INTERNATIONAL MONETARY FUND

STREAMLINING STRUCTURAL CONDITIONALITY: REVIEW OF INITIAL EXPERIENCE

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Contents

Box 1: Streamlining Conditionality—Further Considerations

This paper is part of a set of documents that have been prepared for consideration by Directors at their next discussion of Conditionality. The companion papers are *IMF-World Bank Collaboration on Program Conditionality*, which has been prepared jointly with the staff of the World Bank and which addresses the current framework for collaboration on program design and conditionality issues between the two institutions, and suggests ways in which this might be strengthened; and *Conditionality in Fund-Supported Programs: External Consultations*, which summarizes feedback gathered both at recent seminars and electronically through comments on the papers posted on the Fund website following the Executive Board discussion of Conditionality in March. As before, with the approval of the Executive Directors, it is intended to make all these documents publicly available shortly after the Board discussion.

I. INTRODUCTION

1. At the Executive Board discussion of Conditionality in March 2001, Directors requested an early review of the initial experience with the process of streamlining and focusing the Fund's conditionality. This note provides such a review, recognizing that the process of giving content to the concept of streamlining conditionality is at an early stage and that the limited number of programs considered under the new approach makes it premature to draw many generalized or statistically robust conclusions. In particular, any judgments on how this approach is affecting the implementation of Fund-supported programs and the degree of country ownership will only become feasible once the initial programs reflecting this approach have been fully implemented.

2. At this stage, therefore, this initial review tries to answer two broad questions. First, to what extent have conditions in Fund-supported programs been streamlined since the issuance of the Interim Guidance Note in September 2000? In particular, has conditionality on structural measures been used more sparingly in recent programs? Also, has the Fund's conditionality focused more sharply on core areas of responsibility and expertise? Does this vary by type of program? Second, has the attempt to streamline Fund conditionality surfaced any generic issues or concerns? How has it been affected by factors such as collaboration with the World Bank, country-specific initial conditions, or the receptivity of the national authorities to streamlining?

3. A proper assessment of a number of other questions must wait until enough time has passed—and a sufficient number of new programs has been approved—so that clearly discernible results can be obtained. For example, the question of how the precise nature and form of conditionality would be affected by the preparation of full PRSPs in the low-income countries can best be assessed in a year's time when a substantial number of countries will have completed their first PRSP. A similar time-frame may be needed to be able to address whether streamlining has improved compliance with structural conditions, whether there has been better prioritization between measures that prove critical to the macroeconomic framework and those that are relevant but ultimately not critical, and whether streamlining may have led to an excessive narrowing of the objectives under some new Fund programs. Even more time may be needed to carry out a thorough analysis of whether more streamlined and focused conditionality has been effective in fostering greater ownership and overall better program implementation.

4. The paper is organized as follows: Section II reviews the experience with streamlining during the eight-month period between the issuance of the Interim Guidance Note and end-May, 2001; Section III contains a brief discussion of issues that have arisen during this experience; and Section IV suggests issues for discussion by the Executive Board.

II. Recent Experience with Streamlining

5. Although elements of a more focused and streamlined approach to conditionality have been present in the Fund's work for some time,[1] the current institution-wide effort was launched by the Managing Director's *Interim Guidance Note on Streamlining Structural Conditionality* of September 2000.[2] The note reaffirms that structural reforms that are critical to the achievement of a program's macroeconomic objectives will generally have to be covered by Fund conditionality; however, a more focused and parsimonious application of conditionality is envisaged for structural reforms that are relevant but not critical to these objectives.

6. The process of streamlining entered a second phase with the Executive Board's March 7, 2001 discussion of conditionality.[3] Executive Directors supported the broad thrust of the Interim Guidance Note. Directors noted that, while the principles in the note would need to be interpreted carefully on a case-by-case basis and reviewed in the light of experience, they would shift the presumption of coverage from one of comprehensiveness to one of parsimony, particularly with regard to measures that are outside the Fund's core areas. The approach for streamlining conditionality was also endorsed by the International Monetary and Financial Committee at its April 2001 meeting.

7. In reviewing the experience of streamlining conditionality, it is useful to distinguish between countries with PRGF arrangements and those with GRA arrangements, for the following reasons. First, while all PRGF arrangements have a common objective of supporting poverty reduction and accelerated growth in the low income countries, the five Stand-By Arrangements which were approved in the GRA during this period are much more heterogeneous with regard to the types of economic problems they are meant to address and the circumstances in which they were adopted. In some cases, they support short-term balance of payments adjustment in the face of current account imbalances; in other cases,

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[1] For example, the paper that set out the operational framework for the PRGF (*Poverty Reduction and Growth Facility (PRGF)—Operational Issues; December 13, 1999*) established a framework for cooperation between the Fund and the World Bank, under which the Fund would normally apply conditionality outside its core areas of responsibility and expertise only for policy measures critical to the fiscal and external objectives of the program.

[2] Prior to the issuance of this note, conditionality was examined by the Reform Task Force, and taken up with Executive Directors in the July 2000 Board retreat. The proposal to streamline conditionality was presented in the Managing Director's speech to the Board of Governors in Prague in September 2000.

[3] See *Concluding Remarks of the Acting Chairman—Conditionality in Fund-Supported Programs, Executive Board Meeting 01/23, March 7, 2001* (BUFF/01/36).

they are used to establish a track record prior to the adoption of a PRGF arrangement; in yet other cases, to rebuild credibility in financial markets. Moreover, the nature of the structural problems to be addressed and the relevant time frame are very different across these Stand-By Arrangements.

8. Second, as noted above, the instrument setting up the PRGF already envisaged a more focused approach to Fund conditionality, with the World Bank taking the lead in its areas of expertise and responsibility, and both institutions progressively aligning their conditionality with the priorities articulated in the country's own poverty reduction strategy paper (PRSP). Collaboration with the Bank in middle-income countries has been more on a case-by-case basis rather than under a similar formal framework. Thus, it is better to disaggregate the two groups to draw useful lessons regarding the division of labor and collaboration mechanisms with the Bank. Finally, given that only a handful of Stand-By Arrangements have been approved since the guidance note was issued, and their heterogeneous nature, it is more problematic to rely on average trends for this group of programs than it is for the larger group of PRGF arrangements.

9. For the above reasons, the remainder of this section reviews in turn the patterns of conditionality for new arrangements under PRGFs and Stand-By Arrangements presented to the Board during the eight-month period following the issuance of the Interim Guidance Note.[4] Ideally, to gauge progress in streamlining one would like to compare, on a country by country basis, pairs of arrangements aimed at supporting adjustment programs designed to deal with similar adverse circumstances: (i) a "new" program that fully reflects efforts to incorporate the Interim Guidance Note; and (ii) an "old" program, negotiated only slightly before the dissemination of the note. This would ensure adequate control for country-specific circumstances and for the link between the structural content of a program and the nature of the shock faced by the economy in question, and would limit the influence of other factors on the choice of structural conditions. In practice, however, this type of comparison is almost impossible to carry out, particularly at this stage. Indeed, since the predecessors of several new programs date back to 1994-95 and some go as far back as 1983-84, a number of diverse factors may have influenced the choice of conditions between the most recent program and this benchmark.

10. With these caveats in mind, the next two sub-sections present a brief assessment of the recent experience with streamlining based on country specific information gleaned from staff reports and on a survey of mission chiefs in which they highlighted the main practical difficulties which they confronted in an attempt to follow the Interim Guidance Note. In addition, a numerical comparison of the structural content of recent arrangements against two

[4] Although the main focus of the paper is arrangements (including new annual arrangements under existing PRGFs) approved after the issuance of the Interim Guidance Note, this section contains brief assessments of the extent to which reviews under arrangements approved earlier may have been taken as opportunities to focus or streamline conditionality.

benchmarks is provided. The benchmarks represent previous arrangements for the same countries and the average arrangement (Stand-By Arrangements or PRGFs) over the period 1997-99 (with the latter being used to address the issue of relatively old predecessor programs).[5] It should be emphasized that the object of streamlining is to increase the effectiveness of conditionality; reducing the number of conditions is not an end in itself, but rather a rough proxy for better prioritization and less micro-management associated with too many detailed conditions. Indeed, the numerical analysis cannot provide a sense of the degree to which the quality of different structural measures has improved and does not control for the fact that, in some programs, conditionality over a given policy area may have been achieved through a single measure while in others it may have required several of them. Although the paper does not deal systematically with all the problems mentioned above, some of these issues are identified and treated in the text on a case-by-case basis.

A. PRGF Arrangements

11. In general, there has been a trend toward leaner conditionality in the 27 new PRGFs—including both new 3-year arrangements and new annual arrangements under existing PRGFs.[6] The average (normalized) number of conditions in recent programs was 11, a reduction of nearly one-third with respect to previous programs (Table 1 and Figure 1).[7] More than half of the reduction is explained by fewer structural benchmarks, down from 7.7 to 5.4. More importantly, out of 27 arrangements, 20 had fewer structural conditions than in

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[5] In line with the paper *Structural Conditionality in Fund-Supported Programs* (SM/01/60; Supplement 2) the structural content of an arrangement is proxied by the sum of the number of structural benchmarks, performance criteria and prior actions (the limitations of this approach are discussed in that paper). For details on the construction of the benchmarks used in the numerical comparisons and the survey sent to mission chiefs, see Appendix I. The list of countries sampled is in Table A1, Appendix I.

[6] Streamlining in new 3-year PRGFs was not significantly different from that in new annual arrangements under existing PRGFs.

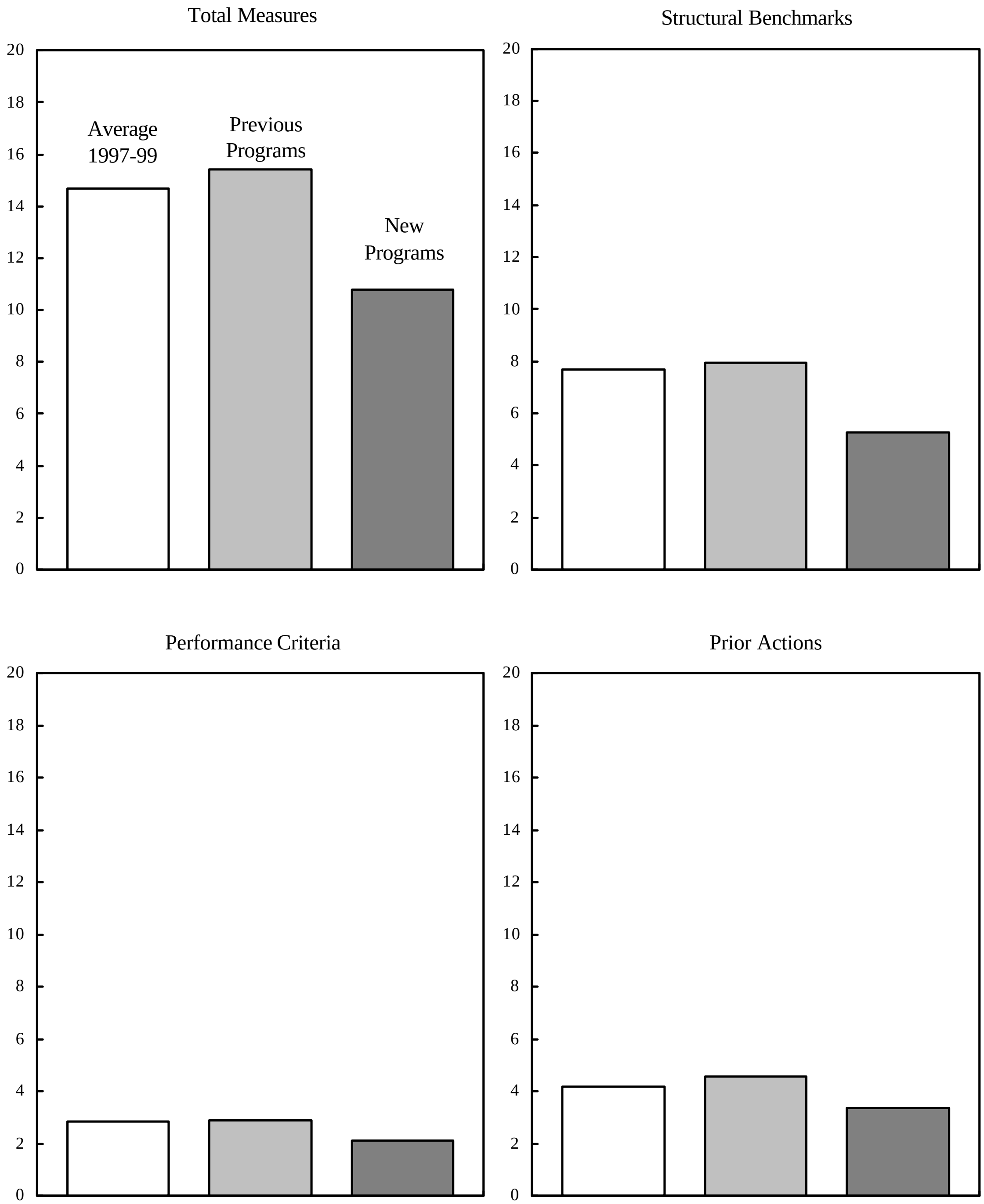
[7] In order to ensure comparability, all conditions are normalized to one year (i.e., the original number of measures is divided by the average length of the program expressed in years).

Table 1. Structural Conditions in IMF Programs 1/
(Average number of measures per program year)

	Number of Programs	Structural Benchmarks	Performance Criteria	Prior Actions 3/	Total Measures	Total Measures
			(Averages)			*(Medians)*
New Programs						
PRGFs	27	5.4	2.1	3.5	11.0	11.0
Stand-By Arrangements	5	4.8	2.3	4.7	11.9	8.6
Previous Programs						
PRGFs	27	7.7	2.9	5.2	15.7	16.0
Stand-By Arrangements 2/	3	10.2	2.2	0.2	12.7	… 4/
Average 1997-1999						
PRGFs	27	7.7	2.9	4.2	14.7	12.0
Stand-By Arrangements	23	5.4	1.4	5.9	12.7	8.3

1/ As at May 30, 2001.
2/ Excludes Peru and Sri Lanka, whose previous arrangements date back to the mid-1980s; see Appendix I.
3/ Includes conditions for the completion of a review.
4/ Since the median for new Stand-By Arrangements refers to the number of conditions in the arrangement with Sri Lanka, a meaningful comparison could only be made against that country's previous Stand-By Arrangement (and not simply against the median for previous arrangements, if this referred to another country). However, as explained in footnote 2, Sri Lanka's previous arrangement was excluded from the sample.

Figure 1. Structural Measures in PRGFs
(Number of Conditions)



Source: MONA and country reports.

the corresponding earlier arrangement and 22 had a lower number of conditions than the average PRGF during 1997-99 (Table A2, Appendix I).[8]

12. While there is considerable variation in the number of conditions in PRGFs, most arrangements have succeeded in focusing conditionality on the Fund's core areas: fiscal, financial, and exchange rate policies.[9] Table 2 and Figure 2 show the distribution of the total number of structural conditions across economic sectors—see Appendix II for a detailed description of the categories. The Fund's core areas of responsibility account for about two-thirds of all structural conditions in new PRGFs, compared to less than one-half in either previous programs or the average 1997-99 PRGF.

13. Conditionality relating to fiscal policy has been particularly prominent in recent PRGFs, accounting for half of all structural conditions compared with one-third in previous programs. The important role of fiscal conditionality also extends to many of the programs that experienced an increase, rather than a decrease, in the overall number of conditions. Indeed, Lesotho, Rwanda, and Uganda each had more than 60 percent of conditions in the fiscal area.[10] With regard to financial policies, the distribution of conditions is more diverse, reflecting to some extent differences in the role played by state-owned banks and their reform needs. While on average about 17 percent of all conditions are related to financial sector issues, some countries exhibit much higher shares, such as Ethiopia (46 percent), Guyana (44 percent) and Vietnam (55 percent), while others have no structural conditions in this area.

14. During this period, Fund programs have also continued to include conditionality in areas other than fiscal, financial and exchange rate, for a variety of reasons. These include

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[8] Six PRGFs originally approved prior to the issuance of the Interim Guidance Note—and outside of our sample because they had not undergone a second semi-annual review as of end-May 2001 (see Appendix I)—had mid-term reviews since end-September 2000. While the number of structural conditions fell sharply in some cases (from 37 to 6 in Mauritania), several new conditions were added in other cases (9 in Albania). However, it is very difficult—for the reasons explained in paras. 28 and 29—to determine on the basis of these numbers alone how much these changes reflect an institutional effort to focus and streamline, as opposed to country-specific factors that could have been in play in any case.

[9] While this could be regarded as a narrow interpretation of the Fund's core areas as defined in the Interim Guidance Note, each of these categories may include conditions that are generally regarded as being under the purview of the World Bank (e.g., public expenditure management).

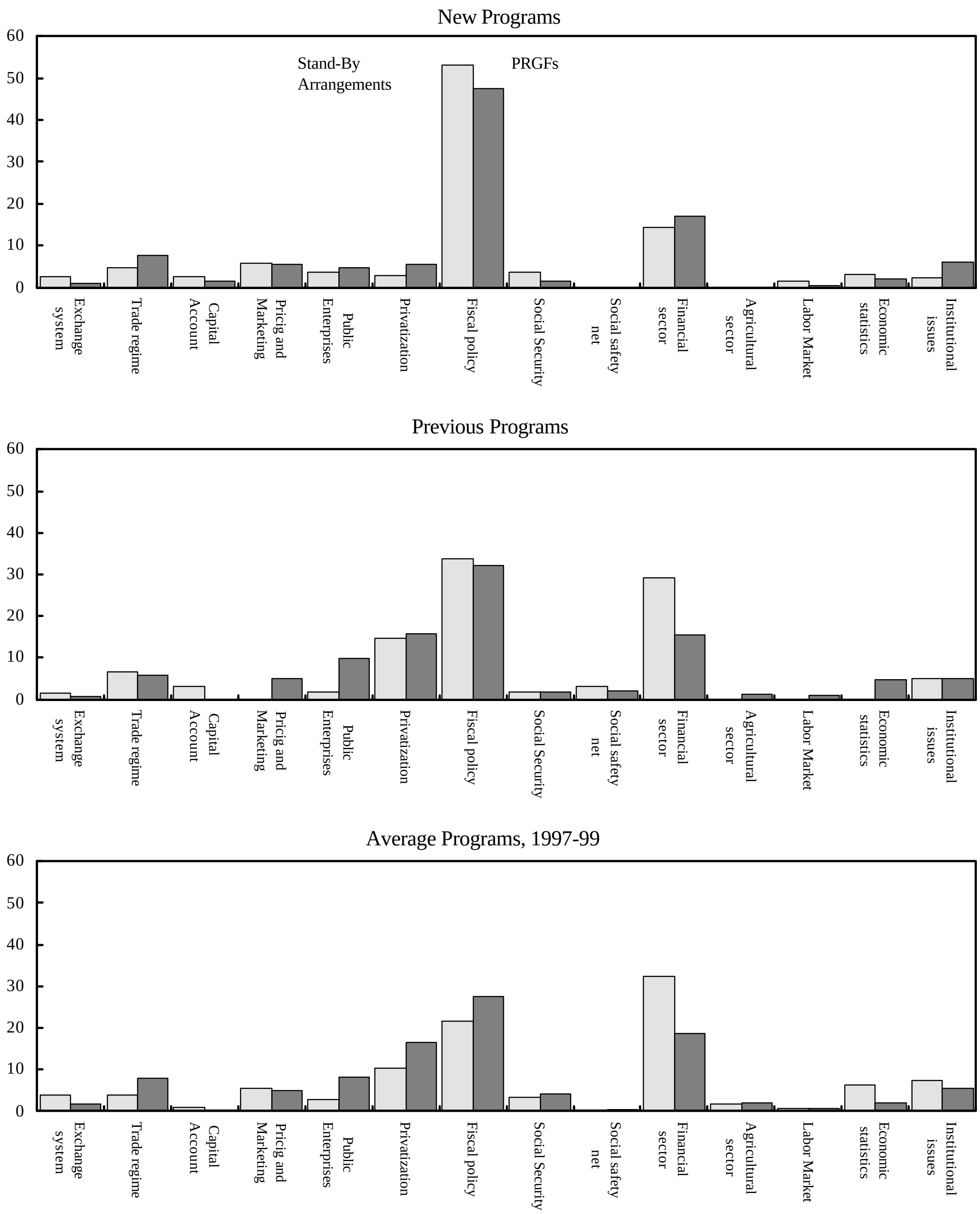
[10] Measures in these cases were typically targeted at improving the budgetary position through stronger enforcement and collection of taxes (Ethiopia, Lesotho, Rwanda and Uganda) and tighter expenditure controls (Lesotho).

Table 2. Distribution of Structural Conditions in IMF-Supported Programs 1/
(IMF core areas shaded)

	Exchange system	Trade regime	Capital Account	Pricig and Marketing	Public Enterprises	Privatization	Fiscal policy	Social Security	Social safety net	Financial sector	Agricultural sector	Labor Market	Economic statistics	Institutional issues	Total	Core: Fiscal + Financial + Exchange system
New Programs																
PRGFs	0.9	7.6	1.5	5.5	4.6	5.5	47.4	1.5	0.0	17.1	0.0	0.4	2.1	6.1	100.0	65.4
Stand-By Arrangements	2.5	4.6	2.5	5.8	3.7	2.9	53.1	3.6	0.0	14.4	0.0	1.5	3.1	2.3	100.0	69.9
Previous Programs																
PRGFs	0.7	5.7	0.0	5.0	10.0	15.8	32.2	1.7	2.0	15.3	1.2	0.9	4.7	4.9	100.0	48.2
Stand-By Arrangements	1.5	6.5	3.0	0.0	1.7	14.5	33.8	1.7	3.0	29.2	0.0	0.0	0.0	5.0	100.0	64.5
Average 1997-1999																
PRGFs	1.7	7.9	0.1	5.1	8.2	16.4	27.6	4.1	0.3	18.6	1.9	0.7	1.9	5.4	100.0	47.9
Stand-By Arrangements	3.8	3.8	0.9	5.4	2.8	10.2	21.5	3.3	0.1	32.3	1.7	0.6	6.2	7.2	100.0	57.6

1/ Distribution of the total number of structural measures across sectors, as defined in Appendix II.

Figure 2. Sectoral Distribution of Total Structural Conditionality
(In percent of total number of conditions)



Source: MONA and country reports.

measures that were deemed to be critical for the macroeconomic objectives of the program; measures that had a significant effect on the allocation of credit and the health of the banking system; and key measures to improve the efficiency of the economy or to deal with governance issues where they were not adequately covered by other agencies. Examples include measures in the Niger and Central African Republic arrangements designed to liberalize the pricing of petroleum products in order to obtain a significant source of government revenues (up to 1 percent of GDP); the adoption of laws facilitating the privatization of wineries in Moldova to promote export revenues (exports of wine and spirits account for about 20 percent of total exports); and looser exchange regulations applying to foreign investors in Yemen to enhance foreign investments. In other cases, the macro relevance of conditions is less direct. For example, the privatization of cotton ginneries in Tajikistan reduces pressure on the central bank to provide cotton financing; in Malawi, the condition on maintaining the intermediate buyer system for tobacco is designed to protect the income of small scale production farmers in rural areas.

15. Since the introduction of the Interim Guidance Note, there has been no significant change in structural conditionality related to trade policy in PRGFs. In most cases, these conditions are part of the broader agenda of improving economic efficiency (such as conditions on the sugar and textile industries in Uganda) or are related to improving revenue management systems (such as implementing a new customs computer system in FYR Macedonia). Trade conditions have also been justified on the basis of their direct macroeconomic relevance. For example, trade conditions placed on cement, steel, and tile industries in Vietnam are an attempt to eliminate large claims on state-owned bank credit related to inefficiencies in these heavily protected industries. Such claims have crowded out the availability of bank finance for the private sector and compromised the asset portfolio of banks.

16. Measures to strengthen governance include improvements in the management of public resources (e.g. the treasury, central bank, public enterprises, civil service, official statistics) and the development and maintenance of a transparent and stable economic environment, and are thus spread across several categories of structural measures. Governance-related measures in the areas of fiscal and financial policies and official statistics are not separately identified in the sectoral classification used here. Conditionality on governance related issues outside these areas are fairly prevalent in arrangements with PRGF countries and include strengthening the position of the Auditor General to improve the quality of audited accounts (Rwanda, Zambia), establishing an external audit agency for the public sector (Tajikistan), the adoption of a law on financial disclosure (Armenia), clamping down on fraud and corruption (Cameroon, Malawi, Rwanda), and improving the environment for investment through the publication of an investment law (Guyana).

17. Mission Chiefs were asked to evaluate the extent to which collaboration with the World Bank had supported the streamlining effort. In general, they confirmed that improved coordination had played a major role, with a sizeable part of the decrease in the number of conditions resulting from eliminating conditions in non-core areas that are subject to conditionality in World Bank operations and sector-specific loans. In all the following

examples, the Bank is strengthening its conditionality, allowing the Fund to avoid duplication of conditionality in these areas: privatization (Madagascar and Senegal); state pricing and pension and/or health system reform (FYR Macedonia and Madagascar); public enterprise restructuring (Tanzania); and reforms of the civil service and the procurement system (Chad). Moreover, improved cooperation with the World Bank and separation of roles is taking place even in those country cases where the number of conditions has not decreased. For instance, the World Bank is currently involved in civil service/public sector reform (Lesotho, Rwanda, Ethiopia, Guinea), privatization (Lesotho, Rwanda, Cameroon), strengthening of public expenditure planning (Ethiopia, Guinea), and various reforms in the utilities sector (Lesotho, Uganda and Cameroon). Most of these areas were covered by conditionality in previous Fund-supported programs.

18. Some structural elements which are no longer subject to Fund conditionality are not addressed in Bank operations because the Bank, in its dialogue with the member country, agreed other priorities or different time schedules for reform than was envisaged under the previous Fund-supported program. Examples include the energy and the social sectors (Guinea-Bissau), judicial reform (Tajikistan), privatization and bank restructuring (Yemen) and privatization (Senegal).[11] These measures are not critical to the achievement of the goals set out in the Fund program, but enhance long-term growth and efficiency. Efforts have recently been initiated to strengthen Fund-Bank cooperation, and to ensure that such measures are appropriately covered in the combined support and monitoring done by the two institutions (see also the companion paper *IMF-World Bank Collaboration on Program Conditionality)*.

19. In certain countries where track record or implementation concerns have been raised, there has been a greater emphasis on the use of prior actions, which must be met before the program is considered by the Board. This approach was followed in the most recent programs of Central African Republic, Ethiopia, and Rwanda. In these countries, prior actions account for over 50 percent of all conditions, whereas the figure for the complete sample of PRGF countries is about 30 percent.

B. Programs in the GRA

20. As mentioned earlier, the small number of new arrangements in the GRA since the issuance of the Interim Guidance Note—five Stand-By Arrangements—and their wide diversity (particularly in relation to PRGFs), make it difficult to draw general lessons from recent experience with the application of the Interim Guidance Note in these cases. The preliminary evidence on streamlining among Stand-By Arrangements is mixed and largely reflects the specific circumstances of the five countries concerned. The average and median number of conditions in the new Stand-By Arrangements (11.9 and 8.6 respectively) are broadly comparable to the corresponding statistics in the two benchmark programs, although,

[11] In the case of Yemen, its Parliament turned down the World Bank's privatization loan.

as mentioned earlier, this is a very partial measure of streamlining (Table 1).[12] There is evidence of greater concentration on the fiscal, financial and exchange rate areas (Table 2 and Figure 2).

21. In three of the five countries (Latvia, Peru, and Sri Lanka), the number of structural conditions is small and lower than in earlier arrangements or the average for Stand-By Arrangements in 1997-99, but for reasons that are varied. In Latvia, the total number of structural conditions is about one-third of either benchmark and they fall mostly in the Fund's core area of responsibility. This reduction was facilitated through effective collaboration with the World Bank, which has taken the lead on conditionality in privatization, the regulatory framework for utilities and public expenditure management. On the other hand, the absence of structural conditions in Peru's program reflects the particular circumstance of the case. An interim government, appointed following a political crisis, sought Fund support in delivering a stable macroeconomic situation to the next administration that was to take office in about six months. Owing to the transitional nature of the government, the authorities' ability to pursue a comprehensive agenda of structural reforms was believed to be severely constrained. In the Sri Lanka program, the limited number of structural conditions reflects the program's focus on immediate stabilization measures to address the emergence of severe macroeconomic imbalances (in late 2000 Sri Lanka came close to a currency crisis). The elaboration of a structural program that might be supported by a PRGF was left to the post-crisis phase. This two-stage approach was possible because Sri Lanka's external crisis was driven by two clearly discernible factors affecting the current account rather than financial panic driven by a sudden loss in confidence.[13]

22. In the remaining two countries, (Croatia and Pakistan), the number of structural conditions is both relatively large and higher than in their previous arrangements. These programs also place heavy reliance on prior actions associated with the need to establish the authorities' commitment to implement planned reforms in Croatia, and with a mixed track record of policy implementation in Pakistan. In Croatia, prior actions account for three-quarters (11 out of 15) of the structural conditions in the program and in Pakistan, about a third. In the other three recent Stand-By Arrangements, prior actions represent, on average, about one-seventh of all structural conditions.

23. The bulk of the prior actions in the Croatia program were specific wage measures formulated with the objective of reining in the country's large fiscal deficit and improving competitiveness. Their relatively large number reflects the authorities' strategy to meet the

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[12] While the average figure for new Stand-By Arrangements is affected by the heavy conditionality in Pakistan, the median figure is not.

[13] Such an approach could not have been followed in the 1997 Asian crises, for example, where it was not possible to stabilize the macroeconomic situation without addressing the structural problems simultaneously.

fiscal targets and the staff's readiness to adapt conditionality to country-specific circumstances: in place of a wage freeze (which could have been addressed by one action) combined with restraint in other expenditure categories recommended by the staff, the authorities chose a complex strategy to substantially reduce the wage bill (by 10 percent) through a range of individual measures to permit moderate expenditure increases in other areas. The complexity of implementing the large wage reduction plan and its importance to achieving the program's objectives are thus reflected in the large number of structural conditions and the fact that most of them are prior actions.

24. The Pakistan program has an extraordinarily large number of structural conditions (32) which reflects several factors. As mentioned earlier, about one-third of those measures are prior actions aimed at dealing with a poor track record of policy implementation. In particular, following Pakistan's misreporting of fiscal data in early 2000, the program includes 14 structural conditions (one performance criterion, eight structural benchmarks, and five prior actions), which are intended to provide assurance to the Board with regard to the integrity of the data on the basis of which program implementation is being monitored.

25. On the whole, structural conditionality in the new Stand-By Arrangements was more sharply focused on the Fund's core areas than in the recent PRGFs. As shown in Table 2, conditions in the fiscal, financial and exchange rate areas account for over two-thirds of all structural conditions. On fiscal policy, a number of measures in the programs for Pakistan (26 percent) and Sri Lanka (40 percent) aim at improving tax collection and the tax structure, including a goods and sales tax in place of the turnover tax. In Croatia, many of the fiscal measures are geared to supporting the public sector wage reduction, while for Latvia, more than half of the structural measures (all structural benchmarks) fall on expenditure policy and management, and on improvements in tax administration. Financial sector measures encompass improving the regulatory and monetary policy framework (Latvia), restructuring state banks (Sri Lanka), and liberalizing interest rates (Pakistan). These developments notwithstanding, Stand-By Arrangements continued to cover some non-core areas such as pricing, public sector reform, privatization, and agriculture. In particular, the programs for Pakistan and Sri Lanka have conditions on liberalizing petroleum, and energy and transport prices, respectively with the objective of limiting the losses of public sector enterprises. Croatia's program has structural benchmarks on privatizing the telecommunications, electricity, and oil and gas companies. These measures are intended to help finance the government's fiscal program and raise the efficiency of the economy.

26. As in the case of PRGFs, it is difficult to ascertain the share of governance-related structural measures in the new Stand-By Arrangements. The measures captured in the category "Institutional issues" declined from between 5-7 percent to about 2 percent in recent arrangements. Although this category captures broad-based governance-related measures, conditionality on governance-related issues other than the specific fiscal, financial and statistics areas is not very prevalent in recent Stand-By Arrangements. Governance-related measures in the fiscal area include two structural benchmarks on fiscal transparency in the Latvian program and a number of measures in the areas of expenditure management and auditing for Pakistan.

27. Although there is no PRSP-type of framework for middle-income countries, collaboration with the World Bank has been pursued on a country-by-country basis. Thus, the Fund has dropped some conditions that were being addressed by the Bank's sectoral lending. For example, World Bank operations include conditions on pension and health fund finances and restructuring utilities (Croatia), and on restructuring utilities, privatization and governance (Pakistan).[14] The World Bank is also taking the lead on policy advice and conditionality in the areas of privatization and the regulatory framework for utilities (Latvia and Pakistan), on competition in the energy sector and on areas of public sector reform and public expenditure management (Latvia), and on land and pension reform (Sri Lanka).

28. While this sub-section has focused on whether streamlining has occurred in new GRA arrangements, it is also useful to touch on whether streamlining has taken place in the context of reviews. Reviews are intended to assess progress on policies that cannot easily be quantified or defined and for setting PCs and other program conditionality when it was not possible to establish such conditionality in advance for all or part of the program period. Reviews also provide an opportunity to discuss policies and introduce changes to the program that become necessary in light of new developments, in order to ensure that program objectives are met. In addition to monitoring implementation, some reviews provide a context for formulating and assessing economic policies in connection with the country's annual budget exercise. As a result, it is not uncommon that reviews result in modification, and sometimes intensification of structural conditionality. However, in other cases, in the absence of important external and domestic developments, reviews may focus on monitoring agreed policies and need not lead to changes in conditionality.

29. In light of the above, one would not expect any consistent pattern of streamlining to take place in reviews, in contrast to new arrangements. In many cases, the number of conditions covered by a given review depends on the nature of the GRA arrangements (short-term Stand-By Arrangements versus longer-term EFFs, the extent to which measures were implemented up front, the period between reviews, the timing of reviews, and unanticipated changes in economic circumstances). While Ecuador, Estonia, Lithuania, and Ukraine experienced a decline in the number of conditions during a recent review, the number of conditions rose significantly in Bosnia and Herzegovina, Colombia, and Pakistan (excluding in all cases prior actions placed in the original arrangement).

30. Since the issuance of the Interim Guidance Note, two Stand-By Arrangements—with Argentina and Turkey—have been modified and augmented (including under the Supplemental Reserve Facility, SRF) in response to capital account crises. In both cases, the total number of conditions ultimately increased, mainly to cover measures that were aimed at restoring confidence. But the modifications of these arrangements seem to have been

[14] In Croatia, while the Fund has retained conditionality on privatization, it worked closely with the World Bank in the elaboration of the specific measures.

influenced by the streamlining guidelines to the extent that the new conditions appear well focused and mostly limited to areas deemed critical for the success of these programs (Box 2).

III. Taking Stock

31. Although the evidence is partial and preliminary, it does appear that structural measures in recent programs are more prioritized, both as reflected in the number of conditions and by the increased focus of conditionality on the Fund's core areas of responsibility. The effect on the number of conditions is more apparent in the case of PRGFs and mixed in the few GRA arrangements approved during this period; in both groups, the number of conditions needs to be seen as a proxy for better prioritization and less micro management and not as the objective of streamlining.

32. The increased focus of Fund conditionality on its core areas of responsibility is common to both PRGFs and Stand-By Arrangements. Conditions in these areas in both types of programs account for at least two-thirds of the total, although this magnitude is overstated to the extent that some of the conditions classified as fiscal or financial policies are arguably within the purview of the World Bank (for example, public expenditure reviews and the restructuring of state banks). Equally, there are conditions outside the core areas of Fund expertise which are critical to the macroeconomic objectives of the country and thus should continue to be included as Fund conditionality.

33. Greater attention is being given to distinguishing between measures that are critical and relevant for the achievement of macroeconomic objectives and providing more clarity to the objectives of conditionality. This effort has been spurred by the real-time assessments of conditionality by the Board following the March 7th discussion on Conditionality. It is too early to judge how well the overall balance is being struck in drawing the line between those measures which are critical and those which are macro relevant. It is clear, though, that questions relating to streamlining are being asked more systematically in the process of program design and during internal reviews. Staff reports have also become clearer in articulating the conditionality associated with the program and how it relates to the conditionality and coverage of previous programs. This greater clarity in the choice of conditions is most evident in the box on structural conditionality which is being included in program documents since mid-May—see Box 3. Over the next few months, further progress is expected in this area, particularly in regard to clarifying the boundaries of conditionality in the Letters of Intent and delineating the focus of future reviews.

34. The initial experience with streamlining conditionality has been facilitated through close coordination with the Bank which, in most cases, has helped to delineate the programs of both institutions within a coherent framework. In a number of cases, measures no longer covered by Fund conditionality were incorporated as conditions by the Bank, but in others this was not the case. There should be no presumption that everything the Fund ceases to cover under conditionality is subsequently covered by the Bank, since under these circumstances, countries would not benefit from increased flexibility in policy

Box 2. Argentina and Turkey: Changes in Structural Conditionality with Augmentation of Access to Fund Resources

Argentina's original Stand-By Arrangements, approved in March 2000, included 11 structural benchmarks: four on fiscal reform, three on the banking sector, three on the social security system and one on labor market reform. When the arrangement was augmented (including under the SRF) in January 2001, 18 new structural benchmarks were introduced: seven on improving tax administration and strengthening the fiscal sector in general, five on the social security system, two on the financial sector, and four on promoting reforms in trade and competition policy. Most of the new structural conditions focused on areas where rapid action was urgently required to address the underlying weaknesses of the Argentine economy that had led to the crisis.

Turkey's original Stand-By Arrangements, approved in December 1999, included 28 structural conditions to be met during the following year: 12 prior actions, 5 structural PCs and 11 benchmarks. At the first augmentation (including under the SRF) in December 2000, an additional 12 structural measures were adopted: 6 structural performance criteria and 6 structural benchmarks.[1] Completion of the sixth and seventh reviews, combined with the second augmentation in May 2001, was made conditional on the completion of an additional 9 prior actions, 9 conditions for the completion of later reviews and 9 structural benchmarks. Overall, structural conditionality largely focused on addressing weaknesses in the banking sector, which had precipitated the financial crisis and contributed to its persistence. A few conditions were related to measures in the original arrangement and/or were viewed as important indicators of the authorities' commitment, such as progress in the privatization of Turk Telekom.

	Argentina		Turkey		
	Approval	Augmentation	Approval	First Augmentation	Second Augmentation
Prior actions	0	0	12	0	9
Conditions for completion of subsequent review	0	0	0	0	9
Structural PCs	0	0	5	6	0
Structural benchmarks	11	18	11	6	9
Total structural conditions	**11**	**18**	**28**	**12**	**27**

[1] One benchmark originally envisaged had not been met and was split in two benchmarks at the first augmentation.

Box 3. Country—Structural Conditionality Box

Coverage of Structural Conditionality in the Current Program

Sets out briefly the structural areas covered by conditionality in the program (with reference to the usual table of prior actions, performance criteria, benchmarks, and other conditions for reviews) and focuses on why these are included in the Fund program (criteria based on the September 2000 Guidance Note on Streamlining Structural Conditionality).

Status of Structural Conditionality from Earlier Programs

Accounts for status of all unmet measures from earlier programs, and justifies why any measures have been dropped. (Standard tables often cover this in ongoing programs, and this section may simply be a reference to that table.) The earlier programs used for comparison would be the most recent previous Letter of Intent in the case of an ongoing program; the previous annual program under a multi-year arrangement; or in the case of a new arrangement, the country's most recent Fund-supported program. (In cases in which the most recent program was too long ago for the comparison to be informative, this fact may simply be noted.)

Structural Areas Covered by World Bank Lending and Conditionality

Sets out measures covered by Bank in areas relevant to the Fund program, noting key conditions and timing, as well as the underlying loan instruments being used or planned. This section would be based on a brief, standardized note from the Bank staff. Where relevant, this section could also note macroeconomically important areas covered by conditionality of other agencies such as regional multilateral development banks.

Other Relevant Structural Conditions not Included in Current Program

Describes selected other measures not included and the reasons why. The universe will need to be flexible and country-specific, but would generally be limited to measures of macroeconomic relevance in which Executive Directors have expressed particular interest or that have been discussed prominently in earlier staff papers. Reasons for exclusion might be that the staff considers that progress has been acceptable even if less than optimal, or that agencies other than the Fund and the Bank (e.g., regional development banks, the UN, or the EU) are taking the lead role.

implementation. Nevertheless, the initial experience has highlighted the growing importance of effective coordination between the two institutions, both with regard to the provision of policy advice and the configuration of conditionality itself (Directors are referred to the companion paper).

IV. Issues For Discussion

35. Directors may wish to focus their comments on the following issues:

- The review suggests that there has been some progress in streamlining conditionality under Fund-supported programs, but the extent has varied across countries. A more systematic reduction in the number of conditions was detected among PRGFs than for Stand-By Arrangements, but in both types of arrangements structural conditionality appears to be more focused on the areas of core Fund expertise. In a few cases, conditionality has increased, often reflecting past implementation problems or the attempt to strengthen credibility for future policy directions. **Directors may wish to discuss whether this differentiated approach to streamlining is appropriate**.

- Where Fund conditionality has been scaled back significantly, this often reflects greater reliance on the use of World Bank conditionality outside the Fund's core areas, particularly in PRGF arrangements. **Directors may wish to discuss whether, and under what circumstances, Fund conditionality should cover areas that are critical for the program it supports even though the World Bank is implementing conditions in the same areas.**

SAMPLE AND METHODOLOGY

36. The sample of programs used in this paper comprises arrangements approved within eight months of the issuance of the Interim Guidance Note. The initial and final cut-off dates for inclusion in the sample were set at September 30, 2000 and May 31, 2001, respectively. These dates were used to select programs approved by the Board as well as programs not yet discussed by the Board but for which the respective staff reports had already been issued. The sample is quite small: 5 Stand-By Arrangements and 27 PRGFs, with the latter including new as well as second- and third-year annual arrangements of ongoing programs—See Table A1 below.[15,16] All programs, with the exception of one (Peru) contained at least one structural condition. The sample is quite heterogeneous, and, therefore, the results presented in this report must be interpreted with caution.

37. For all programs in the sample, data on structural conditions was collected from Board documents and/or the MONA database.[17] In addition, qualitative information was gathered from brief notes provided by mission chiefs on May 11, 2001, on which they highlighted the main practical difficulties confronted in an attempt to follow the Interim Guidance Note.

38. A set of summary statistics was computed for all programs, based on comparisons of the structural content of recent programs against two alternative benchmarks: (i) comparable previous arrangements for the same country, and (ii) the "average" program (Stand-By Arrangement or PRGF) prevailing during the period 1997-99. The overall number of conditions and their breakdown by type of condition (structural benchmarks, performance criteria and prior actions/conditions for completion of a review) and by economic sector (as detailed in Appendix II) were examined.

39. As mentioned in the main text, an ideal way to gauge progress in streamlining would entail a comparison, on a country by country basis, of an arrangement whose design took fully into account the Interim Guidance Note, against an earlier arrangement of the same

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[15] Although the latest PRGFs are no longer structured as three consecutive annual arrangements, in this paper we treat them in this way for purposes of comparability.

[16] Although a Stand-By Arrangement with Gabon was approved by the Board in October 2000, it was excluded from the sample because negotiations leading to that arrangement were largely completed by the summer of 2000 and the Letter of Intent was signed on September 12, 2000, before the Interim Guidance Note was issued. In all programs in the sample, the Letter of Intent was signed after September 30, 2000.

[17] In the case of unfinished programs, the number of conditions may underestimate the actual number relevant for the lifetime of the program, as new conditions may be expected to be introduced in later reviews.

type, designed prior to the issuance of the Interim Guidance Note. In practice, however, this type of comparison is almost impossible to carry out. In several instances, most notably in the case of Stand-By Arrangements, only one (Latvia) of the six countries had a similar arrangement over the previous 2-3 years. In two other cases (Croatia and Pakistan) the previous Stand-By Arrangements dates back to 1994-95, a period that captures only a small part of the large increase in structural conditionality that took place in the second half of the 1990s. Whereas use of these programs as benchmarks for comparison may bias downward the estimated degree of streamlining in recent programs, it was decided to keep them, as they reflect country-specific circumstances and, thus, still provide a reasonable basis for comparison. In the case of the remaining two Stand-By Arrangements (Sri Lanka and Peru), their previous arrangements dated back to 1983-84 and, therefore, it was decided not to use them as benchmarks.

40. In the case of the PRGFs, the strategy of using a similar previous arrangement was less problematic since 11 of the 27 arrangements represent new annual arrangements of an ongoing extended arrangement, and 13 of the remaining 16, had a relatively recent (1997-99) previous PRGF/ESAF. For the three other cases, the previous PRGF/ESAF arrangement was somewhat dated (Lesotho, 1994, and Lao, PDR and Vietnam, 1996).

41. While the absence of a recent PRGF as a benchmark is less frequent than for Stand-By Arrangements, there are two potential sources of sample selection bias associated with the use of this group of countries as benchmarks for comparison. The first one relates to the use of end-September as a cutoff date for selecting new arrangements. While the Interim Guidance Note is intended to apply to all programs, as mentioned in the main text, in the case of PRGFs some elements of streamlining had already started with the issuance of the document *Poverty Reduction and Growth Facility (PRGF)—Operational Issues* on December 13, 1999.[18] The second potential source of bias relates to the fact that, unlike Stand-By Arrangements, the sample of PRGFs includes both new arrangements and second- and third-year arrangements of ongoing PRGFs. It is possible that mission chiefs' ability to adhere to the Interim Guidance Note differs between these two groups, to the extent that inertia, or the need to re-establish in a second- or third-year arrangement conditions not complied with during the previous year, may lead to less change within a 3-year arrangement than between successive 3-year arrangements. However, this is not found in this sample because the extent to which program conditionality has been streamlined appears to be independent of the program year in which the sample was taken.[19]

[18] The general perception among staff is that it took some six months for this note to be fully reflected in the design of new programs.

[19] For example, if we subdivide the PRGFs into 9 categories depending on the degree of streamlining, there is at least one new arrangement in all categories but one.

42. Given the various problems posed by the use of previous programs as benchmarks for comparison, an alternative benchmark can also be used to assess the robustness of the statistical findings: the average program for the period 1997-1999. To construct this benchmark, the number and composition of structural conditions (normalized by program length) were averaged in each Stand-By Arrangements and PRGF outstanding during those years.

Table A1. Sample Dates of Approval of Arrangement for New and Benchmark Programs

		New Program		Benchmark Program	
		Date of Approval	Year of Arrangement	Date of Approval	Year of Arrangement
	PRGFs				
1	Armenia	May 2001	1	December 1998	3
2	Burkina Faso	January 2001	2	September 1999	1
3	Cambodia	January 2001	2	October 1999	1
4	Cameroon	December 2000	1	September 1999	3
5	CAR	January 2001	2	July 1998	1
6	Chad	May 2001	2	January 2000	1
7	Ethiopia 1/	February 2001	1	October 1998	2
8	Gambia, The	December 2000	3	November 1999	2
9	Georgia	January 2001	1	August 1998	3
10	Guinea	May 2001	1	December 1999	3
11	Guinea-Bissau	December 2000	1	July 1997	3
12	Guyana	December 2000	2	July 1998	1
13	Lao	April 2001	1	May 1996	3
14	Lesotho	March 2001	1	March 1994	3
15	FYR Macedonia 2/	November 2000	1	April 1997	1
16	Madagascar 3/	March 2001	1	July 1999	2
17	Malawi	December 2000	1	December 1998	3
18	Moldova 4/	December 2000	1	January 1999	3
19	Niger	December 2000	1	August 1998	3
20	Rwanda	December 2000	3	November 1999	2
21	Senegal	February 2001	3	April 1998	1
22	Tajikistan	October 2000	3	June 1998	1
23	Tanzania	March 2001	2	March 2000	1
24	Uganda 5/	March 2001	4	September 1999	3
25	Vietnam 1/	March 2001	1	February 1996	2
26	Yemen	February 2001	3	March 1999	2
27	Zambia	March 2001	3	March 2000	2
	Stand-By Arrangements				
1	Croatia	March 2001	1	October 1994	1
2	Latvia	March 2001	1	December 1999	1
3	Pakistan	November 2000	1	December 1995	1
4	Peru	March 2001	1	6/	
5	Sri Lanka	April 2001	1	7/	

1/ The benchmark program went off track between the second and third year.
2/ The first year of the program was used as a benchmark because the second year arrangement went off track. The number of conditions in both arrangements are similar
3/ Madagascar did not reach the third year of its benchmark arrangement because it needed three extensions to satisfy the conditions of the second year of the arrangement
4/ The benchmark Moldova program was an EFF and therefore the normalized number of conditions in the program was used.
5/ The new Uganda program refers to the extension of the commitment period for the three year PRGF arrangement through March 2001, approved in September 2000. The benchmark program was the third year of the arrangement.
6/ No benchmark for Peru was used in this case, as its previous Stand-By Arrangement was in 1984.
7/ No benchmark for Sri Lanka was used in this case, as its previous Stand-By Arrangement was in 1983.

Table A2. Comparison of Structural Conditions in New and Old Arrangements 1/

	Index 2/		
	vs. previous program	vs. average program	Number of conditions in new program 3/
PRGFs			
FYR Macedonia	21	27	4.0
Guinea	26	54	8.0
Guyana	35	61	9.0
Tanzania	35	54	8.0
Madagascar	38	41	6.0
Armenia	50	82	12.0
Chad	50	48	7.0
Vietnam	52	75	11.0
Yemen	52	75	11.0
Tajikistan	56	68	10.0
Guinea-Bissau	70	48	7.0
Niger	73	75	11.0
Lao	75	82	12.0
Malawi	81	88	13.0
Senegal	82	61	9.0
Burkina Faso	83	34	5.0
Georgia	86	122	18.0
Cambodia	88	143	21.0
Gambia, The	89	54	8.0
Moldova	92	102	15.0
Central African Republic	100	95	14.0
Zambia	100	48	7.0
Cameroon	125	68	10.0
Lesotho	133	109	16.0
Uganda	137	93	13.7
Ethiopia	183	75	11.0
Rwanda	200	136	20.0
Stand-By Arrangements			
Peru	…	…	0.0
Latvia	26	30	4.2
Sri Lanka	…	62	8.6
Croatia	199	105	14.6
Pakistan	218	230	32.0

1/ Structural conditionality defined as the sum of structural benchmarks, performance criteria and prior actions.
2/ Ratio of total conditions in new programs to total conditions in the respective benchmark program, times 100.
3/ Normalized by program length.

ECONOMIC SECTOR CLASSIFICATION

Category code	Category	Coverage
1	Exchange System	Measures affecting the exchange regime (e.g., lifting of surrender requirements, unification of exchange rate) .
2	Trade Regime	Measures affecting the trade regime (e.g., reduction of tariffs and elimination of quotas).
3	Capital account	Measures affecting capital account regulations (e.g., easing or elimination of restrictions on certain types of capital account transactions), including direct investment.
4	Pricing and Marketing	Measures in all sectors except agriculture (including the energy sector) aimed at the adjustment of regulated prices, liberalization of price setting and the operation of marketing channels (e.g. liberalizing domestic prices, reducing or removing subsidies, and eliminating state monopolies on marketing channels)
5	Public enterprises, reform and restructuring	Measures to rationalize and restructure public enterprises, excluding privatization; governance issues relating to public enterprises.
6	Privatization	Measures to change the ownership of state-owned enterprises in all sectors, excluding agriculture; broad-based privatization schemes as well as privatization of selected enterprises; including measures to prepare enterprises for privatization.
7	General government tax and expenditure reform	Structural dimensions of the budget rather than macroeconomic aspects of fiscal policy, excluding public enterprises and reforms of the social security system. Revenues: tax rate changes, tax code changes, and measures to reduce tax arrears, tax administration issues. Expenditures: measures affecting expenditure structure and administration, measures to reduce expenditure arrears. Also: establishment of treasury systems, measures on public employment, the wage bill (if primarily done for fiscal reasons), and civil service reform, inter-governmental relations; governance issues related to resource management in the government sector.
8	Social security system	Modification of the system of social protection for fiscal reasons or to ensure long-term viability, e.g., pension reform (including reduction of pension arrears, changes in coverage and benefits), reform of public health care, rationalization of social welfare programs.
9	Social safety net	Measures to strengthen social protection, including temporary ones, to ease impact of economic crisis on the poor, e.g., temporary public employment measures, maintenance of subsidies, increases in benefits from existing systems of programs, temporary welfare programs.
10	Financial sector	Measures affecting financial institutions, including restructuring, privatization, closure; changes in the regulatory and supervisory system; central bank reform (including structural reforms affecting the operational framework of monetary policy); legal reforms pertaining to the operations of financial institutions and financial markets; provision of statistical information in financial institutions/markets.
11	Agricultural sector	All the measure related to this sector: land reform, subsidies to agriculture, liberalization of input or output prices, farm restructuring, etc.
12	Labor market	All the measures clearly oriented to modifying the functioning of the labor market
13	Economic statistics	All measures related to the provision of economic statistics
14	Institution building, legal and regulatory framework, transparency	Measures affecting the institutional, legal and regulatory framework, which are not included elsewhere, e.g., competition law, bankruptcy law, commercial code; corporate restructuring and governance; improvements in transparency more generally.