



# Introduction

1. Beginning in the mid-1980s, IMF lending was increasingly made conditional on structural reforms that aimed to strengthen the sustainability of macroeconomic adjustment, foster growth, guide the transformation of transition economies, and, more recently, reduce poverty. This trend was associated with the emergence of longer-term facilities for low-income countries and with the challenges being posed by transition economies. The sectoral and thematic coverage of structural conditionality (SC) expanded over time and covered changes in legislation, policies, and the structure of economic incentives, as well as institutional reform.

2. The increased use of SC evoked considerable criticism, including that SC is intrusive and undermines national ownership of policies; that SC lacks prioritization and overwhelms local capacity; that SC is not useful because with strong ownership of reforms it is unnecessary, and without ownership it is unlikely to work; and that the conditions imposed in areas such as trade reform and privatization are ideologically based and often misguided.<sup>1</sup> Also, many stakeholders, both within and outside the IMF, are opposed to the IMF becoming too involved in reforms that are outside its core areas of competence, and that they argue have resulted in mission creep.

3. In response to these criticisms, in September 2000 the IMF's Managing Director issued an

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<sup>1</sup>Background Document Chapter I discusses the case for, and main criticisms of, structural conditionality.

Interim Guidance Note (IGN) aimed at streamlining SC (IMF, 2000). The IGN emphasized the need for member countries' ownership of the policies supported by Fund arrangements and introduced the requirement that structural conditions be "macro-relevant." Two years later, the Executive Board approved new Conditionality Guidelines (CG) which require "parsimony" in the use of conditions and stipulate that conditions must be "critical to the achievement of program goals" (IMF, 2002). The CG were expected to lead to fewer and more focused structural conditions and to greater involvement of national authorities in program design. Hereafter, the issuance of the IGN and the approval of the CG are together referred to as the streamlining initiative.

4. The evaluation covers programs approved in 1995–2004 and focuses on two sets of issues. First, how has SC worked in bringing about structural reform, i.e., what design characteristics and country conditions make SC more effective? Second, what has been the impact of the streamlining initiative on the number of conditions and on their composition?

5. The report is organized as follows. Chapter II briefly describes the methods and data used in the evaluation. Chapter III provides background on IMF programs and on the use of structural conditions, and presents the main evaluation findings on the effectiveness of SC. Chapter IV discusses the streamlining initiative and examines its impact, and Chapter V concludes with recommendations.

## Methods and Data

6. A detailed description of the data sources and analytical methods used for the evaluation is given in Background Document Chapters III–V; a brief outline follows here.

7. For this evaluation a structural condition is defined as any program condition that is not a quantitative target related to the financial programming of the arrangement. The analysis is based on information from three overlapping sources:

i) **The MONA database.** The analysis of compliance with conditionality, and of the numbers and sectoral distribution of SC, was done using the database employed by the IMF for tracking the evolution of arrangements. This database, known as MONA, includes data covering the 7,139 structural conditions for the 216 IMF programs in 94 countries that were approved in 1995–2004.

ii) **Desk studies, 1999–2003.** Data on a sample of 43 programs approved between 1999 and 2003 were used to analyze the structural depth of conditions, i.e., the degree of structural change that they would bring about if implemented, and their effectiveness in bringing about follow-up reforms. These programs account for 1,567 of the 3,652 conditions in the 103 programs that were approved during that period, and the

analysis was based on the 1,306 conditions for which there was information on all the relevant variables. Thirty of the 43 programs were chosen randomly and the remaining 13 were selected from a stratified sample, in order to provide a representative set of countries for the in-depth case studies described below.

iii) **In-depth case studies, 1999–2003.** In-depth case studies of Fund-supported programs in 13 countries were prepared, to learn about program design, to examine the determinants of effectiveness, and to gather the authorities' views on the process. The 13 case studies were based on interviews with the authorities, other stakeholders in the countries, and IMF and World Bank staff, as well as on a detailed review of a broad set of program-related documents. In addition, **country authorities' views** were elicited on various aspects of program design, such as negotiation style and the number, detail, and scope of structural conditions. Views from civil society organizations and academics were also sought.

8. A **staff survey** was undertaken covering issues related to the streamlining initiative and IMF-World Bank cooperation (see Background Document Chapter V).