- Do Directors see the need for a follow-up Board paper on a possible longer duration of EFF arrangements?

Table 2. 2018 Review of Conditionality Roadmap

Recommendation	Follow-up	Relevant Ongoing Workstreams	Timing
Growth optimism			
Increase scrutiny of program baselines and develop contingency plans.	Update Guidance		2019
Strengthen discussion/analysis of the growth impact of program policies.		*Macro-structural pilot initiative.* *Impact of structural reforms in EMDCs (RES project).*	
Monetary conditionality			
Evaluate review-based conditionality and consider possible enhancements.	Possible Board Paper		2020
Quality of fiscal adjustment			
Use more granular fiscal conditionality.	Update Guidance	*FAD paper on expenditure conditionality.*	2019
Increase focus on the quality of social spending.		*Strategy for IMF Engagement on Social Spending.*	
Public debt			
Strengthen debt sustainability tools, ensuring more balanced consideration of debt operations, where applicable.	Board Paper / Update Guidance	*MAC DSA Review: will propose a more robust, probabilistic, and discriminate framework, with clear bottom-line assessments.* *Apply new LIC DSF: improved assessment of debt carrying capacity; and, more accurate methodology for predicting debt distress.*	2019
Consider structural conditions on improving governance arrangements for contracting and monitoring of debt obligations.		*G20 multi-pronged strategy. Continued prioritization in CD strategy.*	Ongoing
Review the Fund's Debt Limits Policy (DLP)	Board Paper	*DLP review, including examining possible guidance on collateralized debt.*	2019/20
Structural conditionality and program design			
Identify, prioritize and sequence reforms based on criticality.	Update Guidance	*Mainstream macro-structural pilot initiative.* *Finalize work on structural reforms in EMDCs.*	Ongoing
Continue to build expertise in critical shared reform areas (e.g. labor markets).			
Consider NPL resolution and related conditionality at outset.			
Greater realism in implementation timetables and reform payoffs.			
Consider longer Fund engagement to support structural reform agendas.	Board Papers	*Proceed only if sufficient Board interest.* *Coordinated with 2018-19 Review of LIC Facilities.*	2019
Ownership			
Encourage well-integrated national reform plans as a program anchor.	Update Guidance	*COM to draft Fund communication plans and offer TA.* *Guidance on: (i) assessing EA4; and (ii) prior actions.*	2019
Improve two-way communication to broader public to support buy-in.			
Strengthen analysis of institutional and political capacity.			
Consider increased voluntary usage of SMPs, particularly in the GRA.			
Tailoring and uniformity of treatment (evenhandedness)			
Enhance transparency by facilitating monitoring/comparison of programs.		*Revamp MONA database and produce periodic reports to the Board.*	2019
Improve tailoring of structural conditionality for fragile and small states.	Update Guidance / Board Paper	*Management Implementation Plan—IEO Report on IMF and Fragile States.* *Building Resilience in Countries Vulnerable to Large Natural Disasters.*	
Consider increasing PRGT access norms and limits and promote more blending of GRA and PRGT resources, while maintaining PRGT self-sustainability.	Board Paper	*2018-19 Review of LIC Facilities.*	

Appendix I. 2018 RoC Analytical Country Groups

Post-GFC (39 programs)			Political/economic transformation (14 programs)			Commodity exporters (19 programs)			Other developing (61 programs)		
Country and arrangement type and approval date			Country and arrangement type and approval date			Country and arrangement type and approval date			Country and arrangement type and approval date		
Albania	EFF	2014	Central African Rep.	ECF	2016	Angola	SBA	2009	Afghanistan, Islamic Rep. of	ECF	2011
Antigua and Barbuda	SBA	2010	Cote d'Ivoire	ECF	2011	Burkina Faso	ECF	2010	Afghanistan, Islamic Rep. of	ECF	2016
Armenia	ECF-EFF	2010	Egypt	EFF	2016	Burkina Faso	ECF	2013	Bangladesh	ECF	2012
Armenia	EFF	2014	Jordan	SBA	2012	Chad	ECF	2014	Benin	ECF	2010
Bosnia and Herzegovina	SBA	2009	Jordan	EFF	2016	Chad	ECF	2017	Benin	ECF	2017
Bosnia and Herzegovina	SBA	2012	Morocco	PLL	2012	Congo, Dem. Rep. of	ECF	2009	Burundi	ECF	2008
Bosnia and Herzegovina	EFF	2016	Morocco	PLL	2014	Gabon	EFF	2017	Burundi	ECF	2012
Cyprus	EFF	2013	Morocco	PLL	2016	Guinea	ECF	2012	Cameroon	ECF	2017
Dominican Republic	SBA	2009	Tunisia	SBA	2013	Guinea	ECF	2017	Cape Verde	PSI	2010
El Salvador	SBA	2010	Tunisia	EFF	2016	Guinea-Bissau	ECF	2010	Central African Rep.	ECF	2012
Georgia	SBA-SCF	2012	Ukraine	SBA	2010	Guinea-Bissau	ECF	2015	Comoros	ECF	2009
Georgia	SBA	2014	Ukraine	SBA	2014	Iraq	SBA	2010	Cote d'Ivoire	ECF-EFF	2016
Georgia	EFF	2017	Ukraine	EFF	2015	Iraq	SBA	2016	Djibouti	ECF	2008
Greece	SBA	2010	Yemen, Rep. of	ECF	2014	Mali	ECF	2013	Gambia, The	ECF	2012
Greece	EFF	2012				Mauritania	ECF	2017	Ghana	ECF	2009
Ireland	EFF	2010				Mongolia	EFF	2017	Ghana	ECF	2015
Jamaica	SBA	2010				Sierra Leone	ECF	2013	Grenada	ECF	2010
Jamaica	EFF	2013				Sierra Leone	ECF	2017	Grenada	ECF	2014
Jamaica	SBA	2016				Suriname	SBA	2016	Haiti	ECF	2010
Kosovo, Rep. of	SBA	2010							Haiti	ECF	2015
Kosovo, Rep. of	SBA	2012							Honduras	SBA-SCF	2010
Kosovo, Rep. of	SBA	2015							Honduras	SBA-SCF	2014
Latvia	SBA	2008							Kenya	ECF	2011
Maldives	SBA	2009							Kenya	SBA-SCF	2015
Moldova	ECF-EFF	2010							Kenya	SBA-SCF	2016
Moldova	ECF-EFF	2016							Kyrgyz Rep.	ECF	2011
North Macedonia (previously Macedonia, FYR)	PCL	2011							Kyrgyz Rep.	ECF	2015
Pakistan	EFF	2013							Lesotho	ECF	2010
Portugal	EFF	2011							Liberia	ECF-EFF	2008
Romania	SBA	2011							Liberia	ECF	2012
Romania	SBA	2013							Madagascar	ECF	2016
Serbia, Rep. of	SBA	2011							Malawi	ECF	2010
Serbia, Rep. of	SBA	2015							Malawi	ECF	2012
Seychelles	EFF	2009							Mali	ECF	2008
Seychelles	EFF	2014							Mali	ECF	2011
Seychelles	PCI	2017							Mauritania	ECF	2010
Sri Lanka	SBA	2009							Mozambique	PSI	2010
Sri Lanka	EFF	2016							Mozambique	PSI	2013
St. Kitts and Nevis	SBA	2011							Mozambique	SCF	2015
									Niger	ECF	2012
									Niger	ECF	2017
									Rwanda	PSI	2010
									Rwanda	PSI	2013
									Rwanda	SCF	2016
									Sao Tome and Principe	ECF	2009
									Sao Tome and Principe	ECF	2012
									Sao Tome and Principe	ECF	2015
									Senegal	PSI	2010
									Senegal	PSI	2015
									Sierra Leone	ECF	2010
									Solomon Islands	SCF	2010
									Solomon Islands	SCF	2011
									Solomon Islands	ECF	2012
									Tajikistan	ECF	2009
									Tanzania	PSI	2010
									Tanzania	SCF	2012
									Tanzania	PSI	2014
									Togo	ECF	2017
									Uganda	PSI	2010
									Uganda	PSI	2013
									Yemen, Rep. of	ECF	2010

Appendix II. Definitions

A. Structural Conditions: Classification

1.   SCs span all sectors of the economy and are classified by category, area of responsibility, and implementation success. The SCs are categorized into areas of responsibility; that is, core, shared, and non-core areas of Fund responsibility (Table 1). This largely follows the classification used by the IEO (2007) and the 2011 RoC, with the only change being the shift in classification of financial sector SCs from shared to core for both AMs and EMs/LIC, reflecting the increasing importance of financial sector issues to the Fund during the period.

Table 1. Classification of Structural Conditions by Subject	
Category	**Description**
Fiscal	Revenue administration (incl. customs)
	Expenditure measures (incl. arrears clearance)
	Debt management
PFM/RA	Revenue measures
	Budget preparations
	Expenditure auditing
	Fiscal transparency
	Inter-governmental relations
Central bank	Central bank operations, auditing, transparency, and financial controls
	Exchange systems and restrictions
Financial sector	Financial sector legal reforms, regulation, and supervision
	Restructuring and privatization of financial institutions
Pension and civil service reform	Pension reform
	Health and education sector reforms
	Civil service and public employment reforms (incl. wages)
	PRSP development and implementation
SOE reform	Public enterprise reform (excl. financial sector)
	Public enterprise pricing and subsidies
	Privatization
Social	Other social sector reforms
Other macro-structural	Labor market reforms (excl. public sector)
	Product market reforms (excl. financial sector)
	International trade policy (excl. customs)
	Statistics
	Governance (incl. anti-corruption)
	Natural resource and agricultural policies (excl. public enterprises and pricing)

Note: Font color indicates area of Fund responsibility: core, shared, non-core.

B. Structural Conditions: Depth

2.   SCs are classified into measures of high, medium, or low depth. Following the methodology of the 2011 RoC, as well as the IEO (2008) classification, structural reforms were grouped based on their implied change and durability, if implemented fully.

- *High depth.* Reforms that lead to permanent institutional changes, such as by involving legislative changes (parliamentary approval), or conditions with long-lasting impact (e.g., civil service reforms, SOE reforms, privatization).

- *Medium depth.* Reforms that lead to a significant change but are one-off in nature (e.g., budget approval or one-time change in tariff rates as compared to a permanent change such as institutionalizing an automatic tariff adjustment mechanism).

- *Low depth.* Reforms that in themselves do not bring about change but are steps towards a change.

C. Ownership: Definition

3.   National ownership is defined as follows: "A commitment to a program of policies, by country officials who have the responsibility to formulate and carry out those policies, based on an understanding that the program is achievable and is in the country's best interest" (IMF, 2002b).

D. Ownership: Program Completion Rates

4.   Program completion rates are sorted into six groups:

- *Completed.* All reviews completed during the program period, including if they were completed with delays, after rephasing, or during a program extension.

- *Largely implemented.* All but one review has been completed after accounting for a potential change in the number of reviews following rephasing of the review schedule.

- *Off track mid-program.* 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).

- *Quickly off track.* At most one review was completed and at least two reviews were not completed at the end of the program.

- *Replaced.* Captures programs (that are not "completed" or "largely implemented") where a successor program was approved, while another program was still ongoing. This would be the case when a program request includes a request for cancellation of an existing arrangement.

- *In progress.* Captures programs that were still active as of October 1, 2018.

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April 5, 2019

2018 REVIEW OF PROGRAM DESIGN AND CONDITIONALITY—SUPPLEMENTARY INFORMATION

EXECUTIVE SUMMARY

This supplement provides additional information to support the *Review of Program Design and Conditionality* (the "main paper"). It presents survey results, additional areas of analysis, and methodological material.

- *Section I: 2018 RoC Surveys.* Discusses the results of the 2018 RoC surveys of country authorities, Executive Directors, mission chiefs, and resident representatives to shed light on perceptions of ownership and program design and conditionality.

- *Section II: Previous Policy Reviews.* Summarizes recommendations of Fund reviews and notes implementation progress, while referencing relevant Independent Evaluation Office reports.

- *Section III: Assessing Program Success.* Presents the methodological details supporting the assessment of program success.

- *Section IV: Recent Fund Experience with Debt Restructuring and Reprofiling.* Describes recent experience with debt restructurings and reprofiling.

- *Section V: Staff-Monitored Programs.* Examines the experience with staff-monitored programs (SMPs) for building track records and clearing arrears.

- *Section VI: Tailoring and Uniformity of Treatment: Fragile States and Small States.* Elaborates on the (often unique) challenges faced by these members.

- *Section VII: Technical Notes.* Lays out the methodological details underlying the results of staff's analysis.

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Acronyms and Abbreviations

AML/CFT	Anti-Money Laundering and Countering Financing of Terrorism
BoP	Balance of Payments
CA	Current Account
CAUT	Country Authorities
CCPA	Climate Change Policy Assessments
CPIA	Country Policy and Institutional Assessment
CSO	Civil Society Organization
DSA	Debt Sustainability Analysis
EA	Exceptional Access
ECF	Extended Credit Facility
EDs	Executive Directors
EFF	Extended Fund Facility
FTEs	Full-Time Equivalent
GDP	Gross Domestic Product
GFC	Global Financial Crisis
GRA	General Resources Account
IEO	Independent Evaluations Office
IFI	International Financial Institution
IT	Indicative Target
LICs	Low-Income Countries
LIC-DSA	LIC-Debt Sustainability Assessment
LIC-DSF	LIC-Debt Sustainability Framework
MAC	Market Access Country
MCs	Mission Chiefs
MONA	Monitoring of Fund Arrangements
NPL	Non-Performing Loan
PCI	Policy Coordination Instrument
PCL	Precautionary Credit Line
PLL	Precautionary and Liquidity Line
PRGF	Poverty Reduction and Growth Facility
PRGT	Poverty Reduction and Growth Trust
PSI	Policy Support Instrument
QPC	Quantitative Performance Criteria
RA	Revenue Administration
RCF	Rapid Credit Facility
RFAs	Regional Financial Arrangements
REER	Real Effective Exchange Rate
RFI	Rapid Financing Instrument
RoC	Review of Program Design and Conditionality
RRs	Resident Representatives

SB	Structural Benchmark
SBA	Stand-By Arrangement
SC	Structural Condition
SCF	Standby Credit Facility
SMP	Staff-Monitored Program
SOE	State-Owned Enterprise
SPC	Structural Performance Criterion
TA	Technical Assistance
TPF	Total Factor Productivity
UCT	Upper Credit Tranche
VE	Vulnerability Exercise
WDI	World Development Indicators
WEO	World Economic Outlook
WGI	Worldwide Governance Indicators

2018 ROC SURVEYS

Staff surveyed mission chiefs, resident representatives, Executive Directors, and country authorities in countries with programs during the RoC period. While the surveys were tailored to the four groups, all recipients were asked to reflect on ownership, tailoring and uniformity of treatment, as well as other program design issues.[1]

A. Ownership

1.   Despite a moderation since 2011, perceptions of the authorities' program ownership remain broadly positive. About half of mission chiefs (MCs) and resident representatives (RRs) rated program ownership as "high" or "very high" and about one third as "moderate" (Figure 1, top panels). In addition, MCs/RRs and country authorities (CAUTs) and Executive Directors (EDs) overwhelmingly agreed that program quantitative performance criteria (QPCs) targeted the appropriate macroeconomic variables. The vast majority of MCs/RRs and CAUTs also agreed that structural reforms were consistent with national reform priorities, and that program objectives were consistent with domestic economic and social priorities, though EDs were more cautious (Figure 1, bottom left panel). Furthermore, roughly three-quarters of all respondents agreed or strongly agreed that program design was sufficiently flexible to accommodate external shocks (Figure 1, bottom right panel).

Figure 1. 2011 and 2018 Surveys: Ownership

Ownership: MCs/RRs (2011)
(Percent of responses)
The government has/had ownership of program conditionality.

Strongly agree
Agree
Disagree
Strongly disagree
Don't know

Ownership: MCs/RRs (2018)
(Percent of responses)
Overall, how would you rate the degree of program ownership by the authorities?

Very high
High
Moderate
Low
Very low

---

[1] The 2011 and 2018 survey results are not directly comparable as the 2011 RoC (IMF, 2012a) used interviews of EDs, while the 2018 RoC used written questionnaires.

Figure 1. 2011 and 2018 Surveys: Ownership (concluded)

Ownership: MCs/RRs, EDs, and CAUTs (2018)
(Percent of responses)
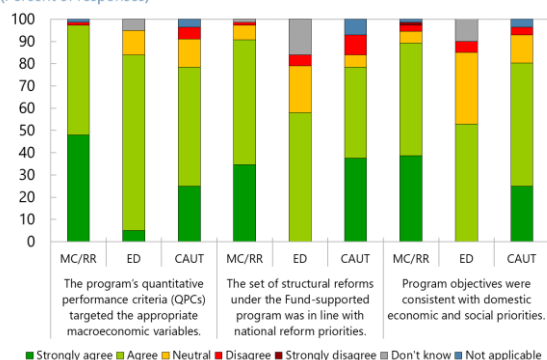
Ownership: MCs/RRs, EDs, and CAUTs (2018)
(Percent of responses)
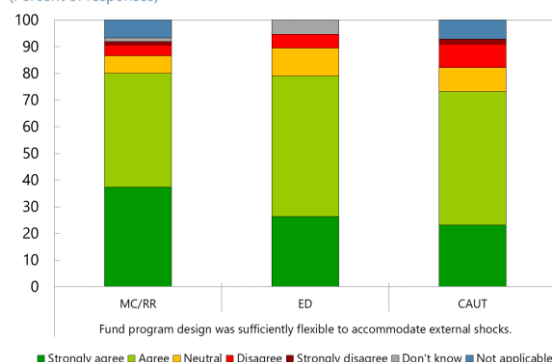
Sources: 2011 and 2018 RoC surveys.

2. **While program design is often perceived as flexible, there may be a need to pay additional attention to capacity constraints.** A slight majority of respondents found program design sufficiently flexible to accommodate changing government priorities (Figure 2, left panel). Yet, approximately 15 percent disagreed or strongly disagreed with this statement and 20 to 25 percent were neutral. Furthermore, 20 percent of MCs/RRs and CAUTs and more than a quarter of EDs disagreed or strongly disagreed that the program implementation timeline was consistent with the authorities' existing technical capacity to implement reforms (Figure 2, right panel). Around 20 percent of MCs/RRs also disagreed/strongly disagreed that program implementation was consistent with program commitments. Most MCs/RRs attributed unsatisfactory program implementation to weak capacity and lack of ownership, while CAUTs cited unexpected developments or exogenous shocks (Figure 3).

Figure 2. 2018 Surveys: Flexibility and Implementation Capacity

Flexibility: MCs/RRs, EDs, and CAUTs (2018)
(Percent of responses)
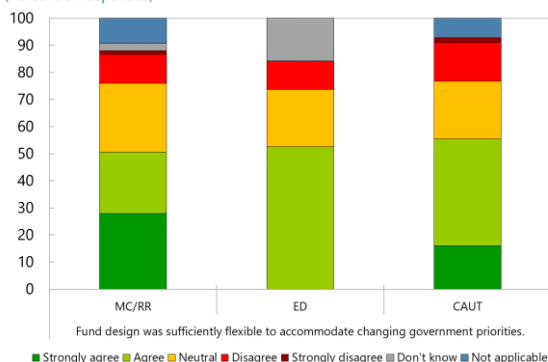
Implementation Capacity: MC/RRs, EDs, and CAUTs (2018)
(Percent of responses)
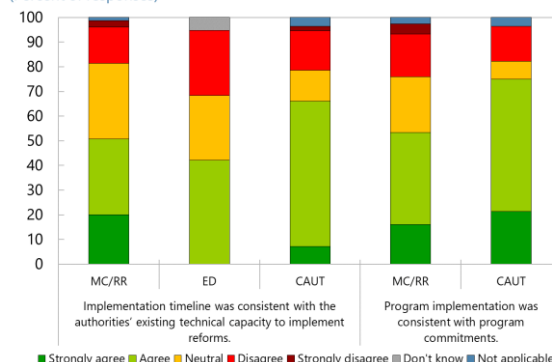
Sources: 2018 RoC surveys.

3.   There is potential scope for longer duration of some programs to help achieve objectives. Roughly a quarter of MCs/RRs and EDs disagreed that the duration of their program was sufficient to accomplish its overall objectives (Figure 4, left panel). More than half of MCs/RRs and CAUTs reported follow-up programs for their assigned country during the review period. The reason most frequently cited by MCs/RRs was that "the previous program was not fully implemented", while CAUTs highlighted "the need for the policy support" (Figure 4, right panel).

Figure 3. 2018 Surveys: Implementation

Sources: 2018 RoC surveys.

Figure 4. 2018 Surveys: Program Length

Sources: 2018 RoC surveys.
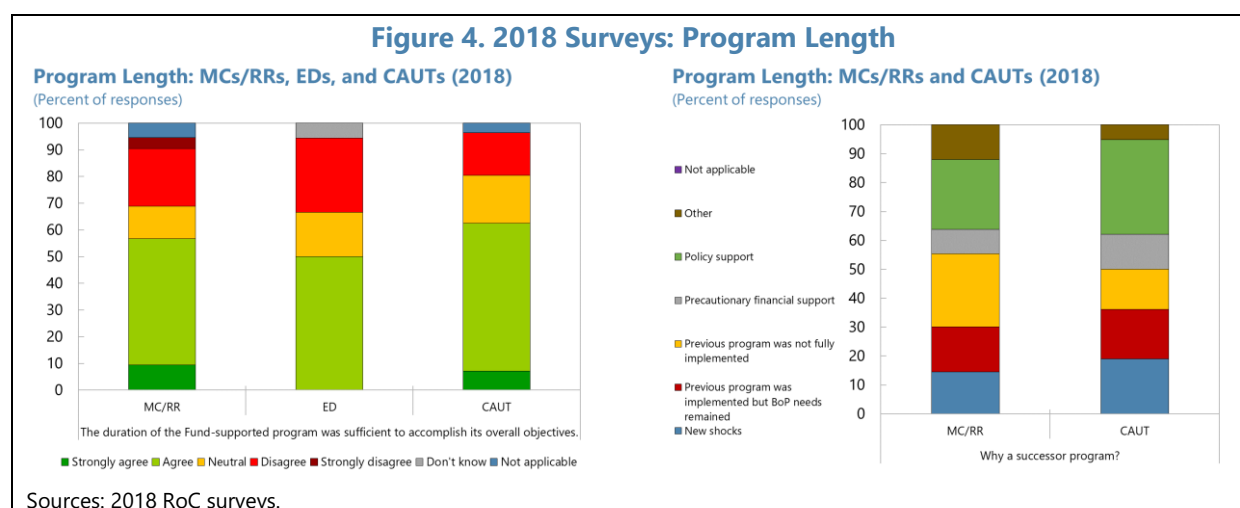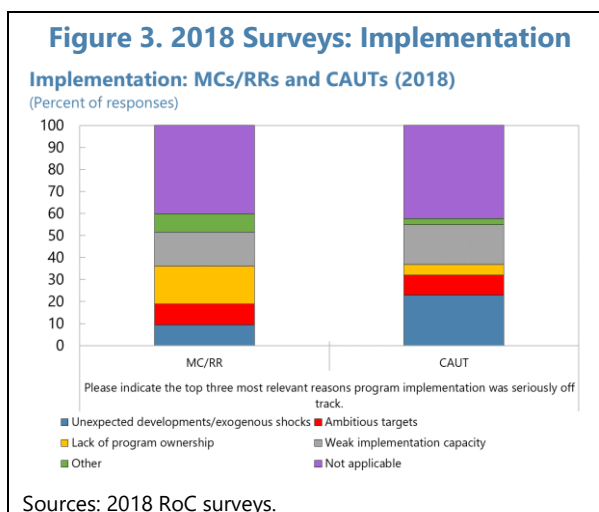
B.   Tailoring and Uniformity of Treatment

4.   Access decisions are viewed broadly as evenhanded. A significant majority of MCs/RRs and somewhat lower percentages of EDs and CAUTs agreed that Fund-supported programs struck the right balance between policy adjustment and programmed financing (Figure 5). A sizable majority of all respondents agreed that financing reflected fairly countries' balance of payments needs, program strength, and repayment capacity, though agreement was somewhat lower for EDs and CAUTs.

Figure 5. Uniformity of Treatment—Access

Sources: 2018 RoC surveys.
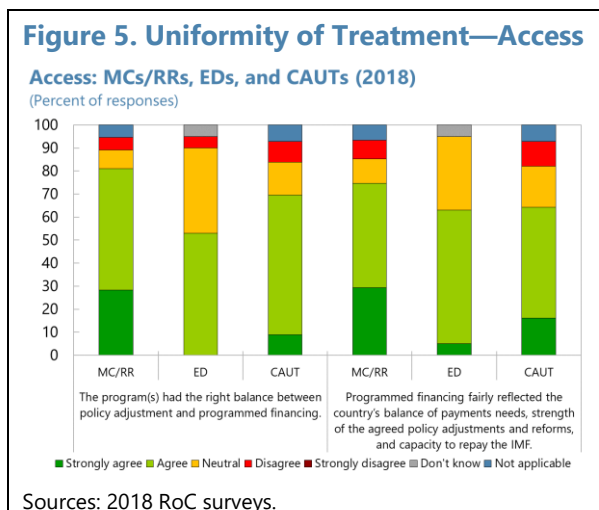
5. **Conditionality is regarded as somewhat less evenhanded.** A significant minority of respondents disagreed or strongly disagreed that "Fund-supported programs have similar conditionality across countries with similar characteristics and qualifications," pointing to concerns about uniformity of treatment among some stakeholders (Figure 6).

Figure 6. 2011 and 2018 Surveys: Uniformity of Treatment—Conditionality 1/

Uniformity of Treatment: MCs/RRs (2011)
(Percent of responses)

Fund-supported programs have similar conditionality across countries with similar characteristics and qualifications.

Uniformity of Treatment: MCs/RRs (2018)
(Percent of responses)

Uniformity of Treatment: CAUTs (2011)
(Percent of responses)

Fund-supported programs have similar conditionality across countries with similar characteristics and qualifications.

Uniformity of Treatment: CAUTs (2018)
(Percent of responses)

Uniformity of Treatment: EDs (2018)
(Percent of responses)

Fund-supported programs have similar conditionality across countries with similar characteristics and qualifications.

Sources: 2011 and 2018 RoC surveys.
1/ "Neutral" and "N/A" were not provided as response options in the 2011 surveys. The 2011 EDs' survey used a different set of questions and is therefore not fully comparable to the 2018 survey.

6. **Perceptions of tailoring in program design remain positive but may have become somewhat less pronounced.** In 2011, over 90 percent of respondents to the MC, RR, and CAUT surveys agreed or strongly agreed that program design took country circumstances into account (Figure 7, left panels). This share declined to about three-quarters in 2018 (Figure 7, right panels). A similar trend was observed regarding the tailoring of program objectives with domestic economic and social priorities (Figure 8). This may reflect challenges related to tailoring more structural programs in the 2018 sample, or the addition of "neutral" and "not applicable" responses in the 2018 surveys.

Figure 7. 2011 and 2018 Surveys: Tailoring—Program Design 1/

Tailoring: MCs/RRs (2011)
(Percent of responses)

Tailoring: MCs/RRs (2018)
(Percent of responses)

Program design appropriately took into account country circumstances, incl. admin. and institutional capacity.

- ■ Strongly agree
- ■ Agree
- ■ Neutral
- ■ Disagree
- ■ Strongly disagree
- ■ Don't know
- ■ Not applicable

Tailoring: CAUTs (2011)
(Percent of responses)

Tailoring: CAUTs (2018)
(Percent of responses)

Program design appropriately took into account country circumstances, incl. admin. and institutional capacity.

- ■ Strongly agree
- ■ Agree
- ■ Neutral
- ■ Disagree
- ■ Strongly disagree
- ■ Don't know
- ■ Not applicable

Sources: 2011 and 2018 RoC surveys.
1/ "Neutral" and "N/A" were not provided as response options in the 2011 surveys.

Figure 8. 2011 and 2018 Surveys: Tailoring—Program Objectives 1/

Tailoring: MCs/RRs (2011)
(Percent of responses)

Program objectives were consistent with domestic economic and social priorities.

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree
- Don't know
- Not applicable

45 52 2

Tailoring: MCs/RRs (2018)
(Percent of responses)

5 3 1 39 51

Tailoring: CAUTs (2011)
(Percent of responses)

Program objectives were consistent with domestic economic and social priorities.

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree
- Don't know
- Not applicable

5 27 67

Tailoring: CAUTs (2018)
(Percent of responses)

4 4 13 25 55
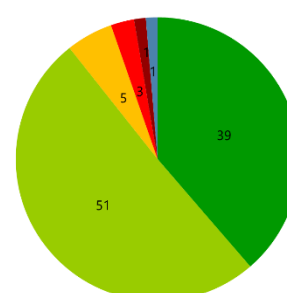
Tailoring: EDs (2018)
(Percent of responses)

Objectives in Fund-supported programs are consistent with domestic economic and social priorities.
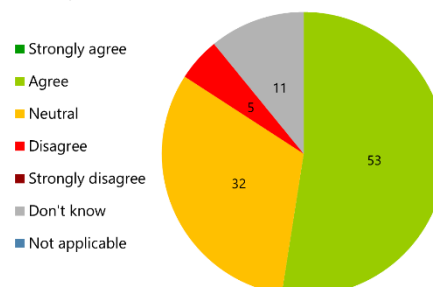
- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree
- Don't know
- Not applicable

11 5 32 53

Sources: 2011 and 2018 RoC surveys.
1/ "Neutral" and "N/A" were not provided as response options in the 2011 surveys. The 2011 EDs' survey used a different set of questions and is therefore not fully comparable to the 2018 survey.

C. Collaboration

7.   Teams have generally coordinated or collaborated with development partners. This is particularly the case in Poverty Reduction and Growth Trust (PRGT) programs (Figure 9, top panels). A large majority of respondents from all surveys felt that Fund coordination with bilateral and multilateral donors had been effective, and that IMF policy advice was consistent with that of other international institutions (Figure 9, bottom left panel). Further, Fund-supported programs leveraged outside expertise to support the design of social sector conditionality. Close to 80 percent of MCs and RRs agreed that coordination with the World Bank or other development partners helped facilitate an understanding of the social impact of consolidation measures under the program (Figure 9, bottom right panel).

Figure 9. 2018 Surveys: Collaboration

Sources: 2018 RoC surveys.
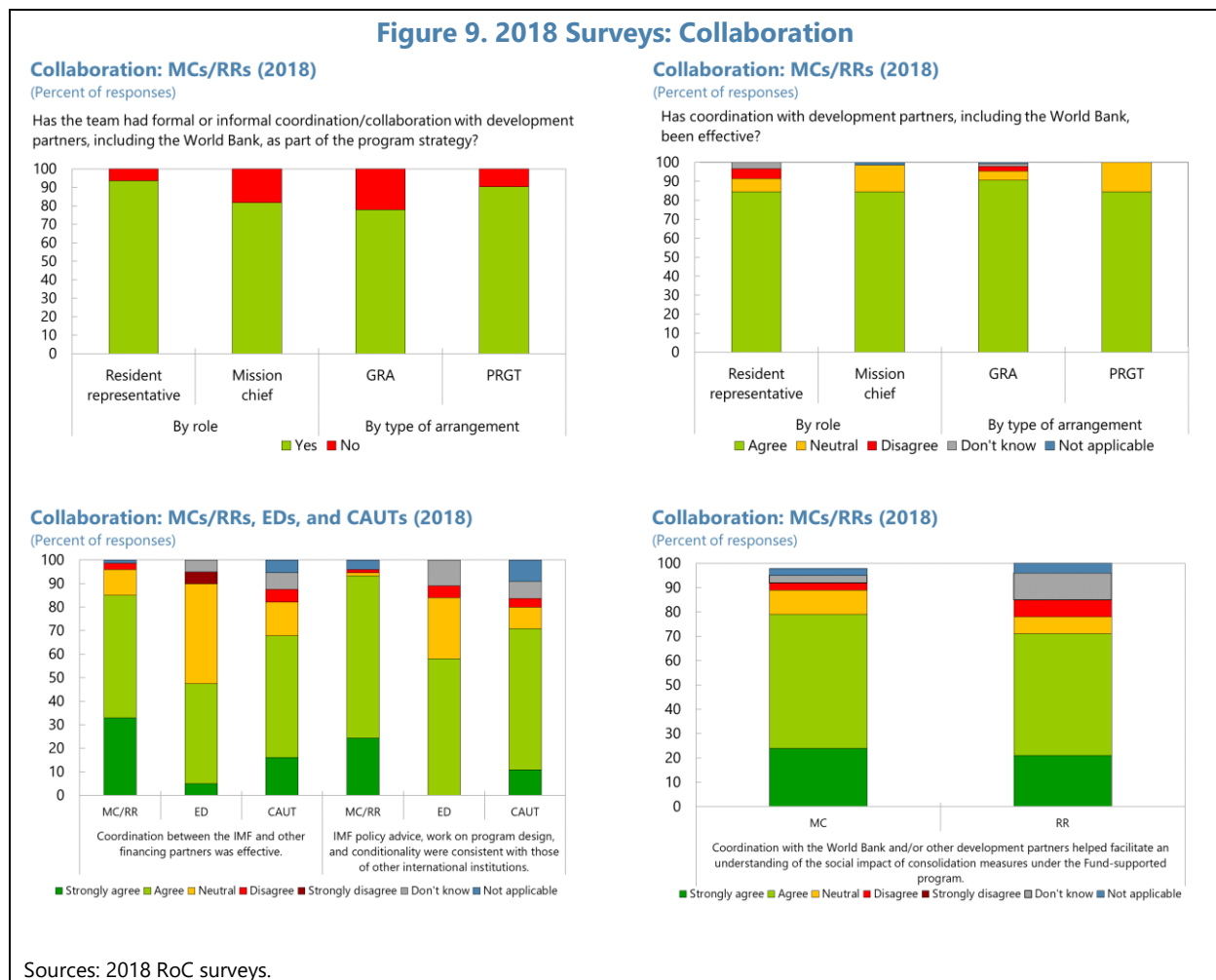
8.   The surveys point to a need to better assess the social and welfare impacts of program policies. A quarter of EDs and close to 20 percent of CAUTs disagreed or strongly disagreed that program design was consistent with protecting vulnerable groups, while 20 percent of EDs felt similarly about distributional effects (Figure 10, left panel). A comparable percentage of CAUTs

disagreed or strongly disagreed that programs took into account the social costs of reform implementation. These concerns were less pronounced among MCs/RRs (Figure 10, right panel).

Figure 10. 2018 Surveys: Vulnerability and Inequality

Sources: 2018 RoC surveys.
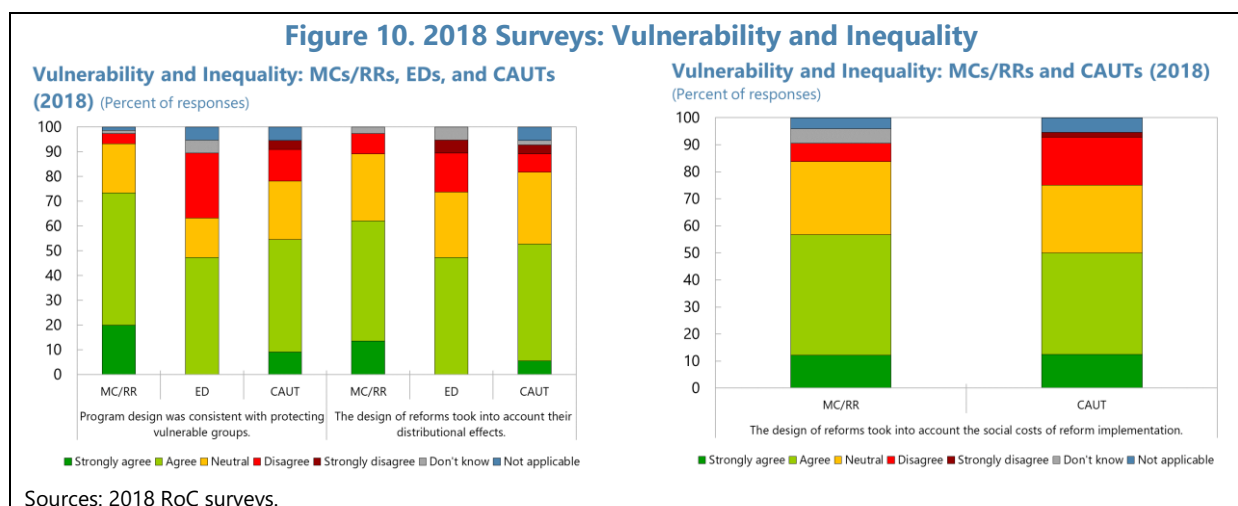
D. Outreach

9.   **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).** Roughly a quarter of MCs/RRs, 18 percent of CAUTs, and 16 percent of EDs disagreed or strongly disagreed that CSOs were actively involved in the design of Fund-supported programs (a third of EDs responded "don't know") (Figure 11, left panel). Further, around a quarter of MCs/RRs disagreed or strongly disagreed that the authorities had publicly explained the benefits of the Fund-supported program to civil society, with another 15 percent neutral (Figure 11, right panel). See also Box 1 for outreach to CSOs in the context of the 2018 RoC.

Figure 11. 2011 and 2018 Surveys: Outreach

Sources: 2011 and 2018 RoC surveys.
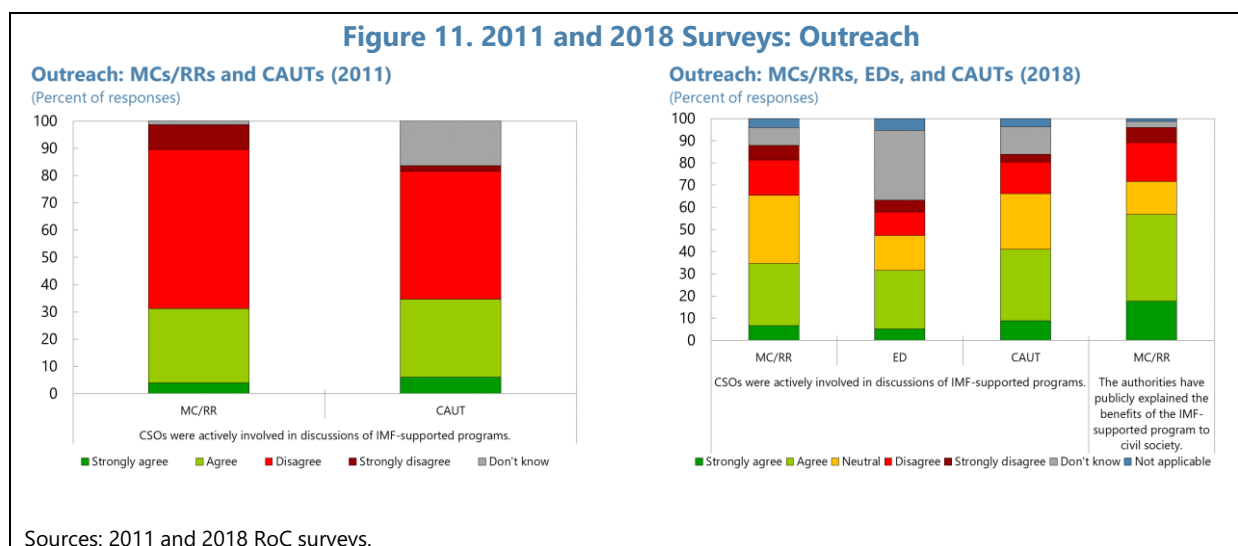
Box 1. 2018 Review of Program Design and Conditionality: Outreach

The 2018 RoC benefited from outreach. The Fund invited online comments from external stakeholders, including CSOs. This was followed by a conference call with Fund staff to discuss their views.

Comments covered a range of issues:

- ***Shift in types of arrangements.*** Some stakeholders noted the shift in recent years from shorter-term SBAs to longer-term EFF arrangements. They encouraged the Fund to explore the drivers of this phenomenon.

- ***Ownership.*** Some participants emphasized the need for a clearer definition of ownership and a more focused assessment thereof in Fund-supported programs.

- ***Program design.*** Many stakeholders emphasized that program design should be more attentive to the potential negative impacts of conditionality on public investment, inequality, and labor rights.

- ***Gender issues.*** While participants welcomed the Fund's efforts to incorporate gender issues in program design, they highlighted the need for a more systematic approach to gender issues in program conditionality.

PREVIOUS POLICY REVIEWS

This section provides an overview of recent studies and reforms at the Fund and the Independent Evaluation Office that are relevant for program design and/or are follow-up actions to the 2011 RoC recommendations.

10.   While providing an overall positive assessment, the 2011 RoC included a comprehensive set of recommendations. Overall, the 2011 RoC (IMF, 2012a) found that in most cases, programs succeeded in meeting their objectives, program design adapted flexibly to challenges, and the Conditionality Guidelines were followed appropriately. Recommendations of the 2011 RoC were addressed through a number of follow-up actions and workstreams (Table 1) and program design and conditionality have subsequently evolved in line with their implementation.

Table 1. Follow-Up Actions on the 2011 RoC Recommendations

2011 RoC recommendation	Concluded follow-up action	Ongoing follow-up action	Overall assessment
Keeping focused—consolidating progress in streamlining conditionality	*Fund Engagement with Countries in Fragile Situations*, April 2012 *Conditionality in Evolving Monetary Policy Regimes*, March 2014, and *Evolving Monetary Policy Frameworks in Low-Income and other Developing Countries*, October 2015 Small States' Resilience to Natural Disasters and Climate Change – Role for the IMF, November 2016, and *Fund Engagement with Small Developing States*, January 2018	Management Implementation Plan on Fragile States Building Resilience in Countries Vulnerable to Large Natural Disasters (forthcoming)	Ongoing progress

Table 1. Follow-Up Actions on the 2011 RoC Recommendations (concluded)

2011 RoC recommendation	Concluded follow-up action	Ongoing follow-up action	Overall assessment
Improving risk diagnostics—tailoring robustness tests and strengthening DSAs	*Public Debt Sustainability Analysis in Market-Access Countries*, May 2013 *Reform of the Public Debt Limits Policy in Fund-supported Programs*, November 2014 *Reform of the Fund's Lending Framework*, April 2015 (including Exceptional Access framework) *Bank-Fund Debt Sustainability Framework for Low Income Countries*, February 2018	Review of the MAC DSA Framework (ongoing) Review of the Debt Limits Policy (ongoing)	Ongoing progress
More consistent consideration of macro-social aspects, including dialogue with authorities and analysis of long-term benefits and short-term costs	*Jobs and Growth Issues in Surveillance and Program Work*, September 2013 *IMF Engagement on Social Safeguards in Low-Income Countries*, July 2018	IMF Engagement on Social Spending: A Strategic Framework (forthcoming) Pilots on Inequality and Gender (mainstreamed)	Substantial progress
Enhanced ownership and transparency, through discussion of alternative policy options, greater clarity in program documents, and new avenues to collect external views	*Fund Engagement with Countries in Fragile Situations*, April 2012 *Small States' Resilience to Natural Disasters and Climate Change – Role for the IMF*, November 2016, and *Fund Engagement with Small Developing States*, January 2018 *Review of the Fund's External Communication Strategy* with annual updates to the Executive Board	Building Resilience in Countries Vulnerable to Large Natural Disasters (forthcoming)	Ongoing progress
Leveraging surveillance, particularly through contingency planning and analysis	*Modernizing the Legal Framework for Surveillance – An Integrated Surveillance Decision*, June 2012 *Approaches to Macrofinancial Surveillance*, March 2017 (including preceding work ongoing since 2014) *Macroprudential Policy*, November 2014 *Structural Reforms and Macroeconomic Performance*, October 2015 (macrostructural pilot initiative) *Governance – A Proposed Framework for Enhanced Fund Engagement*, April 2018	Macro-structural pilot initiative (mainstreamed)	Substantial progress
Stronger partnerships with other institutions, including currency unions and RFAs	*Collaboration between Regional Financing Arrangements and the IMF*, July 2017 *Program Design in Currency Unions*, March 2018	Outreach to and engagement with RFAs (ongoing)	Substantial progress

Source: IMF staff.

11.   In addition, the 2015 Crisis Program Review concluded that GRA programs had helped chart a path through the Global Financial Crisis (GFC) and avoid a cataclysmic meltdown of the global economic system. It found that: (i) external adjustment, driven less by the exchange rate and more by demanding internal devaluation, had required ambitious structural reforms beyond the duration of a program; (ii) fiscal deficits had fallen in line with targets, but with greater-than-envisaged impact on output, in part due to underestimated fiscal multipliers; (iii) structural conditionality may need to be more extensive to support internal devaluation, but should recognize capacity limitations, the risk of reform fatigue, and that payoffs can be modest; (iv) the impact of private sector balance sheets on growth and fiscal adjustment was more severe than anticipated, with priorities including legal frameworks and out-of-court settlement, prudential measures to incentivize debt write-offs and restructuring; and (v) guidelines for cooperation with regional financial arrangements (RFAs) and currency unions should clarify the role of the Fund (e.g., macroeconomic analysis and debt sustainability analysis (DSAs)).

12.   Recent Independent Evaluation Office (IEO) reports also included recommendations relevant to the 2018 RoC:

- *The IMF and the Crises in Greece, Ireland and Portugal* (2016) found that programs incorporated overly optimistic growth projections, and that more realistic projections would have made clear the likely impact of fiscal consolidation on growth and debt dynamics.

- *The IMF and Social Protection* (2017) found that IMF-supported programs almost always took account of social protection concerns, albeit with mixed success in implementation, recognizing the need to mitigate potential adverse impact of program measures on the most vulnerable. However, the report concluded that the Fund needs more realistic and effective approaches to conditionality to deliver these objectives.

- *The IMF and Fragile States* (2018) concluded that despite the inherent challenges of limited capacity, weak governance, and an unstable political and security environment, IMF involvement had been quite effective, but efforts to adapt policies and practices to the needs of fragile states had been insufficient.

- *Structural conditionality in IMF-supported Programs—Evaluation Update* (2018) found that structural conditionality had generally been streamlined, with conditions more focused in areas of IMF expertise.

ASSESSING PROGRAM SUCCESS

This section provides the analytical underpinnings for staff's assessment of program success.

A. Methodology

13.   A systematic assessment of "program success" requires a methodology that can be applied in a variety of circumstances across a very diverse membership. As defined in the

Guidelines on Conditionality (IMF, 2002), Fund-supported programs are directed primarily to: (i) solving the member's balance of payment (BoP) problems without recourse to measures destructive of national or international prosperity; and (ii) achieving medium-term external viability while fostering sustainable economic growth. To reflect the Fund's diverse membership, there are important differences in how Fund-supported programs operationalize these overall objectives under the general resources account (GRA) and the PRGT. The RoC, hence, develops two separate frameworks reflecting these differences, as elaborated below. For each framework, programs are classified as either "successful," "partially successful," or "unsuccessful."

Methodology for GRA-Supported Programs

14.   Under a GRA-supported program, the definition of program success should incorporate evidence of no BoP need[2] and of medium-term external viability after program completion. The nature of post-program Fund engagement is used as a proxy for resolving a BoP problem, and the evolution of vulnerability indicators is considered when assessing medium-term external viability.

15.   For the purposes of the RoC, post-program engagement is defined as the two-year period following a Fund arrangement, and separated into the following three categories:

- *Drawing successor programs.* Defined as an arrangement of a financial nature (Stand-By Arrangement (SBA) and Extended Fund Facility (EFF)),[3] excluding those with low access, with the cut-off set at a quarter of the (annual) exceptional access (EA) threshold.[4]

- *Successor programs of a signaling nature.* For the purpose of this analysis, successor program engagements of a signaling nature include Policy Coordination Instruments (PCIs), and arrangements of a financial nature that are treated as fully precautionary or involve low access as defined above. These types of successor program engagements mainly aim to send signals of strong macroeconomic policies.

- *No successor program.* Defined as a Fund-supported program that was not followed by another Fund arrangement or a PCI within two years of its completion or expiration.

16.   With respect to the evolution of vulnerability indicators, the RoC draws on the Vulnerability Exercise (VE). The VE is a multisectoral approach to detect risks that could make a country vulnerable to BoP pressures (Ahuja, Syed, and Wiseman, 2017). It encompasses an expansive set of indicators, as well as staff's judgment. As part of the exercise, IMF staff evaluates underlying

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[2] Programs supported by GRA resources must be designed to resolve the member's BOP problem during the program period. More specifically, the policy measures that need to be taken to resolve a member's BOP need should be undertaken during the program period. Such policies should be implemented in a manner that will lead to a strengthening of the member's BoP before repurchases begin.

[3] A "drawing arrangement" here refers to a case where a member actually made a drawing.

[4] This means that lower access programs include annualized access below 50 percent of quota for programs approved before January 2016 (when the quota reform was completed) and 33.75 percent after that.

vulnerabilities in the fiscal, external, and domestic financial sectors, as well as financial and asset pricing risks, where appropriate. A Fund-supported program that reduces the VE final overall rating is regarded as successfully addressing macroeconomic imbalances.

17. **Information from both the nature of post-program Fund engagement and the vulnerability indicators is then combined to determine program success.** The change of the vulnerability indicators between program inception and program completion is represented by two separate transition matrices depending on the nature of post-program engagement (Figure 12). Programs are categorized based on the color coding in the transition matrix: "successful" (green), "partially successful" (orange), or "unsuccessful" (red). The transition matrix for programs with a BoP need post-program is more red (less green) than the transition matrix for signaling/no successor arrangement.

Figure 12. Transition Matrices: GRA

Source: IMF staff.
Notes: VE final overall rating: H (high), M (medium), L (low).
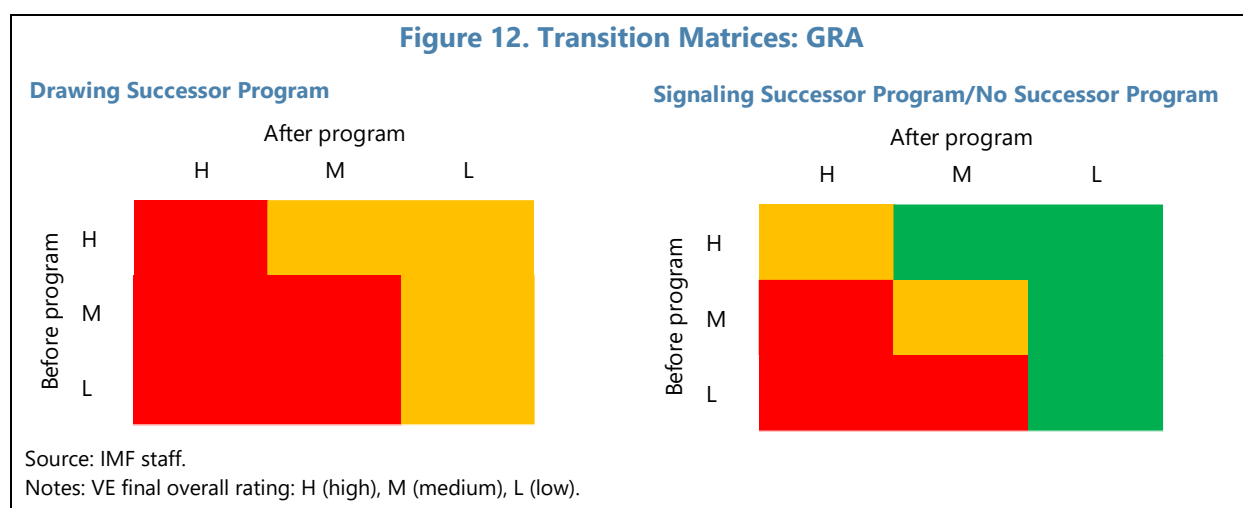
- **BoP need post-program (Figure 12, left panel):** Programs that reduced vulnerabilities to low or lowered them from high are considered partially successful. All remaining programs are considered unsuccessful, as the BoP need was unresolved, or vulnerabilities did not improve.

- **No BoP need post-program (Figure 12, right panel):** Programs that ended with low vulnerabilities or reduced vulnerabilities from high to medium are considered successful. Programs that maintained vulnerabilities at high and medium levels are considered partially successful, as the BoP need was resolved. Programs are considered unsuccessful only if vulnerabilities increased during the program period.

Methodology for PRGT-Supported Programs and Policy Support Instruments (PSIs)

18. **The Fund's concessional facilities and instruments are aimed at providing flexible and tailored support to low-income countries (LICs).** The RoC analyzes three types of LIC instruments:

- **ECF arrangements.** The purpose of an ECF arrangement is to assist PRGT-eligible member countries with a protracted BoP problem in implementing economic programs aimed at making significant progress toward a *stable and sustainable macroeconomic position consistent with*

strong and durable poverty reduction and growth. Given the protracted nature of the BoP problem, repeated use of ECF arrangements is not necessarily a sign of insufficient progress.

- **SCF arrangements.** The purpose of an SCF arrangement is to assist eligible member countries with short-term BoP needs in implementing economic programs aimed at achieving, maintaining, or restoring *a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth*.

- **PSI.** The PSI is a tool that enables PRGT-eligible members with no BoP need to secure Fund advice and policy support without a borrowing arrangement. This support from the Fund also delivers *clear signals to donors, creditors, and the general public about the strength of the member's economic policies to deliver durable poverty reduction and growth*.

19. **The RoC employs a two-step approach to measure program success in PRGT cases.** In stage one, program performance is assessed against the evolution of external debt vulnerabilities. In stage two, program performance is assessed against performance on relevant macroeconomic indicators (Figure 13).

Figure 13. Framework to Measure Program Success in PRGT Cases: Decision Tree

LIC-DSA risk ratings change

Other than that specified in the left arrow

Risks substantially deteriorated or remained in distress

Sum of scores of the five indicators

0

1 or 2

3, 4, or 5

Unsuccessful

Partially successful

Successful

Source: IMF staff.
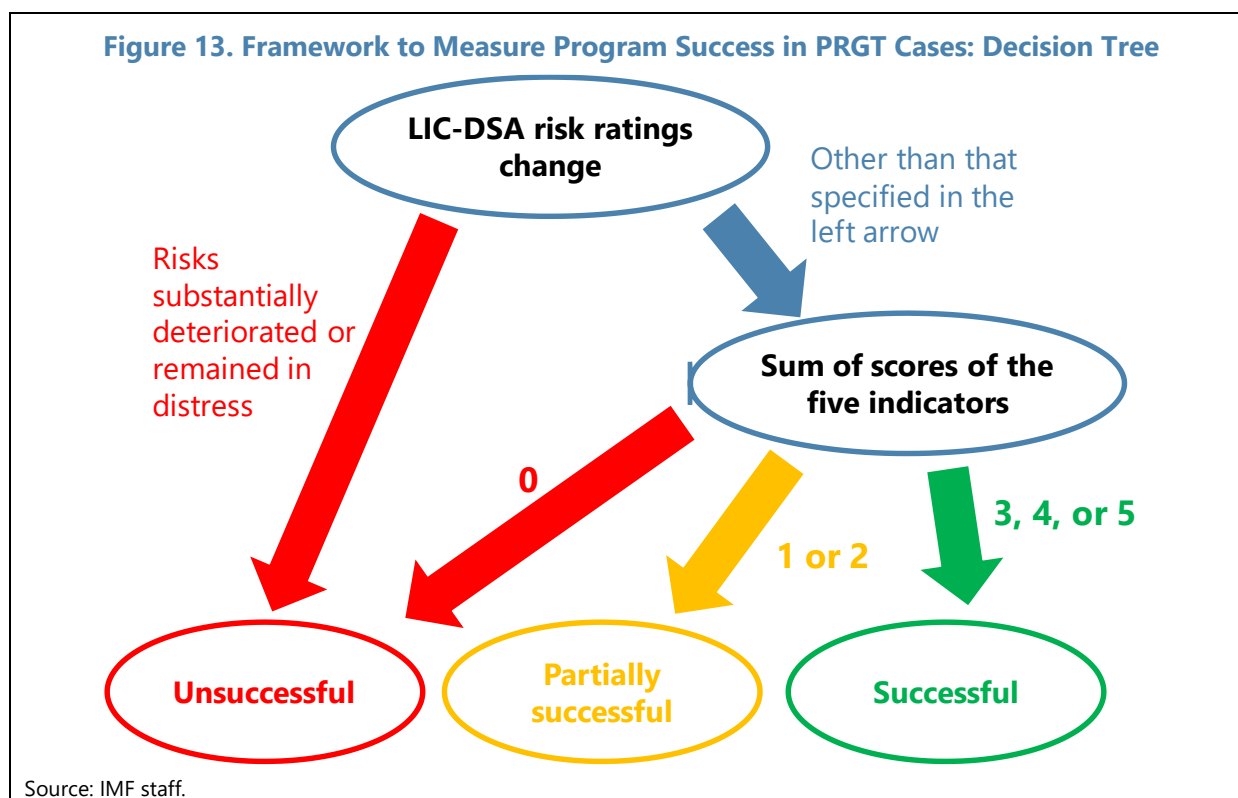
- **_Stage 1. Evaluating sustainability of policy frameworks._** Similar to the GRA methodology, a transition matrix is employed to identify unsuccessful cases (Figure 14). The ratings are based on the LIC Debt Sustainability Framework (LIC-DSF).[5] A program is assessed to be "unsuccessful" (red) if there are substantial risks to external public and publicly guaranteed debt sustainability, with the rating either: (i) remaining in debt distress ("DD"); or (ii) increasing to "in DD" or high ("H"). In these cases, the sustainability of fiscal policy to address poverty and development needs is in serious doubt, therefore justifying the "unsuccessful" label. Programs that are outside of the red area proceed to the second stage.

Figure 14. Transition Matrix: PRGT

LIC-DSA Ratings: Transition Matrix 1/

Source: IMF staff.
Notes: LIC-DSA rating: DD (debt distress), H (high), M (medium), L (low).
1/ 50 programs, excluding ongoing programs.
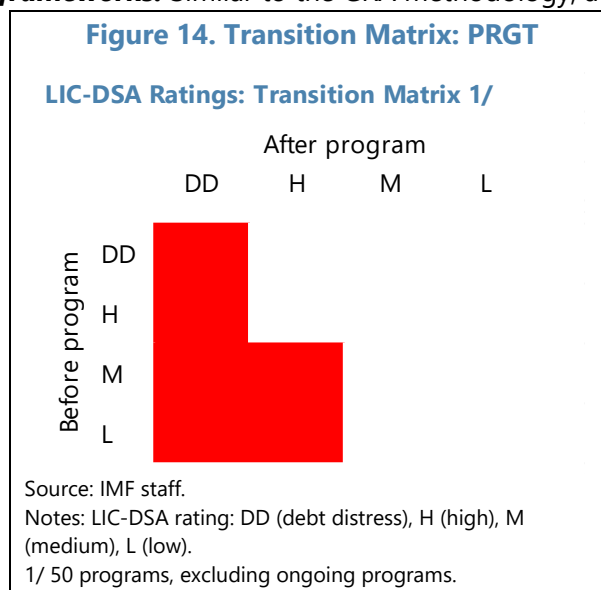
- **_Stage 2. Distributing programs into three categories._** The second stage uses five indicators to assess program success.

  i. The five indicators can be divided into three groups: (i) proxies for anti-poverty spending policy, comprising social expenditure (health and education expenditures) and government capital expenditure; (ii) non-grant fiscal revenue (capturing progress on domestic revenue mobilization); and (iii) macroeconomic stability, proxied by inflation and real GDP growth.

  ii. Indicators are considered met when the average projection error (actual minus projected) during T+1 to T+3 has a favorable sign. T is defined as the program approval year.[6]

  iii. A program is considered "successful" when three or more indicators were met, "partially successful" when one or two indicators were met, and "unsuccessful" when no indicator was met.[7]

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[5] Under the LIC-DSF, IMF country teams are required to report an updated external public debt sustainability assessment every year.

[6] Different from the GRA methodology, performance is measured relative to program design (except for the DSF rating) rather than relative to past outcomes. This approach is used to avoid penalizing PRGT countries experiencing significant historic volatility of growth, inflation, and budget-related indicators.

[7] Given different emphasis on specific PRGT-mandated objectives in various programs, progress on at least three indicators is deemed sufficient for full program success.

B. Data and Degree of Success

20.   Program success is assessed for 78 programs (Figures 15 and 16). All cases assessed here are part of the 2018 RoC sample. Ongoing programs (as of end-September 2018) were excluded. The sample is further reduced by data constraints.

- *GRA.* This exercise covers 28 completed/expired GRA programs out of 52 GRA programs in the 2018 RoC sample. 11 cases did not have VE ratings and 13 cases were still ongoing.

- *PRGT.* The exercise covers 50 completed/expired PRGT programs out of 81 PRGT programs in the 2018 RoC sample. 23 PRGT programs were still ongoing.

Figure 15. Program Success Results: GRA

Sources: VE indicators and IMF staff calculations.
Notes: VE final overall rating: H (high), M (medium), L (low).

Figure 16. Program Success Results: PRGT

Overall
(Number of programs)

■ Unsuccessful ■ Partially successful ■ Successful

Performance in Five Core Indicators: PRGT
(Percent of total)

■ Met ■ Not met

Distribution of Programs by Stage 1 and 2 Criteria
(Number of programs)

Sources: WEO and IMF staff calculations.

21.   **Analytical groups had varying degrees of success, and success appears to have been possible under a large set of circumstances (Figure 17)**. In particular, post-GFC programs had higher success rates than commodity exporters and other developing countries (Figure 17, top left panel). Political/economic transformation countries had both the highest success and failure rates of all groups. Although programs approved in any given year faced different environments and shocks, at least 20 percent of programs were successful in any year of program approval (Figure 17, top right panel). This could be interpreted as a positive message that program success could be achieved under various circumstances, underpinned by flexible program design that could adapt to those circumstances. Exceptional access (EA) programs had broadly similar success rates (Figure 17, 2nd panel, left).

Figure 17. Program Success Rate by Different Characteristics

By Analytical Group
(Percent of programs)

■ Successful ■ Partially successful ■ Unsuccessful
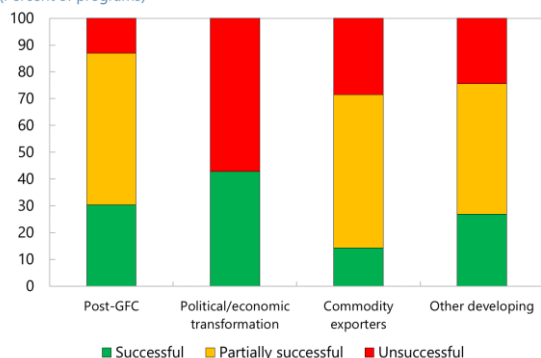
By Year of Approval
(Number of programs)

■ Successful ■ Partially successful ■ Unsuccessful
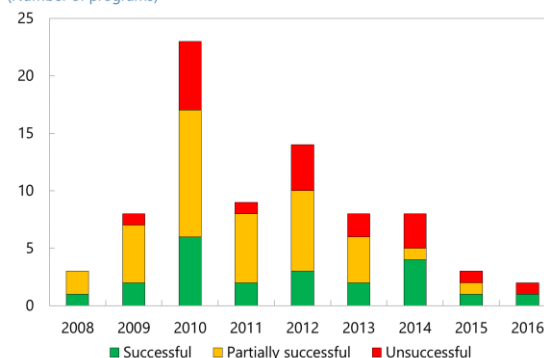
By Exceptional Access
(Percent of programs)

■ Successful ■ Partially successful ■ Unsuccessful
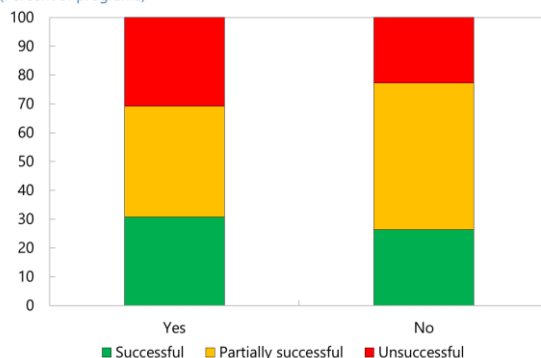
By Completion Rate
(Percent of programs)

■ Completed all reviews ■ Completed most reviews ■ Off track mid-program
■ Quickly off track ■ Replaced
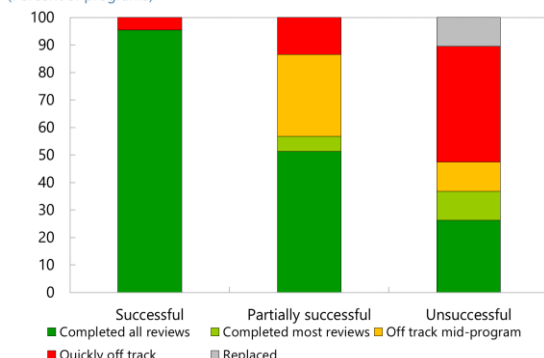
Figure 17. Program Success Rate by Different Characteristics (concluded)

By Fragile Status
(Percent of programs)

By Existence of a Predecessor Program
(Percent of programs)

Public Debt-to-GDP Ratio at Program Approval
(Percent)

Access at Program Approval
(Percent of quota)

Source: IMF staff calculations.
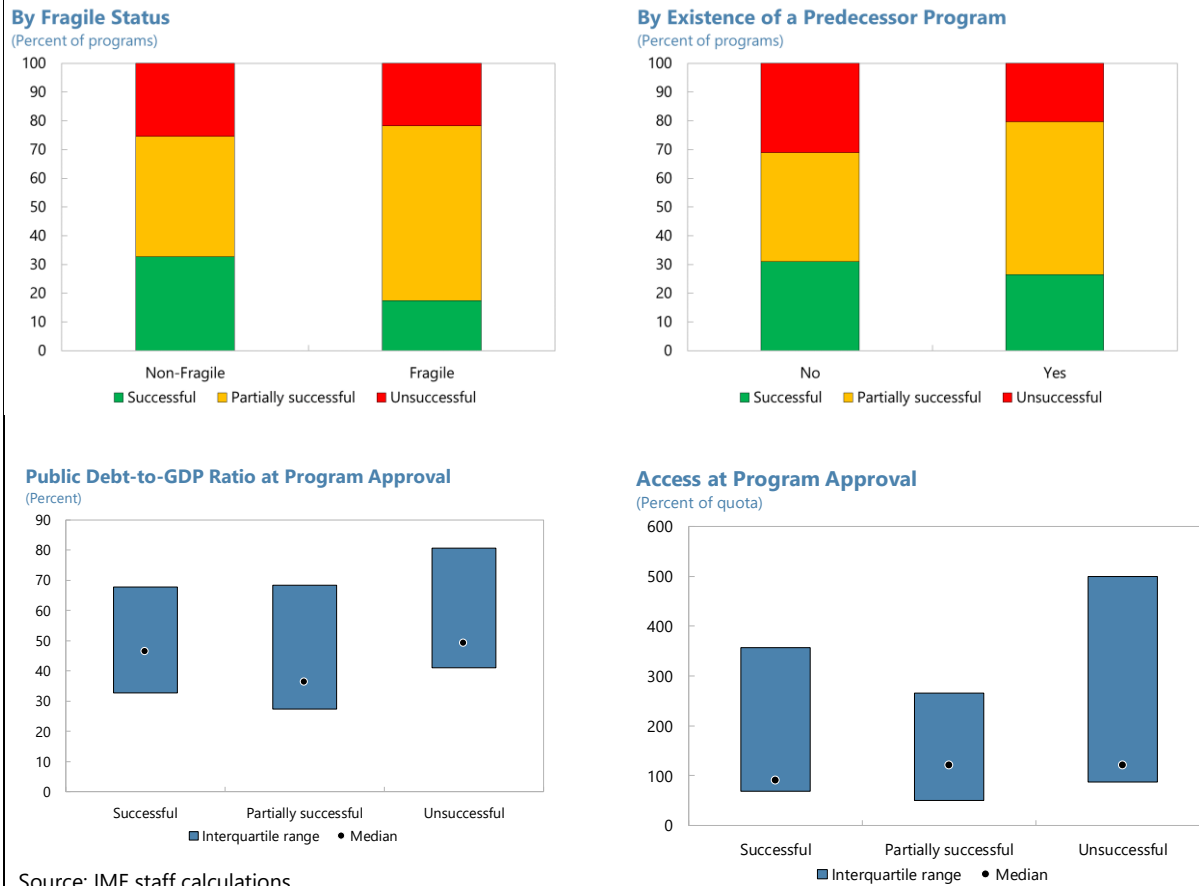
C. Success Factors

22.   The small sample size constrains the analysis of success factors. A multinomial logit regression approach can link program outcomes with several explanatory variables (Table 2). These include initial conditions, shocks throughout the program period, country characteristics, and program design elements. Given the small sample of 78 observations, we first identify the explanatory variables that are individually statistically significant predictors and then conduct regressions with combinations of such variables. Due to the small sample size, combined regressions do not show statistically significant coefficients and are not reported.

Table 2. Explanatory Variables for Program Success in GRA and PRGT Countries

Dependent variable: log of relative probability of being successful or unsuccessful	Successful	Unsuccessful	Successful	Unsuccessful	Successful	Unsuccessful	Successful	Unsuccessful	Successful	Unsuccessful	Successful	Unsuccessful
GRA sample:												
Completion status (1=completed, 0=off-track) 1/	2.4**	-1.0										
Growth forecast error (percent) 2/			0.4	-1.5*								
PRGT sample:												
Completion status (1=completed, 0=off-track) 1/					16.5	-0.8†						
Forecast error of commodity prices (percent) 2/							0	-0.1†				
Fragile state dummy (Fragile=1)									-1.0†	-0.5		
Combined GRA and PRGT samples:												
Having an IMF program in the past 5 years											-0.4	-0.7†
Observations	26		28		46		50		50		78	
Pseudo-R2	0.15		0.25		0.14		0.02		0.02		0.01	

Source: IMF staff calculations.

Notes: Stars denote significance: *** p<0.01, ** p<0.05, * p<0.1. † 0.1<p<0.2.

Multinomial logit regressions are conducted with partially successful indicated as the base case. In the logit specification, the dependent variables are log(prob(successful)/prob(partially successful)) and log(prob(unsuccessful)/prob(partially successful)).

1/ Completed programs are coded as 1, off-track or quickly off-track as zero. Lapsed or replaced programs (total of 6) did not enter the regression.

2/ Average GDP forecast error over T+1 to T+3 where T is the program approval year. Forecast errors for trading partner growth and commodity prices as faced by country i for year t as reported in the j's WEO forecast vintage. These are then averaged over the program period.

23.   Several explanatory variables are statistically significant in pairwise regressions with economically meaningful coefficients. For GRA programs, program completion and growth forecast errors (measured as GDP growth forecast errors over the program period compared to initial expectations) are significant predictors of success (Table 2). For PRGT programs, program completion is also a significant predictor of success, with fragility and negative commodity shocks reducing the probability of success. To gauge the economic significance of these results, the predictive probabilities of each outcome bucket are calculated (Figure 18). For GRA programs, program completion increases the chance of success by 49 percentage points, and negative GDP forecast error of one standard deviation increases the probability of an unsuccessful program by 32 percentage points. For PRGT programs, program completion increases the probability of success by about 40 percentage points, while a one standard deviation negative commodity shock increases the probability of an unsuccessful outcome by 7 percentage points.

Figure 18. Impact of Select Variables on Program Success

Contribution of Selected Variables on the Change in Probability of Program Outcomes
(Percentage point change of probability)

■ Success ■ Partially successful ■ Unsuccessful

Source: IMF staff calculations.
Notes: Each column represents the change in the probability of falling into outcome buckets for a certain change in the predictor variable. The change in the predictor is assumed to be one standard deviation negative change for continuous variables such as growth forecast errors and commodity shocks, and a change in the dummy variable from zero to 1 for categorical variables of program completion and fragile country status.
Completed programs are coded as 1, off-track and quickly off-track coded as zero. Lapsed and replaced programs (total of 6) did not enter the calculation.
The growth forecast error is defined as forecast error of GDP growth cumulatively over T+1 to T+3 where T is the program approval year.

24.   There are important caveats to this analysis. A large set of variables were tested that did not provide statistically significant predictive powers, including the country's type of exchange rate regime, the public debt-to-GDP ratio in the year of program approval, and forecast errors in the growth of trading partners in PRGT cases. The lack of statistical significance within the sample, however, does not imply such variables are not important for individual countries. Moreover, it is inevitable that programs also face non-economic shocks, such as wars, epidemics, and political turmoil that are not accounted for in this exercise. Given the small sample, disentangling causality from association is a challenge. Causality in some cases may run both ways, for example, growth optimism could undermine program success, but challenging programs also entail traits that make accurate forecasts more difficult. Either way, it remains crucial to strive for better macroeconomic forecasts to underpin program design.

RECENT FUND EXPERIENCE WITH DEBT RESTRUCTURING AND REPROFILING

This section discusses Fund experience with debt restructuring and reprofiling during the 2018 RoC period.[8]

25.   When it is clear that debt is unsustainable, debt restructuring is required for the Fund to provide financial support, but in practice such operations have often been delayed. Where debt is unsustainable, the extent of feasible economic adjustment combined with new borrowing is not sufficient to address the member's underlying BoP problem, also given new borrowing may actually exacerbate the member's solvency issues. In such cases, steps should be taken to restore debt sustainability and enable the Fund to provide financial support. However, there is often a significant delay between staff's initial assessment that a member's debt is unsustainable and the actual implementation of debt restructuring. Such examples include even ultimately successful restructuring cases: Seychelles, where staff noted that debt was unsustainable in the 2003 Article IV staff report but restructuring only began in 2009–10 after default in 2008, and St. Kitts and Nevis, where Article IV staff reports showed debt on an explosive path from 2006, but restructuring was only announced in 2011.

26.   In some cases, delayed restructuring has resulted in the claims of private creditors being replaced by those of the official sector. Most prominently, during Greece's 2010 SBA, staff assessed that debt was sustainable but not with high probability. Nonetheless, the Fund approved the SBA involving EA because the Executive Board modified the second criterion under the EA policy for all members going forward to enable the Fund to lend if there was a risk of significant systemic spillover effects. Contagion was a major concern for euro area members, given banking exposures to the crisis-hit euro area countries and the absence of a firewall. The decision not to restructure debt at the outset of the crisis allowed some €40 billion (around 20 percent of 2011 GDP) in maturing

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[8] The experience discussed in this section predates the adoption of revisions to the Fund's EA policy in 2016.

bonds to be fully repaid in the first year of the SBA. The restructuring was announced in July 2011, but drawn-out negotiations meant that some further €10 billion (around 5 percent of 2012 GDP) continued to be repaid in full until the restructuring was completed in 2012. The systemic exemption under the EA policy was subsequently used for Ireland, Portugal and the 2012 EFF arrangement for Greece, before being eliminated in 2015. The delayed debt reprofiling operation under the Ukraine 2014 SBA also resulted in larger near-term financing needs of about US$7.5 billion (around 9 percent of 2015 GDP) in 2014–15.

27.   In such cases, the reluctance to restructure debt may have been driven by concerns about the economic, financial, and political fallout, as well as spillover effects in the region. Such concerns can be particularly acute if the domestic financial sector holds a significant amount of public debt. Authorities may also be concerned about the impact of restructuring on market re-access and spillover effects on the private sector. Furthermore, official creditors may sometimes contribute to delays, out of concern that a restructuring would reduce incentives for adjustment. Private creditors naturally wish to avoid debt restructuring and press for a bailout by the official sector. The fear of contagion is an additional factor that may create delay. This is most acute where the economy of the debtor is closely integrated with other economies, such as in the case of Greece.

28.   In cases where debt sustainability is uncertain, reprofiling can be effective in reducing debt vulnerabilities. While reprofiling involves costs, due to the triggering of a credit event and rating downgrade, investors can react positively if they think the reprofiling resolves the underlying problems that led to the loss of market access. Resources that would otherwise have been paid out to creditors will be retained, relieving financing pressures and enabling a less constraining fiscal adjustment path under a Fund-supported program. More gradual adjustment can be particularly beneficial in a high-multiplier crisis, postponing part of the adjustment to a point in time when multipliers will be lower. A stylized calibrated Fund model of output, fiscal policy, and debt accumulation suggests that with more gradual adjustment, higher GDP growth is preserved, and the output gap is smaller in the first years of the crisis, while potential GDP is permanently higher than in a non-reprofiling scenario. Moreover, reprofiling reduces future haircuts, benefiting longer-term creditors and increasing the likelihood of a rapid return to the market, as the debt stock will be less burdened by senior claims from official creditors.

29.   In these circumstances, staff analysis suggests that reprofiling is often less costly than nominal value debt restructuring. The impact of reprofiling has typically been less severe than restructuring, resulting in: (i) lower sovereign spreads (at the time of announcement and debt exchange); (ii) less severe sovereign credit rating downgrades and faster recoveries within 12 months; and (iii) faster restoration of market access (i.e., a new global bond issuance or normalization of spreads) (IMF, 2014a). Negotiations also tend to be shorter in reprofiling cases with higher participation rates and fewer litigations than restructuring cases. Reprofiling can also have significant benefits for the Fund by reducing the amount of Fund financing required and strengthening the member's position to regain financial stability and external viability, and its capacity to repay. To the extent that reprofiling helps mitigate moral hazard, it can also reduce the incidence of future crises, benefitting the international monetary system.

30. **The impact of reprofiling on the domestic financial system has also tended to be relatively limited (IMF, 2014b).** Debt operations can have a significant impact on the financial system through a number of channels. Sovereign stress can affect domestic banks through direct exposure to the sovereign and indirectly given the sovereign's role as backstop to the financial system. If banks suffer mark-to-market losses on their holdings of government bonds, they could become undercapitalized. Concerns about the health of such banks could lead to deposit runs, spilling over to otherwise healthy banks. Exchange rate depreciation associated with worsening market sentiment could also exacerbate bank FX funding costs and expose unhedged FX borrowers. While these risks can never be fully avoided, recent reprofiling cases suggests that they can be successfully mitigated through carefully designed operations and Fund programs. In the two debt operations in Jamaica (2010 and 2013), some domestically-held debt was excluded from reprofiling, regulatory incentives were provided for banks, and capital and liquidity support mechanisms were established.

STAFF-MONITORED PROGRAMS

This section finds that SMPs were used parsimoniously to either build a track record or clear arrears. SMPs were largely successful in building a track record towards an Upper Credit Trance (UCT)-quality program.

31. **Staff-monitored programs (SMPs) are informal arrangements that can fulfil multiple objectives.** SMPs are informal agreements between national authorities and Fund staff (without endorsement by the Executive Board) to monitor the implementation of the authorities' economic program with a view to establishing a track record of policy implementation. As such, SMPs are used to: (i) establish a track record to meet conditions for a full-fledged Fund-supported financing arrangement, sometimes in conjunction with disaster-related financing arrangements (e.g., Rapid Credit Facility (RCF) and Rapid Financing Instrument (RFI)); (ii) support the authorities' efforts in clearing arrears; and (iii) help put an existing off-track arrangement back on track. Overall, the use of SMPs has declined in recent years, with 12 SMPs during the 2018 RoC period compared to 28 during the 2011 RoC period.

32. **SMPs helped address weak implementation capacity.** SMPs were predominantly used by countries with limited institutional capacity, domestic fragility or instability, or weak economic policy implementation. Countries entering an SMP were characterized by lower Country Policy and

Figure 19. CPIA Scores

Levels of Capacity during the RoC Periods: CPIA Scores
(Standard deviations from the annual IDA average)

Non-LICs in a UCT-quality program

LICs that never had an SMP in a UCT-quality program

All SMPs

-1.5   -1.0   -0.5   0.0   0.5   1.0

■ 2018 RoC   ■ 2011 RoC
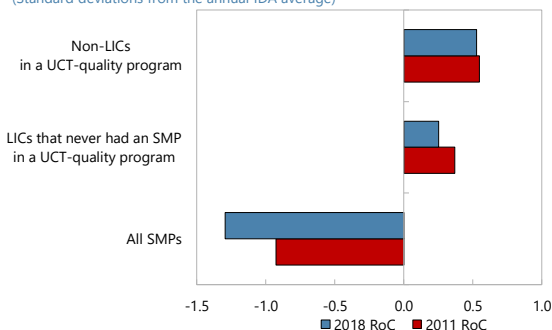
Sources: MONA, World Bank WDI, and IMF staff calculations.

Institutional Assessment (CPIA) scores (Figure 19).[9] On average, members entering SMPs had significantly weaker CPIA scores than LICs in UCT-quality programs without a prior SMP, or non-LICs in UCT-quality programs.

33.   SMPs with satisfactory performance were often followed by a UCT-quality program. During the 2018 RoC, six members used an SMP to build a track record; of these, two were used in conjunction with Fund emergency assistance. The four successful SMPs all led to a UCT-quality program within two years of the SMP approval (Table 3). There was mixed success with SMPs that were used for clearing arrears.

			Table 3. SMPs During the 2018 RoC Period			
Country	SMP approval	Main purpose	CPIA index	CPIA score deviation[2]	Successor UCT-quality program?	Successor program approval
Afghanistan	Apr-15	Track record	2.7	-1.1	ECF[1]	Jul-16
Chad	Apr-13	Track record	2.6	-1.3	ECF	Aug-14
Comoros	Nov-16	Track record	2.9	-0.7		
Gambia, The	Apr-17	Track record/RCF	3.0	-0.4		
Iraq	Jan-16	Track record/RFI	..	..	SBA	Jul-16
Madagascar	Sep-15	Track record	3.1	-0.1	ECF[1]	Jul-16
Myanmar	Jan-13	Arrears clearance	3.0	-0.6		
Somalia	May-16	Arrears clearance	1.8	-2.8		
Somalia	May-17	Arrears clearance	1.8	-2.7		
Sudan	Jan-14	Arrears clearance	2.4	-1.8		
Zimbabwe	Apr-13	Arrears clearance	2.7	-1.3		
Zimbabwe	Oct-14	Arrears clearance	2.3	-2.0		

Sources: MONA and IMF staff calculations.
1/ Program ongoing.
2/ Standard deviation from the average IDA country in the year of program approval.

34.   SMPs were rarely used in situations where Fund-supported programs went off track. While a quarter of GRA and PRGT programs went off track during the 2011 and 2018 RoC periods—partly reflecting capacity constraints and other factors impacting ownership—few countries with off-track programs used an SMP. Only two SMPs were initiated in the 2011 RoC period to bring a program back on track, and no SMP was initiated for this purpose during the 2018 RoC period. Kosovo's 2011 SMP succeeded in bridging to a successor SBA within one year, while Congo's

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[9] The CPIA score is a proxy for policy and institutional quality based on expert judgment consisting of four dimensions: (i) economic management; (ii) structural policies; (iii) policies for social inclusion and equity; and (iv) public sector management and institutions. The index, which is provided by the World Bank, is also used by the IMF and the World Bank to identify fragile states.

performance under the 2007 SMP was not sufficiently satisfactory to bring its 2004 PRGF-supported program back on track.

TAILORING AND UNIFORMITY OF TREATMENT: FRAGILE STATES AND SMALL STATES

Some stakeholders have questioned the adequacy of tailoring to fragile and small states, given heightened vulnerabilities and weak capacity. In this context, this section discusses the experience with tailoring of conditionality in these countries.

A. Fragile States

35.   Program performance among fragile states was weaker than in the full sample. During the 2018 RoC sample period, 26 fragile states (3 GRA and 23 PRGT-eligible countries) engaged in 49 Fund-supported programs (41 ECFs, 1 EFF, and 7 SBAs).[10] On average, the number of quantitative conditions and SBs were broadly comparable to the rest of the 2018 RoC sample (Figure 20, top panels), and completed reviews indicate only slightly weaker implementation (Figure 20, bottom panels). However, about half of these programs did not complete all reviews and went off track. In some cases, countries entered an SMP to build a policy track record prior to requesting a program, including Afghanistan, Chad, and Madagascar (see Section V).

36.   Structural conditionality focused on multiple areas of reform needs, and on average the number of SBs remained high. Program measures focused on stabilization and capacity-building to help build public support and maintain social stability. Accordingly, SBs tended to target public financial management (PFM) and revenue administration, and social measures (see Figure 21 in the main paper) but also other structural reforms. On average, the number of SBs in fragile states was broadly the same as for the full sample throughout most of the 2018 RoC period and even increased in 2017 (Figure 20, top right panel), despite significant capacity constraints in fragile states.

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[10] LICs in fragile situations mostly used the ECF given its focus on structural reforms and longer program duration, allowing for time to implement reforms.

Figure 20. Fragile States: Program Conditionality

Quantitative Performance Criteria and Indicative Targets by Program Approval Year (Average annual number)
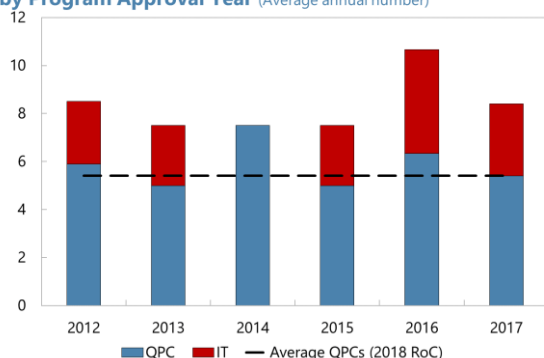
Structural Benchmarks and Prior Actions (Average annual number by program approval year)
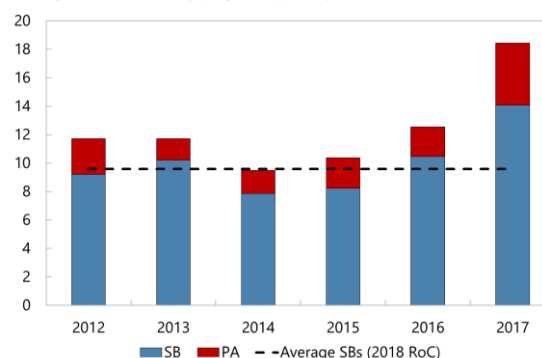
Implementation of Quantitative Performance Criteria and Indicative Targets (Percent of total)

Implementation of Structural Conditions by Sectors 1/ (Percent of total met, implemented with delay, and not met)

1/ Excluding prior actions.
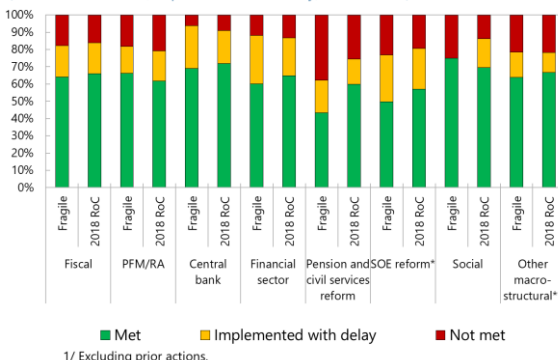
Sources: MONA and IMF staff calculations.
* "SOE reform" includes public sector enterprise reform and pricing, including privatization, public enterprise restructuring, and price controls.
** "Other macro-structural" includes reforms of the labor market (excluding public sector employment), economic statistics, and private sector legal and regulatory environment reforms.

37.   Supported by the Fund's capacity-building framework in fragile states, TA provision to program countries was scaled up and prioritized (Figure 21).[11] TA was largely provided in the fiscal area, building capacity in both revenue (e.g., simple taxes requiring limited capacity) and expenditure areas.

38.   Good practices in conditionality design and TA support were identified in two case studies. Kosovo (2015 SBA) and Mali (2013 ECF) had fewer structural conditions (SCs) compared to the average for fragile states, with well-sequenced sets of SCs attuned to capacity, and critical program-related TA support.

Figure 21. Fragile States: TA in Program Countries

Technical Assistance to Fragile States by Sector
(Person years of field delivery per year, average per program)

Source: IMF staff calculations.

- ***Kosovo (2015 SBA).*** Program implementation in this post-conflict state faced several challenges, including weak governance and corruption. Considering these institutional weaknesses, Kosovo's 2015 SBA focused on key reforms to reduce its budget deficit and restore credibility of the fiscal rule, rebuild fiscal buffers, and improve the composition of fiscal spending. In addition, the program sought to implement risk-based supervision. Conditionality consisted of SBs that broke down reforms into intermediate steps. For instance, the implementation of a general procurement law was broken down into four steps over three reviews, supported by a close collaboration with donor agencies that provided extensive TA (Figure 22, left panel). Implementing risk-based supervision was supported by two SBs on on-site exams and subsequent roll-out of reports over the course of two reviews, supported by a TA mission (Figure 22, right panel).

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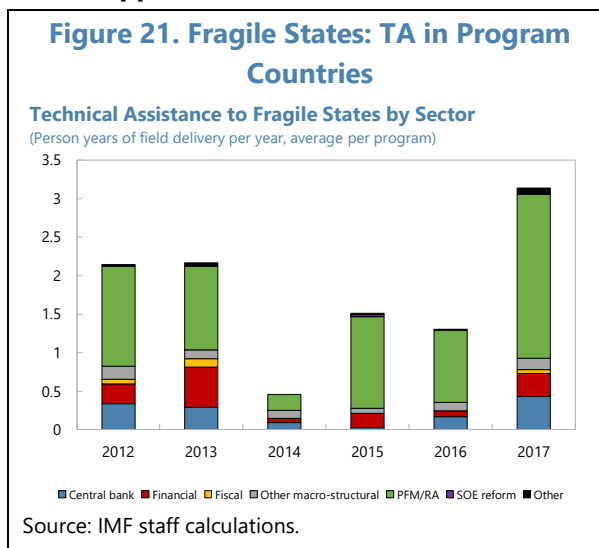
[11] The decline in 2014 reflects a drop in the number of Fund-supported programs in fragile states (from 10 in 2012 to 2 in 2013 and 2014), which translated into less TA delivery.

Figure 22. Kosovo (2015 SBA): SCs and TA

Implementation of General Procurement Law

Structural benchmark	Test date	TA
Issuing bids for contracts for centralized procurement covering 43 central government administrations and agencies for fuel, office supplies and plane tickets.	Oct 2015	
Government adoption of the draft Law making e-procurement mandatory for all central government agencies.	Mar 2016	Extensive donor TA missions
Government adoption of an expanded list of goods and services eligible for centralized procurement in the next round of tenders.		
Awarding contracts for centralized procurement, covering 43 central government administrations and agencies for fuel, office supplies and plane tickets.	Oct 2016	

Enhancing Banking Supervision

Structural benchmark	Test date	TA
Completion of an on-site examination of one bank following the risk-based manual prepared in conjunction with IMF technical assistance, including completion of a report of examination.	Oct 2015	
Completion of an on-site examination of the remaining three banks following the risk-based manual prepared in junction with IMF technical assistance, including completion of a report of examination.	Mar 2016	1 TA mission 0.07 FTEs

Sources: MONA and IMF staff calculations.

- ***Mali (2013 ECF).*** Growing insurgency and a rise in terrorism in 2011, combined with severe drought to put Mali among the 10 poorest nations, adding to its fragility. This period witnessed a sharp decline in economic growth, government revenues, volatile terms of trade, and banking system problems. Program objectives and TA focused on customs and tax administration, mining and petroleum fiscal regimes, PFM frameworks, and debt management. On fiscal expenditure, conditionality and TA focused on fuel subsidy reforms which were monitored through a set of SBs including on communication strategy (Figure 24, left panel). On the financial sector, TA supported the program objectives of strengthening financial stability (Figure 24, right panel). The SB on developing a strategy for reducing non-collateralized NPLs was, however, first modified and later not met.

Figure 23. Mali (2013 ECF): SCs and TA

Energy Subsidy Reform

Structural benchmark	Test date	TA
Discussion by the Council of Ministers of joint proposals to establish a profit margin between the sales price and the average cost price of electricity.	Feb 2014 (implemented with delay)	4 TA missions 0.19 FTEs
Adopt a pricing mechanism that ensures that changes in the cost of imported petroleum products are reflected in pump prices within a margin of 3 percent per month.	Dec 2016 (modified)	9 TA missions 0.42 FTEs
Conduct an outreach campaign on fuel price reforms and identify options to protect vulnerable groups.	Aug 2017	1 TA mission 0.04 FTEs
Continue the implementation of the oil product's pricing formula to ensure that changes in the cost of imported petroleum products are reflected in pump prices within a margin of 3 percent per month, in order to meet oil revenue targets.	Continuous SB from May 2018	

Strengthening Financial Sector Stability

Structural benchmark	Test date	TA
Prepare an action plan for implementation of the recommendations made by the January 2014 IMF TA mission on strengthening financial sector stability.	Feb 2015	1 TA mission 0.17 FTEs
In consultation with Fund staff, design a strategy for reducing non-collateralized NPLs in the banking system	Jun 2017 (modified)	2 TA missions 0.16 FTEs
Develop a strategy for reducing non-collateralized NPLs in the banking system, including reducing the non-operating fixed assets obtained through the realization of guarantees.	Jun 2018 (not met)	

Sources: MONA and IMF staff calculations.

B. Small States

39.   Small states are often repeat users of Fund-supported arrangements, reflecting deep-seated structural challenges. During the 2018 ROC period, four small states engaged in six Fund-supported programs: Solomon Islands (2011 precautionary SCF, followed by a 2012 successor ECF), Sao Tomé and Príncipe (two consecutive ECFs in 2012 and 2015), Grenada (2014 ECF), and Seychelles (2014 EFF).[12]

40.   In line with Fund guidance on engagement with small states, program design has increasingly reflected the specific challenges and capacity constraints faced by such countries. The revised 2017 operational guidance note points to the need to focus program design in small states on: (i) growth-friendly fiscal consolidation, particularly in heavily-indebted small states; (ii) reforms to deepen the financial sector; and (iii) reforms to build resilience to frequent and severe disasters (IMF 2017a). Fund-supported arrangements should provide a structured framework for design, implementation, and monitoring of resilience-building policies and help coordinate capacity-development activities. Likely reflecting this guidance, the number of QPCs and SBs declined in 2017 relative to the average for the 2018 RoC sample (Figure 24). Implementation of

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[12] Suriname (SBA 2016) is excluded from the analysis due to the early termination of the program before completing the first review. Seychelles (2017 PCI) is excluded, as the program is in its initial stages and reviews assessed by the Executive Board fall beyond the end-2017 cutoff date for the 2018 RoC period.

conditionality was somewhat weaker than in the full sample, in particular for PFM/RA and State-Owned Enterprise reforms (Figure 26).

Figure 24. Small States: Program Conditionality

Sources: MONA and IMF staff calculations.
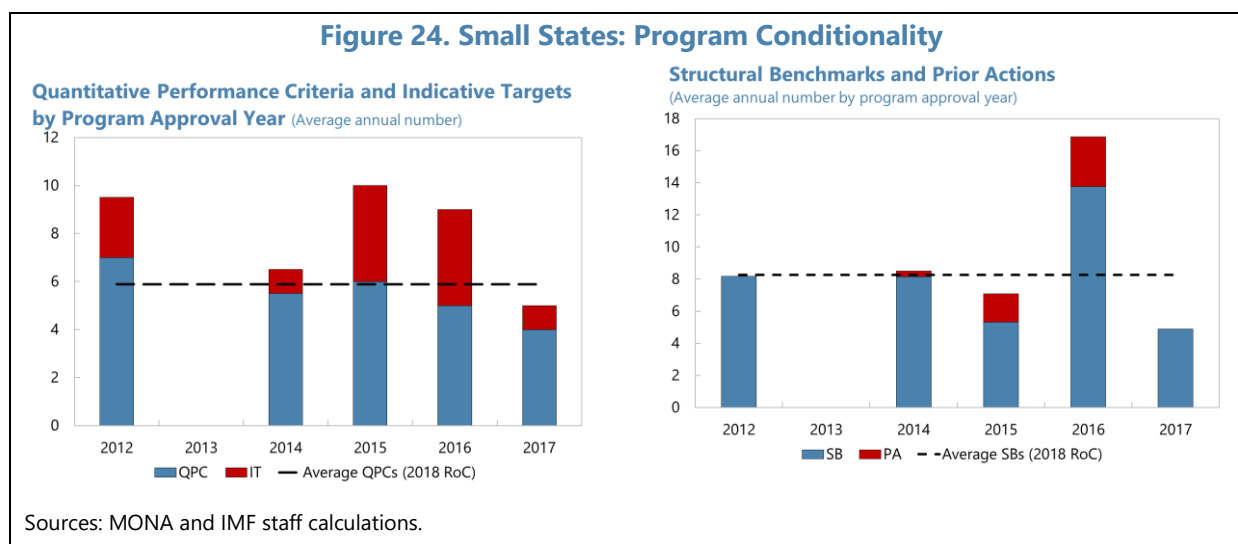
41.   Structural conditionality was generally tailored to capacity building needs and reform objectives of small states. Of the six programs under review, SCs were focused on strengthening policies and institutions to address fiscal and debt sustainability and deepening the financial sector through regulations and reforms (see Figure 21 in the main paper). The latter aspects were introduced in Sao Tomé and Príncipe 2012 ECF and Seychelles 2014 EFF to resolve the loss of correspondent banking relationships by addressing AML/CFT concerns and bringing them in line with Financial Action Task Force standards, supported by TA (Figure 25). Other programs recognized

Figure 25. Small States: TA in Program Countries

Source: IMF staff calculations.

innovative debt instruments, which small states vulnerable to natural disasters contracted—such as Grenada's 2015 'hurricane clause' bond, where a one-off debt service deferral is triggered by a pre-defined event, in this case, a hurricane of a given intensity.[13] Some programs (e.g., Sao Tomé and Príncipe 2015 ECF and Grenada 2014 ECF) benefited

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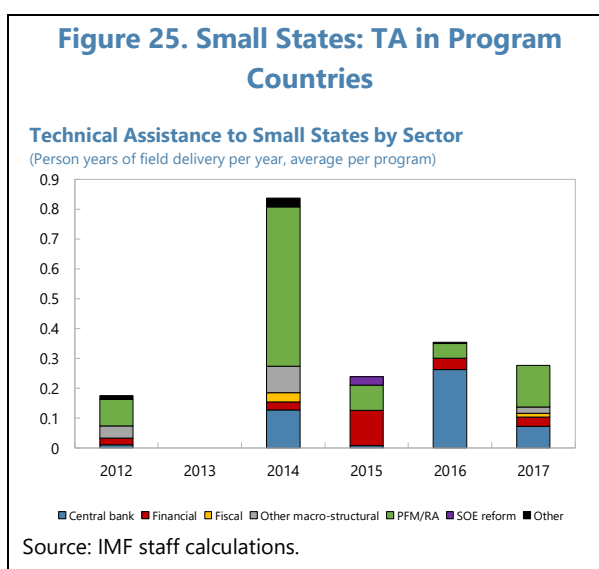
[13] For more details on the potential use of state-contingent debt instruments for small open economies subject to large exogenous shocks, such as natural disasters and commodity prices shocks, see IMF (2017b).

from tailored TA aimed at strengthening PFM to ensure transparent and efficient use of public resources.

Figure 26. Small States: Program Conditionality in Small States

Implementation of Quantitative Performance Criteria and Indicative Targets (Percent of total)

Implementation of Structural Conditions by Sectors 1/
(Percent of total met, implemented with delay, and not met)

Sources: MONA and IMF staff calculations.

* "SOE reform" includes public sector enterprise reform and pricing, including privatization, public enterprise restructuring, and price controls.

** "Other macro-structural" includes reforms of the labor market (excluding public sector employment), economic statistics, and private sector legal and regulatory environment reforms.

42.   Yet further tailoring for small states is needed to support ex-ante resilience building to natural disasters. In examining Fund-supported programs with small states, program conditionality rightly focused on capacity development and building fiscal and external buffers—through revenue mobilization, PFM, and structural reforms, including central bank and financial sector reforms. However, ex-ante resilience building to natural disasters did not feature explicitly in cases where it has been identified as a program objective or a key risk to economic outlook (e.g., Solomon Islands (2011 precautionary SCF, 2012 ECF)). To this end, further tailoring in program design to support small states' resilience building efforts is needed. This could be informed by the IMF-World Bank joint Climate Change Policy Assessment (CCPA), which provides country-specific assessments of climate mitigation and adaptation policies.[14] In addition to creating fiscal space and reserve accumulation, tailored program conditionality would help enhance disaster preparedness, strengthen institutions, coordinate the delivery of capacity building, and provide financing to address BoP needs.[15]

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[14] Jointly with the Bank, comprehensive Climate Change Policy Assessments (on a pilot-basis) have been conducted for Belize (2018), Seychelles (2017) and St. Lucia (2018). The CCPA for Seychelles informed SBs under the ongoing PCI program, approved in December 2017.

[15] For more details, please refer to *Small States' Resilience to Natural Disasters and Climate Change—Role for the IMF* (IMF 2016). Ongoing work on *Building Resilience in Countries Vulnerable to Large Natural Disasters* considers the role

TECHNICAL NOTES

This section provides methodological background information on analytical work referenced in the main paper.

A. Program Success: Financing Versus Adjustment

Methodology

43.   The BoP need in a Fund-supported program is decomposed into its financing and adjustment components that help address this need. The methodology follows IMF (2015). For any program approved at year t, the BoP need and adjustment/financing to cover it during t to $t + h$ is captured by an equation, where $h = 0, 1, 2, 3$:

$$BoP\ Need\ (t + h) = CA\ ADJ\ (t + h) + IMF\ FIN\ (t + h) + IFI\ FIN\ (t + h) + OTHER\ FA\ (t + h)$$

44.   Variables are defined as follows:

- $BoP\ Need\ (t + h)$: financing gap in the absence of an IMF program, estimated as described below.

- $CA\ ADJ\ (t + h)$: targeted current account adjustment excluding grants and official transfers between $t - 1$ and $t + h$. While grants and official transfers may be sizeable in PRGT programs, these are excluded in order to separate the underlying external adjustment from the hypothetical catalytic effect of the IMF programs in bringing in additional financing.

- *IMF FIN (t + h)*: IMF financing.

- *IFI FIN (t + h)*: IFI financing, including official current and capital transfers.

- $OTHER\ FA\ (t + h)$: residual that balances the equation above.

45.   The financing gap in the absence of an IMF program ($BoP\ Need\ (t + h)$) is generally not reported in IMF staff reports and must therefore be estimated. The BoP need as presented in staff reports already incorporates the envisaged financing package and is therefore different from the BoP need that would have prevailed if policies at *t - 1* had been continued. To estimate the BoP need at time t ($BoP\ Need\ (t)$), information on gross external financing needs is used as follows:

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of policy reforms to internalize ex ante resilience investments in the macro-fiscal framework, buffers, and the DSA, and to tailor policy advice informed by Climate Change Policy Assessments (CCPA). Other ongoing work on *Fiscal Policies for Paris Climate Strategies: From Principle to Practice* considers Fund policy advice to help members address climate commitments through integrating carbon charges into fuel taxes; allocating carbon pricing revenues; and integrating climate risks and financing into macro-fiscal frameworks.

$$BoP\ Need\ (t) = Financing\ Need\ (t) - Financing\ sources\ (t)$$

$$\simeq (CA\ excl\ Grants\ (t-1) + ST\ Debt\ (t)) \times \frac{GDP(t)}{GDP(t-1)} - Financing\ sources\ (t)$$

Here, $Financing\ sources\ (t)$ refer to the sum of IMF and IFI financing, and $ST\ Debt\ (t)$ refers to short-term external debt at remaining maturity, falling due in year t. The financing gap in year t is thus an estimate of the BoP need in year t if policies in t - 1 were to continue.

Data

46.   The main data sources are IMF staff reports at program approval. They provide the initial expectation about the path of the current account, gross financing needs, expected IMF disbursements, and IFI and bilateral financing over the program period. Other variables are estimated as described above.

Results

47.   External adjustment and financing patterns differ notably between PRGT and GRA programs (Figure 27). Average external adjustment in GRA programs is sizeable while PRGT programs display smaller external adjustment (excluding grants) and a larger contribution from IFIs and bilateral support. This reflects different objectives, with PRGT programs geared towards catalyzing financing, while GRA programs are expected to strengthen a member's BoP by the time repurchases become due.

Figure 27. External Adjustment Versus Financing

The Fund has played a catalytic role in attracting financing in PRGT programs.

There is large heterogeneity regarding adjustment versus financing both between and within GRA and PRGT groups.

Sources: IMF staff reports, WEO, and IMF staff calculations.
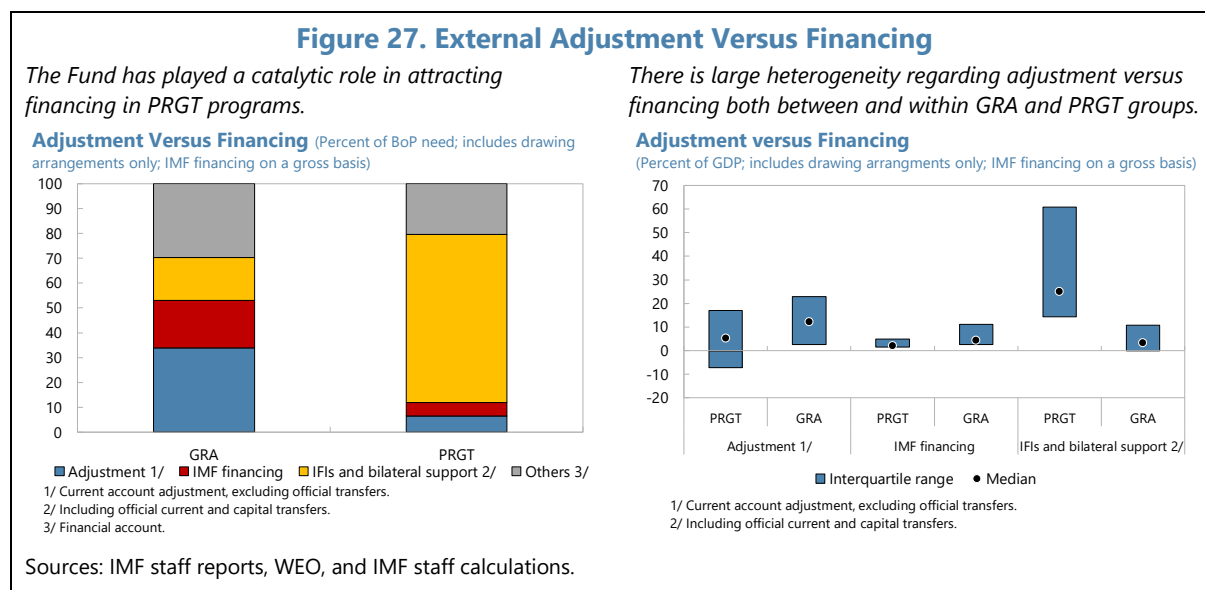
B. Macro Optimism: Drivers of Growth Forecast Errors

Methodology

48.   We use a regression-based approach to examine the contribution of external and domestic factors to growth forecast errors in Fund-supported programs. We build on the methodology developed by Blanchard and Leigh (2013) and Ismail, Perelli, and Yang (forthcoming) and apply it to the 2018 RoC sample. The baseline regression model can be described in an equation:

$$GrowthErr_{it}^{j} = Constant + \beta_e ExternalErr_{it}^{j} + \beta_d DomesticPolicy_{it}^{j} + fe_i^{j} + \epsilon_{it}^{j}$$

49.   Variables are defined as follows:

- $GrowthErr_{it}^{j}$: Forecast error for GDP growth for country i for year t as reported in the j's WEO forecast vintage.

- $ExternalErr_{it}^{j}$: Forecast errors for trading partner growth and oil and commodity prices as faced by country i for year t as reported in the j's WEO forecast vintage.

- $DomesticPolicy_{it}^{j}$: Planned fiscal and current account adjustments for country i for year t as reported in the j's WEO forecast vintage. Here, the current account adjustment captures non-fiscal policy actions, such as monetary policy, which would impact private-sector demand and, thereby, the current account. If the parameters (e.g., fiscal multipliers) in country teams' forecast models are correctly specified, we should not expect to see a relationship between forecasts of domestic adjustments and growth forecast errors.[16] However, a mis-estimation of the impact of domestic adjustments on growth would lead to GDP growth forecast errors.

- $Non\ linearity$: Planned fiscal and current account adjustments were also tested for non-linearity by including an additional variable for high-adjustment cases.

- fe_i^{j}: Fixed effect for country i at the j's WEO forecast vintage. This allows us to control for time-invariant country-specific factors for a particular vintage of WEO forecasts.

Data

50.   The underlying data are based on WEO vintages from April 2003 to October 2017. The various vintages are used to construct a dataset of IMF's historical biannual forecasts for GDP growth, fiscal adjustment, current account adjustment, and commodity prices for 198 countries over the period 2003–17. The October 2018 WEO database is used to construct actual outturns for the same set of variables. Baseline regressions are then run using all WEO forecasts made during the

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[16] For this to be true, there should be no systematic forecast errors of the size of domestic adjustments. As noted in the main paper, the size of adjustments was close to planned, as also observed by Blanchard and Leigh (2013).

2018 RoC sample period. Corresponding regressions for surveillance cases are based on forecasts from 2012 to 2017.

Results

51.   About half of the growth forecast errors in the overall sample can be explained by external and domestic policy factors (Figure 28). In the full RoC sample (Table 4, column 1), external factors (i.e., trading partner growth and commodity price forecast errors) contributed one quarter to short-term growth optimism, highlighting the significant influence of global forecast errors. Optimism regarding the impact of domestic adjustment on growth translated to another one quarter. Furthermore, the effects are nonlinear, as large planned fiscal and current account adjustments are often associated with a larger degree of forecast optimism than average-sized adjustments. Table 4 also presents the regression results for 2018 RoC subsamples (columns 2–7). Growth

Figure 28. Drivers of Growth Forecast Errors

Short-Term Growth Forecast Error: Estimated Contributions
(Percentage points; average of T+1 and T+2; 2018 RoC)

Sources: WEO and IMF staff calculations.

forecasts are more sensitive to oil price forecast errors and domestic fiscal adjustment in other developing countries (columns 3 and 4). External factors as well as planned fiscal adjustment are more closely related to growth forecasts in PRGT countries than in GRA countries (columns 5 and 6). In countries with a managed exchange rate, forecast errors are significantly associated with domestic policies such as fiscal adjustment, while in countries with a floating exchange rate, forecast errors are strongly related to external factors such as trading partner growth (column 6 and 7). Regression results are broadly similar using the 2011 RoC sample and surveillance countries during the 2018 RoC period.

Table 4. Regression Results: Growth Optimism

Dependent variable:	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Growth forecast error (projected - actual)	2018 RoC	Other developing countries	Remaining country groups	PRGT	GRA	Floating exchange rate	Managed exchange rate	2011 RoC	Surveillance
Trading partner growth forecast error	0.475***	0.514***	0.455***	0.494***	0.405***	1.094***	0.219**	0.857***	0.445***
	(0.102)	(0.141)	(0.144)	(0.133)	(0.141)	-0.256	-0.107	(0.0627)	(0.0440)
Oil price forecast error	2.357***	3.475***	0.470	3.343***	-0.349	1.501	1.605**	2.260***	0.590**
	(0.648)	(0.934)	(0.856)	(0.860)	(0.850)	-1.505	-0.747	(0.472)	(0.300)
Oil exporter x oil price forecast error	5.689***	18.05***	3.832**	10.26***	3.547**		8.102***	-0.0409	0.852**
	(1.680)	(4.785)	(1.608)	(3.216)	(1.553)		-1.617	(1.272)	(0.340)
Commodity price forecast error	-3.761*	-5.061*	-0.938	-4.244	0.206	-5.502	-1.184	-1.703	-1.548
	(2.104)	(3.036)	(2.763)	(2.846)	(2.677)	-4.817	-2.29	(1.160)	(1.032)
Commodity exporter x commodity price forecast error	12.27***	11.94***	12.57***	10.02***	-2.415	41.89***	3.943	-0.694	3.285**
	(2.268)	(3.053)	(3.432)	(2.685)	(91.69)	-4.841	-2.481	(1.457)	(1.542)
Forecast of fiscal adjustment	0.151***	0.131**	0.0945	0.127**	0.0857	-0.233	0.226***	-0.0108	0.0154
	(0.0494)	(0.0633)	(0.0804)	(0.0612)	(0.0841)	-0.156	-0.0494	(0.0214)	(0.0259)
Forecast of fiscal adjustment under high adj	0.164**	0.370***	-0.140	0.331***	-0.0858	0.384*	0.103	0.00996	0.154***
	(0.0695)	(0.0934)	(0.102)	(0.0911)	(0.0971)	-0.2	-0.0713	(0.0377)	(0.0496)
Forecast of CA adjustment	0.0255	-0.0106	0.144***	0.0176	0.137*	0.0996	0.00327	0.0494***	0.0476**
	(0.0326)	(0.0447)	(0.0466)	(0.0375)	(0.0814)	-0.0972	-0.0332	(0.0173)	(0.0203)
Forecast of CA adjustment under high adj	0.218***	0.301***	-0.155**	0.244***	-0.173*	0.184	0.257***	0.787***	0.0974***
	(0.0466)	(0.0604)	(0.0786)	(0.0543)	(0.105)	-0.114	-0.0519	(0.0288)	(0.0309)
Global financial crisis dummy	-1.350	-0.899	-0.595	-0.441	-0.831	-11.58**	-1.174	-1.016***	
	(0.928)	(1.274)	(1.355)	(1.241)	(1.345)	-4.66	-0.941	(0.244)	
Constant	0.446***	0.519***	0.608***	0.531***	0.469***	0.501***	0.729***	0.0773	0.584***
	(0.0971)	(0.146)	(0.125)	(0.134)	(0.125)	-0.193	-0.119	(0.0938)	(0.0377)
Observations	2,715	1,420	1,295	1,821	894	906	1,806	4,273	8,326
R-squared	0.122	0.204	0.055	0.166	0.035	0.182	0.149	0.382	0.038

Sources: WEO and IMF staff calculations.
Notes: Standard errors in parentheses. Stars denote significance: *** p<0.01, ** p<0.05, * p<0.1.

C. Macro Optimism: Growth Accounting

Methodology

52.   A standard growth accounting methodology is applied. Let g_Y denote the growth rate of aggregate output (Y), g_{TFP} the growth rate of total factor productivity (TFP), g_K the growth rate of aggregate capital (K), g_L the growth rate of aggregate human capital (L), and α the capital share. Assuming a neoclassical production function and perfect competition in factor markets, we then decompose real GDP growth into its factor inputs and compare contributions based on (i) WEO forecasts for the 2018 RoC sample at the time of program requests and (ii) actual data as they materialized:

$$g_Y = g_{TFP} + \alpha g_K + (1 - \alpha)g_L$$

Data

53.   Data are based on the WEO databases and the Penn World Tables. Growth forecast errors are calculated as actual minus forecasted growth as published in the WEO databases. Human capital is calculated as the product of employment (WEO) and the human capital index based on years of schooling and returns to education (Penn World Table version 9.0). Capital is computed using gross fixed capital formation (WEO) and the perpetual inventory method. Data constraints limit the sample to 28 countries. Where the capital share was missing, it was assumed at 0.5. Where data on gross fixed capital formation was missing, gross capital formation was used.

Results

54.   Shortfalls in expected capital growth and disappointing TFP developments were the main contributors to growth forecast errors. In the analytical group of other developing countries, but also in PRGT-eligible countries more broadly, lower-than-expected growth can be explained by shortfalls in capital accumulation (Figure 29, top panels). In non-developing countries and GRA countries more broadly, the largest share of the growth forecast error can be attributed to lower TFP growth (Figure 29, bottom panels).

Figure 29. Growth Accounting

Contributions to Growth Forecast Error: Other Developing Countries (Percentage points; actual minus forecast; average)
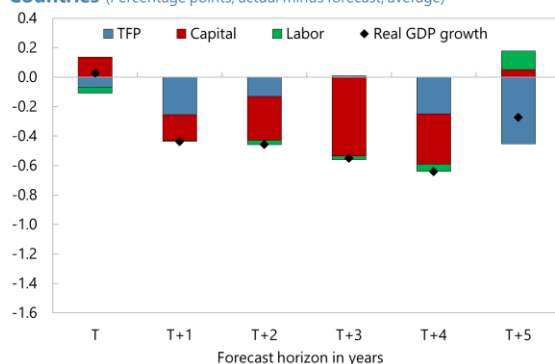
Contributions to Growth Forecast Error: PRGT Countries (Percentage points; actual minus forecast; average)
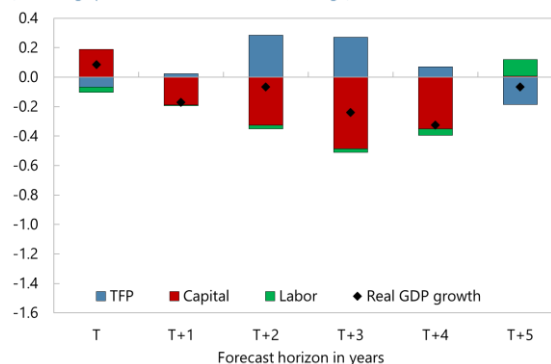
Contributions to Growth Forecast Error: All Countries Excl. Other Developing (Percentage points; actual minus forecast; average)
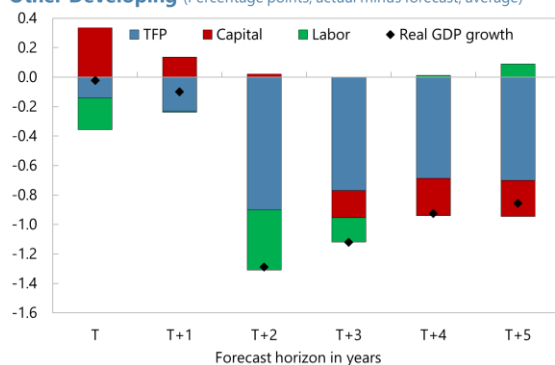
Contributions to Growth Forecast Error: GRA Countries (Percentage points; actual minus forecast; average)
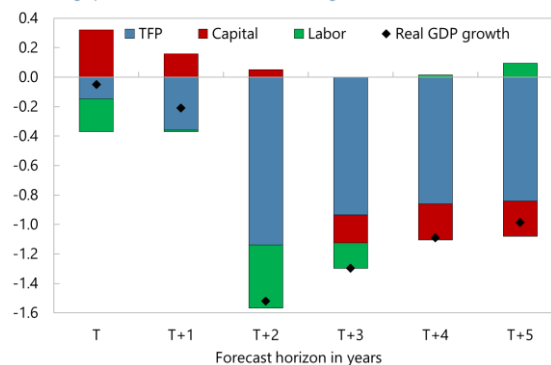
Sources: WEO, Penn World Tables version 9.0, and IMF staff calculations.
Notes: Data constraints limit the sample to 19 GRA and 9 PRGT countries. T denotes program approval year.

D. Public Debt: Sustainability Assessment for Market Access Countries Seeking IMF Support

Methodology

55.   The probit model provides a probabilistic assessment of debt distress for countries with market access in the sample. The probit model is multivariate, statistically-based, and allows for a wide range of explanatory variables.[17] The binary probit is constructed to estimate the discrete probability of debt distress. The dependent variable takes the value of one if there was a default or restructuring and zero if there was no such event. The regression controls for

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[17] This probit model was developed by staff for internal purposes to provide a probabilistic assessment of debt distress for a MAC seeking IMF support. New models are being developed in the context of the ongoing MAC DSA Review.

several explanatory variables, such as external factors (GDP per capita, foreign exchange reserves), macroeconomic factors (real GDP growth, real effective exchange rate (REER) misalignment), and indicators of liquidity pressure (primary balance) and the debt burden (public debt-to-GDP ratio).

56.   The model-generated probabilities of sovereign default and restructuring are compared to probability thresholds to classify a country into one of three debt sustainability categories. The probability threshold used to identify unsustainable cases—threshold *(a)*—is derived using the noise-to-signal methodology (Box 2). It is an optimal threshold, above which the model predicts a default. This threshold minimizes the sum of proportions of false alarms and missed crises, subject to the constraint that this threshold should be higher than the average fitted probability of default for the sample as a whole. The thresholds for the three sustainability categories are defined as follows:

Box 2. Noise-to-Signal Methodology to Generate Probability Threshold

The Noise-to-Signal methodology is used to compute a threshold for identifying a stress event. Using the relationship between debt default or restructuring and a number of early warning indicators (using the same sample as in the probit model), a threshold is derived, above which the indicator would signal a stress event. The signal-prediction outcomes (signals compared to a list of crises) are then compared to whether or not the sovereign actually underwent a debt default or restructuring to determine if:

- the signal correctly predicted a crisis;

- the signal breached the threshold, but there was no crisis (false alarm);

- the signal did not breach the threshold, but a crisis ensued (missed crisis); or

- there was no breach of the threshold and no crisis.

The derived optimal threshold for the stress event is defined as the level that minimizes the sum of errors (i.e., the sum of false alarms and of missed crises).

- *"Unsustainable."* Based on the threshold above which the noise-to-signal model predicts a stress event.

- *"Sustainable with high probability."* This threshold—threshold *(b)*—is derived from the probit model (Table 5) and is based on the 80th percentile of fitted probabilities of EA cases that did not involve debt restructuring.[18] In these cases, the country was able to manage the debt situation, despite the considerable stress implied by the very high access levels.

- *"Sustainable but not with high probability."* This is a "gray zone" and comprises probabilities between the thresholds for *(a)* and *(b)* above.

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[18] The choice of the 80th percentile for the high probability threshold is for the purposes of this analysis. The results are reasonably robust to alternative thresholds.

Data

57. **The sample includes countries experiencing sovereign stress, measured by defaults or debt restructurings that took place under IMF-supported programs during 1990–2013.** The variable on debt default and restructuring events was constructed from several databases: fiscal crises episodes from Baldacci, Petrova, Belhocine, Dobrescu, and Mazraani (2011); private sovereign debt restructurings from Cruces and Trebesch (2013); Paris Club arrangements; Moody's study on sovereign defaults and restructuring, covering selected restructurings of foreign and local currency bonds (Moody's, 2013); and World Development Indicators (WDI), providing data on arrears to official and private creditors.

Results

58. **The estimated parameters of the probit model are in line with ex ante expectations (Table 5).** A higher public debt ratio is associated with a higher likelihood of default or restructuring and is robust across various samples. Higher real GDP growth is associated with a lower probability of default or restructuring, reflecting more favorable interest-growth differentials. Countries with higher GDP per capita tend to have a lower likelihood of default or restructuring. A higher level of international reserves is associated with a lower probability of default or restructuring at a given debt level. A higher degree of REER overvaluation is associated with an increased probability of default or restructuring. The primary balance and rate of inflation are not significantly associated with the probability of default or restructuring, although the signs on the estimated coefficients are in line with expectations. With an adjusted R-squared of 30 percent, the fit is good for this type of model.

Table 5. Probit Model 1/	
Time horizon	1991–2014
Observations with Dep. = 0	192
Observations with Dep. = 1	19
Explanatory variables	Coefficient estimate 2/
Constant	-1.748**
Public debt to GDP (t-1)	0.016**
Primary balance to GDP (t-1)	-0.020
Real GDP growth (t-1)	-0.090**
Inflation (t-1)	0.017
Real GDP per capita (t-1)	-0.0001**
International reserves to GDP (t-1)	-4.348*
Real exchange rate overvaluation (t-1)	0.030**
McFadden R-squared	0.30

Source: IMF staff calculations.
1/ Dependent variable: "default" = 1 in a year when a country (under an IMF-supported program) experiences a default or restructuring, and zero otherwise.
2/ Stars denote significance: ** $p<0.05$, * $p<0.1$.

59.   Translating resulting probabilities into debt sustainability categories suggests that debt sustainability improved in about one-third of programs but deteriorated in a significant minority of cases. The model was used to assess debt sustainability in 42 GRA programs ongoing between September 2011 and end-2017. Close to half the programs in the sample saw debt remain "sustainable with high probability" throughout the course of the program (Figure 30). In close to a third of the cases, sustainability improved to "sustainable with high probability" or "sustainable but not with high probability" (green areas), in some cases due to debt restructuring.[19] Nevertheless, in the sizable remainder of programs, debt either remained "unsustainable" (4.8 percent) or deteriorated to "unsustainable" (4.8 percent) and "sustainable but not with high probability" (7.1 percent) (red areas).

Figure 30. GRA Probit Model: Transition Matrix for DSA Risk Assessments 1/

	Share at program approval	End-program, or latest (percent)			Share at end-program (percent)
		Unsustainable	Sustainable but not with high probability	Sustainable with high probability	
Unsustainable	26.2	4.8	9.5	11.9	9.5
Sustainable but not with high probability	14.3	0.0	4.8	9.5	21.4
Sustainable with high probability	59.5	4.8	7.1	47.6	69.0

Source: IMF staff calculations.
1/ Based on 42 observations.

E.   Structural Conditionality and Program Design: Impact of Moving to Review-Based Conditionality

60.   Reform of the Fund's lending framework has modernized structural conditionality. In 2009, the Executive Board approved an overhaul of the Fund's lending framework. Changes included a shift away from Structural Performance Criteria (SPCs). Instead, monitoring of structural reform implementation became review-based. This reform was intended to reduce stigma, as countries no longer needed formal waivers if they failed to implement a structural reform by a particular date. However, concerns were raised that this reform could lead to a deterioration of structural reform implementation.

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[19] End-program for ongoing programs refers to the latest data point.

Methodology

61.   A regression framework is employed to examine the impact on reform implementation of moving to review-based conditionality. We use the following panel fixed effects regression to test the determinants of the implementation record:

$$NM_{i,t} = \alpha NM_{i,t-1} + \beta X_{i,t} + \varphi_i + \eta_{i,t} \quad for \ t=1, ..., T \ and \ i=1,..., N$$

Here, $NM_{i,t}$ is the ratio of "Not Met" SBs in program i at review year t (including SBs that were implemented with delay); $X_{i,t}$ is a vector of control variables: total number of SBs, a PRGT program dummy, income level, regulatory quality, trade openness, average depth of SBs, and a 2018 RoC sample dummy.

Data

62.   Data sources are as follows. Information regarding structural conditions, program implementation, and identifiers of program type are calculated from the IMF's MONA database. Depth scores of SBs are assigned by staff based on the description of each SB and following the 2011 RoC methodology (IMF, 2012a). GDP per capita is from the WDI. The regulatory quality index (capturing perceptions of the government's ability to formulate and implement sound policies and regulations that permit and promote private sector development) is from the World Governance Indicators (WGI). Trade openness is calculated based on the IMF's WEO database.

Results

63.   The regression does not indicate a significant difference in implementation of SBs between the 2011 and the 2018 RoC. Panel fixed effects regressions of the "Not Met" ratio as noted above suggest that the track record (i.e., past implementation) significantly matters for the performance against SBs (Table 6). A larger total number of SCs of each review year is associated with better implementation (i.e., lower "Not Met" ratio), which may relate to more granular steps of reforms helping to achieve better outcomes. The dummy for the 2018 RoC period is insignificant, supporting the conclusion that the shift to review-based conditionality did not affect program implementation.

Table 6. Regression Results: Implementation of Structural Conditions

Dependent variable: Program completion	(1)	(2)	(3)	(4)	(5)
Lagged Not Met ratio	-0.323***	-0.305***	-0.335***	-0.327***	-0.148
	(0.0916)	(0.0939)	(0.100)	(0.111)	(0.439)
Total number of SBs	-0.0111**	-0.0106**	-0.0105**	-0.0128**	-0.00380
	(0.00462)	(0.00501)	(0.00501)	(0.00581)	(0.0248)
PRGT dummy	-0.120	-0.114	-0.116	-0.118	-0.216
	(0.233)	(0.230)	(0.230)	(0.229)	(0.535)
GDP per capita, in log terms		0.105	0.248	0.295	3.563
		(0.458)	(0.487)	(0.611)	(3.625)
Regulatory quality			-0.191	-0.276	0.0793
			(0.220)	(0.237)	(1.403)
Trade openness				0.143	-0.162
				(0.279)	(1.048)
Average depth of SB					0.0578
					(0.362)
2018 RoC period dummy	0.0517	0.0481	0.0497	0.0412	-0.0446
	(0.0667)	(0.0685)	(0.0686)	(0.0698)	(0.226)
Constant	0.484**	-0.273	-1.370	-1.769	-27.12
	(0.198)	(3.296)	(3.532)	(4.387)	(28.11)
Observations	329	295	295	245	50
R2	0.098	0.097	0.101	0.121	0.142
Number of countries	147	128	128	110	29

Sources: MONA, WEO, and IMF staff calculations.
Notes: Standard errors in parentheses. Stars denote significance: *** $p<0.01$, ** $p<0.05$, * $p<0.1$.

F. Ownership: Understanding Completion Rates

Methodology

64.   A probit model is employed to examine the factors associated with ownership as reflected in completion rates. For the model, a program receives a value of 1 if fully completed or largely implemented or zero if off track or quickly off track. Programs that were in progress or had been replaced as of end-September 2018 are excluded from the analysis.

Data

65.   Data are taken from several different sources. IMF program details are computed based on information in the IMF's MONA database. Macroeconomic variables are from the WEO database. Institutional and political variables are taken from the Worldwide Governance Indicators (WGI) database and the World Bank's Database of Political Institutions. Data cover the period 2002–18.

Results

66. **Better institutional capacity appears important for program completion.** A higher degree of government effectiveness is associated with a significantly higher probability of program completion (Table 7). In contrast, more prior actions at program initiation are negatively associated with completion rates, highlighting that prior actions are not a substitute for ownership. Fragile states tend to have lower completion rates than other groups. Political economy considerations are not significantly related to completion rates (columns 8 and 9, and Figure 31). This potentially reflects that such factors have already been adequately taken into consideration in program design. External shocks are only weakly associated with completion rates, with only commodity price shocks showing as significant in the regression (column 13).

Table 7. Regression Results: Determinants of Program Completion Rates

| Dependent variable: Program completion	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Number of prior actions	-0.0698*	-0.0698*	-0.0744*	-0.0715*	-0.0710*	-0.0701*	-0.0687*	-0.135*	-0.0518	-0.0676*	-0.0732*	-0.0736*	-0.0978**
	(-2.07)	(-2.07)	(-2.16)	(-2.09)	(-2.06)	(-2.07)	(-2.03)	(-1.97)	(-1.35)	(-2.00)	(-2.15)	(-2.15)	(0.0357)
Number of structural benchmarks	0.0304	0.0315	0.0447	0.0311	0.0298	0.0296	0.0311	0.0240	0.0341	0.0278	0.0298	0.0292	0.0565*
	(1.38)	(1.43)	(1.78)	(1.40)	(1.34)	(1.28)	(1.41)	(0.66)	(1.46)	(1.26)	(1.35)	(1.32)	(0.0241)
Initial GDP per capita, in log terms	-0.285*	-0.255*	-0.268*	-0.315*	-0.289*	-0.280*	-0.289*	-0.460*	-0.316*	-0.292*	-0.282*	-0.276*	-0.236
	(-2.41)	(-2.01)	(-2.18)	(-2.11)	(-2.41)	(-2.20)	(-2.39)	(-2.12)	(-2.52)	(-2.43)	(-2.34)	(-2.24)	(0.124)
Government effectiveness	0.644**	0.631**	0.592*	0.644**	0.641**	0.639**	0.399	0.796*	0.593*	0.621**	0.649**	0.625**	0.603*
	(2.80)	(2.73)	(2.40)	(2.80)	(2.78)	(2.73)	(1.53)	(2.12)	(2.49)	(2.67)	(2.81)	(2.68)	(0.238)
Initial GDP growth rate, in percent		0.0163											
		(0.65)											
Growth forecast error			0.0402										
			(1.79)										
GRA program dummy				0.0933									
				(0.32)									
Number of reviews at program application					0.00748								
					(0.19)								
Initial program length						0.0166							
						(0.12)							
Fragile states dummy							-0.520*						
							(-2.03)						
Near-term election dummy								-0.01000					
								(-0.97)					
Majority in government									-0.000009				
									(-0.02)				
Initial public debt-to-GDP ratio										0.000845			
										(0.56)			
Planned current account adjustment											0.00234		
											(0.15)		
Planned fiscal adjustment												0.00519	
												(0.43)	
Commodity price shock													6.078**
													(1.931)
Constant	2.884**	2.581*	2.709**	3.062**	2.872**	2.808*	2.943**	4.554*	3.006**	2.879**	2.888**	2.824**	2.100*
	(3.11)	(2.49)	(2.82)	(2.84)	(3.09)	(2.48)	(3.12)	(2.48)	(3.12)	(3.09)	(3.08)	(2.93)	(0.985)
Number of observations	202	202	188	202	202	202	202	81	179	199	201	198	199

Sources: Database of Political Institutions, MONA, WEO, WGI database, and IMF staff calculations.
Notes: Standard errors in parentheses. Stars denote significance: *** p<0.01, ** p<0.05, * p<0.1. Dependent variable = 1 if completed or largely implemented; 0 otherwise.

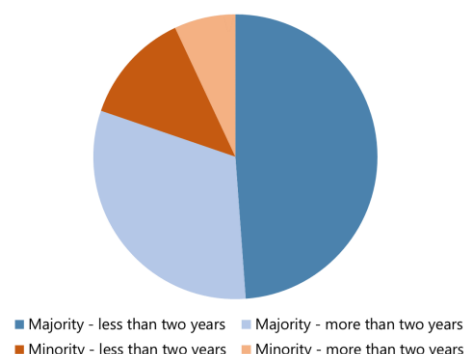**Figure 31. Completion Rates and the Political Cycle**

More than 60 percent of programs have elections within the first two years of the program.

Proximity to Elections at Program Approval
(Percent; based on number of programs)

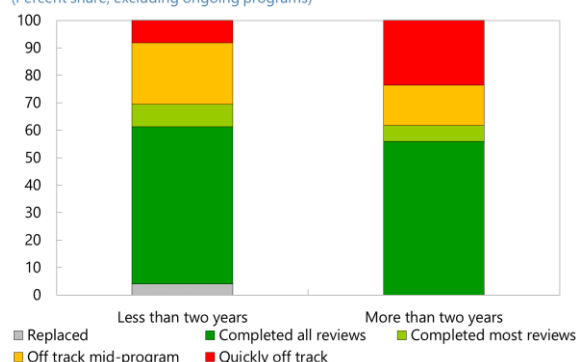■ Less than one year   ■ One to two years   ■ More than two years
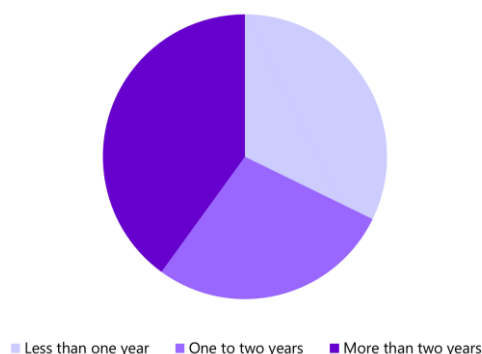
About three-quarters of programs are approved at a time when there is a legislative majority.

Time to Nearest Election and Legislative Majority
(Percent share)

■ Majority - less than two years   ■ Majority - more than two years
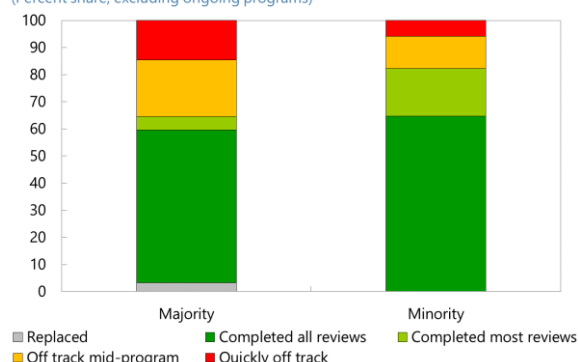■ Minority - less than two years   ■ Minority - more than two years

Completion rates do not differ markedly with the time to the nearest election...

Program Completion and Distance to Nearest Election
(Percent share; excluding ongoing programs)

Less than two years   More than two years

■ Replaced   ■ Completed all reviews   ■ Completed most reviews
■ Off track mid-program   ■ Quickly off track

...and the legislative majority does not appear to be an important factor.

Program Completion and Legislative Majority
(Percent share; excluding ongoing programs)

Majority   Minority

■ Replaced   ■ Completed all reviews   ■ Completed most reviews
■ Off track mid-program   ■ Quickly off track

Sources: Cruz and others (2018), MONA, and IMF staff calculations.

G. Tailoring and Uniformity of Treatment: Understanding Access Decisions

Methodology

67.   A regression framework is used to explore the empirical link between access decisions and the factors underpinning such decisions. Overall, access decisions should reflect a country's BoP need, program strength, and capacity to repay, as well as the underlying GRA and PRGT lending frameworks. To test the effects of these factors, a two-stage approach is followed:

- **Stage 1.** Given the large set of potential determinants of access, a Bayesian Model Averaging approach is used to select the main determinants of access.[20]

- **Stage 2.** A standard Ordinary Least Squares regression framework is employed to examine how well the main determinants identified in stage 1 help explain access decisions. All programs in the sample are initially pooled into one sample. Separate regressions for GRA and PRGT programs are then run to examine potential inconsistencies in access decisions *between* the PRGT and GRA and *within* the PRGT and GRA. For program i, the regression can be presented as follows:

$$Access_i = C + \beta_1 BoP\_Need_i + \beta_2 Prg\_Strength_i + \beta_3 Capacity\_Repay_i + \beta_4 Fund\_Policy_i + \epsilon_i$$

Here, as a proxy for BoP need, the baseline regression includes an estimate of gross financing needs and dummies that capture the nature of the BoP need (i.e., whether the country experienced a capital account crisis and whether the arrangement is precautionary). Program strength is proxied by the size of the planned fiscal and current account adjustments. Governance indicators, reflecting institutional strength, are used as measures of capacity to repay. The access limit for GRA arrangements, the access norm for PRGT arrangements, and an EA dummy are included to reflect the importance of the underlying Fund policies and lending frameworks for access decisions.

Data

68.   The data cover 209 Fund-supported programs approved between 2002 and 2017. Macroeconomic conditions and projected adjustments are collected from the first WEO vintage published after the Board approval date for each program. Institutional variables are from the WGI database.

Results

69.   The parsimonious baseline regressions explain a large part of the variation in access decisions. The baseline regressions for the full sample, for the GRA, and for the PRGT can explain almost 70 percent of the variation in access levels (columns 3, 6, and 8 in Table 8). There is also a tight relationship between actual access levels and access levels predicted by the regressions (Figure 32, left panel).

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[20]Leamer (1978) discusses the use of Bayesian methods to select econometric models. Raftery and others (1997) introduces the Bayesian Model Averaging as an alternative approach to hypothesis testing and model selection in social sciences. Sala-i-Martin et al. (2004) first applied the Bayesian Model Averaging methodology to growth regressions.

70.   The results suggest that access decisions largely reflect the Fund's policies and lending frameworks, as well as fundamentals (Table 8).

- *Full sample* (columns 1-3): After controlling for the BoP need, program strength, and capacity to repay, the difference in access levels between GRA and PRGT programs can be largely explained by the Fund's lending frameworks. Adding access limits for GRA programs and access norms for PRGT programs to the regression renders the GRA dummy insignificant.

- *GRA sample* (columns 4-6): The coefficients for economic fundamentals are similar to the full sample estimation. The EA dummy remains an important driver of access, potentially capturing sizeable effects of large BoP crises, above and beyond those of a typical capital account crisis (e.g., including systemic considerations). In the GRA sample, successor programs are not associated with lower access levels.

- *PRGT sample* (columns 7-8): The PRGT access norm explains 50 percent of the PRGT sample variation, pointing to a strong link between the PRGT access norm and access decisions (Figure 32, right panel). Furthermore, there are strong links between access levels and the size of adjustment, confirming that the strength of policies also matters for access decisions.

Figure 32. Predicted Access Levels and PRGT Access Norms
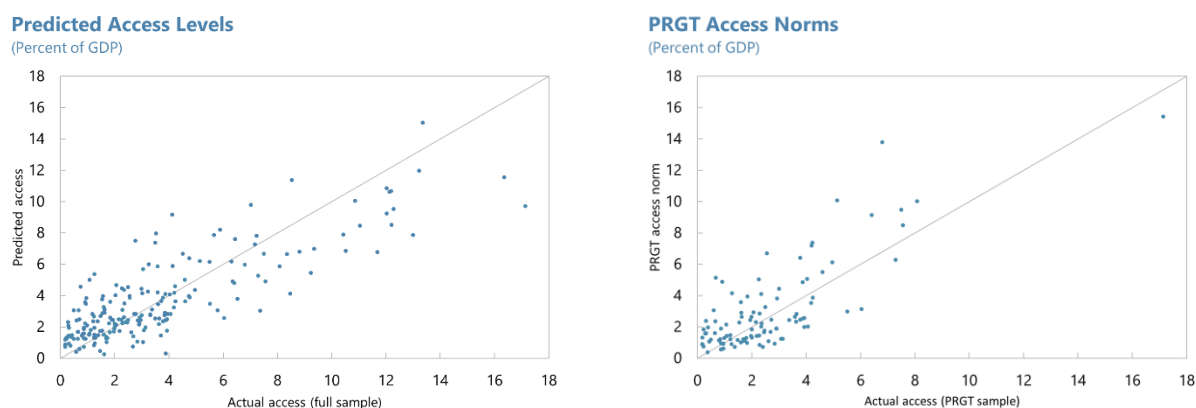
Sources: WEO database, WGI database, and IMF staff calculations.
Notes: Access norms and actual access levels are calculated for all ECF and SCF arrangements from 2002 and 2017. Predicted access levels are fitted values from regression (3) in Table 8.

Table 8. Regression Results: Determinants of Access Levels at Program Approval

Dependent variable: Access/GDP	Full sample			GRA			PRGT	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Gross financing need 1/	0.00856***	0.00733***	0.00594***	0.00571***	0.00377**	0.00446***	0.0227***	0.00372
	(0.00235)	(0.00226)	(0.00148)	(0.00205)	(0.00175)	(0.00165)	(0.00660)	(0.00398)
Capital account crisis 2/	2.441***	2.357***	2.788***	2.776**	2.866***	3.134***	-0.0369	0.555**
	(0.919)	(0.766)	(0.627)	(1.120)	(0.867)	(0.765)	(0.425)	(0.226)
Planned CA adjustment	0.0621***	0.0413*	0.0321	0.0942**	0.0420	0.0479	0.0253	0.00648
	(0.0234)	(0.0243)	(0.0204)	(0.0432)	(0.0463)	(0.0427)	(0.0266)	(0.0176)
Planned fiscal adjustment	-0.00249	0.00831	0.0456***	0.0435	0.103**	0.0882*	0.0226	0.0608***
	(0.0206)	(0.0253)	(0.0143)	(0.0517)	(0.0505)	(0.0471)	(0.0215)	(0.0182)
Political stability	-0.270	-0.227	-0.293	-0.321	-0.310	-0.316	-0.346	-0.356
	(0.300)	(0.282)	(0.223)	(0.361)	(0.314)	(0.279)	(0.550)	(0.271)
Rule of law	0.211	-0.120	-0.0588	0.751	0.328	0.0950	-0.257	0.0192
	(0.420)	(0.378)	(0.333)	(0.661)	(0.534)	(0.512)	(0.510)	(0.337)
Precautionary arrangement	-2.607***	-2.410***	-1.953***	-2.503***	-2.362***	-2.148***	-0.930	0.232
	(0.539)	(0.475)	(0.460)	(0.677)	(0.546)	(0.515)	(0.704)	(0.490)
Successor program	-1.031***	-0.658*	-0.866***	-0.831	-0.158	-0.473	-1.058**	-0.869***
	(0.388)	(0.372)	(0.308)	(0.584)	(0.523)	(0.506)	(0.456)	(0.239)
GRA dummy	2.272***	1.337***	-0.262					
	(0.497)	(0.447)	(0.457)					
Exceptional access		3.282***	4.418***		3.491***	4.119***		
		(0.606)	(0.593)		(0.636)	(0.624)		
GRA access limit/PRGT access norm 3/			0.491***					
			(0.0896)					
Access limit 4/						0.318***		
						(0.0939)		
PRGT access norm 5/								0.720***
								(0.101)
Number of observations	209	209	209	103	103	103	106	106
R-squared 6/	0.420	0.512	0.681	0.472	0.617	0.676	0.185	0.734

Sources: WEO database, WGI database, and IMF staff calculations.

1/ Gross financing need (in percent of GDP) is defined as the sum of change in current account balance, change in reserves and debt amortization projected during the program period.

2/ A country had a capital account crisis if the country experienced a fall in net portfolio inflows above 3 percent of GDP at time t or *t-1*.

3/ This variable combines access limit for GRA programs and access norm for PRGT programs.

4/ The GRA access limit is expressed in percent of GDP in the regressions. The access limit is 600 percent of quota if a program was approved before March 2016 and 435 percent of quota if a program was approved in or after March 2016.

5/ The PRGT access norm is expressed in percent of GDP in the regressions. The access norm is 90 percent of quota per 3-year ECF arrangement or per 18-month SCF for countries with total outstanding concessional IMF credit under all facilities of less than 75 percent of quota and is 56.25 percent of quota with outstanding concessional credit of between 75 percent of quota and 150 percent of quota. For countries whose outstanding concessional credit is above 150 percent of quota, the norm does not apply, and access is guided by consideration of the cumulative normal access limit of 225 percent of quota.

6/ White's heteroscedasticity-robust standard errors in parentheses. Stars denote significance: *** $p<0.01$, ** $p<0.05$, * $p<0.1$.

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INTERNATIONAL MONETARY FUND

April 5, 2019

EXECUTIVE SUMMARY

This paper provides additional information to support the *Review of Program Design and Conditionality* (the "main paper"). It presents detailed case studies for five different areas of analysis:

- ***Section I: Growth Optimism.*** Considers the extent to which initial growth forecasts were realistic and the role played by the materialization of risks.

- ***Section II: Quality of Fiscal Adjustment.*** Examines whether the composition of fiscal adjustment was carried out as planned and the extent to which capital spending was protected and appropriate attention was paid to social objectives.

- ***Section III: Public Debt.*** Analyzes PRGT-supported programs that saw large public debt projection errors and considers the underlying drivers of these errors.

- ***Section IV: Structural Conditionality and Program Design.*** Discusses whether structural conditionality addressed key gaps identified in surveillance and the extent to which conditions were sufficiently critical and parsimonious.

- ***Section V: Ownership.*** Highlights key factors important for national ownership and whether capacity constraints and other factors were deterrents for reform implementation.

CONTENTS

TABLES

Acronyms and Abbreviations

BoP	Balance of Payments
CPIA	Country Policy and Institutional Assessment
CSO	Civil Society Organization
DSA	Debt Sustainability Analysis
ECF	Arrangement under the Extended Credit Facility
EFF	Extended arrangement under the Extended Fund Facility
GDP	Gross Domestic Product
IT	Indicative Target
NCB	Non-Concessional Borrowing
NPL	Non-Performing Loan
PA	Prior Action
PCI	Policy Coordination Instrument
PFM	Public Financial Management
PRGT	Poverty Reduction and Growth Trust
PRSP	Poverty Reduction and Strategy Paper
PSI	Policy Support Instrument
QAC	Quantitative Assessment Criteria
QPC	Quantitative Performance Criteria
RA	Revenue Administration
RoC	Review of Program Design and Conditionality
SB	Structural Benchmark
SBA	Stand-By Arrangement
SCF	Arrangement under the Standby Credit Facility
SC	Structural Condition
SME	Small and Medium-Sized Enterprises
SOE	State-Owned Enterprise
TA	Technical Assistance
VAT	Value Added Tax
WEO	World Economic Outlook

GROWTH OPTIMISM

A. Lessons

- ***Conservative growth forecasts can support program performance.*** Avoiding optimistic assumptions regarding reform payoffs and the impact of fiscal policy on growth can help meet program targets. Furthermore, inherently volatile growth in small island states warrants a conservative approach.

- ***Discussing downside risks and developing contingency plans can help prepare for the potential materialization of downside scenarios.*** Continuously assessing the macroeconomic framework is important for sustaining program implementation in the face of shocks.

- ***Taking advantage of early reform momentum and frontloading reforms can facilitate program success.*** However, some reforms take longer, and proper sequencing of reforms remains important.

Table 1. Case Studies: Growth Optimism

	Program Completion 1/	Were initial growth forecasts conservative?	Did the program request staff report discuss fiscal multipliers?	Were downside risks sufficiently discussed, including with contingency measures?	Did external shocks result in significant deviations from baseline growth projections?	Was there a frontloading of reforms?	Did program design reflect underlying vulnerabilities?	Comments
Cyprus - EFF 2013	C	✔	✔	✔		✔	✔	
Grenada - ECF 2014	C	✔	✔	✔		✔	✔	
Mozambique - SCF 2015	QOT			Partly	✔	Partly	Partly	
Solomon Islands - ECF 2012	C	*		✔	✔			* Baseline was gradually adjusted to become more conservative.
Ukraine - SBA 2014	R			Partly	✔	✔	Partly	

Source: IMF staff.
1/ Program completion status as of end-September 2018: C = completed all reviews, IP = in progress, L = largely implemented, OT= off track, QOT= quickly off track, R = replaced.
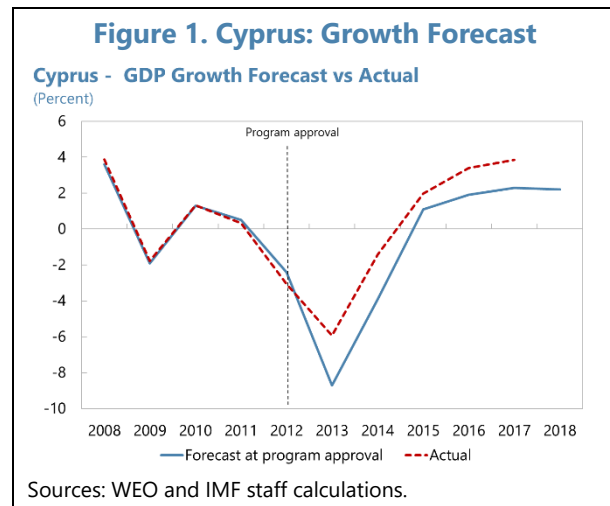
B. Cyprus: 2013 EFF

1.   A three-year extended arrangement under the Extended Fund Facility (EFF) was requested on the back of increasing imbalances in the run-up to the Global Financial Crisis. The objectives of the authorities' program were to restore financial sector stability and implement structural reforms to achieve sustainable public finances.

2.   The program maintained conservative assumptions regarding growth payoffs.
Ultimately, growth surprised on the upside.
Despite a severe recession, the growth outturn—
a Growth Domestic Product (GDP) decline of
close to 6 percent in 2013—was nonetheless less
severe than projected and continued to surprise
on the upside (Figure 1).

**3.   The forecast internalized the impact of
fiscal consolidation on growth.** The document
requesting the arrangement discussed that fiscal
consolidation would adversely impact growth. In
turn, citing recent literature and experience from
other program countries, staff assumed a one-
for-one impact of fiscal consolidation measures
on growth (Blanchard and Leigh, 2013; and IMF, 2012a).

Figure 1. Cyprus: Growth Forecast

Cyprus - GDP Growth Forecast vs Actual
(Percent)

Sources: WEO and IMF staff calculations.

4.   Staff highlighted significant downside risks and pointed to contingency measures.
Downside risks included weaker-than-expected growth, unexpected pressure from the banking
system, and weakening ownership. These risks were sufficiently covered as part of discussions on the
macroeconomic outlook and program modalities. The staff report also noted that some buffers were
built into the financing envelope and capitalization requirements for banks to mitigate downside
risks. The government agreed with staff advice to stand ready to take additional measures to
preserve the medium-term fiscal balance and debt objectives. Ultimately, significant risks did not
materialize, and—as mentioned above—actual outturns largely exceeded growth projections.

5.   The program benefitted from early reform momentum and frontloading reforms. The
Cypriot authorities were already implementing reforms in the public sector prior to arrangement
approval. Subsequently, the program aimed to advance key structural reforms in the financial sector
and public sector, while maintaining conservative growth dividends.

**6.   Program design was appropriate in addressing the high level of public debt and
vulnerabilities in the financial sector.** Program conditionality focused on fiscal consolidation and
financial sector restructuring. Quantitative performance criteria (QPCs) aimed at containing the fiscal
deficit and arrears. Structural benchmarks (SBs) were geared toward a restructuring of the banking
sector. Out of 34 SBs during the completed 9 reviews, 19 SBs were related to financial sector
stability: 9 on financial sector legal reforms, regulation, and supervision; 7 on restructuring and
privatization of financial institutions; and 3 on capital account restrictions.

7.   The program was completed with significant achievements. Amid a significant fiscal
overperformance—driven by strict budget controls, improved labor market conditions, and resumed
GDP growth—public debt was put on a downward trajectory. Public debt peaked at around 108

percent of GDP, about 18 percentage points of GDP below projections.[1] Cyprus regained access to international capital markets.

8.   **Yet, some challenges remained.** In the banking sector, still-high non-performing loans (NPLs) at 46 percent of total loans at end-2016 remained a concern. Structural reforms, which had moved forward initially, experienced delays toward the end of the program in the politically sensitive areas of private debt restructuring, privatization, and public administration. Delays in implementing the Public Financial Management (PFM) and revenue administration (RA) reforms were less severe and largely related to capacity constraints. While program ownership remained high, the minority position of the governing party in parliament and elections in the middle of the program period complicated the implementation of structural reforms.

C. Grenada: 2014 ECF

9.   **As the Global Financial Crisis had derailed Grenada's protracted recovery from a decade of natural disasters and economic shocks, a three-year extended arrangement under the Extended Credit Facility (ECF) was approved in 2014.** This followed several Fund-supported programs, which were evaluated in the 2014 Ex Post Assessment (IMF, 2014a).

10.   **Growth projections for the 2014 program were intentionally conservative.** The Ex Post Assessment for the predecessor program had highlighted difficulties tackling shocks given institutional limitations, overoptimistic growth projections, overambitious structural reforms, and weak ownership. In turn, the 2014 program internalized these concerns, and growth was expected to remain constrained by large fiscal adjustment and weak credit growth, amid bank balance sheet repair.

11.   **The program paid close attention to the potential adverse impact of fiscal consolidation on growth.** Both staff and the authorities noted that the drag of the large and front-loaded fiscal adjustment could be greater than projected. At the time, the envisaged consolidation of 7¾ percent of GDP was in the 97th percentile of adjustment cases over the preceding two decades for countries with debt over 60 percent of GDP. To minimize the impact of the adjustment, the program aimed at protecting social spending and growth-enhancing capital investments.

12.   **Downside risks were perceived as high and given significant prominence.** Key risks included underestimation of the drag from fiscal adjustment; faltering confidence if the fiscal crisis remains unaddressed; continued weak global recovery; natural disasters; and fragile regional markets. Based on historical variance of growth outcomes, staff estimated the probability of negative growth during the program at about 40 percent. Taking into account these risks, the program identified contingency measures on both revenues and expenditures. Furthermore, at the time of the request for the arrangement, the government noted its plans to purchase additional
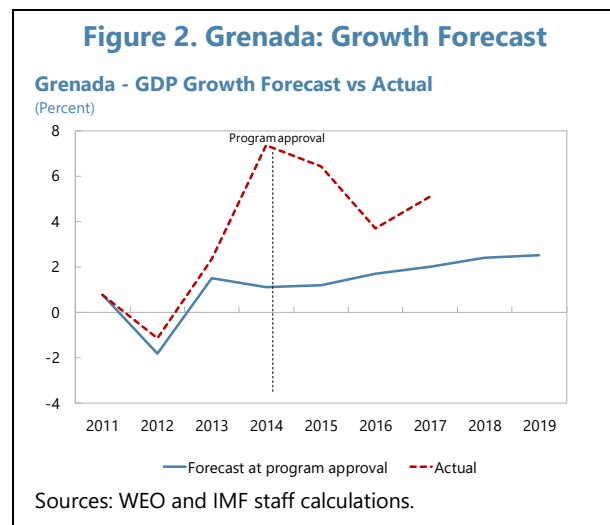
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[1] Part of the decline in the debt ratio is explained by a large revision in the national accounts.

natural disaster insurance for the duration of the program to ensure that natural disaster shocks would not derail its implementation.

13.   External shocks did not materialize, and growth remained strong. Growth overperformed markedly relative to projections, reaching more than 7 percent in 2014 and averaging 5½ percent during 2014–17, reigniting confidence (Figure 2). The robust performance was underpinned by tourism, related construction, agriculture, and continued growth in private education, and was supported by the U.S. expansion. Fiscal adjustment (9½ percent of GDP), debt restructuring, and private balance sheet repair unfolded as planned. The process was underpinned by strict implementation of the new Fiscal Responsibility Law.

Figure 2. Grenada: Growth Forecast

Grenada - GDP Growth Forecast vs Actual
(Percent)

Sources: WEO and IMF staff calculations.

14.   Fiscal consolidation was aided by the frontloading of measures. About three-quarters of the adjustment was planned for the first two years of the program. Most revenue measures that were needed for the entire adjustment were pre-approved, focusing on widening the tax base.

15.   Program performance was strong. The program was fully completed, with 93 percent of QPCs met and 75 percent of SBs met or implemented with delay. The focus of structural conditionality on the underlying institutional causes of fiscal weaknesses and extensive technical assistance (TA) contributed to success. Moreover, conservative growth forecasts supported program performance. However, implementation of some SBs was delayed due to capacity constraints. Overall, the positive outcome exceeding expectations was a product of program design—including to address underlying vulnerabilities—and the fact that risks did not materialize.

D.   Mozambique: 2015 SCF

16.   In 2015, an 18-month Standby Credit Facility (SCF) was approved, supplementing the existing program under the Policy Support Instrument (PSI). This occurred in response to what was seen as a temporary commodity price shock and a decline in foreign exchange inflows. Hence, program objectives included addressing the BoP need and building reserves to strengthen external buffers.

17.   The program assumed a robust growth recovery, supported by large investment in natural gas projects and higher coal production. Following a steady strengthening after arrangement approval, medium-term growth was projected to recover to 7½–8 percent, supported by large investments in natural gas projects and higher coal production (Figure 3). Reflecting the limited planned fiscal consolidation, discussions of the size of fiscal multipliers were not included in the document requesting the arrangement.

Figure 3. Mozambique: Growth Forecast

Mozambique - GDP Growth Forecast vs Actual
(Percent)

Sources: WEO and IMF staff calculations.
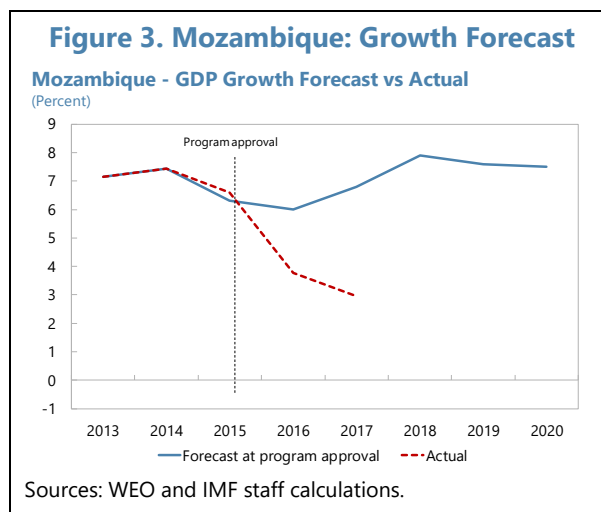
18.   Several reforms were frontloaded, as were disbursements. A strong fiscal adjustment policy package (at the outset fiscal adjustment included a 1 percent revenue increase and about 1.5 percent of GDP spending reduction), continued exchange rate flexibility, tight liquidity management, and structural reforms were implemented under the SCF. To cushion the external BoP shocks and support the government's goals on poverty reduction and inclusive growth, disbursements under the SCF were frontloaded at 75 percent of quota.

19.   The staff report identified substantial downside risks to the outlook as well as to the program. Risks to the outlook included (i) persistently weak international commodity prices; (ii) significant slowdowns in China and other key economies, which would delay coal mining expansion; and (iii) further delay in the construction of liquefied natural gas (LNG) plants. Program-specific risks were also highlighted: (i) political instability eroding program ownership; (ii) further deterioration of the external environment; (iii) delays in the negotiation of large investment projects in the natural resource sector; (iv) adverse weather conditions which would significantly affect agricultural production; and (v) capacity constraints that can delay reform implementation (including on revenue administration and budget execution). However, the staff report included only a very brief mention of contingency plans in the event of increasing international oil prices.

20.   Downside risks materialized, and most macroeconomic outcomes deviated markedly from projections. In 2016, undisclosed borrowing (equivalent to about 11 percent of GDP) by the Proindicus and Mozambique Asset Management public companies emerged and led to suspension of donor budget support. In addition, Mozambique was exposed to a series of shocks, including lower commodity prices and adverse weather conditions. In turn, growth declined, and public debt rose to an unsustainable level.

21.   Program design did not fully factor in vulnerabilities, while weak ownership also played a role. The program did not appear to fully reflect shortfalls in program implementation (against assessment criteria under the 2013 PSI) and in debt management capacity. However, the emergence of undisclosed debts points to weak ownership as a key factor that inhibited program success.

22.   The program went quickly off track. The disclosure of hidden public debt highlighted governance concerns. In April 2016, this resulted in misreporting under the PSI and a breach of obligations under Article VIII, Section V. The sixth review under the PSI and the first review under the SCF arrangement did not take place as scheduled and both the PSI and the SCF lapsed.

E.   Solomon Islands: 2012 ECF

23.   The ECF was intended to tackle deep institutional and structural issues and followed a successful one-year precautionary arrangement under the SCF. The ECF emphasized the need for larger fiscal and external buffers and increased resilience (via climate adaptation and mitigation). Institutional capacity was a constraint, particularly in the context of the withdrawal of RAMSI (regional assistance).

24.   Growth projections were complicated by the strong rebound that preceded the program. After rebounding strongly from the 2009 recession, staff factored in a gradual moderation over the medium term (Figure 4). The documents requesting the arrangement did not include a discussion of the impact of fiscal consolidation on growth. Overall, gold mining and infrastructure spending were expected to be the main growth drivers, offsetting a continued decline in logging.

Figure 4. Solomon Islands: Growth Forecast

Solomon Islands - GDP Growth Forecast vs Actual
(Percent)

Sources: WEO and IMF staff calculations.

25.   Staff noted that risks were tilted to the downside, albeit initially not all key risks were reflected. Risks emanated from a slowdown in China and other Asian emerging market trading partners, which could reduce commodity and forestry exports; domestic political uncertainty; and slippages in implementing structural reforms. Correspondingly, the report discussed contingent monetary and exchange rate policies, as well as a downside scenario, which could potentially justify augmentation of access under the low-access ECF. However, key areas such as vulnerability to natural disasters and dependency on donor aid were not mentioned at arrangement approval.

26.   The materialization of risks led to disappointing growth outcomes. Growth fell short of projections owing to unfavorable weather, lower export prices, reduced gold production (which was impacted by massive floods), and a larger-than-expected decline in logging and donor support. Subsequently, potential output was revised down from 4 percent at the time of the request for the arrangement to 3.5 percent early on in the program, and further to 3 percent at the end of the program.

27.   Gradually, the program adopted a more conservative baseline. Amid downside shocks, staff gradually recalibrated the baseline to better factor in vulnerabilities, internalizing growth disappointments and implementation experience. Risks became more balanced, reflecting the

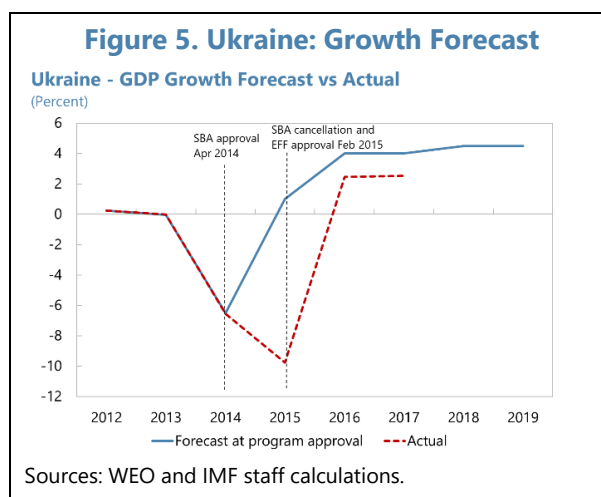ongoing decline in logging and donor support, weaker prospects for mining, and recognition of the impact of frequent natural disasters. At the final review, estimates suggested that losses/damages from natural disasters reduced GDP by 0.3 ppts in the year of the disaster.

28.   **Program performance was solid.** Continuously assessing the macro-framework became important for sustained program implementation in the face of external shocks, and the program was fully completed. About 90 percent of QPCs were met, in part reflecting a significant loosening of cash balance targets to accommodate the authorities' flood response. While there was some progress made on structural reforms, implementation was significantly hampered by capacity constraints. Roughly half of SBs were met (or implemented with delay), with the other half still outstanding at program completion.

F.   Ukraine: 2014 SBA

29.   **In a context of heightened geopolitical tensions and sizable losses in the energy sector, a two-year Stand-By Arrangement (SBA) was approved in April 2014.** The objectives of the program were to restore macroeconomic stability, strengthen economic governance and transparency, restore sound public finances, improve the business environment, and lay the foundation for robust and balanced economic growth.

30.   **Growth projections were optimistic considering the prevalence and severity of downside risks.** The program had factored in a growth decline in 2014, followed by a V-shaped recovery (Figure 5). Downside risks were perceived to be significant, however, stemming from (i) uncertainty about policy implementation given the presidential election cycle; (ii) resistance toward governance reforms from vested interests; and (iii) geopolitical tensions related to developments in the East. While acknowledging the impact of fiscal tightening on growth, the staff report did not discuss the size of fiscal multipliers.

Figure 5. Ukraine: Growth Forecast

Ukraine - GDP Growth Forecast vs Actual
(Percent)

Sources: WEO and IMF staff calculations.

31.   **Risks were well-recognized but their extent was underestimated.** For example, the adverse scenario at the time of the first review showed the debt ratio remaining above the 70 percent risk threshold over the medium term (but well below their outturn, see below) if the conflict in the East were to intensify. In hindsight, the Ex Post Evaluation (IMF, 2016) notes that an earlier debt operation could have helped the financing envelope, creating policy space to meet policy objectives.

32.   **As most downside risks materialized, macroeconomic outcomes deviated fundamentally from projections and public debt dynamics worsened.** Soon after arrangement approval, the conflict in the East led to a disruption of trade and industrial production, loss of

confidence, and capital outflows. The sharp exchange rate depreciation put banks under increasing stress. By end-2014, Ukraine's public debt was 15 percentage points higher than projected under the program; the latest estimates for the 2015 debt ratio were 30 percentage points higher than envisaged at program approval. This put the program at the highest debt surprise for crisis programs (among non-restructuring cases) following one year from arrangement approval. The main driver was the larger-than-expected hryvnia depreciation, as two-thirds of debt was denominated in foreign currency. The depreciation also added to contingent liabilities by raising bank recapitalization needs and financing requirements for the state-owned gas company Naftogaz. GDP declined markedly.

33.   Conditionality had been comprehensive and front-loaded, supporting program objectives while seeking to mitigate implementation risks. The program significantly frontloaded structural conditionality, including with 12 prior actions (PAs) at approval. Structural conditions covered a broad range of policy areas, including energy, fiscal and financial sector policies, as well as governance reforms. As such, reform plans were more comprehensive than in Ukraine's past programs or other contemporaneous exceptional access arrangements.

34.   Amid the materialization of risks and weak program performance, the arrangement was canceled, and a new arrangement approved. The documents requesting the arrangement in 2014 did not contain clearly articulated adverse scenarios with contingency plans, nor did it internalize key underlying structural challenges, which required a longer adjustment period than what could be achieved under the SBA. Amid downside shocks, program performance was weak. Less than one third of QPCs were met. The Ex Post Evaluation (IMF, 2016) noted that the baseline appeared to be a best-case scenario subject to high risks. Ukraine's balance of payment (BoP) and adjustment needs increased beyond what could be achieved under a two-year program. The SBA was cancelled, with only the first review completed, and a four-year EFF was approved in February 2015, reflecting the longer-term nature of the needed adjustment and structural reforms (see Section II).

QUALITY OF FISCAL ADJUSTMENT

A. Lessons

- *Fiscal consolidation should be mindful not only of the size but also of the composition of the adjustment.* Improvements in fiscal institutions and PFM reforms can be important complements. Granular conditionality on fiscal targets and reforms, when implemented, helped achieve the targeted composition of fiscal adjustment.

- *Comprehensive reform strategies are beneficial to domestic revenue mobilization.* Multi-year reform strategies can be effective in mobilizing revenue. These include measures to strengthen basic institutions, broaden the tax base, and modernize tax administration.

- *Cushioning the adjustment impact on the poor is essential.* To this end, defining clear objectives to alleviate social costs—combined with carefully designed conditionality in accordance with the goal—can help ensure its implementation. Careful attention to mitigating adverse impacts of reforms on the poor and vulnerable groups can also help build political support for structural reforms. Collaboration with development partners can strengthen program design and tailoring.
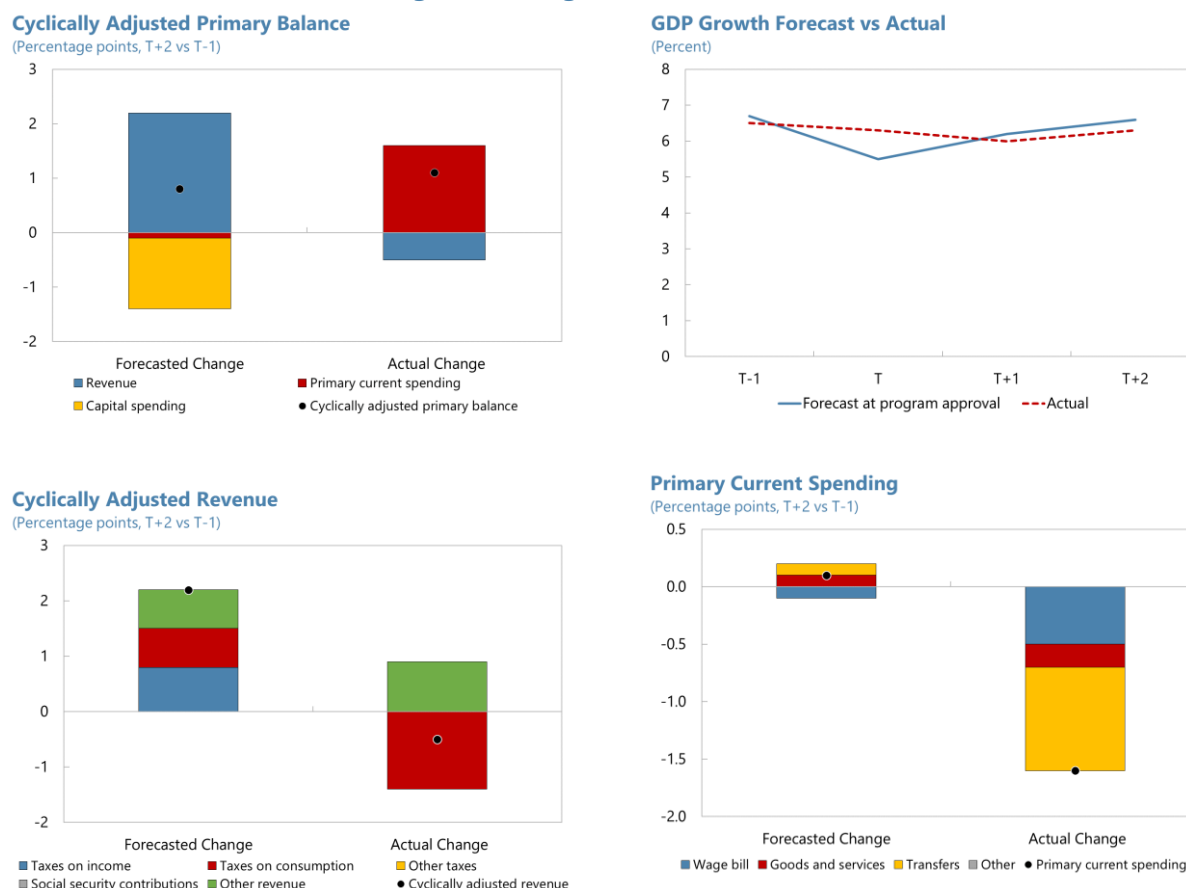
Table 2. Case Studies: Quality of Fiscal Adjustment

	Program Completion 1/	Was the composition of fiscal adjustment as envisaged?	Did reforms effectively mobilize domestic revenue?	Was capital spending protected?	Did the program have conditionality to support the composition of adjustment?	Did program design pay appropriate attention to social objectives?	Did collaboration with development partners support program design to protect vulnerable groups?	Comments
Bangladesh - ECF 2012	C				✓	✓	✓	
Jamaica - EFF 2013	C		✓		✓	✓	✓	
Mauritania - ECF 2010	C	✓	✓	✓	✓	✓	✓	
Serbia - SBA 2015	C	2/	✓	✓	*	Mostly	✓	* Amid high ownership, flexibility allowed for changing the composition of fiscal adjustment.
Tunisia - SBA 2013	L		✓		✓	✓	✓	
Ukraine - SBA 2014/EFF 2015	R/ongoing	✓		✓	✓	✓	✓	

Source: IMF staff.
1/ Program completion status as of end-September 2018: C = completed all reviews, IP = in progress, L = largely implemented, OT= off track, QOT= quickly off track, R = replaced.

B. Bangladesh: 2012 ECF

35.   A three-year ECF was approved in April 2012 following intensifying macroeconomic pressures and loss of international reserves. Program objectives were to restore macroeconomic stability, strengthen the external position, and engender higher, more inclusive growth. The program aimed to end the status quo of low tax revenues and low capital spending. Energy subsidy reform was included as a key factor to strengthen the fiscal position.

36.   The composition of fiscal adjustment differed markedly from plans, with revenues and capital spending underperforming (Figure 6). The program aimed at a moderate fiscal consolidation over the medium term, allowing space to ramp up Annual Development Program (ADP) spending. Domestic revenues were to be lifted by strengthening revenue administration and broadening the tax base. However, amid weak revenue outturns and delays in VAT implementation, revenue mobilization disappointed. Capital spending under the ADP by 2015 turned out lower than planned by more than 1½ percent of GDP, in part due to weak implementation capacity.

Figure 6. Bangladesh: 2012 ECF 1/

Cyclically Adjusted Primary Balance
(Percentage points, T+2 vs T-1)

GDP Growth Forecast vs Actual
(Percent)

Legend (top-left chart): Revenue · Primary current spending · Capital spending · Cyclically adjusted primary balance

Legend (top-right chart): Forecast at program approval --- Actual

Cyclically Adjusted Revenue
(Percentage points, T+2 vs T-1)

Primary Current Spending
(Percentage points, T+2 vs T-1)

Legend (bottom-left chart): Taxes on income · Taxes on consumption · Other taxes · Social security contributions · Other revenue · Cyclically adjusted revenue

Legend (bottom-right chart): Wage bill · Goods and services · Transfers · Other · Primary current spending

Sources: WEO and IMF staff calculations.
1/ T=0 is the year of program approval.

37.   Conditionality was targeted to support the core objectives of the program. It introduced ITs, PAs, and SBs to increase tax revenue and to protect social spending. The program had an IT (floor) on tax revenue and an IT (floor) on social spending. PAs and SBs focused on the introduction of a new VAT law, removal of tax concessions and exemptions, tax RA reforms, and energy subsidy reform. Notably, the adoption of an automatic fuel price adjustment mechanism aimed to free up resources to compensate vulnerable households from rising fuel and food prices. No conditionality was introduced to specifically preserve capital expenditure.

38.   The program focused on safeguarding social spending, building on advice from development partners, including the World Bank. In the documents requesting the arrangement, Fund and World Bank staff prepared a joint note detailing the type of social safety net measures in place and assessed the effectiveness in mitigating the impact of higher food and energy prices. Further, it took stock of existing social safety net programs, aiming at identifying weaknesses in the current system. The World Bank also provided support to construct a poverty database, helping to streamline social safety net programs and improve their targeting.

39.   Despite some delays toward the end of the program, which prompted two arrangements extensions, the program was ultimately fully completed. Performance against quantitative criteria and ITs was generally strong. The IT on social spending was met in all (but one) reviews. Social spending was generally protected and maintained as a share of GDP. Poverty continued to come down, despite the cut in energy subsidies. Efforts were also made to strengthen the efficiency and transparency of social safety net programs, including by developing a comprehensive poverty database. However, the IT on tax revenue was consistently missed by small margins throughout the program, while most SBs were implemented, albeit often with delays. Significant delays and uncertainty in the implementation of the new VAT prompted two three-month extensions of the program. The delays in tax measures contributed to a suboptimal composition of fiscal adjustment.

C.   Jamaica: 2013 EFF

40.   Jamaica requested a four-year EFF in 2013. The 2013 EFF aimed to avert immediate crisis risks and create the conditions for sustained growth through a significant improvement in public debt and competitiveness. The program included structural reforms to boost growth and employment; actions to improve price and non-price competitiveness; upfront fiscal adjustment and extensive fiscal reforms; debt reduction; and improved social protection programs.
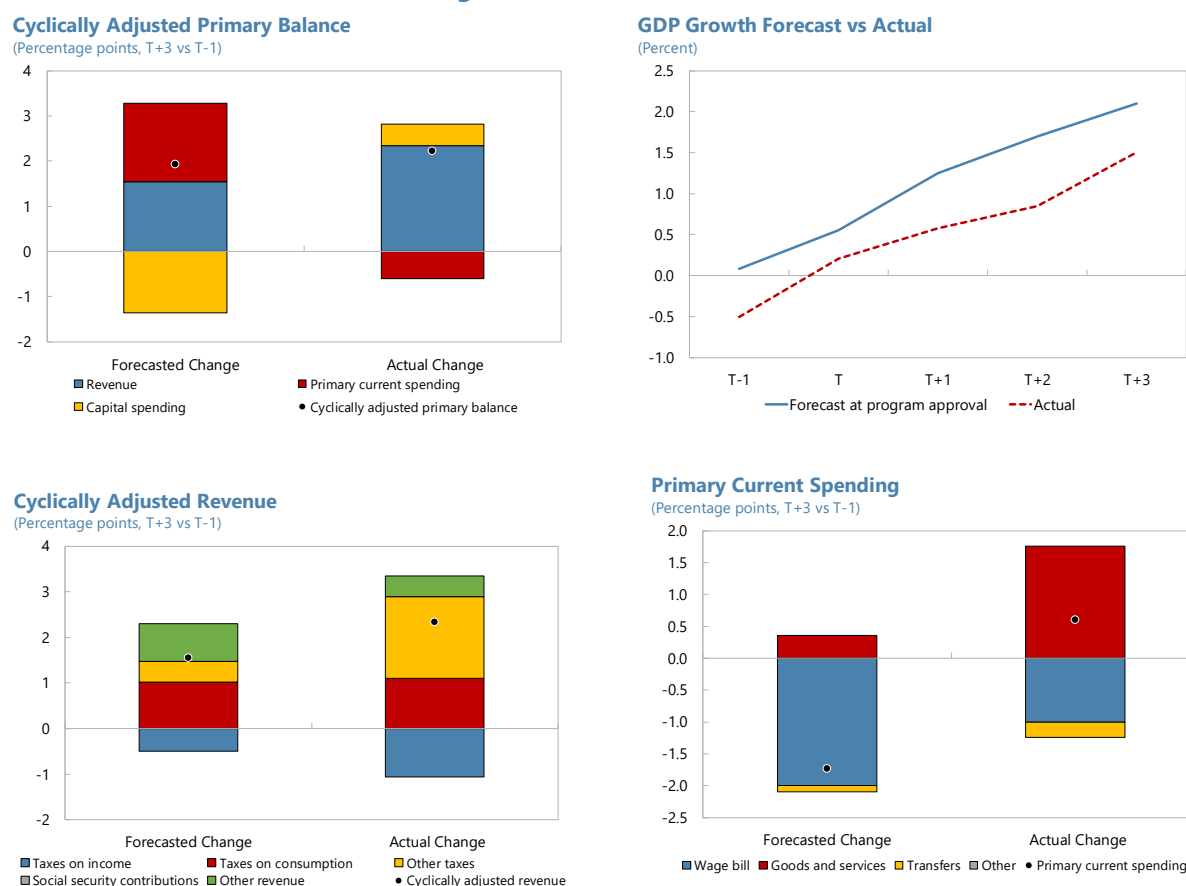
41.   Upfront and sustained fiscal tightening was achieved under the program (Figure 7). The adjustment was supplemented with a debt exchange to place public debt on a sustainable path, while protecting financial system stability and improving social protection programs. The program targeted a central government primary surplus of 7½ percent, with an upfront adjustment of 2 percent of GDP and a balanced budget for the public entities throughout the program period. Fiscal adjustment included a combination of revenue enhancing and expenditure reduction measures. On revenues, tax measures aimed to broaden the tax base and equalize rates, as well as increase rates and fees. Expenditure measures included a multiyear wage agreement to limit the nominal wage increase and reduce transfers to local governments.

42.   The program effectively mobilized domestic revenue but fell short of plans on wages and capital spending. Efforts to overhaul tax administration, eliminate tax incentives, and to generally rebalance the tax system from direct to indirect taxation (e.g., consumption tax, higher excises on fuel) helped Jamaica overperform revenue targets. Capital spending was initially protected and the multiyear wage agreement created some fiscal space but both fell short of projections over the course of the program.

43.   The program included conditionality to support the composition of adjustment. Along with a performance criterion limiting the overall deficit of the wider public sector, the program included an IT on tax revenues to underline the importance of improving tax administration and tax reform, and to help avoid reliance on ad hoc spending cuts for meeting the fiscal targets. Social expenditures were protected through a floor on targeted social spending.

Figure 7. Jamaica: 2013 EFF

Cyclically Adjusted Primary Balance
(Percentage points, T+3 vs T-1)

Legend: ■ Revenue ■ Primary current spending ■ Capital spending ● Cyclically adjusted primary balance

(Categories: Forecasted Change, Actual Change)

GDP Growth Forecast vs Actual
(Percent)

(X-axis: T-1, T, T+1, T+2, T+3)

Legend: —— Forecast at program approval --- Actual

Cyclically Adjusted Revenue
(Percentage points, T+3 vs T-1)

Legend: ■ Taxes on income ■ Taxes on consumption ■ Other taxes ■ Social security contributions ■ Other revenue ● Cyclically adjusted revenue

(Categories: Forecasted Change, Actual Change)

Primary Current Spending
(Percentage points, T+3 vs T-1)

Legend: ■ Wage bill ■ Goods and services ■ Transfers ■ Other ● Primary current spending

(Categories: Forecasted Change, Actual Change)

Sources: WEO and IMF staff calculations.
1/ T=0 is the fiscal year of program approval.

44. **Program documents discussed in detail the authorities' commitment to reduce the adverse impact of adjustment on vulnerable groups.** The authorities planned to (i) improve training and certification for labor market participants to tackle the high unemployment rate; (ii) enhance benefits and improve effectiveness and targeting under the social assistance program PATH, a conditional cash transfer program; and (iii) implement welfare-to-work exit strategies for vulnerable households. Conditionality was designed in accordance with the goal, including not only quantitative targets on social spending floors with clear definitions but also adding SCs to strengthen education and health spending and social safety nets. Overall, social spending was increased under the 2013 EFF.

45. **The program leveraged TA by the IMF and other development partners.** IMF TA aimed at improving the efficiency and targeting of social spending. Coordination with other development partners, such as the World Bank and the Inter-American Development Bank, also supported the program. Policy advice on social spending included detailed suggestions to improve the efficiency and effectiveness of education and health spending, including by better balancing the student-teacher ratio within and between schools and improving the efficiency of health care.

46.   **The program was completed while successfully mitigating the effects of fiscal consolidation.** Nearly all fiscal QPCs were met. SBs on institutional fiscal reforms, tax reform, and tax administration were met with few exceptions. Conditionality was clearly defined. Internal and external expertise supported the design of social sector reforms, helping strengthen program design and conditionality for example through an SB on improving data monitoring. In addition, ownership was strong, ensuring the implementation of program measures, including to improve social spending.

47.   **However, some challenges remained.** These relate to low growth, high poverty and unemployment, and crime and security issues. In turn, Jamaica requested a 36-month precautionary SBA in 2016 to provide a backstop against adverse external economic shocks. In addition to reform efforts to deliver better growth and job outcomes and reduce poverty, the program focused on transitioning toward inflation targeting and exchange rate flexibility as well as on strengthening Jamaica's institutions.

D. Mauritania: 2010 ECF

48.   **Prior to the three-year 2010 ECF, Mauritania had several previous programs, with only a few reaching completion.** Factors at play included (i) food and fuel price increases; (ii) the global economic slowdown; (iii) a domestic political crisis; (iv) a decline in donor financing; and (v) a significant deterioration in the fiscal position.

49.   **The 2010 program marked a turnaround.** The program was initiated after a peaceful presidential election, which established a strong basis for a resumption of the reform agenda and financial support from the international community. A key program objective was to reduce public debt and create fiscal space for social and infrastructure spending. On the expenditure side, the program envisioned lowering the wage bill and reducing transfers to SOEs. While no increase in revenue was envisaged, the program included measures to broaden the tax base, curtail exemptions, and strengthen tax and customs administration.

50.   **A number of complementary reforms resulted in significant revenue overperformance.** Efforts to mobilize revenues included the VAT regime in mining (IMF, 2015), the abolishment of corporate income tax exemptions, the replacement of the global income tax with a dual tax system, and the introduction of a withholding tax of 15 percent on payments to nonresidents to protect the tax base and reduce profit-shifting abroad. TA to improve taxpayer registration and build audit capacity in the large and medium-sized taxpayer offices aimed to minimize revenue leakages. As a result, tax revenue collection improved markedly.

51.   **The composition of fiscal adjustment became more growth-friendly than envisaged (Figure 8).** Revenue overperformance allowed for a notable scaling-up of the public investment program and infrastructure projects related to energy, roads, water, and agriculture. This helped support growth (IMF, 2012b). While the wage bill and transfers to SOEs were reduced, a modest loosening of the fiscal stance became necessary to mitigate the impact of higher fuel and food prices on the poor through an increase in food subsidies (drought emergency program). The

repayment of domestic arrears (accumulated in 2011) and additional electricity subsidies (following the delay of the planned review of electricity tariffs) added to expenditures.

52.   Program conditionality supported the composition of adjustment. Quantitative targets (a ceiling on net domestic assets of the central bank and a floor on the balance of government non-oil operations) helped support fiscal sustainability. In addition, SBs covered domestic revenue mobilization (tax base broadening, strengthening tax administration); improved budget execution; public service reform to contain the wage bill; energy subsidy reform; and reforms to reduce budgetary transfers to SOEs.

53.   Strengthening social protection and safety nets was a stated program objective. With the support of UNICEF, a study on social protection was launched to review the social safety nets in place, assess priority needs, and issue recommendations to guide the government and its partners in preparing the Poverty Reduction and Strategy Paper (PRSP). Based on the study's recommendations, the program promoted the exit from a surge in subsidy payments through the replacement of existing subsidy schemes by well-targeted and more cost-effective social safety nets. The program envisioned raising poverty-reducing expenditures and had an IT on poverty-related expenditures and an SB on social policy to better target protection of vulnerable households.

54.   Overall program performance was strong. The ECF was fully completed, with all QPCs and most SBs (related to the fiscal composition and social policy) met. At the end of the program, the authorities had achieved a more prudent fiscal balance and improved policy space.

Figure 8. Mauritania: 2010 ECF 1/
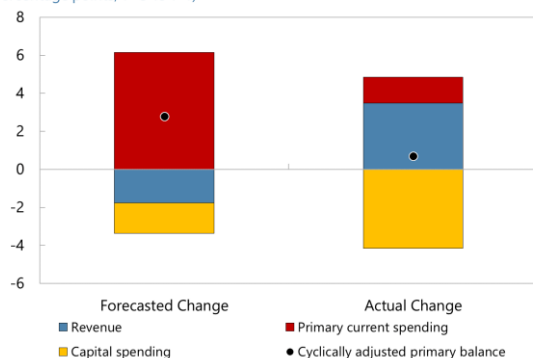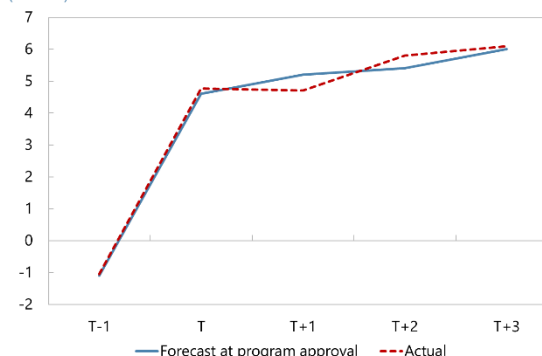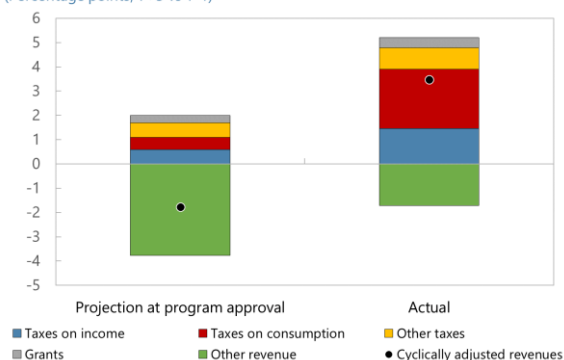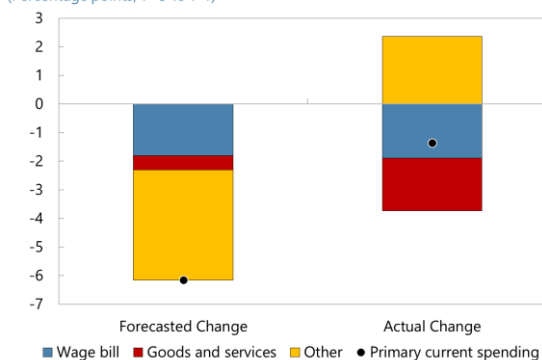
Sources: WEO and IMF staff calculations.
1/ T=0 is the year of program approval.

E. Serbia: 2015 SBA

55.   When the three-year precautionary SBA was approved in 2015, Serbia's economy faced large fiscal imbalances and protracted structural challenges. Concerns arose from (i) declining revenues, despite tax rate hikes; (ii) rising mandatory spending, especially public wage and pension bills; (iii) expanding state aid to ailing SOEs, usually in the form of direct subsidies and guarantees for borrowing; and (iv) the cost of resolving ailing public banks.

56.   The program envisaged sizable fiscal consolidation (Figure 9). Consolidation plans of more than 4 percent of GDP focused on durable expenditure measures (curbing mandatory spending and reducing state transfers to SOEs), as tax rates had been raised during the two years prior to the program. Efforts to improve tax collection efficiency and broadening the tax base—while taking a cautious approach to the assumed fiscal gains in the macroeconomic framework—were also envisaged. Prior to arrangement approval, the authorities had initiated reforms of the SOE sector, which fed into program design.

57.   Over time, the fiscal adjustment mix shifted, and outturns exceeded plans. At the outset, a 7 percent of GDP adjustment in primary current spending was envisaged, while revenues were to decline by more than 2 percent of GDP. Over time, the composition was adjusted with both revenues and primary current spending contributing equally to a fiscal adjustment of 6 percent of GDP. This was facilitated by positive growth surprises—partly on the back of strengthened confidence and financial sector intermediation—which supported revenue overperformance. Value Added Tax (VAT), corporate income tax (CIT), and excise taxes played an increasingly important role. Current expenditures (particularly wage and pension expenses and state transfers) were contained, and capital spending was broadly protected relative to programmed projections. However, capacity constraints prevented the full execution of additional public investment enabled by revenue overperformance.

58.   Program conditionality focused on limiting fiscal risks and strengthening institutions to support the envisaged fiscal consolidation. A QPC (ceiling) was included to constrain current primary expenditure. In addition, SBs aimed to strengthen the public wage system, reduce budget subsidies and state guarantees, and improve PFM and tax administration. However, some SBs were implemented with a delay or had limited impact.

59.   With expenditures on social programs roughly comparable with that of peers, the program supported improvements in the existing social safety net. While there was no explicit conditionality related to social protection, the program supported amendments to the Law on Social Protection with the aim to improve the effectiveness and targeting of cash welfare allowances. In light of concerns regarding the social impact of reforms—in particular related to electricity tariff increases—the program pointed to the World Bank's assistance in lessening such impact by improving the efficiency of social spending and safety nets.

60.   The program was successfully completed. All reviews were completed with all QPCs met. Serbia succeeded in addressing macroeconomic imbalances and restoring confidence and growth. Fiscal sustainability was restored, and the external position realigned with fundamentals. Success factors included conservative initial growth forecasts and—supported by strong ownership—the flexible implementation of durable fiscal adjustment, which largely protected capital spending. With no BoP need at the end of the program, Serbia requested Fund engagement through a Policy Coordination Instrument (PCI) to support the authorities' continued reform agenda.

Figure 9. Serbia: 2015 SBA 1/
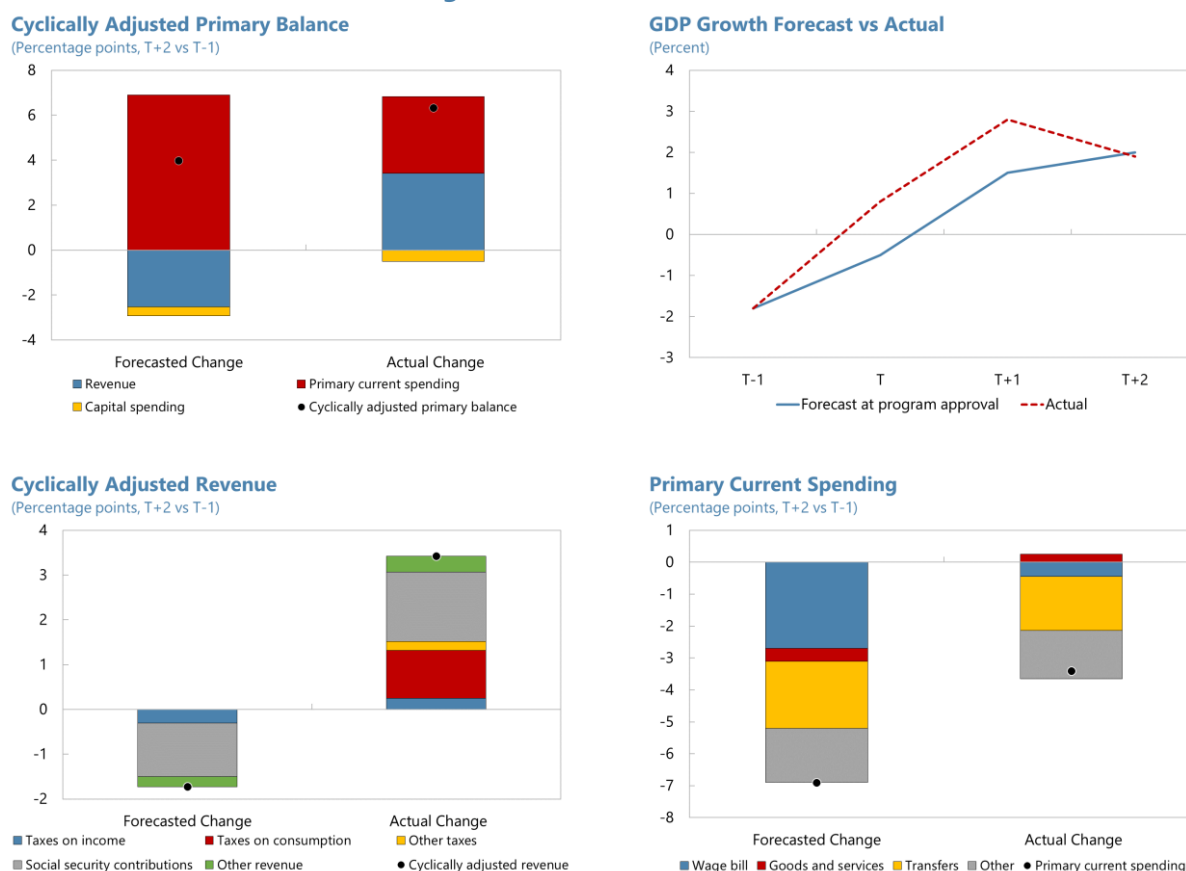
Sources: WEO and IMF staff calculations.
1/ T=0 is the year of program approval.

F. Tunisia: 2013 SBA

61.   The 2013 two-year SBA was designed to assist Tunisia in maintaining its macroeconomic stability in the aftermath of the Arab Spring. It incorporated an ambitious reform agenda to support private sector development, tackle high unemployment, and reduce regional disparities.

62.   The program targeted expenditure cuts combined with revenue-neutral reforms (Figure 10). Reductions in primary current spending were envisaged to carry the bulk of the planned adjustment. Amid favorable tax collection relative to GDP and relative to peers, the focus on the revenue side was largely on revenue-neutral reforms. These included (i) rationalizing tax benefits/incentives; (ii) addressing the regressivity of the income tax system; (iii) simplifying the indirect tax system (particularly excises); (iv) strengthening transparency; and (v) improving tax administration to address a fragmented revenue collection process and complex procedures.

Figure 10. Tunisia: 2013 SBA 1/
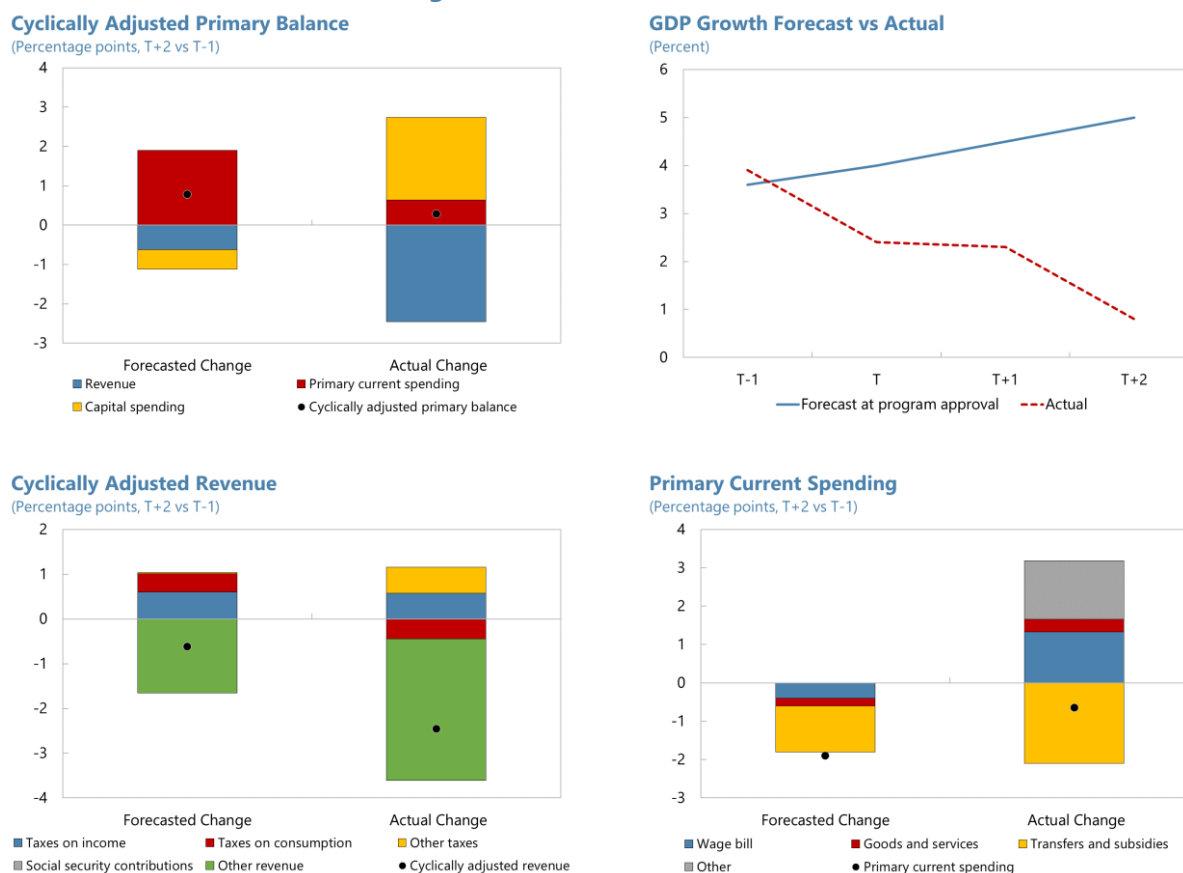
Sources: WEO and IMF staff calculations.
1/ T=0 is the year of program approval.

63.   The composition of fiscal adjustment was ultimately markedly different than planned.
Current expenditures increased beyond the programmed level, primarily owing to an increase in the
wage bill. Instead, a significant under-execution of the capital budget—with public investment
reaching historically low levels—contributed to containing overall expenditures. This exacerbated
the growth slowdown, which had already disappointed relative to projections. To support the overall
adjustment, a tax reform strategy was introduced toward the end of the program, including
permanent base broadening measures to help raise revenue and promote greater efficiency, equity,
and simplification. Nonetheless, lower oil production and weaker economic activity, in particular in
2015, became a drag on revenues, which ultimately underperformed.

64.   Conditionality to support the adjustment included primarily fiscal structural measures.
The Tunisian program included 16 fiscal SBs—mainly to strengthen revenue collections but also to
help reduce expenditures. On the revenue side, reforms focused on (i) reforming the tax system to
enhance equity and efficiency; (ii) introducing a new tax code; and (iii) strengthening tax
administration. On the expenditure side, reforms aimed at addressing financial weaknesses in State-
Owned Enterprises (SOEs) and reducing energy subsidies. An indicative target (IT) (ceiling) was

initially set on current primary expenditure; later, it was converted to a QPC as the composition of the adjustment worsened.

65.   The program put emphasis on reducing inequality and strengthening social protection. To reduce income disparities, the program aimed to assess the social impact of the envisaged reforms and strengthen social assistance mechanisms. Furthermore, the existing cash transfer system for the poor was expanded to cover families at twice the 2010 level—close to 60 percent of the estimated poor. The program also introduced a social electricity tariff to protect poorer households as part of a household compensation strategy to accompany energy subsidy reform. This was informed by a World Bank study, which had assessed the impact of an increase in energy prices on vulnerable households and different productive sectors.

66.   The program was largely completed, but with many implementation shortfalls. All but one review was completed. Nonetheless, frequent changes in government, social tensions (including strikes and work stoppages), and security tensions (impacting tourism and growth more broadly) added challenges to reform implementation (see also Section IV). Amid opposition by vested interests and a resulting search for consensus, reforms were often less ambitious than planned, with a number of SBs not being met. This contributed to a suboptimal composition of fiscal adjustment.

G.   Ukraine: 2014 SBA and 2015 EFF

67.   The 2014 SBA and subsequent 2015 EFF aimed to restore macroeconomic stability, in particular public finances, and strengthen economic governance and the business environment. Following sizable losses in the energy sector, the 2014 SBA aimed at laying the foundation for robust and balanced growth. However, as longer-term adjustment and reform needs were necessary to reach program objectives, the two-year SBA program was canceled in 2015 and a four-year EFF was approved (see Section I).

68.   The 2014 and 2015 programs envisaged sizable fiscal adjustment (Figure 11). The programs aimed to strengthen fiscal sustainability through expenditure-led adjustment and frontloaded price increases to reduce energy subsidies, thereby bringing gas and heating prices to cost recovery. Revenue mobilization was less prominent. In the 2015 EFF, fiscal adjustment plans included the elimination of Naftogaz's (Ukraine's state-owned oil and gas company) deficit by 2017. This adjustment was supported by two performance criteria (a ceiling on the cash deficit of the general government and a ceiling on the cash deficit of the general government and Naftogaz) and an IT (a ceiling on the current primary expenditure of the state budget). Significant pension savings were to be achieved by effectively freezing pensions during most of 2015 and tightening eligibility for early retirement.

69.   Fiscal consolidation was carried out broadly as planned in terms of size and composition. Supported by spending control and bold increases in energy tariffs in 2015 and 2016, the overall fiscal deficit (including the energy sector's quasi-fiscal deficit), which had swelled to 10 percent of GDP in 2014, declined to just above 2 percent of GDP in 2017. Capital spending was broadly protected at the level envisaged at the beginning of the program. Notwithstanding a

recession in 2015, strong policies and fiscal discipline helped restore confidence and reignite growth in 2016.

70.   Program design included notable steps to improve the targeting of social spending. With gas and heating prices set to increase, both programs highlighted measures to mitigate the impact of higher energy prices on the poor and most vulnerable. The 2014 SBA included a PA for the government to introduce a new social assistance scheme to protect vulnerable households. The 2015 EFF considered areas where efficiency could be improved, including by improving the targeting of existing social assistance programs. The program also aimed at opening the healthcare sector to private financing and gradually moving to a medical insurance system, as well as improving the quality and efficiency of education spending. Progress was achieved on multiple fronts, including by improving social assistance programs and education.
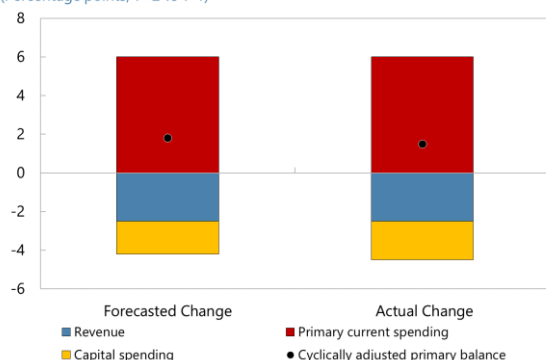
71.   Collaboration with the World Bank and other development partners supported Ukraine's efforts by helping to tailor measures to specific needs. With the objective of reaching stronger, inclusive growth, program design included reforms across several sectors. In healthcare and education reforms, the authorities drew from advice by the World Bank and other specialized institutions. The World Bank also assisted in developing a comprehensive pension reform package, aiming at putting pension fund finances on a sustainable footing, although implementation was not fully successful.

72.   After the approval of the EFF, performance strengthened. Amid the materialization of downside risks, only one review had been completed under the SBA before it was cancelled and the EFF was approved to help Ukraine transform its economy. Performance under the 2015 EFF improved, with generally strong implementation of fiscal adjustment. However, structural reform implementation proved challenging. Despite some initial success in advancing energy and banking sector reforms and setting up anticorruption institutions, reforms (e.g., anticorruption efforts, restructuring and privatization of SOEs, land reform) increasingly faced resistance, causing delays in the completion of reviews. Ultimately, the four-year EFF was cancelled in December 2018 and a new 14-month SBA approved to help cover Ukraine's BoP needs by bolstering confidence, unlocking external financing, and anchoring economic policies during the 2019 election period.

Figure 11. Ukraine: 2015 EFF 1/

Cyclically Adjusted Primary Balance
(Percentage points, T+2 vs T-1)

■ Revenue   ■ Primary current spending
■ Capital spending   ● Cyclically adjusted primary balance

GDP Growth Forecast vs Actual
(Percent)

——Forecast at program approval   ---Actual

Cyclically Adjusted Revenue
(Percentage points, T+2 vs T-1)

■ Taxes on income   ■ Taxes on consumption   ■ Other taxes
■ Social security contributions   ■ Other revenue   ● Cyclically adjusted revenue

Primary Current Spending
(Percentage points, T+2 vs T-1)

■ Wage bill   ■ Goods and services   ■ Transfers   ■ Other   ● Primary current spending
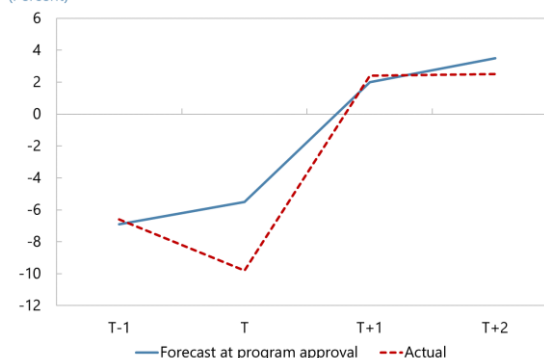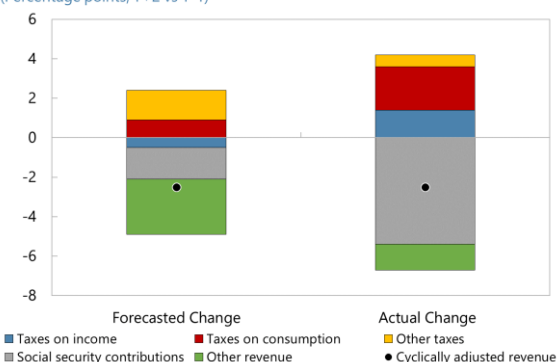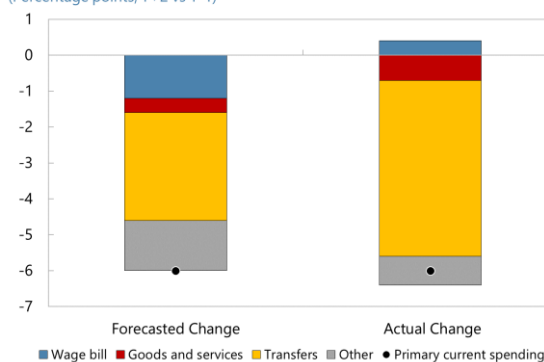
Sources: WEO and IMF staff calculations.
1/ T=0 is the year of program approval.

PUBLIC DEBT

73.   Case studies are based on PRGT programs that saw large public debt projection errors, which did not involve debt restructuring and were approved before end-2015. Projection errors were calculated by comparing public debt projections at program approval T through T+3 with actual outcomes over the same period, drawing on data from the program approval Debt Sustainability Analysis (DSA) and the most recent DSA available. Drivers of projection errors were then decomposed into (i) primary balance; (ii) real interest rates; (iii) real GDP; (iv) exchange rate (valuation) effects; and (iv) any other factors, including residuals.[2]

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[2] For these case studies, public debt is assessed on a currency (not residency) basis.

A. Lessons

74.   The studies shed further light on the factors driving the large debt projection errors and highlight broader lessons for program design. The RoC looked at a diverse sample of the programs with very large errors, ranging from those that went off track quickly (The Gambia and São Tomé and Príncipe) to those that continued to completion (Malawi, Niger, and Rwanda) (Figure 12). Key findings include:

Figure 12. Public Debt Projection Errors

Decomposition of Public Debt Projection Errors
(Percentage points, T to T+3)

Legend: Primary deficit, Real interest rate, Real GDP growth, FX depreciaton, Other identified debt-creating flows, Residuals, Total deviation from projection

Sources: IMF staff calculations.

- ***Underlying drivers of residuals in projection errors were partially identified, but a large part remains unexplained.*** In The Gambia, for example, only around 40 percent of the residuals is attributable to the off-budget transfers to parastatals. In all cases, it is important to fully reconcile flow and stock changes ex-post.

- ***Over-optimistic program baselines were a key factor behind projection errors in some cases.*** In the Rwanda and São Tomé and Príncipe programs, debt overshooting was driven by factors that were somewhat anticipated at approval (i.e., planned investment and risks to oil production, respectively) but only reflected in alternative scenarios rather than the baseline. This finding is consistent with the broader finding that macroeconomic assumptions were too optimistic and raises questions about whether these plans or risks should have been included in a more balanced baseline. In general, the baseline scenario should be chosen conservatively. In addition, in some cases it may be reasonable to partially integrate alternative scenarios into the baseline, for instance for a partial execution of an investment scenario or a failure of bringing oil production online.

- ***The materialization of contingent liabilities and off-budget guarantees was a recurrent theme.*** In The Gambia and Malawi programs, contingent liabilities and off-budget guarantees were an important driver of the higher-than-projected debt. This highlights the need for more transparency in debt instruments, including appropriate coverage of debt, and consideration of contingent risks in program design.

- ***Conditionality evolved in response to shocks, but some programs appear to have repeatedly accommodated fiscal slippages relative to the revised targets.*** In the completed programs, conditionality was updated to incorporate additional borrowing, along with further adjustment. All five programs at the outset also included zero non-concessional borrowing (NCB) limits, though in most cases the limit was loosened or breached.[3] In Rwanda, debt

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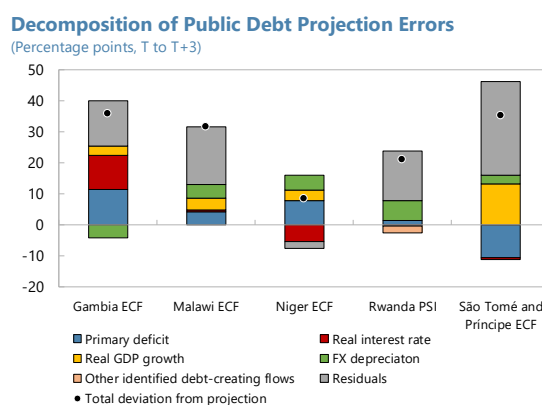
[3] In Rwanda, the limit was raised substantially to reflect planned investment. In Malawi, the ceiling was breached twice and significantly for an unanticipated loan for military equipment, which was subsequently renegotiated,

overshooting appears justified as higher borrowing mainly financed a scaling-up in public investment against the background of good program performance. While debt overshooting in Malawi and Niger was in part explained by exogenous shocks, significant fiscal slippages and rising contingent liabilities in excess of the relaxed program targets (which were repeatedly accommodated) appear to have been important additional factors. This raises the question of whether policy slippages should be accommodated, including through higher debt limits.

Table 3. Case Studies: High Public Debt Overshooting in Other Developing Programs

Country	Program Completion 2/	Decomposition of debt projection error 1/						Drivers								Comments
								Exogenous				Domestic				
		Total	Primary deficit	Real interest rate	Real GDP growth	Exchange rate depreciation	Other	Weather	Commodity prices	Security	Other	Policy slippage	Contingent liabilities / guarantees	Governance / PFM	Other	
Gambia, The - ECF 2012	QOT	36	11	11	3	-4	14	✓		✓		✓	✓	✓		Severe droughts; policy slippages; materialization of contingent liabilities in the form of off-budget transfers to parastatals.
Malawi - ECF 2012	C	32	4	1	4	4	19	✓	✓				✓	✓		Cashgate scandal caused large spillovers to the exchange rate and growth; deterred donor support; poor spending controls also played a role.
Niger - ECF 2012	L	8	8	-5	3	5	-2	✓	✓	✓					✓	Drought; decline in commodity prices; deterioration of the security environment; failure of envisaged oil export pipeline to materialize.
Rwanda - PSI 2013	IP	21	1	0	0	6	14		✓				✓			Currency depreciation due to commodity price shock; higher-than-anticipated investment in the form of off-budget guarantees.
São Tomé and Príncipe - ECF 2012	OT	35	-11	0	13	3	30								✓	Oil production did not materialize, resulting in lower-than-anticipated growth and debt-financing (instead of drawdown of National Oil Account).

Sources: IMF staff calculations.

1/ Percentage points of GDP; cumulative from T to T+3.

2/ Program completion status as of end-September 2018: C = completed all reviews, IP = in progress, L = largely implemented, OT= off track, QOT= quickly off track.

B. The Gambia: 2012 ECF

75.   Public debt surged during and after The Gambia's 2012 ECF, ending 36 percentage points of GDP higher than anticipated.[4] The projection deviation between approval and the third year of the program can be decomposed as follows (Figure 12):

- *Primary deficit.* Primary balance slippages account for 11 percentage points of the error.

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resulting in the granting of a waiver. A waiver was also granted for a small breach of the limit in the Niger program. In The Gambia, an exception was planned for a small project before the program went off track. In São Tomé and Príncipe, there was a significant breach of the limit, and although the loan was successfully renegotiated to reduce costs, the program ultimately went off track.

[4] The projection error in all case studies is the difference between the actual change in gross public debt from t to t+3 based on the latest DSA and the anticipated change at program approval measured over the same period.

- *Real interest rates.* Another 11 percent of the projection error was caused by higher than expected real interest rates, due in part to a sharp increase in domestic borrowing.

- *Residuals.* Finally, 14 percentage points of the error is accounted for by residuals, reflecting in part off budget transfers to parastatals (4 percent) and an unexplained component (10 percent).

- *Exchange rate and growth.* Effects from a greater than anticipated rate of exchange rate appreciation and lower than projected growth were largely offsetting.

76.   Despite the significant increase in the debt ratio, the risk of debt distress improved from high to moderate.[5] The upgrade occurred in the second year of the program, reflecting an improvement in The Gambia's Country Policy and Institutional Assessment (CPIA) score, an increase in the proportion of domestic debt, and the inclusion of re-exports in the external debt-to-exports ratio.[6] Notably, the debt rating improvement occurred before most of the deterioration noted above, which happened after the program went off track. At T+3, the rating was still moderate but at T+5 had slipped back to high risk of distress due to additional debt accumulation and a downgrade in The Gambia's CPIA rating.

77.   Exogenous shocks account for roughly half of the debt projection error. The spillover from the Ebola epidemic and drought accounted for revenue loss and additional spending equivalent to about 2.5 percent of GDP over 2014–15. In addition, lost tourism receipts and crop damage led to a decline in real GDP of about ¼ percent in 2014. Fiscal slippages led to increased domestic borrowing, part of which was financed by the central bank, leading to a consequent spike in domestic interest rates.

78.   The other half was caused by domestic factors, principally contingent liabilities and an unexplained residual. The government also incurred substantial outlays on assistance to various parastatals, most of which are accounted for as a residual. These comprise the unbudgeted injection of capital equivalent to 1¾ percent of GDP in two distressed banks and transfers to the National Water and Electric Company (NAWEC) to assist the entity in meeting its debt obligations (2½ percent of GDP). There is an unexplained residual of about 10 percent of GDP, which could be related to the realization of additional contingent liabilities not quantified in program documents.

79.   Program performance was mixed, and the program went off track after the first review. The ECF aimed to reduce net domestic borrowing via increased domestic revenue mobilization and reduced fuel subsidies, but this became untenable due to the factors noted above. Not surprisingly, implementation of QPCs for the program as a whole was mixed, with nine met and three waived, all of which were key policy anchors of the program—the ceilings on net domestic borrowing and net domestic assets, and the floor on net international reserves. Ten out of twelve

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[5] In all case studies, the change in the risk of debt distress is that observed between t and t+3.

[6] At the end of the program (first review), all external debt indicators were below their respective thresholds under the baseline scenario compared to three breaches in the baseline at program approval. However, under the most extreme shock, the end-of-program DSA continued to show breaches in all debt ratios except the debt service to export ratio.

SBs were not met or met with delay. Staff's proposed corrective actions, including revenue base broadening, strict cash budgeting, and containment of extrabudgetary spending, failed to gain traction.

C. Malawi: 2012 ECF

80.   The accumulated debt forecast deviation was 32 percent of GDP. The forecast deviations occurred mostly in the first and second years of the program and were driven principally by (Figure 12):

- *Residual.* A large residual of 19 percent of GDP resulting in part from spillovers that arose in connection with the embezzlement of public funds known as the Cashgate scandal; an unanticipated non-concessional loan for military equipment; the conversion of domestic debt to external debt as part of an operation to reduce financing costs; and a large unexplained component (about 10 percent of GDP);

- *Exchange rate.* Greater than anticipated exchange rate depreciation, accounting for 4 percent of the slippage, due to a loss of market confidence as news of the scandal emerged and donors cut off support;

- *Growth.* Lower than expected GDP growth, mainly caused by drought and the deterioration of market confidence (4 percent); and

- *Higher primary deficits* (4 percent) caused by spillovers from lower growth.

81.   Despite this large slippage, the external debt risk rating remained unchanged at moderate through the program period. As donors cut back assistance in the wake of the scandal, the government resorted to massive domestic borrowing to meet the consequent financing gap, causing an increase in domestic borrowing relative to external borrowing. The use of a higher discount rate for debt service payments starting in 2013, in line with Fund guidance, helped stabilize Malawi's external debt indictors. By the third year of the program, all external debt indicators remained below their respective thresholds under the baseline scenario though the margin between baseline values and thresholds had shrunk, in part due to the slippages/shocks noted above and the downgrading of Malawi's CPIA rating to weak at the fifth/sixth reviews.

82.   The debt projection error was predominantly the result of domestic factors:

- The single most important factor was the Cashgate Scandal—a large-scale theft of public funds, which revealed severe weaknesses in PFM. This led most immediately to the loss of donor confidence and withdrawal of donor budget support (equivalent to 4.5 percent of GDP and half of total budget support in 2013).

- The shock had cascading effects:

  ➢ The government recapitalized the central bank following losses that arose from the 2012 devaluation of the exchange rate (about 2.3 percent of 2014 GDP) following the revelation of

the scandal, and injected capital to cover the bad loans of one public bank that was privatized.

> Fallout from the scandal eroded confidence and lowered growth. Despite an improvement in domestic revenue mobilization, the primary balance was worse than expected due to a substantial shortfall in donor grant financing, primarily in reaction to the Cashgate scandal, which was not offset by commensurate spending cuts and contributed to arrears accumulation.

- A non-concessional loan of $145 million for military equipment was contracted by the previous government, but it was not revealed to the Fund until mid-way through the program. The contract was subsequently renegotiated, and the loan was reduced to $33 million (1 percent of GDP).

- In a bid to reduce the costs of servicing domestic debt, in December 2014 the authorities restructured some kwacha-denominated domestic debt (amounting to 6.7 percent of GDP) by selling it for $250 million (in foreign currency) to a regional development bank. The restructuring had the effect of increasing external debt.

- There is also an unexplained residual of about 10 percent, representing the difference between the estimated impact of contingent liabilities related to the Cashgate scandal and non-concessional loan, and the DSA residual of 19 percent. The difference may represent additional, quasi-fiscal support to banks and/or SOEs that were adversely impacted by the spillover from arrears in payments to suppliers.

83. **An exogenous shock—a severe drought in 2015—also undermined growth.** Maize production fell by 42 percent, contributing to a 3½ percent underperformance of GDP growth in 2015 compared to initial program projections.

84. **Policy slippage and shocks were generally accommodated.** The primary objective of the ECF was to maintain macroeconomic stability, promote inclusive growth, and reduce poverty. However, emphasis shifted to macroeconomic stabilization and improving fiscal governance to regain domestic and external confidence, following the Cashgate scandal and other shocks. Some elements of program conditionality were adapted to address shocks and policy slippages. For example, while the program was initially based on zero net domestic financing, this became untenable in the face of continued shortfalls in external financing and uncertainties regarding the resumption of donor support, requiring an increase in domestic financing and the net domestic assets (NDA) ceiling. Primary fiscal balance targets were also relaxed to accommodate the shortfall in external financing. A waiver for a breach of the ceiling on non-concessional borrowing was granted for the military equipment loan. In 2016, the Executive Board approved an augmentation of access (25 percent of quota) to address the BoP needs caused by the drought.

85. **Despite accommodations, overall program performance was mixed.** For nearly half of QPCs, the Board granted waivers for non-observances or modified them, including for repeat misses on net domestic borrowing, NDA and non-concessional borrowing targets. Sixty percent of SBs were

not met or implemented with delay. Fiscal performance fell notably short of program targets, despite an increase in domestic revenue mobilization through improved tax administration. Implementation of the structural reform agenda was repeatedly delayed, especially in PFM, leading to multiple program extensions. While the ECF expired in 2017 with conclusions of all reviews, several reviews were combined in response to shocks and slippages.

D. Niger: 2012 ECF

86.   The actual change in gross public debt to GDP was 8 percent of GDP higher than expected at arrangement approval. This was driven by (Figure 12):

- *Primary deficit.* Primary balance slippages, mostly resulting from trade and security-related shocks, were responsible for 8 percent of the deviation.

- *Exchange rate depreciation.* The depreciation of the CFA franc accounted for 5 percent of the error.

- *Growth.* Weaker growth contributed 3 percent of the deviation.

- *Interest rates and residual.* The previous factors were partially offset by lower than anticipated real interest rates (-5 percent) and a small residual (-2 percent).

87.   The debt risk rating remained unchanged at moderate. By the third year of the program, baseline values relative to thresholds had narrowed, in large measure because of an increase in the debt stock due to fiscal slippages, as well as external financing for natural resource projects, including the Soraz oil refinery.[7]

88.   A variety of exogenous shocks account for most of the forecast deviation. The deterioration in the primary balance was mostly the result of a confluence of external shocks. Drought, a decline in commodity prices, a deterioration in the security environment and resultant refugee crisis, and the non-completion of the envisaged oil export pipeline (due to the oil price and security shocks) led to a decline in revenues and increased spending pressures. Between 2012 and 2015, for example, tax revenues to GDP fell 8 ½ percent below initial forecasts. The external shocks that impacted fiscal performance also affected growth. Actual growth vs. that projected at arrangement approval was weaker by a cumulative 6 percent of GDP. A depreciated CFA franc, reflecting the strong appreciation of the U.S. dollar against the euro, also contributed.

89.   Shocks were largely accommodated via revisions to program conditionality. Under the program, rising receipts from oil production and domestic revenue mobilization were expected to yield a 3½ percent of GDP increase in total revenue, supporting an immediate reduction of the basic fiscal deficit from 4 percent to 1½ percent in 2012–14 and an expansion of development spending. However, the program went off track after the first review as drought and a deterioration in the security situation contributed to fiscal slippage through revenue shortfalls and increased security

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[7] On net, the size of breaches under the various shock scenarios were largely unchanged. In the public DSA, increased reliance on bond financing from the regional market resulted in higher domestic debt stock.

spending. Staff accommodated part of this slippage by loosening the basic fiscal balance target by 2½ percent of GDP in 2014 and by extending the arrangement and rephasing remaining purchases. The fiscal balance was relaxed again at the (combined) fourth and fifth, and sixth and seventh reviews to accommodate further underperformance of domestic revenue, a shortfall in external financing, and heightened security spending. The arrangement was extended and access was augmented at the sixth and seventh reviews to accommodate larger BoP needs. The ECF expired at the end of 2016 with the completion of eight reviews.

90.   Implementation of program performance criteria was mixed, but performance on structural conditionality was reasonably strong. By the end of the program, the Board granted waivers for non-observance of nearly half of the QPCs or modified them, mostly as a result of missed targets for domestic financing and domestic arrears caused by the aforementioned shocks. The completion rate for SBs was higher, however, with three-quarters of SBs met. The basic fiscal deficit was 3.1 percent of GDP larger than anticipated at program inception with the extra financing filled via increased domestic financing and, secondarily, increased external borrowing.

E.   Rwanda: 2013 PSI

91.   Public debt overshot initial program projections by a total of around 20 percent of GDP by end-2016. Gross public debt was initially projected to fall slightly from around 29 percent of GDP to 27 percent of GDP through end-2016, but instead rose to around 45 percent of GDP at end-2016. Three-quarters of the deviation from projection was due to much higher residuals (16 ppts), over a third of which reflected the authorities' investment push (Figure 12).[8] The significant depreciation of the Rwandan Franc accounted for the bulk of the remaining deviation (6 ppts). Primary deficit slippages played a limited role (1 ppts), while the deviation in other debt-creating flows had a small offsetting effect (-2 ppts).

92.   Despite the large increase in public debt, the risk of debt distress remained low. The program approval DSA deemed risks to be low, with debt remaining below policy thresholds in the baseline and in shock scenarios. Notably, the baseline did not include a number of large investment projects under consideration, because of the early stage of deliberations. Instead, alternative scenarios assessed the impact of additional non-concessional borrowing, up to US$1 billion. As no policy thresholds were breached, staff concluded that some fiscal space existed. The subsequent higher present value of debt-to-GDP did not imply a change of the low risk rating in Rwanda's subsequent DSAs. Given rollover expectations, the scheduled repayment of the 2013 Eurobond breached the debt-service-to-revenue threshold only temporarily in 2023. Other indicators remained below thresholds. At end-2017, the present value of debt-to-exports was around 145 percent, in line with the original "US$1billion additional borrowing" scenario.

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[8] Identified factors generating the large deviation in residuals, include 6.5 ppts of investment guarantees (see below), and 2.5 ppts Fund SCF, which were not included in the arrangement approval baseline. Roughly 7 ppts of the deviation in residuals is unexplained.

93.   Exogenous factors explain around half the deviation of public debt from projection:

- The large exchange rate depreciation—15 percent between mid-2015 and end-2016—reflected the impact of the massive commodity price shock and the use of the exchange rate as the principal shock absorber and adjustment tool in line with Fund advice. Moreover, the shock also led to the authorities' request for, and successful completion of, an SCF in 2016, which further increased debt relative to the original PSI program projections by around 2.5 percent of GDP.

- The small deviation caused by the primary deficit slippage was also driven by external factors. Besides a weaker growth environment, implementation of East African Community (EAC) internal tariffs and harmonization of external EAC tariffs at lower levels hampered domestic revenue mobilization efforts, a key element of the program. Also, grants declined faster than anticipated. For 2016/17, total revenue and grants were over 2 percent of GDP lower than initially expected, while expenditures remained broadly in line with program projections.

94.   The rest of the deviation from projections reflects the design and evolution of the program, particularly the incorporation of the public investment push. A key objective of the PSI was to maintain a sustainable fiscal position and create space for investment. The initial baseline debt profile was broadly flat, since it excluded some anticipated potential investment projects, and tight Quantitative Assessment Criteria (QACs) were set for domestic financing, alongside a zero ceiling for non-concessional borrowing. However, the PSI flagged the large investment needs, limited access to concessional resources, a pipeline of investment projects, and the existence of fiscal space. Conditionality subsequently evolved to accommodate large-scale investment projects, which staff assessed to be productive and worthwhile investments mostly via government guarantees provided to SOEs. These fell outside the general government primary deficit but within the program's NCB limit, which was raised to $250 million at the first review and $500 million at the third review.[9] Key projects included: RwandAir expansion (2.5 percent of GDP); completion of Kigali Convention Center (2 percent of GDP), bridge financing for a new international airport (1 percent of GDP) and guarantees for the insurance and hotel sectors (1 percent of GDP).

95.   The PSI remained on-track and implementation remained strong. By end-2018, ten reviews were completed, with conditionality largely met (i.e., with only minor IT breaches), and the SCF was a success, notably overperforming on fiscal adjustment.[10]

F.   São Tomé and Príncipe: 2012 ECF

96.   Public debt significantly overshot initial projections, with the cumulative deviation of around 35 percent of GDP by end-2015. At arrangement approval, public debt was projected to

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[9] The NCB ceiling was subsequently raised to US$800 million at the ninth review. Other conditionality changes occurred at the fourth and fifth review to reflect the updated Debt Limits Policy. The QACs on net domestic financing and NCB were replaced with ITs, and the IT on public domestic debt was eliminated.

[10] The IT on public enterprise debt (formerly non-concessional borrowing ceiling) was later breached by a large margin in 2018 (US$134 million) due to earlier-than-anticipated leasing of aircraft by Rwandair to obtain more favorable terms.

fall from 54 percent of GDP at end-2012 to 34 percent of GDP at end-2015. In fact, debt rose substantially from a revised end-2012 base of 49 percent of GDP to 62 percent of GDP by end-2015. *Residuals* accounted for around 30 ppts of deviation, as the anticipated drawdown of government assets was replaced by an increase in debt-creating flows (Figure 12). Automatic debt dynamics accounted for another 16 ppts of deviation, mostly through lower-than-expected growth and some real exchange rate depreciation. This was offset by overperformance of 11 ppts in the primary deficit.

97.   **The risk of debt distress remained high throughout the duration of the ECF.** At arrangement approval, debt was assessed to be at high risk of distress, given the narrow export base. Debt dynamics were considered to be manageable under the "oil production" baseline, but under an alternative "non-oil" scenario, debt ratios were projected to remain higher for longer, particularly the present value of debt-to-exports. This "non-oil" scenario was adopted as the baseline at the second review. The DSA maintained a high risk of debt distress rating through the two completed reviews until the program was cancelled in 2014. Although a better recording of services (travel and tourism) and strong cocoa exports had significantly improved the debt-to-export ratio by 2015, by most metrics the position was worse than originally anticipated, even under the "non-oil" alternative scenario.

98.   **Almost all the deviation from projection is explained by the failure of the "oil production" scenario to materialize in 2015.** The absence of oil production created the very large residuals, as the primary deficit was financed by debt, rather than by the anticipated large drawdown from the Nation Oil Account. Without oil production, growth came in at around 4 percent in 2015, significantly underperforming projected growth of 38 percent at program approval.[11]

99.   **The 2012 ECF balanced the positive prospects for oil production with the high risk of a debt distress rating.** The ECF strategy focused on relying on non-debt financing, while mobilizing domestic revenues and containing non-priority spending. Oil revenues were expected to increase fiscal space for infrastructure and pro-poor spending from 2015 onwards. In this context, the consolidation plan initially targeted a small adjustment of around ¼ percent of GDP for 2013 and 2014, and an additional 1 percent of GDP over the medium term. However, the program anticipated the risk of either delayed or disappointing oil production, and, in this scenario, the authorities had committed to additional fiscal measures of 1 percent of GDP by 2015 to achieve manageable debt dynamics. Program conditionality reflected additional adjustment and some accommodation of shocks for the first and second reviews, but the zero ceiling on the contracting or guaranteeing of new non-concessional external debt by the central government or the central bank remained in place.

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[11] At arrangement approval, it was assumed that a large asset drawdown would be used to finance the primary deficit (e.g., particularly investment spending) from 2013-2015, with an accumulation of oil revenues once oil production began. In the DSA at arrangement approval, this was reflected in very large negative change in assets from 2013–2015 (-20 ppts), and positive change in assets from 2015 onwards. In fact, residuals proved to be positive and relatively large (10ppts) - these remain unexplained.

100.   While performance was initially satisfactory, the program went off track due to the contracting of non-concessional borrowing and fiscal slippages. Conditionality was largely met through the first and second reviews, with notable fiscal overperformance in 2013 due to higher non-tax revenues from license fees and much lower-than-anticipated primary expenditures (despite higher personnel costs). However, the program subsequently went off track in 2014, when the authorities contracted a $40 million (11 percent of GDP) loan from Angola with a grant element well below the 50 percent floor specified under the program. The loan was renegotiated to near concessional terms (46 percent) but expenditure slippages in the run-up to elections (1½ ppts of GDP on public sector wages) delayed program resumption, by which time key assumptions had changed with a lower probability of oil production. Most of the Angolan loan was spent on investment projects, which staff ultimately assessed to be worthwhile, but some was spent on current outlays before elections.

101.   STP's successor 2015 ECF maintained a focus on grants but relaxed the concessionality threshold for borrowing. With oil production unlikely for many years, the new ECF recognized the need to explore alternative financing options for investment. The DSA made the case for concessional borrowing of 6.6 percent of GDP annually over the program period and emphasized that lowering the concessionality threshold to 35 percent was possible without jeopardizing sustainability, given improvements in the DSA and clearly identified growth-enhancing investments.

STRUCTURAL CONDITIONALITY AND PROGRAM DESIGN

A. Lessons

- ***Ownership and implementation capacity are critical.*** Risks are particularly high in the absence of a clear track record of program implementation performance and weak implementation capacity.

- ***Conditions most critical to program success may be in shared or non-core areas of Fund responsibility.*** Besides building in-house expertise in critical shared areas, close collaboration with other institutions and technical assistance can help avoid a bias toward core areas of responsibility.

- ***Implementation of structural reforms often requires significant time.*** Recognizing the complexity of structural reforms, careful sequencing of reform steps and realistic timetables could improve prospects for successful implementation.

Table 4. Case Studies: Structural Conditionality and Program Design

	Program Completion 1/	Did structural conditionality address key gaps identified in surveillance?	Were aspects of the political economy considered in program design?	Were conditions sufficiently critical and parsimonious?	Did collaboration with other institutions help identify reform needs and address capacity constraints?	Was technical assistance aligned with the structural reform agenda?	Comments
Ireland - 2010 EFF	C	Partly *	✓	✓	✓	N/A	* The scale of banking sector problems were not fully anticipated.
Latvia - SBA 2008	C	✓ *	✓	Partly	✓	✓	* Structural reform areas were expanded over the course of the program.
Tunisia - SBA 2013	L	Partly	Partly		✓	✓	

Source: IMF staff.

1/ Program completion status as of end-September 2018: C = completed all reviews, IP = in progress, L = largely implemented, OT= off track, QOT= quickly off track, R = replaced.

B.   Ireland: 2010 EFF

102.   The three-year EFF was approved as the global financial crisis exposed deep vulnerabilities in the Irish banking system, triggering a crisis. The Irish authorities initially took a number of actions to restore financial stability, including a blanket guarantee scheme, interventions in major banks, and establishment of a state-owned restructuring agency. However, as the initial crisis response proved insufficient, in December 2010, the Fund approved an EFF involving exceptional access for SDR 19.466 billion (2,322 percent of quota) in support of Ireland's crisis response and as part of a broader European-supported financing package, in close coordination with the European Commission and the European Central Bank.

103.   The program focused on the following objectives: (i) restoring the banking system to health, including by establishing a smaller banking sector with high capital buffers and more stable funding sources; and (ii) securing fiscal sustainability while limiting the near-term demand drag from fiscal consolidation. At the outset of the program, it was decided not to address some policy challenges upfront due to both political constraints and the weak economy. These constraints impeded, for example, a swift and durable workout of mortgage and Small- and Medium-Sized Enterprise (SME) arrears.

104.   Structural conditions focused on addressing the Irish banking crisis. The banking sector was impacted by the burst of a property bubble following the Global Financial Crisis, but the scale of problems was underestimated initially. The need for fiscal consolidation—unavoidable given the economic correction—was identified in surveillance, and the programmed fiscal adjustment was implemented. Consistent with surveillance insights, no other major structural weakness was present.

105.   Overall, the Irish program benefitted from a national reform plan taking into account political economy considerations. The authorities' national reform plan served effectively as the basis for the Fund-supported program, underpinned by strong ownership and effective communication to the general public and market participants. Historical and political constraints

made some options for NPL workout not viable in the Irish context, including repossessions of a considerable number of owner-occupied residences. Hence, NPL workout experienced a delayed start as insolvency reforms took time. Nonetheless, the incipient recovery and a more prescriptive stance of the Central Bank of Ireland, including by introducing quantitative SME and mortgage arrears restructuring targets and further strengthening of loan provisioning and classification standards, helped advance loan restructuring towards the end of the program.

106.   The expertise offered by the IMF, European Commission, and European Central Bank was mutually complementary. The provision of additional, very large financial resources by the ECB and the EU was essential to successful gradual adjustment.

107.   Conditionality was parsimonious, focusing on the financial sector and selected fiscal issues which were identified as critical. To avoid over-burdening implementation capacity and recognizing the structural strengths and competitiveness of the Irish economy, Fund conditionality did not contain other structural reforms.

108.   Program implementation was strong, and the program was completed. The program succeeded in stabilizing the banking sector and reducing its size. All performance criteria under Ireland's EFF were met. Almost all structural conditions were met, albeit a few with some delay or partial implementation. Fiscal deficit and debt outcomes were broadly as anticipated. While the first review was delayed and combined with the second review amid early elections, all other reviews were concluded as originally scheduled. While in hindsight Irish regulators could have acted earlier (e.g., by using their prudential powers to improve classification of NPLs and restructured loans; strengthen provisioning and write off practices; and setting targets), the accommodation of political constraints contributed to high ownership throughout the program. Allowing time for NPL resolution also enabled development of new approaches to mortgage NPL workout, for instance by establishing an Insolvency Service and developing durable loan modifications.

C.   Latvia: 2008 SBA

109.   Years of unsustainably high growth and large current account deficits caused a financial and BoP crisis, which led to a request for a 27-month SBA. Between August 2007 and December 2008, private sector deposits fell by 10 percent, led by a run on the Parex Bank, the second largest bank. Official reserves dropped by almost 20 percent, as the central bank sold foreign currency to defend the peg to the euro. Against this background, the program aimed to address an immediate liquidity crisis and ensure long-term external stability while maintaining Latvia's exchange rate peg.

110.   Structural reform areas were expanded during the program period. The program focused on fiscal and financial sector issues, including private-sector debt restructuring. While conditionality on labor market reforms were not initially included, three SBs were introduced over the course of subsequent reviews. These included promoting wage restraint by establishing a committee to help ensure fiscal sustainability and active labor market policies.

111.   Structural conditionality was broadly in line with surveillance gaps. The 2006 Article IV consultation report identified fiscal, monetary and financial sector challenges. Furthermore, surveillance gaps in several shared areas were identified, including low labor force participation and low value-added exports. The 2008 SBA drew appropriate insights from surveillance, although SCs on labor market reforms were introduced only later in the program.

112.   The authorities were strongly dedicated to the program in order to safeguard Latvia's future membership in the euro area. Hence, ownership was exceptionally high.

113.   Latvia's 2008 SBA was part of a coordinated effort involving several institutions. The Fund cooperated closely with staff of the European Commission, ECB, World Bank, EBRD, Swedish Ministry of Finance and Riksbank, and Nordic country governments. The European Commission participated fully in the Fund mission, along with representatives from the ECB (given Latvia's membership in the European Exchange Rate Mechanism II), as well as Sweden and other Nordic countries given their banks' exposures.

114.   The number of SCs was larger than in comparator programs. The 27-month SBA included 48 SCs. In part, this above-average number of conditions resulted from modifying benchmarks and specifying smaller, intermediate steps toward an end goal. While the conditions were critical to achieve program objectives, strong ownership would suggest that conditionality could have been streamlined.

115.   The Fund and the World Bank provided TA in essential areas of the program. The program request document noted that there would be a need for substantial TA to relieve institutional constraints to program implementation. The authorities requested TA from the Fund to strengthen PFM and develop a comprehensive private debt restructuring strategy. Additionally, they received World Bank TA on the comprehensive reforms of the education, civil service, state administration, and healthcare systems, among others.

116.   Implementation was strong, and the program was completed. The government undertook significant fiscal consolidation and labor market reforms to facilitate an internal devaluation. This was complemented via actions to promote financial stability and corporate sector restructuring. Nonetheless, unemployment remained high at the end of the program, underlining the impact of the protracted adjustment.

D. Tunisia: 2013 SBA and 2016 EFF

117.   Amid deep structural challenges, the two-year SBA and the four-year EFF aimed at short-term macroeconomic stabilization as well as structural reforms for stronger, inclusive growth. Structural challenges to be addressed spanned almost all sectors. Hence, the programs included many structural conditions (2013 SBA: 51; 2016 EFF: 29), of which about one third covered gaps identified in previous Article IV consultation reports. Most SCs were related to the core areas of Fund responsibility, even though half of the gaps identified in surveillance fell in shared or non-core

areas. While assessing the social impact of reforms, the programs targeted strengthening social assistance.

118.   Despite having broad objectives of achieving stronger and inclusive growth, the programs only partly addressed structural gaps identified in surveillance. Overall, close to half of the gaps identified in Article IV consultation reports were not covered by SCs, in particular, the macro-structural area. More specifically:

- *2013 SBA.* Frontloading high-priority structural reforms, the program focused on reforms achievable by a transition government preparing for a new constitution. SCs covered PFM, revenue administration, central bank policies, the financial sector, and energy subsidies. Labor and product markets, pension and social issues, and capital market development were not included, notwithstanding significant gaps identified in surveillance.

- *2016 EFF.* Assuming an increased capacity of the Parliament to pass transformative legislation, the EFF included more ambitious reforms. A majority of SCs focused on monetary and banking issues, energy subsidies, SOE reforms, corruption, and the pension and civil service systems. Other issues highlighted in the preceding Article IV consultation report, such as labor and product market gaps or data transparency, were subject to review discussions but were not addressed through SCs.

119.   Political economy risks were significant, particularly for the 2013 SBA. Given the political transition, staff reports highlighted the political situation as the main risk to the program, in particular given the limited implementation track record. Yet, politics turned out to be more complex than anticipated: between 2010 and 2016, seven prime ministers took office, elections were delayed, and numerous serious social and security tensions emerged.

120.   Staff collaborated closely with other institutions. During the 2013 SBA and the 2016 EFF, the World Bank and other institutions provided extensive TA. To support the authorities' reform agenda through donor activity, staff coordinated closely with the World Bank, the European Commission, the EBRD, the ADB, and Tunisia's key bilateral partners.

121.   Reducing the number of SCs did not prove sufficient to overcome weak implementation. Despite drastically reducing the number of SCs from the 2013 SBA to the 2016 EFF and stronger tailoring, program implementation remained weak.

122.   To mitigate capacity constraints, extensive TA was provided in both programs. During the 2013 SBA, Fund TA focused on the financial sector, PFM and RA, as well as data and energy subsidies, in collaboration with the World Bank. World Bank TA covered several governance areas, including the public investment code. During the 2016 EFF, other institutions, including the ILO, the Banque de France, and the KfW also provided TA.

123.   The objectives of the 2013 SBA were only partially met, and the 2016 EFF is still ongoing. While the 2013 SBA drew on an existing national program, political fragility and vested interests hindered progress in several reform areas.

OWNERSHIP

A. Lessons

- *Factors important for ownership include the integration of national reform and poverty reduction plans and a clear communication strategy.* The latter includes outreach and engagement with Civil Society Organizations (CSOs), which can support broad consensus on the needed policies.

- *Factors that can significantly weigh on program performance, if not sufficiently accounted for, include capacity constraints, political transition and risks, and vested interests.* Careful analysis of institutional and political constraints and setting out a realistic timetable can help ensure program objectives are achieved.

Table 5. Case Studies: Ownership

	Program Completion 1/	Was a national reform plan well integrated with program design?	Did the authorities have a clear communication strategy?	Did capacity constraints significantly hinder reform implementation?	To what extent did the political cycle impact program design and implementation?	To what extent did vested interests play a role in reform implementation?	Comments
Jamaica - EFF 2013	C	✓	✓		Low	Low	
Kenya - SCF-SBA 2015/2016	C/QOT				High	High	
Romania - SBAs 2009/2011/2013	C/C/OT	✓	*	Partly	High	High	* Communications aspects were included in European Semester documents.
Rwanda - PSIs 2010/2013, SCF 2016	C/C/C	✓	✓		Low	Low	
Seychelles - EFFs 2009/2014	C/C	Partly		✓	Moderate	Low	

Source: IMF staff.
1/ Program completion status as of end-September 2018: C = completed all reviews, IP = in progress, L = largely implemented, OT= off track, QOT= quickly off track, R = replaced.

B. Jamaica: 2013 EFF

124.   The 2013 four-year EFF was preceded by years of stagnant growth and large fiscal deficits. A succession of Fund-supported programs, including a 27-month SBA in 2010, had failed to

gain traction. By 2013, low growth and weak public-sector finances had crowded out private credit and investment, leading to high and unsustainable debt ratios. The 2013 EFF therefore aimed to avert immediate crisis risks and create the conditions for sustained growth through significant fiscal adjustment and improvements in competitiveness. The program was supported by a domestic monitoring mechanism, the Economic Programme Oversight Committee (EPOC), which was established in the context of the 2013 EFF and comprised members from the private and public sectors, and civil society.

125. **The relative success of the program was aided by a national economic program and outreach to civil society.** The program was closely linked to the authorities' own economic program. Though the authorities did not have an explicit communications strategy, significant outreach to CSOs was carried out. This included communicating the important objective of alleviating social costs. Further, EPOC was effective, supported by regular press releases and press conferences as well as broad participation.

126. **The 2013 EFF was replaced in 2016 by an SBA treated to be precautionary.** Under the EFF, all except the last two reviews were completed, and significant strides were made in restoring macroeconomic stability. Thanks to strong program ownership, the authorities adopted a new fiscal rule and substantially reduced public debt via fiscal consolidation and a debt exchange. They also made improvements in tax policy, financial sector resilience, and the investment environment. A large majority of QPCs and SBs were implemented on time. The election of a new government in 2016 did not negatively affect program performance, suggesting strong and broad-based ownership. The precautionary successor SBA agreed in 2016 was intended to provide insurance against unforeseen adverse external economic shocks, while focusing reform efforts to deliver better growth and job outcomes, as well as reduce poverty.

C. Kenya: 2015 and 2016 Blends: SCF and SBA

127. **Following successful completion of its 2011–13 ECF, Kenya was supported by two successive blended SCF-SBAs.** The first was approved in 2015 (for 12 months) and the second in 2016 (initially approved for two years and extended by six months). The authorities treated the SCF-SBAs as a precautionary buffer against potential exogenous shocks.

128. **The 2015 program was not explicitly linked to a national reform plan.** While the successful 2011 ECF built on a national development plan, the 2015 SCF-SBA did not explicitly link program objectives and measures to the authorities' own strategy other than through brief references to the authorities' "Vision 2030." Also, communication issues were not discussed in the documents requesting the arrangements.

129. **Capacity constraints were not a major obstacle to reform implementation.** Significant TA support was provided, including TA on cross-border financing supervision from Afritac East. Capacity development support, however, was not emphasized in staff reports.

130.   The political cycle was a factor in program design in the run-up to the 2017 election. The 2015 program recognized the risks of political instability but did not explicitly factor them into program design, emphasizing the strong track record under the previous ECF. The 2016 program, in contrast, explicitly recognized the constraints of the upcoming 2017 election.

131.   Politics affected the implementation of key program objectives. Although the program supported a scaling up of infrastructure spending consistent with debt sustainability, there were political pressures for even more expansionary macroeconomic policies. The adoption of interest rate controls, against staff's advice, and subsequently, Parliament's rejection of the bill to remove the rate ceiling also signaled limited ownership.

132.   Performance under the 2015 program was satisfactory but deteriorated under the 2016 program. Both reviews under the 2015 program were completed. Quantitative targets were generally met, though SB implementation was mixed. While the first review under the 2016 program was completed, some SBs were not met. In addition, the fiscal deficit widened, reflecting shocks like drought, revenue shortfalls, and pre-election spending pressures. Subsequent to the adoption of interest rate controls, bank lending to the private sector fell sharply, and the monetary policy framework was weakened. Despite an extension of the SBA in 2018, the second review could not be completed before program expiration.

D. Romania: 2009, 2011, and 2013 SBAs

133.   Romania has had a total of 10 Fund arrangements since 1991. Romania requested three SBAs involving exceptional access in the wake of the Global Financial Crisis, making purchases under the 2009 arrangement and treating successor arrangements (2011 and 2013) as precautionary. The programs benefitted from deep collaboration with the EU (integrating the National Reform Programme and the Convergence Programme) and the World Bank. While communication issues were not discussed in the program request staff reports, European Semester documents included some communications aspects.

134.   Challenges under the programs included opposition from vested interests alongside a shift in program objectives toward more difficult structural reforms. Vested interests opposed key reforms, in particular those related to increased private-sector involvement in the energy and transportation sectors. This inhibited capital investments and delayed efficiency-enhancing reforms. Implementation of corporate governance reforms for SOEs also disappointed. Further, frontloading of difficult structural reforms in the later programs increasingly encountered implementation capacity constraints.

135.   Political tensions added to challenges. There were delays in completing the second and third reviews under the 2009 SBA and the seventh and eighth reviews of the 2011 SBA due to political reasons. This had particular importance for SOE reforms, which faced strong political resistance and, amid political turmoil throughout 2012 (with three changes in government), encountered a number of postponements and reversals (IMF, 2014b). Further, on the back of reduced incentives for undertaking difficult structural reforms following the 2014 elections and

improved macroeconomic and financing conditions, the Ex Post Evaluation (IMF, 2017a) noted that "an assessment of political economy constraints could figure more prominently in program design."

136.   Performance was originally strong, but it deteriorated as program objectives shifted from stabilization to deeper structural reforms through the series of SBAs.

- *2009 SBA.* The central objectives of the 2009 arrangement were achieved on the back of strong ownership, and flexibility in program design (IMF, 2012).

- *2011 SBA.* Program objectives under the 2011 SBA were also largely met, but progress on the structural reform agenda was uneven. Over time, the program increasingly relied on PAs, largely reflecting delays in implementing the structural reform agenda.

- *2013 SBA.* The 2013 SBA could not be completed. Politically difficult reforms from the 2011 SBA were carried over to the 2013 SBA and frontloaded. In turn, program performance deteriorated as vested interests opposed key reforms. Ultimately, the Ex Post Evaluation (IMF, 2017a) concluded that ownership for the program was insufficient and that implementation of the ambitious reform agenda was undermined by capacity constraints.

E.   Rwanda: 2010 and 2013 PSI, and 2016 SCF

137.   Rwanda has a long history of Fund engagement. PSIs covering 2010–13 and 2013–18 aimed to support the authorities' poverty reduction strategy and preserve macroeconomic stability and strengthen inclusive growth. The PSI was accompanied by an SCF arrangement in 2016–2018 in response to a commodity price shock, external risks from a political crisis in neighboring Burundi, and a drought.

138.   Ownership and transparency were supported by building on national plans and effective communication.

- **National plans.** National reform plans included the Poverty Reduction Strategy (2002–06) and Economic Development and Poverty Reduction Strategies (EDPRS I: 2008–2013; EDPRS II: 2013–2018) which fed into program design.

- **Communication.** While the document requesting the arrangements put little emphasis on externally communicating the program objectives, the programs did pay close attention to the need for strategies to communicate program policies. In 2015, staff called for strengthened communications between the Ministry of Finance, Planning and Economic Development (MoFPED), and the National Bank of Rwanda (BoR), and with market players. In turn, MoFPED agreed to overhaul their communication strategy to better influence economic expectations and prevent market confusion or misperceptions. In 2016, the BoR further enhanced its communication strategy by creating an interactive platform for exchanging information with stakeholders. Other communications included educating the public on credit reporting bureau

activities, capital market development, and payment systems modernization. IMF staff met regularly with CSOs.

- **Political and capacity constraints.** Program performance was aided by broad support for policies. Neither capacity constraints nor the political cycle hindered reform implementation.

139.   Program objectives were met, and the programs were completed. All scheduled reviews were completed, with most conditions met among both quantitative assessment/performance criteria, ITs, and SBs, although most SBs were of low or medium depth. Poverty and social indicators, including life expectancy, improved. Rwanda's per capita income, while still low at US$729 in 2016, nearly doubled during the past decade.

F.   Seychelles: 2009 and 2014 EFF

140.   Fund engagement supported Seychelles' recovery from an economic and financial crisis. Supported initially by the 2008 SBA, the authorities pursued macroeconomic stabilization and structural reforms to restore fiscal and monetary policy credibility. A debt restructuring was agreed with Paris Club creditors in April 2009. During 2009–13 and 2014–17, two successive EFFs supported "second-generation" structural reforms to enhance PFM, reduce the role of the state in the economy, and strengthen the financial system. In late 2017, engagement under a PCI was approved focusing on building resilience to potential shocks.

141.   The 2014 program aimed at adopting a development plan. Although the 2009 EFF did not feature an integrated national plan, the 2014 EFF included benchmarks on adopting medium-term development (MTNDS) as well as financial sector strategy plans (met with delay) and envisaged civil society participation in the development plan. However, discussions of program communication issues were absent in the documents requesting the arrangement.

142.   Capacity constraints were the main factors slowing reform implementation. The very high share of measures that were implemented with delays is consistent with an underlying willingness to reform amid capacity constraints. The 2017 Ex Post Assessment (IMF, 2017b) attributed most delays to technical and administrative hurdles. In this respect, while Fund TA was substantial, program timelines could have taken into account better the timing and payoffs from this TA.

143.   The political cycle was taken, to some extent, into consideration during the program. The 2014 EFF request noted presidential elections scheduled for 2016, but discussion of political factors was otherwise limited. Although the authorities' track record was strong, future public support for reforms was not guaranteed. In the context of policy slippages and corrections, the staff report for the fourth and fifth reviews included more coverage of political factors.

144.   Program objectives under both EFFs were met, and the programs were completed. All reviews were completed. Performance against quantitative targets was generally strong, though with some slippage in 2015–16 amid social concerns over economic inequality and election-related

spending pressures. Post-election, the authorities took measures to contain the slippages, bringing the program back on track. The structural reform agenda—including the adoption of a medium-term development plan with participation of civil society, as well as financial sector strategy plans—experienced delays but was largely implemented. The Ex Post Assessment (IMF, 2017b) highlighted strong ownership by the authorities as a key success factor for the Fund-supported programs.

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