REPORT OF THE GROUP OF INDEPENDENT PERSONS APPOINTED TO CONDUCT AN EVALUATION OF CERTAIN ASPECTS OF THE ENHANCED STRUCTURAL ADJUSTMENT FACILITY

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PREFACE

We were appointed by a decision of the Executive Board of the IMF in October 1996, to conduct the first-ever independent external evaluation of the Enhanced Structural Adjustment Facility (ESAF). The evaluation group was originally made up of Dr Kwesi Botchwey - Harvard Institute for International Development (Coordinator and Convenor), Professor Paul Collier - Centre for the Study of African Economies, Oxford University, Professor Jan Willem Gunning – The Free University of Amsterdam, and Professor Yusuke Onitsuka - University of Tokyo. Following the unfortunate and untimely death of Professor Onitsuka, Professor Koichi Hamada of the Economic Growth Center, Yale University, was appointed as the fourth member of the group.

Our evaluation was intended to complement an extensive internal review of experience under ESAF-supported arrangements by the Policy Development and Review Department (PDR) of the Fund, which was expected to be concluded in the spring of 1997.

The group held its first meeting in Washington in April 1997 to discuss administrative arrangements, to conduct preliminary discussions with Fund staff, and with members of an Evaluation Group of Executive Directors charged with the general oversight of the successful conclusion of our work; and to make all necessary arrangements, for the release to us, of all relevant information in possession of the Fund.

We met again in July 1997 to finalize the administrative arrangements, reach final agreement among ourselves on country sampling and other procedural matters, and conduct further in-depth meetings with staff of the PDR and other departments working on the countries in our sample. Most importantly, at this time, we attended and participated in the meeting of the Executive Board devoted to a discussion of the full report on the PDR review of experience under ESAF-supported programs.

From about August through much of September and early October 1997, we undertook a program of country visits which we interrupted in the latter part of September to attend the World Bank/IMF Annual Meetings in Hong Kong, where we conducted further interviews with governors and senior officials from a large number of countries, including some countries outside our sample. We also met with a number of Executive Directors of the Fund and senior officials from the Bank.

We resumed and concluded our program of country visits after the Annual Meetings and finally congregated at the Centre for the Study of African Economies at Oxford to review our findings from the field trips, debate outstanding issues, and agree on the form and content of our final report, which we present here.

We would like to express our gratitude and appreciation to all those who assisted us in various ways. In particular, we would like to thank the members of the Evaluation Group of Executive Directors, the Executive Directors of our sample countries, the Director and staff of

the Office of Internal Audit and Inspection, the Director and staff of PDR, the African Department, and the Fund and Bank representatives in the various countries we visited. Above all, we would like to thank the ministers, government officials, private sector and trade union representatives, NGOs, and all others who gave us so much of their time during our country visits.

EXECUTIVE SUMMARY

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The terms of reference for this evaluation study distinguished three components: social impact, external viability, and ownership.

SOCIAL IMPACT

Although ESAF programs are often criticized for the uniformity of their design and policy focus, their social impact is highly diverse. There are instances of generalized initial losses in incomes and of generalized initial gains, of prolonged reductions in social expenditures and of sustained increases. The same social group may suffer severely in some ESAF programs and benefit in others: for example, ESAF radically lowered civil service real wages in Côte d'Ivoire while raising them in Uganda. Thus, the average experience across all ESAF programs conceals as much as it reveals, while a case study of an individual country is liable to be highly particular. Our approach has been to apply a simple analytic taxonomy, distinguishing a few important mechanisms whereby the poor might be affected.

We distinguish between two main channels by which ESAF programs can affect the poor: via private incomes and via social expenditures.

PRIVATE INCOMES

Private incomes are inevitably affected by ESAF programs; indeed, their ultimate purpose is that incomes should be increased on a sustainable basis. However, any policy change which seeks to raise incomes in the aggregate is likely to inflict some income losses. A useful distinction in analyzing these losses is between those which arise as a result of a fall in the aggregate income of society, and those which arise as a result of redistributions within society. In a well-designed program any aggregate losses will be temporary: policy reform is intended to raise aggregate income in the medium and long term. In some societies a temporary decline in aggregate income is unavoidable, the main instance of this being the transition economies. These economies have a large high-cost sector which reduces the potential for other sectors to expand and which must therefore itself contract, while lacking the organizations of private enterprise so that growth elsewhere is initially slow. Because the temporary losses in transition economies are widespread, the targeting of safety net responses may not be difficult; rather it is the sheer scale of need which may pose the challenge. National food-for-work types of intervention may be both simple and sufficiently self-targeting. The transition economies are, however, not the main focus of this study.

Most ESAF countries are not transition economies, although a few of them have one or other of the transition economy-type features. Hence, in most ESAF programs unavoidable income losses arise mainly or exclusively from redistributions between socio-economic groups. Whereas the

aggregate income losses in transition economies are inherently temporary in a well-designed program, the losses arising from redistributions are likely to be long-lasting because they are caused by relative price changes which are intrinsic to policy reform. Such income losses are thus both more particular, hitting pockets of people in the midst of more generalized improvements, and more long-lasting.

Safety net interventions are thus likely to need more targeting, and to last for longer periods. However, by no means should all losing groups warrant safety net intervention. The central issue is whether the losers are concentrated among the initially poor. Overall we concur with the main academic study on this question, which concludes that reform will "generally have positive effects on growth and income distribution".[1] That is, on the whole, the groups which lose from reform are concentrated among the initially better off rather than among the poor. However, this does not mean that there is no overlap between the poor and those who lose from the reforms. In some contexts income redistributions work against important sub-groups of the poor: we found this for maize growers in the remote regions of Zambia, estate workers in Malawi, and urban informal sector workers in Côte d'Ivoire.

The very particularity of these groups indicates that it is not possible to devise *a priori* safety net interventions which will work across ESAF programs. There is no substitute for detailed country-level work using socio-economic survey data. Usually, however, there is sufficient information available prior to ESAF programs for safety nets to be built into the program design. To date this has not been done. We recommend that the Fund draw formally upon the household poverty expertise of the World Bank, integrating projections of social impact into program design and monitoring the outcomes.

In some non-transition ESAF economies there have nevertheless been large, temporary contractions in aggregate income, Zambia and Zimbabwe being the main cases in our sample. While there were complicating circumstances due to drought, we conclude that a significant part of the decline in income was avoidable, being due to errors in the sequencing of the reform program. In both countries financial liberalization was, in our view, premature in that it preceded fiscal stabilization and considerably delayed its attainment. We are also concerned about the sequencing of some structural reforms. Some reforms which would have enhanced the ability of the poor to benefit from the ESAF program should have been given earlier priority. We recommend that at the stage of program design, sequencing issues be explicitly analyzed.

The main scope for poverty reduction through rising incomes occurs in the post-stabilization phase of ESAF programs. Whereas in the stabilization phase it is usually appropriate and indeed essential that fiscal and external deficits should be reduced, in the post-stabilization stage the

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[1] D.E. Sahn (ed.), *Economic Reform and the Poor in Africa*, Oxford:Clarendon Press, 1996, p. 22.

most important objective may be to increase the investment rate so as to achieve sustainable rapid growth. In low-income ESAF countries both the scope for, and the desirability of, financing increased investment through domestic savings is limited. A successful, post-stabilization ESAF economy is likely to have a phase in which deficits temporarily increase again as investment is financed by increased aid and private foreign capital. Since it now appears that aid effectiveness requires that aid be targeted on good macro-policy environments, there is potentially a serious conflict between the common Fund practice of planning for a rapid tapering off of total aid in post-stabilization situations, and the donor objective of increased aid effectiveness. We recommend that ESAF should have a continuing role in stabilized low-income countries, but that a sharper distinction be drawn between the phase in which policy is oriented towards stabilization and the phase in which it is oriented towards growth. In the latter, it may be appropriate for the investment rate to become a monitorable program objective. The original purpose of ESAF as stated by the Board on December 15, 1987 was "to promote in a balanced manner" the objectives of payments viability and growth. This balance should, in our view, be achieved through a changing emphasis over the duration of programs.

Partly as a result of the success of ESAF, there are now several low-income African economies which have recently achieved a satisfactory policy environment. These countries (Uganda in our sample) are currently growing rapidly. However, their investment rates remain low: current high growth is the tempory pay-off to policy reform. This conjunction of high growth and low investment is not sustainable: either investment must rise or growth will decelerate. The increase in investment cannot be financed predominantly from domestic savings because incomes are so low: both enhanced private and public capital inflows will be needed until incomes have risen.

Private investment is currently deterred because these environments are rated as highly risky. The risk ratings for the newly reformed economies are improving, but from a very low base, and it will take another decade before the ratings reach the level of the current NICs at which major investment inflows become likely. Recent research has shown that in the reformed policy environments aid acts as a catalyst for private investment: each dollar of aid induces almost $2 of investment. Hence, investment inflows can be increased both by increased aid inflows and by a reduction in the perceived risks. In both of these the Fund has a key role.

The Fund can reduce perceived risks by signalling that a country has reached the phase in which the macroeconomic policy environment is satisfactory for private investment. In this phase, the key role of the Fund is the surveillance of policy maintenance through the monitoring of a few key variables, rather than the negotiation of further promises of policy change. However, surveillance in itself may not be sufficient to achieve credible certification. To be fully credible, the Fund should put its own resources at stake and so have a Program. However, it is essential that such a program be clearly distinguished from those which are designed to cope with crisis recovery. Countries would be seen to graduate out of a crisis period, into a second phase of

rising investment, before they graduated completely out of Fund programs. The graduation into this second phase would constitute a powerful signal to the investment community. It would also constitute a signal to the donor community. There is now compelling evidence that aid is effective in, and only in, satisfactory macroeconomic policy environments. The Fund has a key role in certifying that such an environment has been attained. Clearly, maintained Fund financing in these environments adds credibility to the message that donor funds should appropriately increase. The Fund itself is not a development finance institution and should not become one. Rather, its new role for this group of graduated, but investment-scarce countries is temporary, in the initial phase of a reformed environment. The recent wave of reforms and temporary high growth in Africa has thus created a window of opportunity. The Fund is instrumental in whether this opportunity is seized.

SOCIAL PROVISION

The provision of social services can be affected by an ESAF program in four distinct ways. First, if ESAF raises or lowers GDP then, if all other ratios stay unaltered, real per capita social service provision will change accordingly. Secondly, ESAF may change the share of government expenditure in GDP. Thirdly, ESAF may change the composition of public expenditure. Finally, relative price changes may change the amount of service provision which a given value of public expenditure will purchase. Each of these four routes for change has been important in one or other of the countries in our sample, and for each of the routes there are examples both of improvements and deteriorations in social provision. We are, however, concerned that there has been excessive focus on one of the channels, namely, the composition of public expenditure. In our sample often the most important changes in social provision arose from changes in its relative price, yet this appears to have gone unremarked. We recommend that the Fund present data on the provision of social services in a standardized format which decomposes changes into the four components set out above, so that governments can more readily see what is happening and why.

A further factor affecting social provision is the volatility imposed on certain components of public expenditure by the operation of the cash budget. There is no easy solution to this problem. However, in some countries there is a clear trade-off between the procedures which have proved effective in controlling expenditure in aggregate and the efficiency of public expenditure. A mechanism such as the cash budget which substantially reduces the efficiency of expenditure, should be regarded as a temporary stop-gap rather than as constituting a solution. Better forecasting of the intra-year pattern of revenues and a more appropriate pattern of expenditure smoothing will be necessary as countries graduate from the circumstances of fiscal crisis.

While in our view there is no systematic tendency of the poor to lose disproportionately from ESAF programs, there are important sub-groups of the poor which are so weakly integrated into

the economy that they are left behind during growth. In Uganda, growth has been predominantly urban-based, and subsistence farmers have not been in a position to benefit. In the medium term, re-integration of these groups into the market economy will raise their incomes. In some countries there is a conflict between this medium-term objective and the short-run objective of revenue maximization. In Uganda, both the current high level of petroleum taxes and the previous windfall coffee tax work to slow integration of rural households into the market. There are again no easy solutions to such problems, but government choices should be made in the context of a more informed appreciation of the costs of taxation. In the short term, the best way of improving the living standards of these economically detached households is through increased provision of basic social services. In the context of rapid growth, rising rural social provision is likely to be affordable and could reasonably have been included as monitorable program objectives.

Our recommendations on social impact are as follows:

First, in our view the Fund should not invest in building up expertise in poverty analysis. Rather, we recommend that at the stage of program design the Fund formally asks the Bank to identify ex-ante which groups, among the poor, are likely to lose from the proposed reforms. The Bank would then provide the Fund with projected time paths of the real incomes of the main groups of the poor and also with projected outputs of social services. The output projections for social services would take into account the relative price changes which we have identified as so substantial that they can radically change the conclusion from social indicators. The projected time paths would be incorporated in program documents, along with the traditional fiscal and monetary monitoring variables. Whether a program would be considered in need of revision would be decided in part on the basis of a comparison of outcomes with these projections. Clearly, the time lag for income data is much longer than for financial targets. However, its use in assessing whether the outcome of a program was consistent with the initial projections would be salutary since major deviations would require explanation.

Second, in program design, trade-offs between the short and the long run should be explicitly analyzed. This analysis would address sequencing issues, the efficiency costs of revenue measures, the need for front-loading of slowly-maturing structural reforms and the appropriateness of cash budgets.

Third, in the area of fiscal policy, where the macroeconomic concerns of the Fund and the microeconomic concerns of the Bank currently overlap, collaboration between the Bank and the Fund should be increased. Specifically, boundaries need to be more clearly delineated and where overlaps are accepted a more formalized requirement for joint analysis and decision should be negotiated so that country-level staff are clear about their respective powers and duties.

Finally, in already-stabilized economies the Fund should shift from ex-ante negotiation of short-term targets and policies to an ex-poste evaluation over a longer period. This would help reforming governments in building reputations and would enable the Fund to play a useful role in potential ESAF countries which now reject the instrument. In post-crisis economies the Fund would focus on encouraging and managing increased external inflows, public and private. Except in the transition economies, ESAF funds would taper in with adjustment rather than taper out. Conversely, the Fund would be more circumspect in providing support in stabilization contexts where the commitment of the government is in serious doubt.

EXTERNAL VIABILITY

ESAF as an instrument is unusual in that it is not used as budget support (except in the Franc Zone). It thereby directly affects only private incomes and not social expenditures. Its impact on private incomes is through the exchange rate. Inadvertently, this has the effect of implicitly taxing exports. While this is an inevitable feature of all public transfers, it is usually offset by the beneficial effects of increased public service delivery. We recommend that ESAF be provided as budget support, as indeed already applies in the Franc Zone.

Since an ESAF program mainly consists of the provision of a concessional loan, it should be analyzed from an intertemporal perspective. The current account of the balance of payments is the difference between savings and investment, as well as the difference between export and import. It can also be regarded as the difference between savings and investment, which is an intertemporal concept. As Yusuke Onitsuka demonstrated, a typical nation goes through a dynamic pattern that starts from a debtor position and then approaches a creditor stage in its process of economic development. In this dynamic path of growth, or in the optimal growth path, such indicators as the debt service ratio and the debt/GDP ratio do not necessarily stay constant. According to modern macroeconomics, current account surplus emerges for a nation that expects a decline in the future (permanent) income.

There are many indicators of the external viability of a nation. As the numerators, we take debt service (flow variable), at one time, and debt outstanding or the net present value (NPV), at another. For the denominator, we use export and GDP. The combination of these creates debt service ratio, for example, which is equal to debt service divided by export. All the combinations are static in nature, except the concept of NPV, which is the discounted sum of all future obligations.

In this report, we propose the use of more dynamic concepts: Real External Burden of Debt (REBD) developed by Obstfeld and Rogoff (1996), and the Debt Deepening Index (DDI). REBD indicates the rate of the change in the Debt/GDP ratio in the absence of the current account deficit (or surplus), and DDI indicates the rate of change in the Debt/GDP ratio under the actual current account balance.

In particular, we consider that the ratios with respect to export are overemphasized in the practices of the ESAF program and the HIPC initiative. For example, the debt service ratio (i.e., the ratio of debt service to exports) and debt service/GDP ratio could produce a quite different ranking in the viability of nations because of the difference in the degree of openness of nations. We suggest that equal or possibly more weight be given to the indicators related to GDP, than those related to export.

Our recommendations on the issue of external viability are as follows.

As indicators of external viability of a nation, one should rely more on debt service/GDP and debt/GDP ratios since the former ratios are less affected arbitrarily by the degree of openness of a nation than the latter ratios. In order to supplement the static nature of the above ratios, one should also refer to the Real External Debt Burden (REDB) as well as to the Debt Deepening Index (DDI). Net Present Value (NVP) of debt is indeed a dynamic concept, but it should be matched not only with the current GDP, which is a static concept, but with the net present value of the national income of a nation or the net present value of the savings-investment balance.

As discussed above, debt service ratio to export ratios and debt/export ratios are less reliable indicators than debt service ratio to GDP and debt/export ratio, because those ratios to export are overly sensitive to the openness of the economy.

OWNERSHIP AND GOVERNANCE ISSUES

The one common theme that runs through perceptions at the country level is a feeling of a loss of control over the policy content and the pace of implementation of reform programs. On the one hand, there is broad agreement that ownership is a necessary condition of successful policy reform and program implementation. This much is acknowledged in official declarations of both donor and recipient governments, and by most multilateral institutions, including the Fund, the Bank and the regional development banks. Academic writers who have researched the subject also find, predictably in our view, that high conditionality programs do not generally do well, and the PDR's recent review confirms this view implicitly in its finding that a substantial proportion of program interruptions is attributable to policy disagreements between the staff and governments.

Our review of country experiences also shows a correlation between the degree of ownership and successful program implementation. Vietnam, especially before the ESAF program, Uganda, Ghana, and to a lesser extent, Côte d'Ivoire and Bangladesh before the instability of the Ershad period, are good examples.

On the other hand, in spite of the general consensus, it has not been possible to move matters beyond mere theory. On the donor side, development cooperation ministries and offices point to the need to explain to taxpayers how their money is used abroad. This is a real enough political problem, although it must be noted, it is in practice often aggravated by public misconceptions about the size of aid in relation to national budgets, the role of aid in domestic economic crises, and the extent of true charity in aid flows.

On the part of the multilateral institutions, there is the sheer weight and convenience of established practice and the commanding authority that comes with controlling the purse, to say nothing of the genuine difficulties that complicate attempts at giving operational meaning to the concept of ownership.

The challenge therefore is how to foster strong country ownership and at the same time, provide adequate assurances to both multilateral and bilateral sources of financial assistance that their resources will not be wasted. The solution, in our view, lies not in reducing ownership to persuading the country to adopt what others want, but to find a middle ground that enables the country to develop and build consensus behind a program capable of achieving sustainable growth. This requires actions both at the country level to improve the decision-making and consensus-building processes, and by the Fund to make the negotiation process and conditionality regime more supportive of country ownership.

Accordingly, we make recommendations for country initiatives, as well as for modifications in the Fund's operating procedures. Without prejudice to our general and country-specific analysis on ownership and to the suggestions we make by necessary implication, we propose the following specific recommendations:

i) Initiatives at the Country Level:

The country itself should, first and foremost, take steps to define its medium to long-term vision, and the policy agenda that goes with it before it begins formal negotiations with the Fund, the Bank and other agencies. For this purpose, the country should avail itself of all possible sources of technical assistance, including those of its nationals abroad and technical assistance from the Fund which many countries acknowledge is particularly helpful in such circumstances. The country then should take steps to build a body of national consensus behind such a national program.

It is obviously for each country to decide how national consensus can be built in the most effective way, and no iron laws can be laid down in these circumstances. Moreover, the idea is not to make this yet another conditionality, as it is tending to become with particular regard to donor demands for civil society participation. However, on the basis of the experiences of countries that have managed to create space for sustained policy reform through national

dialogue, we recommend, for the consideration of the countries themselves, (i) the creation of economic management teams (EMTs) made up of the economic and social sector ministries and political leaders to oversee the reform process so that it does not become the exclusive business (and burden!) of the Minister of Finance, and (ii) the holding of national conferences where alternatives and trade-offs can be openly debated.

ii) Initiatives by the Fund

Side by side with what we propose should be done by the country to develop ownershp, we recommend that the following steps be taken at the level of the Fund to enhance national ownership in negotiating agreements.

First, we recommend that at the earliest opportunity and at a sufficiently high management level, the Fund engage in intensive and informal policy dialogue with the country's political leadership in order to understand the country's political constraints and possibilities and, in this way, be able to form the right political judgement for determining the mandate for formal negotiation with the country.

Second, we recommend that the timing and duration of missions be arranged to allow adequate time for country preparation in advance of negotiation and consensus-building during the negotiation process itself.

Third, and perhaps most importantly, we recommend that steps be taken to relieve the widespread concerns about the Fund's perceived inflexibility in negotiations through the introduction of an element of choice in the negotiation and conditionality regime. We accordingly recommend that some flexibility be built into the mandate for negotiations in the current essentially ex- ante negotiation and conditionality regime. One of the ways, but by no means the only one, in which this could be done is to formulate alternative program paths through the negotiation process, leaving it to the country to decide, with the advice of the staff, what best (or better) suits its particular circumstances. We recognize and discuss some of the operational problems and risks associated with such a flexible regime more fully in the text of our report. At the very minimum, each alternative program path would need to satisfy a minimum condition of viability in order not to saddle the Fund with uncceptable risks of program failure but more importantly, to guarantee the country sustainable growth.

Next, we recommend that the Fund develop a more systematic mechanism for providing ex-poste support for country-initiated, or home-grown, programs. We believe that this will enable the Fund to play an important role in countries with balance of payments need but where agreement is impossible or delayed although the areas of convergence between the Fund and government are substantial, or where a government feels unable to accede to formal agreement with the Fund for mainly political reasons. We believe that an essential element of such a mechanism

of ex-poste support for home-grown programs would be the provision of technical assistance to the countries wishing to develop such programs as this will improve program quality and commensurately, the need for exiting for reasons of default. Such a system will need to have entry and exit points to make it workable. The point, however, should be to strive to reduce the prospect of such programs breaking down and therefore, to minimize the risk of exits which can be disruptive and costly to the country in the end. The entry point could be triggered, for instance, by a major reform initiative by the government, such as a strong budget or a major adjustment to an overvalued exchange rate.

We also recommend that ways be found to both humanize and de-mystify the Fund's image, so as to assuage the political hazard that countries perceive to be associated with dealing with the Fund. Here, we have in mind, not so much the dramatic new initiative by the Bank to send staff members on missions to villages (presumably with knapsacks containing bottled water and frozen food on their backs!), but simpler ways in which Fund staff can have more systematic and interactive contact with a broad cross-section of stakeholders in the countries. In our view, the PFP process rather than the Article IV consultative mechanism could provide a convenient forum for these broad-based contacts because of its forward-looking policy focus.

In the area of Fund/Bank cooperation, we note that against the background of increasing overlap in the work of the Fund and the Bank, with the Fund becoming more "structural" in focus, while the Bank gets more "macro", it is particularly important that Bank/Fund relations be better coordinated because they have an obvious bearing on country ownership. Policy choice by the country is not helped when the Fund, the Bank (and donors) pull the country in different directions. We recommend therefore that urgent steps be taken to develop, through close consultation between the two institutions, more effective and operational instruments of coordination.

Finally, in order to reinforce these strategies to foster country ownership, we strongly recommend that resident missions be established in all ESAF countries. We recommend further that resident missions be strengthened by the devolution of more authority to them, especially in matters that are dependent on knowledge of the concrete domestic situation, and also through the selection of high-flying, technically strong, and politically mature staff to head them. We believe that a strengthened resident mission is a more effective way of addressing concerns about program interruptions than intensified monitoring and frequent visits by headquarters-based staff.

INTRODUCTION

INTRODUCTION

After over a decade of ESAF and, before it, SAF, programs in low-income countries, in Africa, Asia, and Latin America, and against the background of uneven outcomes, it is understandable that there should be so much debate in development circles about their effectiveness as instruments for bringing about sustainable poverty-alleviating growth. In the light of this continuing debate, and as part of its own program of internal evaluation, the Fund has conducted two major reviews of experience under the ESAF. The first one, discussed by the Executive Board in March 1993, covered the performance of 19 countries through mid-1992.[2] The second one, discussed by the Board in July 1997, covered countries that began ESAF-supported programs before December 31, 1994, numbering 36. But the debate on country performance under the ESAF has continued, with a particular focus on its effectiveness in bringing about poverty-alleviating growth. In the circumstances, the Executive Board decided that the second internal review done by the Policy Development and Review Department (PDR) should be complemented by an external evaluation, also to be completed in 1997, using mainly a case study approach.

Our terms of reference requested us to conduct an evaluation based on this approach, and to present unified conclusions for the design and implementation of ESAF-supported programs and the ESAF instrument focusing on three key topics, namely:

1. Development in countries' external positions during ESAF-supported programs;
2. Social policies and the composition of government spending during ESAF-supported programs;
3. The determinants and influence of differing degrees of national ownership of ESAF-supported programs.

Our terms of reference also required us to select a sampling of countries, numbering between four and seven, that was geographically diverse and included both strong and weak performers for each of the three topics, allowing for as much overlap as possible.

Accordingly, we agreed to evaluate Côte d'Ivoire, Malawi, Uganda, and Zimbabwe together; we covered the external viability and ownership issues for Bangladesh and Vietnam, the ownership issues only for Bolivia, and the social issues only for Zambia. Our method of evaluation was based both on surveys in the field, in which we spoke to a very wide cross-section of stakeholders in each country, and also on a thorough reading of internal Fund documents, as well as other available literature. Although the three topics we were asked to focus on are not

[2] Economic Adjustment in Low-Income Countries; Experience under the Enhanced Structural Adjustment Facility. IMF Occasional Paper No. 106, September 1993. The conclusions of the Executive Board discussion of this evaluation are published in the 1993 Annual Report of the IMF, pp. 61-64.

exhaustive of all the concerns that have been expressed in the continuing debate, we believe that they are among the major ones.

In the area of external viability, savings performance has been disappointing in relation to rising, even if modest, growth and improved macroeconomic policies in ESAF countries. Current account deficits have therefore seen little reduction on the average over the decade of ESAF-supported reforms, while the stock of debt of ESAF users has about doubled over the period 1985 to 1995.

The issue, therefore, is how can these problems be addressed, and what trail should a search for solutions follow. We note first that the current account of the balance of payments reflects a process of the inter-temporal choices of a nation. The main component of the current account is a trade balance which is essentially export minus import. Through national income identity, export minus import equals savings minus investment. The latter is a dynamic concept and can be interpreted as a result of inter-temporal optimization, a factor which has been relatively neglected in the discussion of external viability.

As is already shown by Onitsuka (1974), the normal and optimal process of capital accumulation of a growing economy is not proportional to its growth. First, external borrowing increases, domestic capital accumulation follows, repayments of borrowing starts, and finally the country converges to a steady borrower or a steady lender state where the debt and GDP grow more or less proportionally. Whether the country ends up with a borrower position or a lender position depends upon whether its people are more patient or less patient than the average people of the world.

From these perspectives, we have to reexamine various concepts of external viability. The ratio of exceptional finance is a good measure because it shows the degree to which a country should rely on non-market forces. Any ratios to export, like debt-service/export ratio, and debt/export ratio, are under suspicion because they are too sensitive to the openness of the economy. Debt-service ratio to GDP has better characteristics, but it is a static concept because it does not take into account the growth capacity of a country. We propose the use of Real External Debt Burden (REBD) prepared by Obstfeld and Rogoff, and the Debt Deepening Index (DDI) which built on REBD. REBD is the change in the debt/GDP ratio if the current account is balanced, or the equivalently current account surplus as a fraction of GDP that is needed to keep the debt/GDP ratio constant. DDI is the change in debt/GDP ratio that develops from the asset dynamics, and the ongoing current account, or equivalently the current account that is short of the current account corresponding to REBD.

The net present value (NPV) is a dynamic concept. If one matches it with static concepts like export and import, the comparison is between two different dimensions, stock and flow.

The social impact of ESAF programs has also been controversial. Critics of the programs have claimed that they have accentuated poverty, whereas supporters have claimed the opposite. There are two broad mechanisms by which the poor can be affected by adjustment programs: through changes in their incomes and through changes in social expenditures. The PDR Report did not give priority to analyzing the social costs, leaving this explicitly as an area for the external review although it did investigate the effect on social expenditures, finding that they were on average protected.

Policy change can reduce or increase incomes, either of society as a whole or of particular groups. The transition economies are the most extreme example of society as a whole bearing short-term costs for long-term benefits. Since there is no doubt about the need for radical change in these economies, the policy issue is the extent to which social safety nets can be put in place. In the more usual ESAF case, the main social affects arise not because of temporary, society-wide losses but because of long-lasting redistributions consequent upon relative price changes. Here, one controversial issue is whether groups which lose consist of poor people since the compensation of better-off losing groups need not be a priority. A second controversy has been whether ESAF programs have, as a result of either sub-optimal sequencing or public expenditure reductions, imposed avoidable temporary contraction on the economy.

Policy change can also reduce or increase the delivery of basic social services. The most controversial issue has been whether ESAF programs have unnecessarily squeezed social expenditures, either as a side-effect of generalized reductions in public expenditures, or because of an adverse change in the composition of expenditures. This is the issue on which the adjustment literature has focused. However, there are other ways in which social provision can be affected through ESAF programs, notably through relative price changes. The provision of social services may change substantially during adjustment, not because of a change in budget allocations but as a result of induced changes in the cost of provision.

In the area of ownership, in spite of near unanimity among all concerned – governments in both recipient and donor countries, the international and regional financial institutions, the Development Assistance Committee (DAC) of the OECD, and the overwhelming weight of public opinion in developed and developing countries alike, that reform programs should be "owned" by the reforming countries - the debate on the subject has continued unabated. On the one hand, the DAC and its members, and their supporting financial institutions have continued to profess their good intentions while recipient countries have, for their part, continued to protest their frustration.

The problem has been to define the concept of ownership for operational purposes. While it is indeed possible, as a number of academic writers and practitioners have demonstrated,[3] to define ownership with a reasonable degree of intellectual rigor, it has been difficult, for reasons of domestic political considerations and the deadweight of tradition and habit in development cooperation offices and in the Fund and Bank alike, to reconcile the declared intentions with practice.

Donors tend to see ownership as an acceptance by the recipient country of donor-driven priorities and programs, and the same sentiment often lurks behind affirmations of the need for country ownership by Fund and Bank staff. For the external agents then, it is as if the whole struggle is about getting the countries to "volunteer to adopt" donor-driven programs. [4]

Thus, a number of issues still need to be addressed in order to move the matter beyond the domain of political correctness to actualization. These include the following:

i) What does ownership mean? What are its distinguishing determinants, and what are their relative weights and influences on program sustainability?
ii) How can ownership so defined be reconciled with a regime of conditionality that triggers access to resources, not only from the Fund and the Bank, but also from all other official development assistance sources?
iii) To the extent that a negotiated program is always a product of a largely lopsided compromise, especially for countries that have no alternative sources of financing, under what circumstances can it still be "owned", if at all, by the country?
iv) Given the legitimate need to ration scarce resources in support of "correct" or "appropriate" policies that have a reasonably good chance of success, and in a situation where there are no arbiters nor appellate bodies, what sort of conditionality regime can both achieve efficiency in the use of external resources and also address the concerns about national ownership?

In this review, we have attempted to test, through the case studies, a number of hypotheses, including a definition of ownership based on the "rooting" or "anchoring" of the reform program in country support, and determinants of such ownership that relate to program authorship or origination, the scope of societal support, the level of government commitment, the role of specific initiatives by government and by the Fund in promoting ownership, and the role of the Fund's operating methods in fostering or inhibiting country ownership. We

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[3] See, for instance, Helleiner, G. K. (forthcoming), "External Conditionality, Local Ownership and Development", in Jim Freedman (ed.), *Transforming Development*, University of Toronto Press. Also K Botchwey, "Obstacles to Continued Reform: An African Perspective" in Laura Wallace (ed.), *Developing Structural Reform in Africa: Lessons from East Asia*, Washington, D.C.: IMF, 1996.
[4] Helleiner., p. 7.

then make some recommendations for developing country ownership on the basis of common themes derived from the country experiences and lessons that they offer.