Comments on IEO Evaluation of Structural Conditionality in IMF-Supported Programs

Seminar Finansdepartementet, January 10, 2008

Benedicte Bull, Senior Researcher, Centre for Development and the Environment (SUM), University of Oslo

First of all I would like to congratulate the IMF with having such a thorough, sharp, and frank Independent Evaluation Office. I have had the mixed pleasure of reading quite a few evaluation reports from international financial institutions and their more or less independent evaluation offices. It is not always a lot of fun, but I have always enjoyed the ones from the IMF's evaluation office more than the others. I do not know why, but they tend to be much more forthright, they are less defensive, and they show more methodological creativity than the ones coming from similar offices of other institutions. So, I had quite high expectations when opening this one, and I was not disappointed. In my view, this evaluation has a number of important messages that deserve to be discussed, some of them beyond the IMF.

As a starting point for my comments, I have chosen to the current Norwegian debate about the international financial institutions and their use of conditionalities, rather than the streamlining initiative. Since the current government entered power on a platform that rejected any use of conditions demanding liberalization and privatization, there has been a debate about the IMF and the World Bank's use of conditionality. This debate runs between various NGOs that claim that the IFI programs still have an excessive amount of policy conditionalities, that they are used to impose liberalization and privatization, and that the Norwegian government thus should cut funding. On the other hand stands the World Bank and others arguing that the number of conditionalities is significantly reduced, and that few conditions now relate to liberalization and privatization. I think this report is highly useful in this debate in various ways.

My comments will be divided in three. First, I will comment on how this report gives direct input to the debate sketched above by giving us some fresh numbers about the IMFs use of conditionalities. Second, I will discuss how it makes some important contributions to solving methodological issues that anybody that attempt to undertake systematic research on these issues face. Third, I will comment on this report's most important contribution in my view, namely that it raises more profound issues about what conditionality is for, and what it should be for. Thus, it takes the conditionality debate beyond the "numbers game" to which it is too often reduced. Finally I will raise a few minor issues that I have with the report and that is not touched in the comments by staff and the executive board.

In the first place, this report reaffirms the NGOs claim that there is no reduction in the number of economic policy conditionalities that the programs include. It finds that the average number of structural conditions per program/year remained at around 17, when comparing the period before and after the introduction of the streamlining initiative. (1-0 to the NGOs!). It is interesting to note that as opposed to the World Bank, but in accordance with the practices of the NGOs, the IEO includes structural benchmarks in its notion of conditionalities.

However, the report also shows clearly that the number of conditionalities in what has come to be known as “sensitive policy areas” (which is a code word for privatization and liberalization) has been sharply reduced. Both in PRGFs and the Stand By Agreements, structural conditionality shifted out of privatization and trade reform toward tax policy and administration, public expenditure management and financial sector reform (so the NGOs and the defenders of the IFIs come out even).

Moreover, also directly relevant to the debate sketched above, is the finding that, contrary to the common view among the IFI critics, conditionalities are actually not a very efficient way of inducing policy reform. Only slightly more than half of the conditions (54 percent) were complied with on time. Furthermore, applying a novel concept of effectiveness in bringing about policy reform on which I will comment below, it finds that there is only a weak link between compliance with conditionalities and effectiveness at bringing about reform and ensuring its durability. Although the report emphasizes that this is surprising, in fact this finding is in accordance with several studies published over the last 20 years that have cast in doubt the effectiveness of policy conditionalities in bringing about policy reform. I find at least one of the authors of these publications in the list of contributors here.

To sum up, this report provides a direct input in the current debate about the IMF and the World Bank’s use of conditionality through showing that the number of conditionalities posed by the IMF is still quite high, that few of them are now in the areas of liberalization and privatization, and that in fact when IMF have imposed such conditions, it has not always been a good predictor of their implementation.

However, particularly the latter issue is very difficult to establish methodologically. I do not have time to enter into all the problems here, but it suffices to note that it is not possible to draw the conclusion that a policy is imposed by the IMF simply from observing that there are conditionalities related to it in an IMF supported program. IMF supported programs is an equally weak predictor to sustained policy reform.

The methodological innovation in this report in order to deal with this issue is to evaluate also the extent to which structural conditionalities have been effective in bringing about follow up structural reforms as well as whether reforms were sustained over time. In my view this is important and it could tell us something about imposition because if reforms are sustained well beyond the program, it is less likely that they were imposed by the IMF in the first place. Unfortunately, according to the report, the IMF does not perform particularly well according to such a criterion. The analysis suggests that compliance with structural conditionality was not, by itself, a good predictor of lasting sectoral reforms.

This is not only a methodological point; it also raises more profound issues about conditionality and thus I move into my third main point. In the note from the IMF staff it criticizes the intent to evaluate whether structural conditionalities have been effective in bringing about sustained follow up reforms and argues that a more useful metric is whether program goals – narrowly defined – were achieved and sustained. The staff finds that the IEO's view that conditionality should foster further reforms in individual areas beyond the program's goals and beyond the program period would seem to imply considerable intrusiveness on national policy making and be contrary to the spirit of the conditionality guidelines and the streamlining initiative. Staff argues that the IEO misses the point about the purpose of conditionality, and does not distinguish between provision of policy advice and conditionality. I do not agree with this. To the contrary, I think that if conditionality only achieves minor and short-lived reform, there is all the more reason to believe that it is "imposed" and indeed I think that such limited and short-lived reforms may in some cases do more harm than good. Thus, I also think that one cannot distinguish that sharply between conditionalities and policy advice; they are two elements in one process.

Finally, I have three more critical points regarding the report:

First, one of the innovations of the report is the concept of "structural depth" referring to the degree of structural change that conditions would bring about if implemented, and on the durability of its change. IMF staff also criticizes this concept and argues that even though a measure may have "low structural depth" (as defined by the IEO report), this does not imply that it is not critical to program success. In this case I agree with the IMF staff, as I think it is difficult to judge what policy measures that have structural depth without knowing the context of the policy reform. What seems to be a relatively minor poly measure in some contexts may be the one reform that opens for a thorough reform process in other contexts.

A second and perhaps less profound issue I have is the selection of a time period to study. The evaluation studies projects approved between 1995 and 2004. The justification for looking at such a long period may be to show change over time. But this is only done regarding the number of conditionalities. In the analyses of structural depth and compliance rates for example, there is no intent to distinguish between the periods before and after the introduction of the streamlining initiative.

A third point is that for some conditionalities the categorization may be too crude. For example, the report shows that the focus has shifted from privatization to, among other measures, SOE reform. However, while SOE reform in some cases may be an alternative to privatization, in other cases it may be away to introduce the same market oriented principles in the public sector as in the private sector.

In spite of these minor points, I think that this is a very thorough and important evaluation report that deserves to be discussed well beyond the IMF.