



**EVALUATION OF STRUCTURAL CONDITIONALITY IN
IMF-SUPPORTED PROGRAMS**

**ISSUES PAPER FOR AN EVALUATION BY THE
INDEPENDENT EVALUATION OFFICE (IEO)**

MAY 17, 2005

INTRODUCTION

Conditionality in IMF-supported programs has traditionally relied predominantly on quantitative targets for macroeconomic variables deemed crucial for the restoration of a country's external viability. Virtually all IMF-supported programs include quantitative targets on the fiscal deficit and/or public debt, the expansion of domestic credit, and the accumulation of international reserves. The additional use of structural conditionality (SC), involving changes in policy processes, legislation, and institutional reforms is a more recent development.

The use of structural conditions in IMF-supported programs gained prominence in the late 1980s and rose significantly in the 1990s. This increase can be associated with the emergence of new lending facilities for low-income countries, whose main objective was the removal of obstacles to growth, as well as the new challenges faced by the transition economies—particularly the phasing out of pervasive non-market mechanisms. The use of structural conditions also became important as the IMF increasingly recognized the importance of structural reforms for achieving more sustainable results in the areas of macroeconomic stability and better equipping economies to cope with the effects of adverse external shocks. As a result, policies such as trade reform, price liberalization and privatization became important areas of SC in programs aimed at increasing efficiency and promoting investment and growth. Strengthening the independence of central banks, reducing contingent liabilities emanating from decentralized agencies and state-owned enterprises, and strengthening the regulatory framework of the financial sector are examples of SC geared towards reducing domestic and external financial vulnerabilities.

The proliferation of structural conditions in the 1990s was met with increasingly strong criticism outside the IMF. SC was argued by many observers to be too intrusive and destructive of national ownership, undermining the objectives of programs that the IMF was supporting. It was also argued that many structural conditions were not needed for the achievement of key program goals, and that there was not a clear division of labor between the IMF and the World Bank. Critics also singled out particular areas of SC where they believed the IMF had become too mechanical and ideological, such as trade liberalization and privatization.

Largely in response to this criticism, in 2000 the Managing Director issued an interim guidance note aimed at streamlining SC in IMF-supported programs. This was followed by the issuance in 2002 of new conditionality guidelines, which stress the need for parsimony and include a test of “criticality” for any variable selected for conditionality. To be included in a program, conditions must be “critical” for the achievement of that program's objectives. The guidelines also stress the need to seek national ownership of programs and “the expectation that program documents, including letters of intent, will be prepared by the authorities (with the cooperation and assistance of IMF staff) and reflect the authorities' policy goals. Programs supported by the Poverty Reduction and Growth Facility (PRGF) are

expected to be based on the Poverty Reduction Strategy Paper (PRSP) resulting from a broad consultative process within the country.”¹

While some progress in streamlining is recognized in internal IMF assessments and by various external observers, much controversy remains. There appears to be no consensus amongst IMF Executive Directors regarding the extent to which SC should be streamlined, and there is some evidence that IMF staff may have different views on how the “criticality” test is to be applied. On the other hand, outside critics feel that the IMF has not formally addressed more fundamental issues such as how to identify and/or foster domestic ownership of sound policies, and that the reduction in the number of structural conditions in IMF-supported programs may not mean a reduction in aggregate IMF-World Bank conditionality.

Given this background, two major areas of inquiry emerge. First, What forces influence program design? What was the rationale for SC on the part of the IMF, and how did the nature of the interaction between IMF staff and country authorities affect program design? Second, Was SC effective? What factors seem to be influencing its impact? The objective of this evaluation is to examine these issues to derive operational recommendations for the future use of SC in IMF-supported programs.

This issues paper lays out the main directions, areas of focus and methodology proposed for the evaluation. Section I provides background information on the objectives of conditionality in general, and SC in particular; the main criticisms to SC formulated in various fora; a brief description of the institutional response to these criticisms; and the findings of internal IMF reviews undertaken to date. Section II presents the main questions to be addressed by the evaluation. Section III describes the proposed methodology, to the extent that it can be specified at this stage.

Before discussing in greater detail the proposed work plan, it is important to clarify that there are areas of controversy that will inevitably fall beyond the scope of this evaluation. For example, while focusing on SC in IMF-supported programs, the evaluation will not attempt to resolve questions related to the broader debate on the relative merits of conditional financial assistance in general (as opposed to, for example, channeling aid selectively to countries that have previously met some minimum threshold on the quality of its policy environment). The study will also not attempt to derive general, across the board propositions on what should be the optimal or appropriate policy advice in areas that are being subject to controversy (e.g., privatization, trade and capital account liberalization, etc.). However, it will analyze how well IMF staff justified the proposed policy actions, and the associated use of specific modalities of conditionality in these areas; what the authorities’ views were; and where substantial differences existed between country authorities and IMF staff and how the disagreement was resolved. Special attention will be paid to ascertaining the extent to which IMF staff provided the authorities with alternative policy options to achieve the agreed

¹ IMF (2002a).

objectives. The final report is expected to include a section containing a critical review of the literature, both theoretical and empirical, on conditional lending in general, and on IMF conditionality in particular.

I. BACKGROUND INFORMATION

A. Structural Conditionality in IMF-Supported Programs: Objectives and Potential Channels of Impact

According to the IMF Articles of Agreement, conditionality plays a twin role in IMF-supported programs, namely (i) providing assurances to members that the committed resources would be available to them upon compliance with agreed policies; and (ii) giving the IMF confidence that the country will be able to repay—which requires that the policy program being supported is consistent with the restoration of the country’s external viability.

While the Articles of Agreement continue to underpin the principle of conditionality, the practice of conditionality has evolved in response to changing circumstances. Part of this evolution entailed an increase in the use of structural conditions, particularly since the early 1990s.² The emergence and subsequent proliferation of structural conditions can be partially linked to the creation of special facilities aimed at addressing countries’ economic imbalances rooted in structural difficulties. In this regard, the use of structural conditions on policies intended to correct distortions in relative prices or trade practices became common practice in the context of the IMF’s concessional facilities for low-income countries—see Box 1. Similarly, structural conditions began to be used with the goal of removing disincentives to saving and investment when these were seen as the underlying cause of chronic balance of payments problems in the context of the Extended Fund Facility (EFF).

However, the increase in the number and scope of structural conditions also reflects an institutional response to challenges posed by a changing international economic environment. In the case of the transition economies, SC focused on policies intended to remove pervasive non-market mechanisms and promoting the development of institutions needed to support the functioning of a market economy. The rapid development and integration of capital markets in the 1990s and, in particular, the capital account crises suffered by several emerging market countries, has led to the use of SC with the purpose of reducing the vulnerabilities of these countries to changes in market sentiment. As a result, IMF-supported programs with emerging markets have often incorporated SC in macroeconomic areas (e.g., the introduction of fiscal responsibility laws, the creation or upgrading of monetary and/or financial institutions). In sum, it could be argued that, today, SC is aimed at complementing traditional, quantitative conditionality in securing its twin objectives by (i) correcting problems of a non-macroeconomic nature that are critical to growth and poverty reduction in the low-income countries, and (ii) seeking a lasting solution to macroeconomic problems

² IMF (2001a).

through more fundamental policy and institutional changes (including measures aimed at averting the emergence of macro/financial vulnerabilities).

Box 1. IMF Financial Facilities and Structural Conditionality

The non-concessional facilities described below are available to all members.

- **Stand-By Arrangement (SBA)**. Introduced in 1952 to help countries address short-term balance of payments needs.¹ The length of an SBA is usually 12–18 months (but can be up to 3 years) and repayment is expected in 2¼–4 years. While little or no structural conditionality (SC) could be expected in SBAs in principle, in practice the volume and distribution across economic sectors of SC varies considerably, as SBAs tend to be used in widely different circumstances (e.g., transition countries, capital account crises).
- **Extended Fund Facility (EFF)**. Established in 1974 to assist countries with protracted balance-of-payments difficulties requiring structural reforms and a longer period of adjustment. EFFs run for 3 years (and may be extended for a fourth year), and have a longer repayment period (4½–7 years). A heavier dosage of SC than in SBA should, in principle, be expected.
- **Supplemental Reserve Facility (SRF)**. Established in late 1997, the SRF is not a stand-alone facility and must be used in conjunction with a SBA or EFF. Its main objective is to provide assistance to members experiencing large, short-term financing needs resulting from a sudden and disruptive loss of confidence.

Concessional facilities are available for low-income countries, with the eligibility criteria based on country's per capita income and linked to World Bank's eligibility for concessional lending. *Given their explicit objective of removing structural impediments to growth and promoting poverty reduction, SC is expected to figure prominently in these facilities.*

- **Enhanced Structural Adjustment Facility (ESAF)**. Established in December 1987, enlarged in 1993 and made permanent in September 1996, the ESAF replaced the temporary Structural Adjustment Facility (SAF). The ESAF allowed for greater differentiation of countries' BOP needs than the SAF and relied more on SC than its predecessor.
- **Poverty Reduction and Growth Facility (PRGF)**. The PRGF replaced the ESAF in November 1999. It was intended to improve upon the ESAF by placing greater emphasis on policies that are more clearly focused on growth and poverty reduction; strong country ownership—with an expectation that PRGF-supported programs would be aligned with country-driven Poverty Reduction Strategy Papers (PRSP); and streamlined conditionality, a principle embraced subsequently in the 2000 Interim Guidance Note and the 2002 Conditionality Guidelines and applicable to all facilities.

¹ Phasing of purchases and conditionality is omitted in SBAs within the first credit tranche (e.g., the first 25 percent of a member's quota).

As a result of the developments highlighted above, the channels through which IMF conditionality influences final economic outcomes have multiplied over time. As other sources of external financing (private and official) become increasingly important relative to the IMF's own financing, the potential role of conditionality as a signaling device of a

country's commitment to reform in influencing those other flows of financing becomes more important.³

- Already during the 1980 debt crisis, the use of IMF conditionality as a signaling device gained prominence when the interest of creditors and debtors had to be balanced and a cooperative solution had to be sought—in a context where IMF financing was becoming relative small part of the financing solution and concerted lending a common feature.⁴ As countries increase their access to international capital markets, this signaling role may become more important. Furthermore, the role of structural reforms, and hence, structural conditionality (signaling more durable changes in the policy regime), may become specially important as countries try to attract medium-term private external financing.
- In low-income countries, where most external financing is provided by official donors, the signaling role to private markets is probably less important—although it may be relevant to foreign direct investment. When it comes to signaling to official donors, the role of IMF-supported programs in general and the assessment of compliance with conditionality more specifically, is perhaps more a case of “delegated monitoring” than “signaling.” Often, donor assistance is tied to “on/of signals” issued by the IMF when it approves the completion of a review in the program. Such links have become particularly important in the HIPC initiative.

B. Structural Conditionality: the Critique and the Institutional Response

The increase in the number of structural conditions since the 1990s, the widening range of areas over which they were applied and, in many instances, their very detailed nature, led to strong outside criticism. This proliferation of IMF structural conditionality was perceived to be intrusive and destructive of national ownership (Wood and Lockwood, 1999; Goldstein, 2000). Many claimed that the IMF was not well equipped to oversee reforms in structural areas (Hardstaff, 2003). Others (Oxfam International, 2004) questioned the legitimacy of policies agreed with the IMF on grounds that key sectors of society were not properly consulted or excluded from program negotiations. Similarly, Feldstein (1998) stressed that IMF actions would become more effective and legitimate if it “eschewed the temptation to use currency crises as an opportunity to force fundamental structural and institutional reforms on countries.”

Largely in response to this criticism, in mid-2000 the management of the IMF appointed a working group on streamlining structural conditionality. An Interim Guidance Note on

³ This may be particularly important when the country does not have a successful track record of implementation of reforms.

⁴ Guitián (1995), p.809.

Streamlining Structural Conditionality was issued by the Managing Director in September 2000 and was endorsed by the Executive Board the following spring. A thorough review of conditionality was subsequently launched and new conditionality guidelines were approved in September 2002. The new guidelines focus on the need for parsimony and a test of *criticality* for the achievement of program goals for the selection of any variable (not just those in the structural area) subject to conditionality. Cooperation with other IFIs, especially in areas outside IMF expertise, is also encouraged. The guidelines explicitly state that IMF staff will encourage the authorities to seek to broaden and deepen the base of domestic support for sound policies to increase the likelihood of successful implementation of programs.

The extent to which IMF structural conditionality is being streamlined has been assessed both internally and externally.⁵ A preliminary internal assessment (IMF, 2001b) found some evidence that structural conditions were being used more sparingly. Conditionality was also more focused on the IMF's core areas of responsibility, with both results being observed more clearly in PRGFs than in other programs. A subsequent report (IMF, 2002), based on a larger sample of programs, found broadly similar results, but detected a large degree of variability across countries in the use of structural conditionality in non-core areas. This was found to be related to the existence of potentially close links between developments in these non-core areas (such as state-owned enterprises, trade policy and civil service reform), and the countries' public finances.

In 2004–05 the IMF produced four studies as part of its biennial conditionality review.⁶ One of the studies (IMF, 2004c) classifies all structural measures in Fund-supported programs into three broad categories (i.e., underpinning stabilization efforts, increasing economic flexibility and efficiency, and addressing vulnerabilities) and finds that the distribution of SC across IMF-supported programs is remarkably uniform and almost invariant to the type of facility being used—with the exception of programs with countries experiencing a capital account (CA) crisis. The study finds little evidence that structural conditions associated with promoting growth figure more prominently in PRGFs than in most SBAs or EFFs. Structural

⁵ These assessments have used as reference point the year 2000, when the Interim Guidance Note on Structural Conditionality was issued, rather than 2002, when the new Conditionality Guidelines were put out. The most important changes in the 2002 Conditionality Guidelines relative to the previous ones, which date to 1979, had already been foreshadowed in the Interim Guidance Note of September 2000 (IMF, 2004a; p.6); however, the shift from a test of “macro relevance” in the latter to a stricter one of “*criticality* for the achievement of program objectives” in the former should have, in principle, led to even stronger emphasis on streamlining.

⁶ The documents deal with objectives and outcomes of Fund-supported programs (IMF, 2004b); program design (IMF, 2004c); macroeconomic and structural Policies (IMF, 2004d); and a review of experience with the 2002 Conditionality Guidelines (IMF, 2005).

conditions in areas related to improving overall efficiency tend to be relatively more important in transition economies.

A second study (IMF, 2005) finds that the coverage of SC has, for the most part, shifted out of non-core areas of IMF expertise and concludes that this is consistent with greater focus on critical measures. There is a problem with this interpretation, however. In the absence of careful control for the actual objectives of the programs in the sample (which may or may not relate to what the study defines as “core”), the results need not imply that conditionality has been streamlined down to what is critical for the achievement of program goals. The study also finds that the number of structural conditions has declined somewhat in PRGFs (with a shift away from supply-side conditions) but not in SBA or EFFs. Waiver rates on structural conditions have not declined, but implementation of waived conditions has improved.

Outside the IMF, the “streamlining initiative” was criticized, among other things, for being too narrowly focused, paying insufficient attention to local ownership and providing insufficient grounds for leading to improvements in program effectiveness (Killick, 2002). Others pointed to the fact that the initiative was not being applied consistently across countries (Eurodad, 2003) or questioned whether it aims at fostering ownership or simply strengthening the traditional “policy change inducing” effect of conditionality (Wood, 2004). They also pointed to the risk that the initiative’s call for better cooperation between the IMF and the World Bank might lead to a reduction in the number of structural conditions in IMF-supported programs but not in overall IFI conditionality.

The recent IEO evaluation of Poverty Reduction Strategy Papers (PRSPs) and the Poverty Reduction and Growth Facility (PRGF) found that IMF structural conditionality has been streamlined in low-income countries, but it was not possible to reach a definitive conclusion with the evidence available on what had happened to aggregate IMF-World Bank conditionality, in part because it is not systematically monitored by the two institutions. The evaluation recommended clarifying what the Bretton Woods institutions (BWIs) are trying to achieve jointly through the streamlining of conditionality and how this fits with stronger domestic ownership, and to establish a system for the monitoring of aggregate Bank-Fund conditionality at the country level.

II. MAIN ISSUES TO BE ADDRESSED

In order to analyze the effectiveness of SC and derive operational recommendations, the evaluation finds it useful to separate the analysis into two stages: (i) identifying the forces and process underlying the design of SC in IMF-supported programs; and (ii) assessing the impact of SC and factors influencing that impact. In the final analysis, both are closely inter-related, but in terms of the work plan of the evaluation, it is convenient to separate them.

For the purpose of this study, SC refers to that subset of policy commitments contained in the arrangement, which the IMF and the authorities have agreed to *monitor formally*. Such monitoring will typically be carried out through the use of prior actions, structural performance criteria, structural benchmarks, and conditions for the completion of a review

(Box 2). The operational concept of SC in this evaluation will not include other policy statements by country authorities in documents such as Letters of Intent or Memoranda of Economic and Financial policies, to the extent they are not subject to conditionality in any formal sense.

Box 2. Structural Conditionality: Monitoring Mechanisms

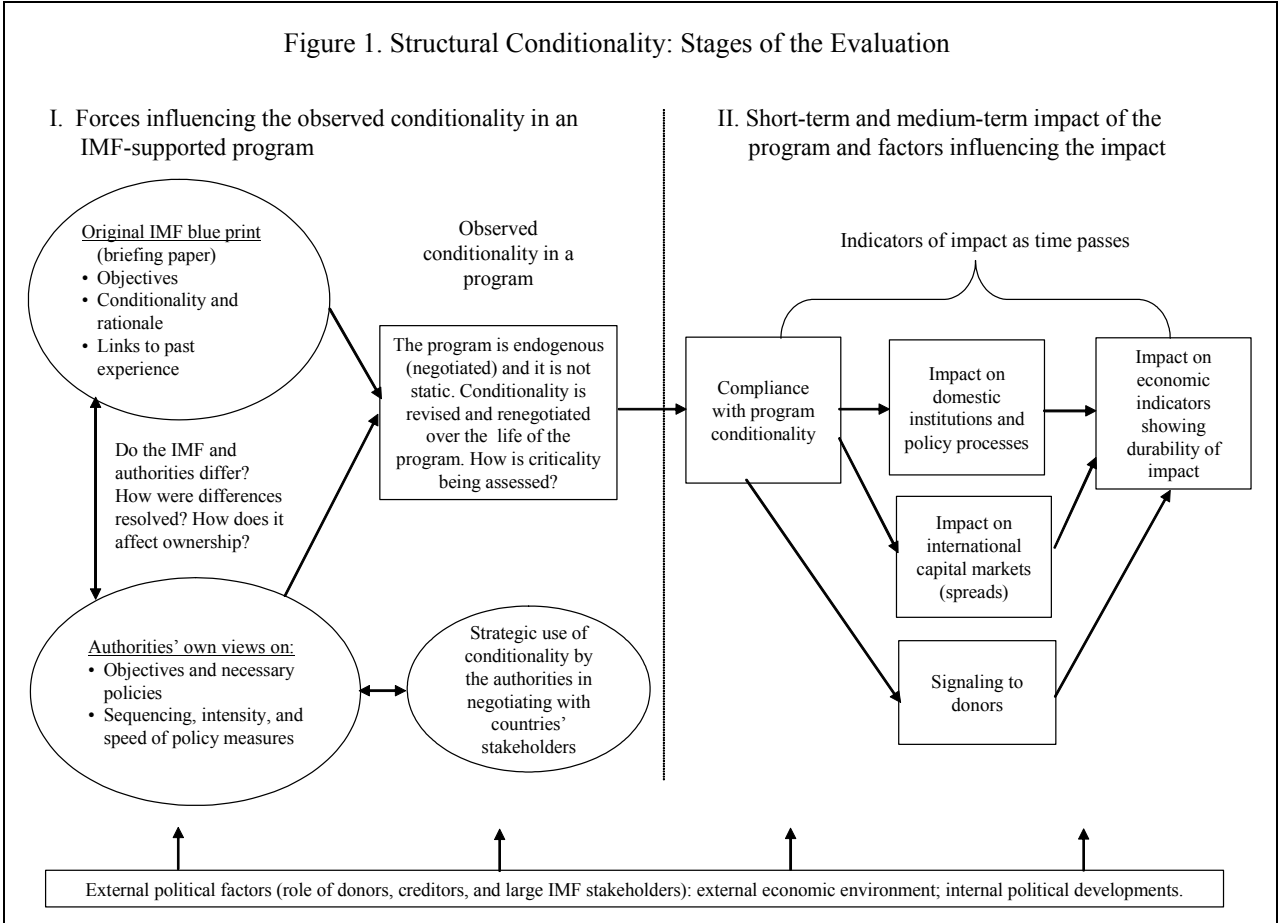
Monitoring the implementation of structural conditions relies on the following tools:

- **Prior Actions (PAs)** are measures that a country is expected to adopt before the approval of an arrangement or completion of a review. PAs are to be used when immediate enactment of the associated policy is seen as critical for the success of the program, or when there are doubts that the measure would be implemented later if specified as performance criterion.
- **Performance Criteria (PCs)** are specific conditions that have to be met during a program in order for the agreed amount of credit to be disbursed. For an IMF-supported program to remain on track in case of non-compliance with a PC, the Executive Board needs to grant a waiver—a decision that depends crucially on the notion that the program is otherwise on the right track. *Structural* PCs should apply to clearly specified variables or measures that can be objectively monitored by IMF staff.
- **Structural Benchmarks (SBs)** are to be applied to measures that may not be objectively monitored or where non-implementation would not, by itself, warrant an interruption of IMF financing. They are intended to serve as clear markers in the assessment of structural reform progress.
- **Program reviews** serve as an opportunity for a broad-based assessment by the Executive Board of progress with the program. Completion of a review—a prerequisite for the member country to maintain its access to financial resources under the arrangement—requires that the Executive Board be satisfied, based on the members' past performance and policy understanding for the future, that the program will remain on track.

It is important to stress that there are several challenges associated with examining structural conditionality on the basis of the labeling used in IMF-supported programs. One of them is the large degree of variability in the extent to which structural conditions so labeled represent meaningful changes in the institutional underpinnings of economic variables or policies. For example, program conditions aimed at capping the wage bill in the public sector during the life time of the program have much less, if any, structural content than one requiring passage of a legislation aimed at a medium-term civil service reform. Likewise, a program condition to close a state bank may have less structural content than those requiring passage and implementation of a condition requiring enhancing the supervisory capabilities of the banking sector supervisory agencies.

Because structural conditions are so heterogeneous (particularly with respect to the depth of institutional content), there is no proper unit of account that allows to aggregate and compare structural conditionality measures in a program and across programs. In addition, the same policy action may, in some cases, be unbundled into several steps, with each of them subject to a separate condition. In other cases, such unbundling does not exist and a single condition is used. For example, there may be a single condition regarding the final privatization of a state enterprise in one program, while in another this could entail a sequence of conditions related to the “quality” of the process, e.g., evaluation of the company, details on the mechanisms for sale, or even on eligibility of potential bidders.

Figure 1 describes the results chain influencing the final impact of SC and some of the key underlying forces. These are now discussed in some detail.



A. Stage I: Structural Conditionality and Program Design—the Endogenous Nature of Program Conditionality

Critical to understanding the rationale for and the forces behind the conditionality observed in a specific IMF-supported program is the recognition that observed conditionality can be the outcome of a broad process of negotiation—a process that can have an effect on domestic ownership in various ways. Second, conditionality is not a static concept: it often changes during the life of a program, and such revisions are also the result of a process of negotiation.

Observed conditionality is usually the result of a bilateral negotiation between IMF officials and country authorities. However, this negotiation may often take place in a context in which third-party players—domestic and/or external—also play an important role. In this sense, conditionality can be said to be “endogenous”: the particular form it takes responds to a number of factors (as opposed to being determined separately by one party, independently of prevailing economic and/or political circumstances). These factors encompass those that could be considered traditional determinants of IMF conditionality, such as the nature of the

imbalance faced by the country, the type of facility under discussion (i.e., PRGF vs. SBA), and any difference of opinion between the IMF and the country authorities regarding the desired course of action for the country.

In all likelihood, conditionality may also be influenced by strategic considerations within the country. Country authorities may need to balance opposing political forces during the reform process (Drazen, 2002) and use conditionality to neutralize the strength of powerful vested interests, or deflect the political cost of reforms by attributing to the IMF the imposition of policy measures (Vreeland, 1999). There may be cases where the country authorities may even request that certain actions be included as formal conditionality, to which the IMF may acquiesce even if it had not planned to request conditionality over them originally. These strategic channels by which conditionality may influence the implementation of policy changes inevitably raise complex issues with regard to the meaning of country ownership. Many of the links between conditionality and ownership were analyzed at an international conference on conditionality sponsored by the World Bank (2005).

Similarly, observed conditionality may also reflect the influence of external third parties. Geopolitical considerations or other concerns by major IMF shareholders may influence the design of conditionality in specific circumstances.⁷ The notion that large donors and private international financial entities may influence conditionality has also been advanced by some observers (Lipson, 1985; Gould, 2003a and 2003b).

The second aspect of conditionality that must be accounted for properly relates to the dynamic and flexible nature of IMF-supported programs. As explained in Mussa and Savastano (1999), IMF-supported programs can be conceived as “processes,” which are subject to formal revisions (including in the program’s conditionality), and which contain technical provisions—adjustors, waivers, extensions—that allow for mid-course revisions in the program. These corrections raise several questions: do they reflect adequate flexibility on the part of the IMF to adapt the program to unforeseen circumstances? Or, are they simply a reflection of unrealistic expectations on the speed at which structural reforms can be implemented? Does excessive recontracting encourages the postponement of politically difficult although critical reforms? Identifying the forces shaping such revisions is critical for understanding the role of SC over the lifetime of a program.

The following questions are expected to be addressed during the evaluation:⁸

⁷ On the political influence of major industrial countries on IMF decisions, see, for example Feldstein (1998), and Krueger (2000).

⁸ In addressing these questions, the evaluation will distinguish between different types of arrangements, in particular between PRGF and other arrangements, in light of the different approach to policy formulation that was expected to be embedded in the PRSP/PRGF.

- *On the rationale and objectives of SC in the IMF's pre-negotiation blueprint*
 - How have missions approached the task of assessing the “criticality” of a given structural measure? What implicit assumptions are made about the mechanism by which SC impinges on the success of a program in making such a determination? Are these assumptions being made explicit enough?
 - Has the IMF's internal review process been conducive to streamlining and a more coherent and comparable use of SC across countries?
 - Can cases be identified in which the streamlining initiative may have prevented extending conditionality over areas deemed critical for the achievement of program objectives? Alternatively, are there areas where structural conditionality is still used despite the absence of a clear link with program objectives?
- *On country authorities' views and the process of interaction and negotiation with IMF staff*
 - What were the authorities' own views regarding the objectives of the program and the critical structural reform policies required to achieve program objectives? Did they differ significantly from those of the IMF staff?
 - Did the negotiations leave enough “policy space” to the authorities when there was basic agreement on final objectives? Relatedly, does very detailed conditionality reflect insufficient “policy space” provided to the authorities? Could detailed conditionality be necessary to safeguard the quality of adjustment in countries with poor track record of policy implementation, or where concerns over governance are paramount?
 - How were differences between the authorities and the IMF regarding SC resolved? Are there some patterns or areas where these differences are particularly severe (e.g., differences regarding speed, sequencing, accompanying measures, distribution of costs and benefits over time, mechanisms to protect the poorest groups from the adjustment, etc.)? How important was the role of other country's stakeholders on the process? Do “good” or “bad” practice lessons emerge on how this policy dialogue is organized?
 - How was domestic ownership influenced by the way in which these differences were resolved? Did the negotiation process entail consultations between IMF staff and domestic stakeholders other than the authorities on the design of SC?
 - Has the streamlining effort led to meaningful changes in the manner in which IMF teams and national authorities have interacted?
- *The observed (negotiated) structural conditionality in an IMF-supported program*

- Is the volume and distribution of structural conditionality across programs consistent with the mandates of the facilities employed? Can variations be attributed to the need to tailor conditionality to country-specific circumstances?
- What are the factors that seem to influence revisions in SC over the lifetime of a program and do we observe patterns in such factors across programs?
- In case of consecutive programs in one country, what determines changes in SC over time? Can they be associated with streamlining efforts by IMF staff as detected in the prenegotiation briefs, or in changing modalities of interacting with the authorities, for example, the increased importance of the PRSP process?
- *On the linkage with the World Bank and bilateral donors*
 - Has cooperation with the World Bank in the structural front—particularly when the Bank had a parallel adjustment operation—influenced the design of SC? How was the division of labor with the World Bank designed?
 - What has happened to aggregate (e.g., World Bank plus IMF) conditionality? Are there policy areas subject to both, IMF and World Bank conditionality? What explains this?
 - What was the expected role of SC in signaling to bilateral donors? How was SC adapted to meet donors' concerns?
 - Role/synchronization of IMF SC with emerging “Performance Assessment Frameworks (PAFs)” in countries where such PAFs are being used by groups of donors.⁹

B. Stage II: Has Structural Conditionality Been Effective and Under What Conditions?

This part of the evaluation examines the extent to which SC has achieved its goals and whether there have been unanticipated negative effects. The goals include those described as “direct objectives” earlier (for example, contributing towards durable improvements in macroeconomic areas, removing structural obstacles to growth or external viability), as well as the “indirect objectives” (e.g., whether some structural conditions in a given program help catalyze private flows, or provide effective signals to official donors).

⁹ Such Performance Assessment Frameworks (PAFs) have been used in a number of countries by groups of donors providing General Budgetary Support (GBS). Wherever possible, the evaluation will draw upon the messages emerging from the ongoing multi-donor evaluation of GBS and related thematic studies on the role of PAFs.

In measuring effectiveness, several indicators can be chosen, but there is a clear trade-off involved between the concreteness of the indicators and the degree to which results can be attributed to SC. Indicators of immediate effects, such as compliance with conditions, can be computed quite easily. However, simple compliance indicators are, by themselves, not very meaningful gauges of the true economic impact of conditionality. On the other hand, more meaningful indicators that may capture the long-term effect of conditionality, such as its impact on domestic institutions, decision-making processes, and, eventually, economic outcomes, are much more difficult to interpret. In particular, given the variety of factors that drive the behavior of those variables, separating the effect of conditionality becomes more difficult; this problem becomes more serious the further we go out in the results chain.

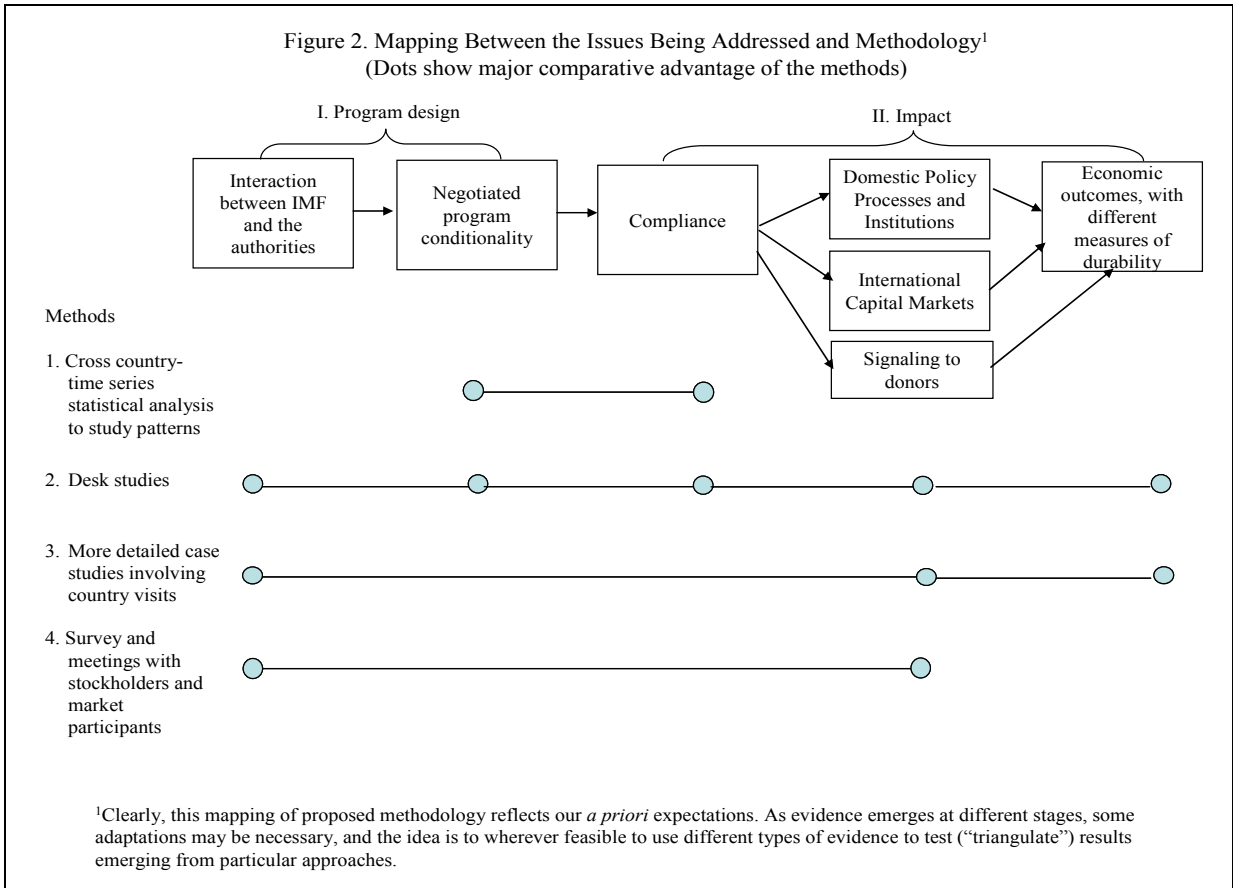
Questions to be asked in this stage include:

- What is the record of compliance with structural conditionality and how has it evolved over time? Is there a relationship between the record of implementation and the volume (or areas of focus) of structural conditions?
- Has compliance led more generally to improvements in policy-making processes, institutional change, and long-term economic performance?
- What is the evidence on the indirect impact of SC? For instance, when SC was used to signal to markets that an improved plan of reform was in place, did markets react as anticipated, or markets waited until progress was achieved in implementation? What was the impact on bilateral donors?
- What factors explain differences in effectiveness of SC and how are they related to the discussions identified in Section I, namely:
 - the initial design and sequence of SC;
 - the nature of revisions in SC;
 - the nature of the policy dialogue with the authorities and how any differences were resolved; and
 - the process by which domestic consensus was reached within the country regarding the program.
- Have certain modalities of conditionality (e.g., focusing on outcomes or improvements in policy processes rather than specific policy actions) worked better than others?
- What has been the experience of SC in specific policy areas across programs in different countries, particularly in areas where there has been some controversy (e.g., privatization)? Has SC helped improve governance of public sector institutions and enhanced the transparency of government operations?

III. METHODOLOGY

The different nature of the questions raised in the previous section calls for different methodologies to address them. While some questions are best addressed by looking at patterns across large number of programs and by using quantitative indicators, others require qualitative judgments and examining processes and political economy issues. These latter questions are best addressed by case studies, including country visits. Thus, a varied set of empirical approaches is needed to assess the result chain described in Figure 1.

The evaluation will rely on four complementary methodologies: (i) quantitative analysis using cross-section and time series analysis of a large number of programs; (ii) in-depth case studies, including a subset where country visits will be made; (iii) thematic studies, where the experience with SC in a specific policy area will be examined across different types of programs; and (iv) stakeholder surveys. Figure 2 maps the proposed methodologies into the stages I and II presented in Figure 1.



Statistical analysis of main quantitative indicators

Based largely on databases on conditionality available at the IMF and the World Bank,¹⁰ as well as internal documents, the evaluation will seek to detect and explain the trends and regularities in the use of structural conditions, including by type of monitoring tool (i.e., performance criteria, prior actions, structural benchmarks) over the period 1995-2003; possible shifts in these trends—particularly since the introduction of the Interim Guidance Note on Streamlining Structural Conditionality; patterns in use of structural conditionality across programs, facilities and/or types of adjustment challenge; the evolution of indicators of compliance and their relationship with the intensity and distribution of structural conditions; and links between compliance and broad macroeconomic variables, such as growth and inflation. An attempt will be made to compile comparable data on structural conditionality by the World Bank in order to see how aggregate (IMF plus WB) conditionality has evolved in the context of IMF-supported programs.¹¹

Country case studies: desk reviews and in-depth country studies

Many of the questions raised earlier call for more qualitative assessments and examination of processes that cannot be addressed by the large MONA database. They will call for in-depth country case studies such as (i) desk studies involving examination of program documentation and discussions with IMF staff; and (ii) country visits to a subset of these countries to seek the views of policy-makers and other stakeholders.

The desk studies will allow, for example, to examine the:

- Original IMF blueprint (briefing papers) and assess the original rationale of the structure, timing and sequence of SC in the program.
- Link with the World Bank, particularly when the Bank has a parallel adjustment operation with its own structural conditionality.
- Differences between the briefing papers and the final (negotiated) SC in the program and identify major areas and patterns of differences.
- Dynamics of SC through the lifetime of the program reviews and identify the forces behind recontracting of SC, waivers, postponements and cancellations of programs.

¹⁰ More specifically, IMF databases on conditionality (MONA I and MONA II); and the Adjustment Lending Conditionality Implementation Database (ALCID) maintained by the World Bank.

¹¹ The available databases on conditionality in the IMF and the World Bank are not fully compatible; this has been a problem in past assessments of aggregate conditionality.

- Qualitative aspects of impact not captured in the quantitative indicators in the MONA databases, such as the degree of compliance with SC, institutional changes and more disaggregated and intermediate sequence of indicators of impact not usually captured in standard economic series (e.g., improving the economic efficiency of how taxes are raised, rather than increases in overall tax revenues).

Country visits in selected cases would allow examining:

- Original views of the authorities at the time of program negotiations (regarding both objectives and choice of policies) and major areas of differences with the Fund as seen by the authorities, including how these differences were resolved and whether the streamlining effort has led to perceptible changes in missions' negotiations practices.
- Views from other stakeholders in civil society (NGOs, think tanks, academic centers) on the costs and benefits of policy reforms in the areas of SC and any mechanisms of interaction they had with IMF staff during the program.
- Examination in the field of impact of SC on domestic policy process and institutions that cannot be captured by the desk studies alone.
- Other measures of economic outcomes of qualitative type that can only be captured with some additional field work, e.g., improvements in the equity of the revenue and expenditure system, increases in the entry of small enterprises due to an improved investment climate, etc.
- Factors influencing program impact and isolating from other country factors (such as political developments) and external shocks.

The country studies will provide a better setting for explaining differences in the depth and breadth of conditionality between apparently similar programs and for the evolution of structural conditionality in successive programs for a given country. A set of about 12–14 country case studies are envisaged, from which 6 will include country visits. The selection criteria calls for programs with varied intensity and type of SC; variability in program objectives (including a balanced mix of PRGF, Stand-By, and EFF arrangements), and countries having the institutional diversity representative of the IMF membership. In addition, in order to study the ways in which SC has evolved through time, some of the case studies will entail countries with consecutive IMF-supported programs.

For the subset of countries for which field work is envisioned, gathering the views of key stakeholders will allow the evaluation to look into issues such as whether the streamlining

effort has led to a perceptible change in mission's negotiating positions, and whether there still remain broad areas of disagreement between authorities and staff.¹²

Studies of specific areas of structural conditionality

This methodology will be used to compare the experience of a specific policy reforms subject to SC across different programs and in different countries (including countries beyond the case studies described earlier). Possible criteria of choice could be very common SC areas where different approaches have been attempted across programs, as well as areas where some controversy has emerged. As an example of the first type, consider a set of programs in which raising permanently the tax effort ratio was a key program objective and SC was used to achieve the objective. This exercise could examine whether conditionality placing more emphasis on securing an outcome (i.e., increase in tax revenues) was more effective than conditionality focusing on processes (i.e., the identification of loopholes and causes of evasion/avoidance, improvements in tax administration). Similarly, the exercise could assess whether effectiveness was enhanced (and ownership promoted) by allowing the authorities to choose the means to achieve and monitor an agreed objective.

This methodology can also be used to examine specific areas subject to SC, which have been subject to strong criticism from outside, such as privatization or trade reform.¹³ A comparison of SC in this area across programs would allow an analysis of the various arguments used to justify the use of conditionality, as well as an assessment of how flexible its design has been in adapting it to country-specific conditions. However, as noted earlier, the evaluation will focus on SC in these areas rather than on the pros and cons of the policies themselves.

Stakeholders' surveys

In addition to missions to selected countries aimed at gathering the views of the authorities and other local groups, the evaluation will comprise surveys and/or interviews to other key institutions and individuals, such as World Bank economists, bilateral donor agencies, investment banks and credit rating agencies, as well as stakeholders in the countries being visited (Parliamentarians, civil society organizations, think tanks, etc.). The purpose will be to get their views on the usefulness/effectiveness of SC, especially in cases where conditionality intended to elicit a specific response from them.

¹² Once the sample of country case studies has been identified, it will be included in the final issues paper to be posted on the IEO's website.

¹³ For a critique of conditionality on privatization of utilities, see Action Aid (2004).

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