II. Trends and Patterns in Structural Conditionality

22. This chapter describes the main trends in the volume and composition of SC in IMF-supported programs during 1995–2004, and presents measures of compliance with conditionality. The analysis is largely based on information obtained from the IMF's Policy Development and Review Department (PDR), including data from the Database on Monitoring Arrangements (MONA).[8]

A. Broad Trends in IMF-Supported Programs

23. The evolution of SC is better understood in the context of broad trends in the type of IMF-supported programs that influenced the orientation of conditionality. For example, PRGF-supported programs have focused more on measures to improve potential output growth, whereas Stand-By Arrangements (SBAs) have centered around fiscal, monetary, and exchange rate policies. The most salient trend in the evolution of IMF-supported programs is the decline in the number of General Resources Account (GRA) programs—that is SBAs and EFFs—since the introduction of the PRGF in 1999. The composition of GRA programs has also changed, with a marked increase in the share of precautionary programs (Figure 2.1).

B. Evolution in the Number of Structural Conditions

24. In the evaluation period, the average number of structural conditions in IMF-supported programs showed no statistically significant trend (Figure 2.2). When comparing the periods 1997–2000 and 2001–04 (before and after the IMF introduced its streamlining initiative), the average number of structural conditions per program year remained largely stable around 17.[9] In PRGFs, the number declined slightly to 15, while in GRA programs it rose from 18 to 19. None of these changes is statistically significant.

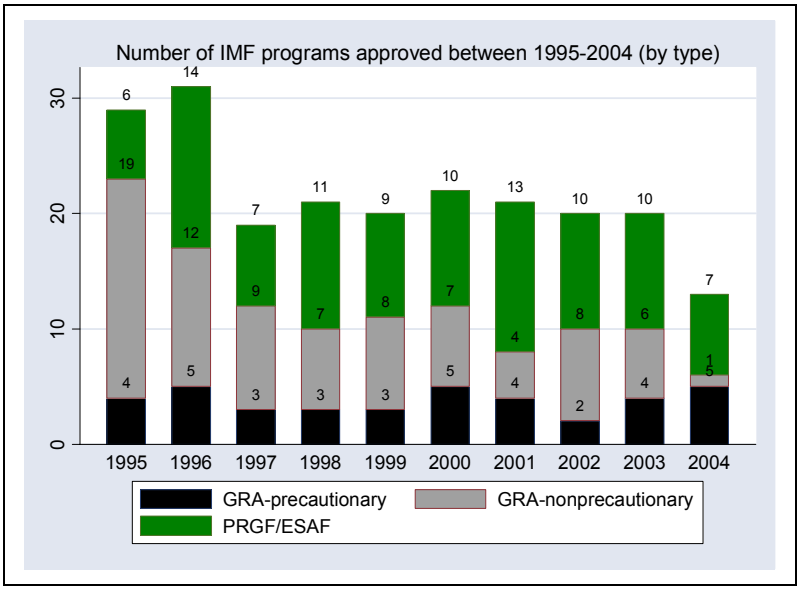
25. Statistically significant changes did not take place either in the type of structural conditions. The numbers of structural performance criteria (PCs), prior actions (PAs), and structural benchmarks (SBs) remained relatively stable around three, eight, and five conditions per program year, respectively. (In PRGFs, there was an apparent reduction in the number of SBs from an average of eight in 1997–2000 to an average of seven in

[8] PDR made available to the IEO team the data base used for the 2005 Review of the 2002 Conditionality Guidelines (IMF, 2005a, b). These data, based on MONA and adjusted to account for program length (using the same methodology as PDR) and minor potential errors (such as double counting or mislabeling of conditions), contained information through early 2004. The IEO team updated these data by (i) adding information on 13 new programs approved during the remainder of 2004; and (ii) updating information on 27 programs that were still active when work started on the last internal review of conditionality. After these updates, the database contained 7,139 structural conditions from 216 programs in 94 countries that were approved during 1995–2004.

[9] Very similar results hold if we compared the periods 1995–2000 and 2001–04.

2001–04. In GRA programs, the number of structural PCs increased from an average of three in 1997–2000 to an average of four between 2001 and 2004.)

Figure 2.1. IMF-supported Programs by Type, 1995–2004



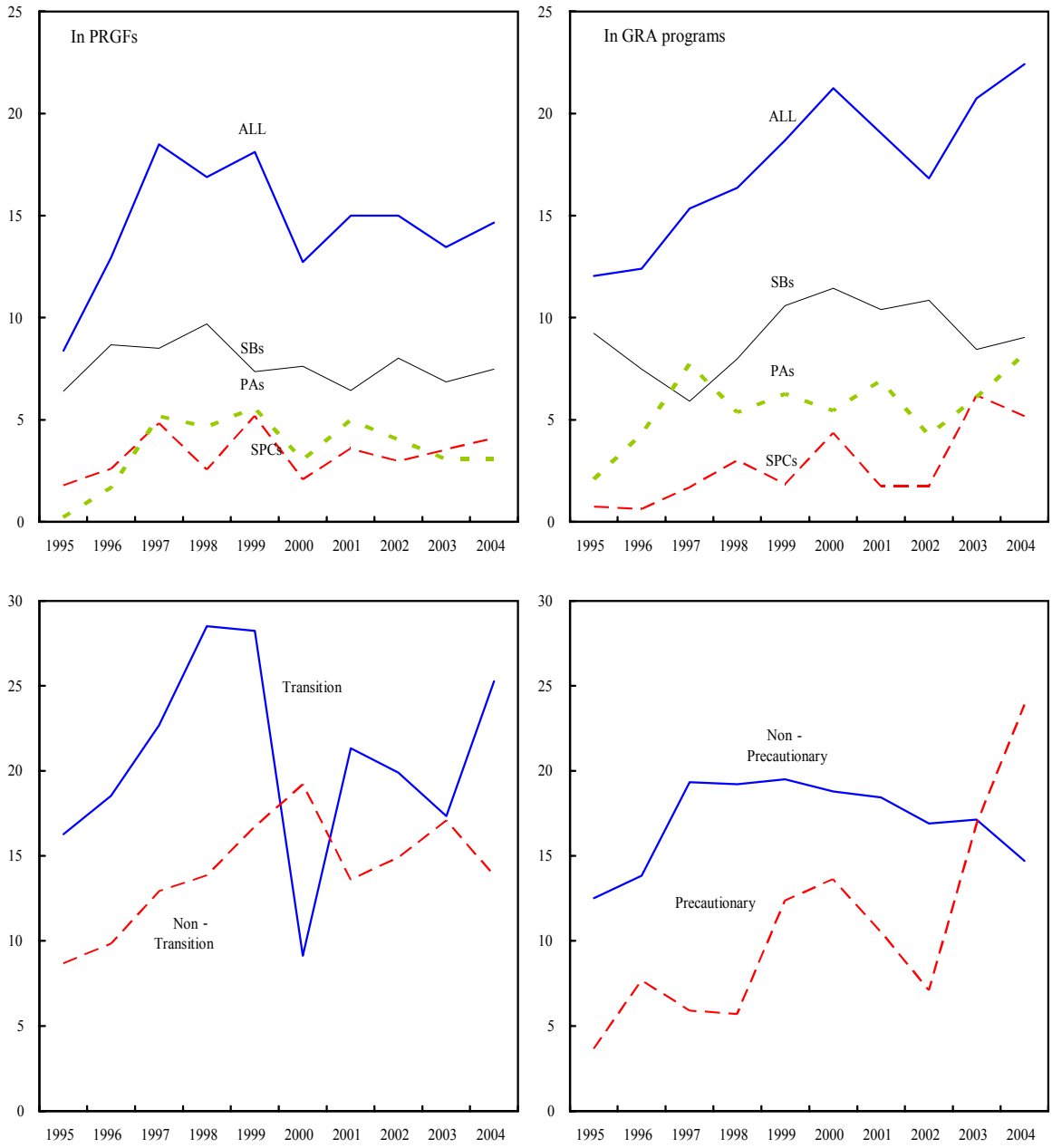
Source: MONA database.

C. The Sectoral Composition of SC

26. The sectoral composition of SC changed significantly after the introduction of the streamlining initiative. As shown in Figure 2.3, SC shifted out of privatization and trade reform towards measures related to tax policy and administration, public expenditure management (PEM), and financial sector reform. The numbers of structural conditions remained constant in the areas of SOE restructuring and regulatory reform. The changes are statistically significant at a 99 percent level of confidence and prevalent in both PRGFs and GRA programs. Other sectors such as civil service reform, social policies (i.e., social safety nets, education and health, poverty assessment issues), and other World Bank core areas (i.e., judicial reform, competition laws, marketing and pricing reforms, and design of policies in agriculture or roads) saw their shares of total conditionality decline.[10]

[10] This is consistent with PDR's findings in the Review of the 2002 Conditionality Guidelines (IMF, 2005a). That report notes that SC in both GRA programs and PRGFs shifted out of non-core areas towards areas in which the Fund shares expertise with the World Bank and toward IMF core areas. SC has shifted out of measures related to economic flexibility and private sector efficiency (i.e., privatization and trade), toward debt and financial vulnerabilities (in GRA programs), and toward economic management (in PRGFs).

Figure 2.2. Average Number of Structural Conditions Per Program Year, 1995–2004

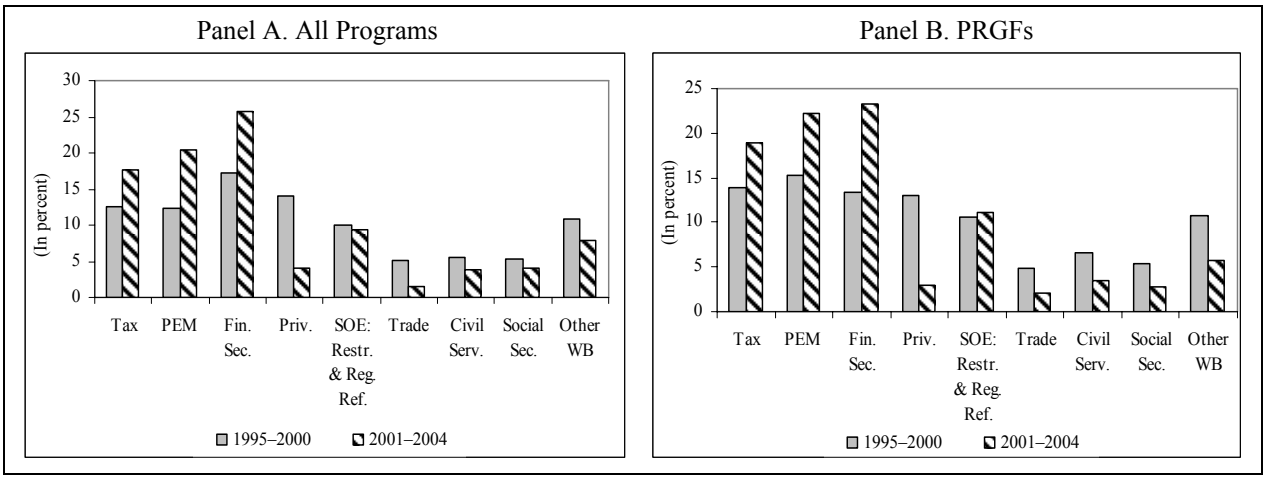


Source: MONA and IEO staff calculations.

27. The Fund's change in the focus of conditionality away from privatization, SOE reform, and trade happened at the same time as a similar change at the World Bank. As shown in Figure 2.4, the Bank was sharply reducing its conditionality on SOE restructuring, privatization, regulation and competition policy, and trade, while moving towards public expenditure management and human development (World Bank, 2005). In IDA countries, the

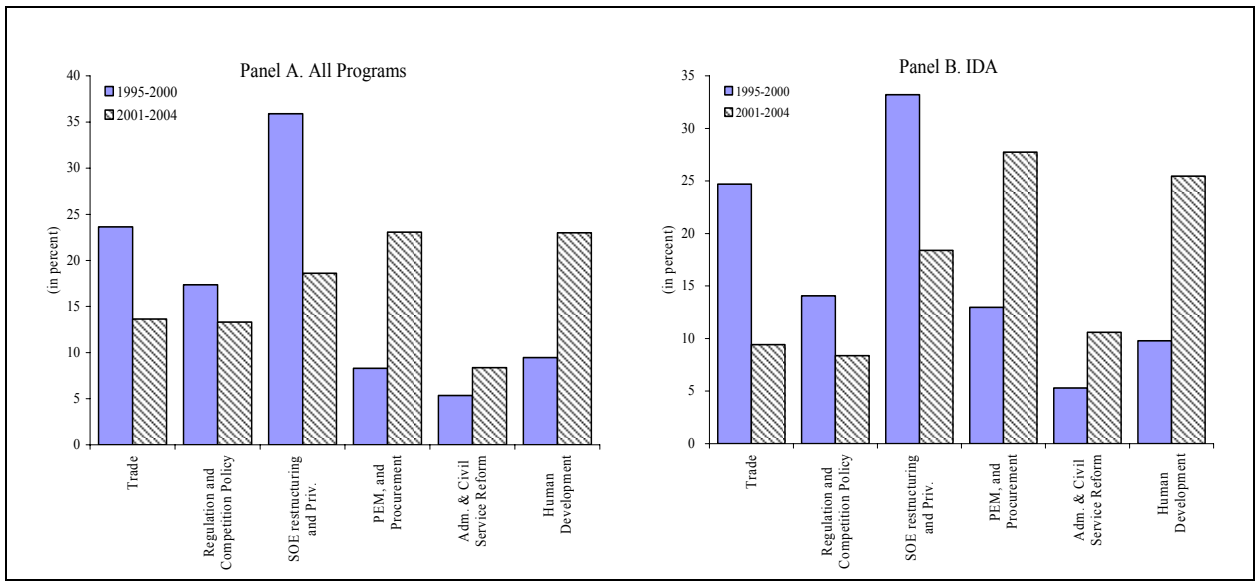
shift in focus of Bank conditionality was even larger, with the share of PEM reaching almost 30 percent and that of human development 25 percent.

Figure 2.3. Sectoral Composition of Structural Conditionality
(As a share of total of structural conditions)



Source: MONA database and IEO staff calculations.

Figure 2.4. World Bank's Structural Conditionality in Selected Sectors
(As a share of total structural conditionality)



Source: World Bank ALCID Database.

28. To sum up, during the evaluation period the overall number of structural conditions in IMF-supported programs did not change significantly, but their sectoral composition did. More recent programs placed less emphasis than those of the 1990s on reforms that aimed to increase economic flexibility or enhance private sector participation and efficiency—i.e.,

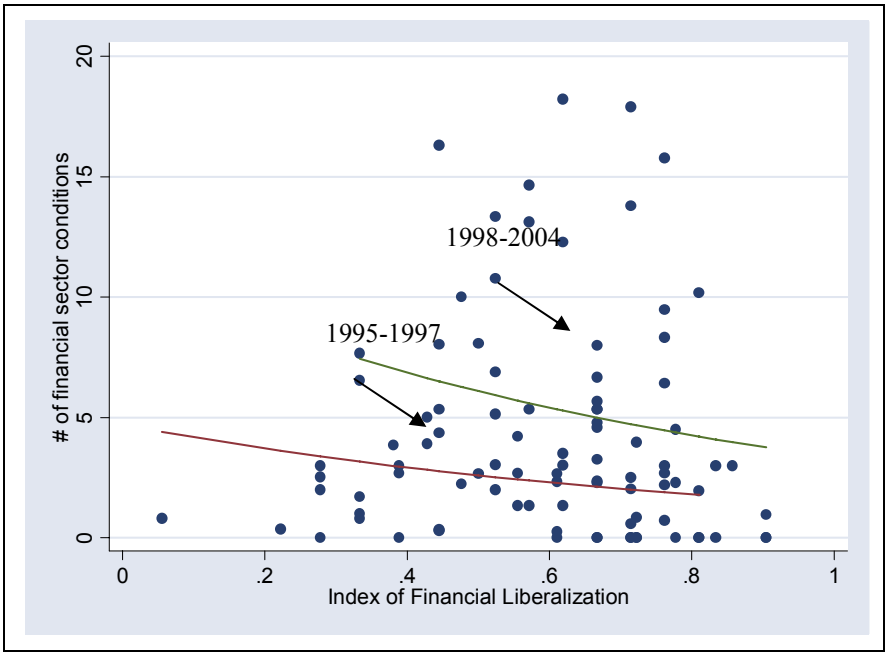
privatization, trade reform, or SOE restructuring. IMF SC has concentrated increasingly on financial sector issues, PEM, and tax administration and policy.

29. What has driven this change? One hypothesis is that SC changed because of a decline in the number and/or degree of economic distortions and structural impediments that may have made certain types of structural conditions appropriate in the 1990s. The fall in the number of privatization-related conditions might be explained by a fall in the number of SOEs to be privatized. Similarly, the smaller number of trade–related conditions might be explained by a reduction in barriers to trade. In the following sections we explore this hypothesis by comparing the number of structural conditions in a given economic sector with proxies for the pre-existing level of distortions in that sector. Owing to data constraints, the analysis is limited to four sectors—financial, trade, the public sector, and governance.

Structural conditions in the financial sector

30. Figure 2.5 shows the relationship between the number of financial sector structural conditions and an index of financial liberalization developed by the IMF's Research Department. This index attempts to capture the extent of distortions in the financial system by assessing characteristics such as government-mandated credit allocation regulations, or banking sector entry barriers (Abiad and Mody, 2003). The value of the index is normalized to the 0 to 1 range, with 0 being a fully repressed system and 1 a fully competitive one.

Figure 2.5. Financial Sector Conditionality and Financial Liberalization



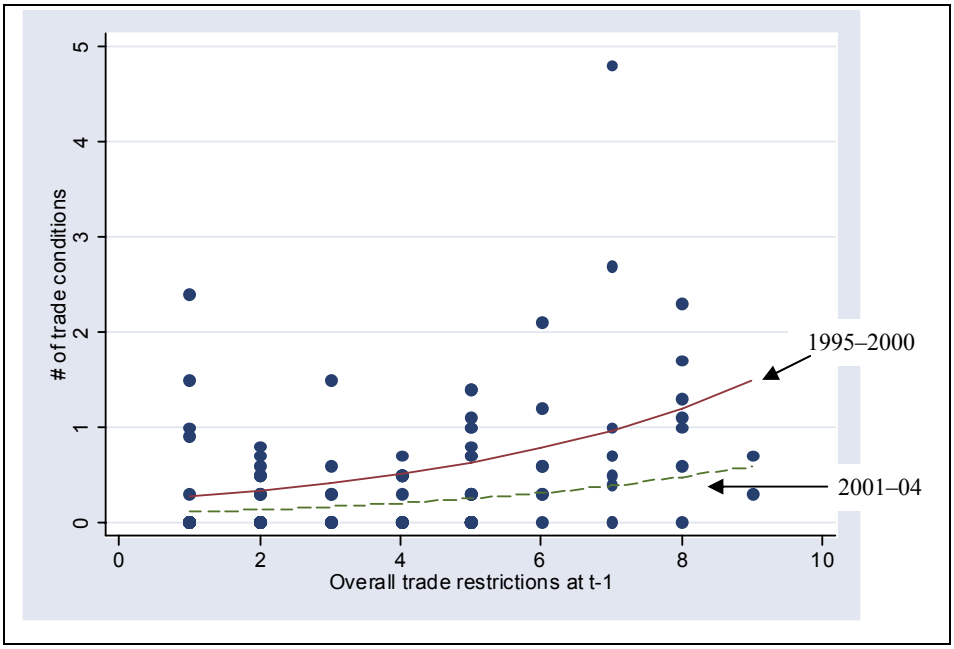
Source: IEO staff calculations.

31. Figure 2.5 shows that the number of structural conditions in the financial sector diminishes as the financial system becomes more competitive and less distorted. This correlation is significant at a 95 percent level of confidence. The figure also shows that for the same level of distortion the number of structural conditions in the financial sector increased in the aftermath of the Asian Crisis (post-1997). These results are consistent with the view that the driving force behind the shift in financial sector conditionality was the attention that the IMF was paying to financial reform issues in the aftermath of the Asian Crisis.

Structural conditions in trade

32. Figure 2.6 shows the correlation between a trade restrictiveness index, produced by PDR, and the number of trade–related structural conditions. This index ranks overall trade barriers—including non-tariff ones—from 1 to 10 with 10 being the most restrictive. The figure shows that the number of structural conditions in trade tends to rise with the level of trade restrictions; this correlation is significant at the 95 percent level of confidence. It also shows that this correlation shifted in the latter part of the evaluation period: for the same level of trade restrictions the number of trade-related structural conditions fell after 2000. Both relationships are significant at a 95 percent level of confidence, suggesting that the fall in the number of trade-related conditions was not driven by a reduction in trade restrictiveness, but by the Fund's own initiative to streamline its conditionality.

Figure 2.6. Trade-Related Structural Conditions and Trade Restrictiveness

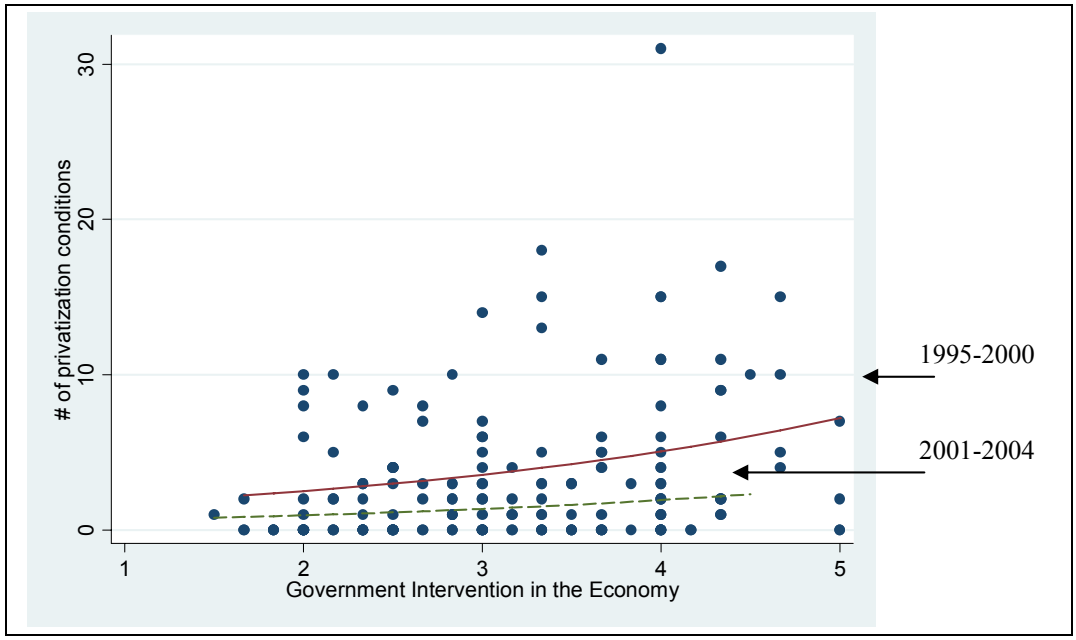


Source: IEO staff calculations.

Structural conditions in privatization

33. Figure 2.7 shows the correlation between privatization–related conditions and a measure of government intervention in the economy produced by the Heritage Foundation.[11] This index measures a government's direct use of resources for its own purposes and its control over resources through ownership. The 5-point index captures both government consumption and government production, with five representing the highest level of government command of resources. Figure 2.7 shows that the number of structural conditions pertaining to privatization rises with the relative size of the government, but that this relationship shifted after 2000. Both relationships are significant at a 99 percent level of confidence, suggesting that the fall in the number of privatization–related conditions was driven by the Fund's streamlining efforts and not by a reduction in the average level of government intervention in the economy.

Figure 2.7. Privatization-Related Conditions and Government Interventionism



Source: IEO staff calculations.

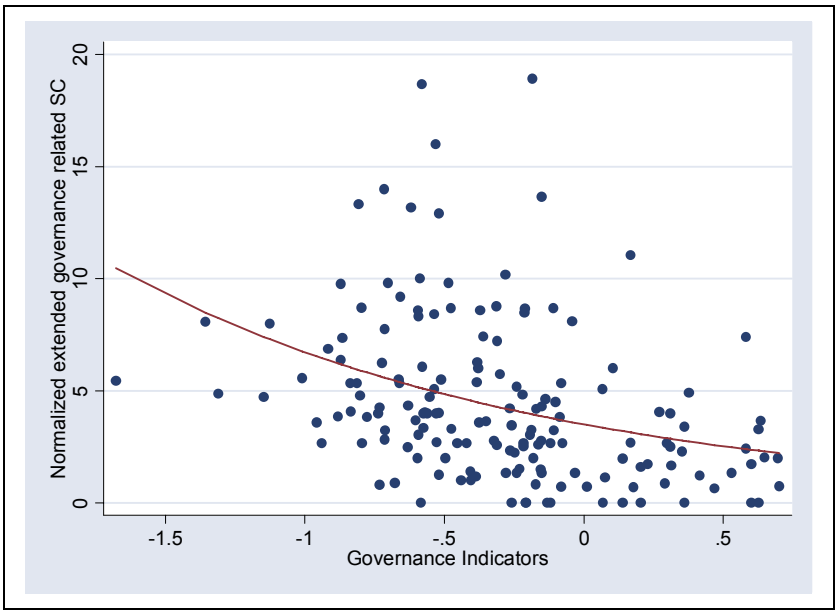
Structural conditions in governance

34. Figure 2.8 shows the correlation between the number of governance–related conditions—pertaining to anticorruption laws, procurement, reform of public enterprises, fiscal reviews, and expenditure administration—and a set of governance indicators for 1996–2002 created by Kaufmann and others (2004). The governance indicators capture six

[11] See http://www.heritage.org/research/features/index/chapters/htm/Index2006_Chap5.cfm for details on the methodology used in the construction of this index.

dimensions of governance: voice and accountability, political stability, corruption, government effectiveness, rule of law, and regulatory quality and are measured in units ranging from about -2.5 to 2.5, with higher values corresponding to better governance outcomes. The average number of governance–related structural conditions declines as governance improves, and this relationship is statistically significant at a 99 percent level of confidence. In this case, there is no evidence that the Fund's streamlining initiative had a statistically significant impact on the relationship between SC and the index of the quality of governance. This, however, may be the result of counterbalancing forces, with one of them—the adoption of guidelines on governance in 1997—leading to an expansion of conditionality in this area, and the other—the streamlining initiative—calling for parsimonious conditionality more generally (IMF, 1997).

Figure 2.8. Governance-Related Conditions and Governance Indicators, 1996–2002



Source: IEO staff calculations.

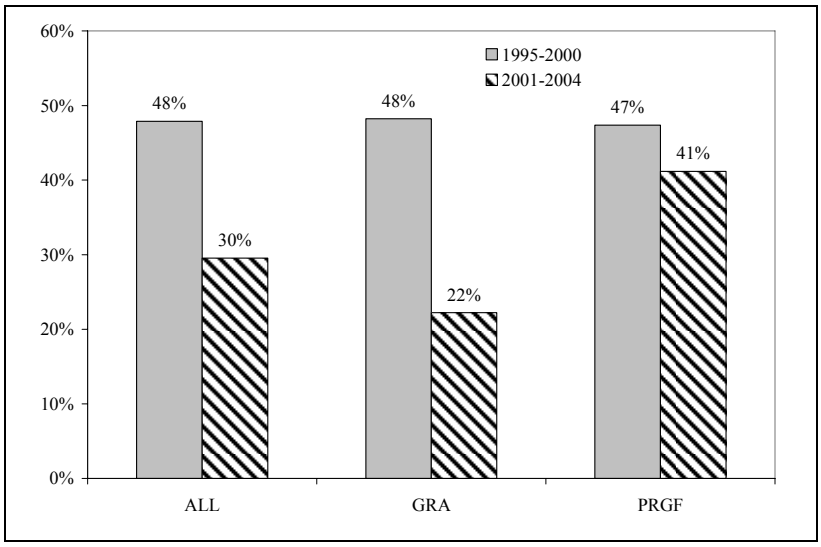
35. This analysis suggests that the IMF's reduction in emphasis on reforms aimed at increasing economic flexibility or enhancing the private sector efficiency—i.e., privatization, trade reform, or SOE restructuring—was driven by the streamlining initiative rather than by a reduction of structural impediments in borrowing countries.

D. Implementation of SC

36. To some extent, better implementation of Fund-supported programs—including SC—should be reflected by a larger number of completed reviews and thus more programs staying on track. Figure 2.9 shows the evolution of permanent interruptions of IMF-supported programs between 1995–2000 and 2001–04.

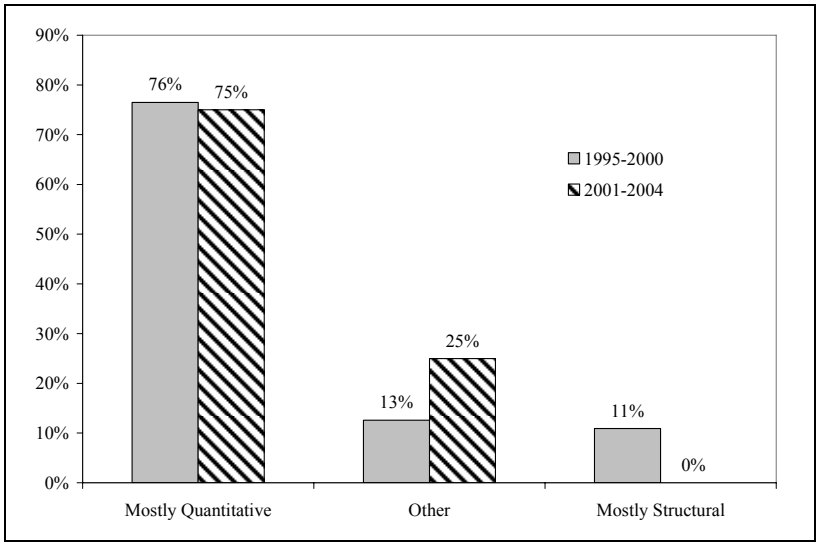
Figure 2.9. Permanent Program Interruptions

A. By number, as a share of expired programs



Source: MONA database.

B. By reason for interruption, as a share of total permanent interruptions



Source: MONA database, Program documents and IEO staff calculations.

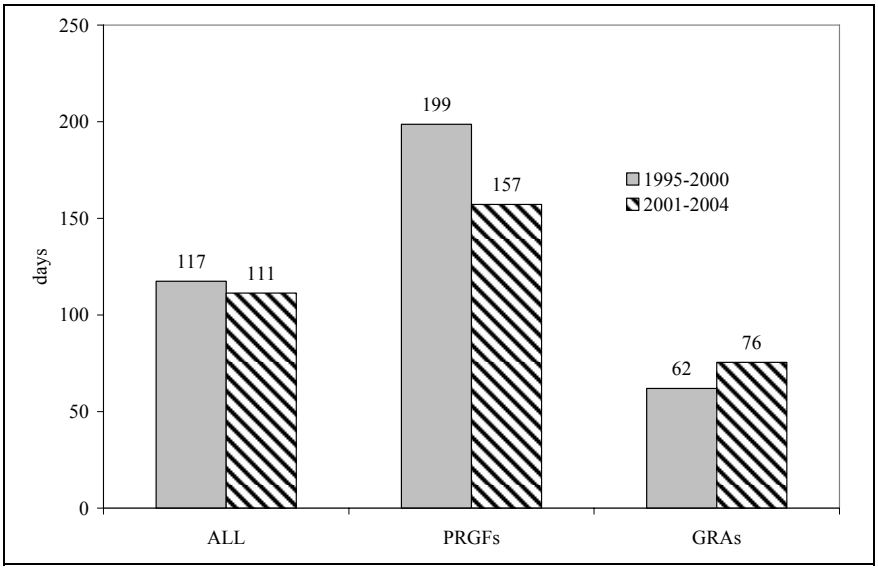
37. The share of Fund-supported programs that were permanently interrupted fell during the evaluation period. Between 1995 and 2000, close to half of all Fund-supported programs went permanently off track, whereas between 2001 and 2004 this share was only 30 percent. The change was driven by the drop in permanent interruptions in GRA programs, while program implementation in PRGFs did not change significantly.[12] In principle, better program implementation overall should reflect—among other factors—better compliance

[12] These findings, obtained with an extended database, are consistent with those of PDR in IMF (2005a, b).

with SC. Yet, a more detailed analysis of why programs went off track reveals that in the overwhelming majority of cases programs went off track because of deviations from quantitative conditions. Panel B of Figure 2.9 classifies the explanations for program interruptions provided in IMF country documents into three categories: "mostly quantitative," "mostly structural," and "others." Both before and after 2000, 75 percent of program interruptions were the result of non-compliance with quantitative conditions such as fiscal or monetary targets. Second in relevance were "other" factors, such as the outbreak of civil wars (Cote d'Ivoire 2002), or other forms of political crises (Papua New Guinea 1995 or Peru 1999). In a distant third place, we found lack of compliance with SC. These findings suggest that program interruptions are not highly correlated with compliance with SC and they raise questions about the usefulness of SC as a signaling device.

38. In principle, there should also be a relationship between program delays and the implementation of SC. Timely compliance with structural conditions should be reflected in timely completion of program reviews. Figure 2.10 shows that the duration of program delays did not change significantly from 1995–2000 to 2001–04. Among PRGFs, delays declined while among GRA programs they increased; however these changes are not statistically significant.

Figure 2.10. Program Delays, 1995–2004

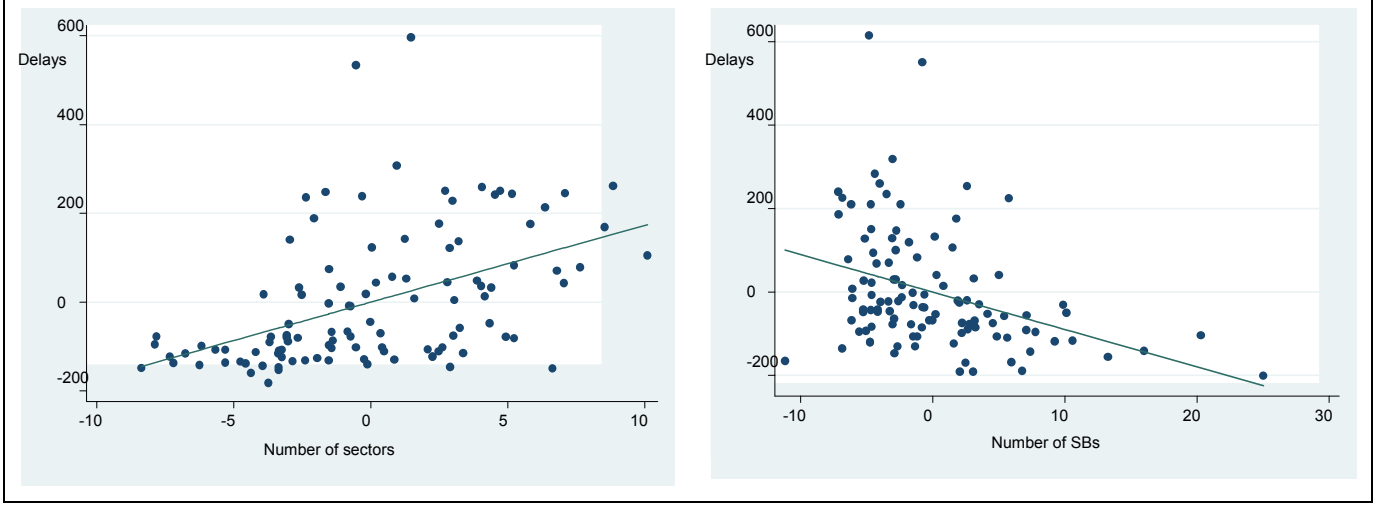


Source: MONA database and IEO staff calculations.

39. Figure 2.11 explores the correlation between program delays and two measures of SC: the number of SBs per program year, and the number of sectors covered by SC. Program delays are positively correlated with the number of sectors covered by SC and negatively correlated with the number of SBs. In other words, the more sectors supported by SC, the more likely are program delays. That said, and after controlling for the number of sectors, the

higher the number of SBs per program year, the less likely are program delays.[13] These results seem to suggest that reducing the number of sectors addressed by SC could improve implementability. An increase in the number of SBs, to the extent that it does not broaden the scope of SC, does not appear to hamper implementation.

Figure 2.11. Program Delays and Structural Conditionality



Source: MONA database and IEO staff calculations.

[13] These correlations are significant at a 99 percent level of confidence and robust when controlling for a variety of factors such as fiscal adjustment, disinflation efforts, or country dummies.