Overseas Development Institute

CONTINUITY AND CHANGE IN IMF PROGRAMME DESIGN, 1982–92

Tony Killick

Working Paper 69

Results of ODI research presented in preliminary form for discussion and critical comment

ODI Working Papers

27: European Community Trade Barriers to Tropical Agricultural Products, *Michael Davenport*, 1988, £4.00, ISBN 0 85003 117 6
28: Trade and Financing Strategies for the New NICS: the Peru Case Study, *Jurgen Schuldt L*, 1988, £3.00, ISBN 0 85003 118 4
29: The Control of Money Supply in Developing Countries: China, 1949–1988, *Anita Santorum*, 1989, £3.00, ISBN 0 85003 122 2
30: Monetary Policy Effectiveness in Côte d'Ivoire, *Christopher E Lane*, 1990, £3.00, ISBN 0 85003 125 7
31: Economic Development and the Adaptive Economy, *Tony Killick*, 1990, £3.50, ISBN 0 85003 126 5
32: Principles of Policy for the Adaptive Economy, *Tony Killick*, 1990, £3.50, ISBN 0 85003 127 3
33: Exchange Rates and Structural Adjustment, *Tony Killick*, 1990, £3.50, ISBN 0 85003 128 1
34: Markets and Governments in Agricultural and Industrial Adjustment, *Tony Killick*, 1990, £3.50, ISBN 0 85003 129 X
35: Financial Sector Policies in the Adaptive Economy, *Tony Killick*, 1990, £3.50, ISBN 0 85003 131 1
36: Problems and Limitations of Adjustment Policies, *Tony Killick*, 1990, ISBN 0 85003 132 X*
37: Judging Success: Evaluating NGO Income-Generating Projects, *Roger Riddell*, 1990, £3.50, ISBN 0 85003 133 8
38: ACP Export Diversification: Non-Traditional Exports from Zimbabwe, *Roger Riddell*, 1990, £3.50, ISBN 0 85003 134 6
39: Monetary Policy in Kenya, 1967–88, *Tony Killick and F M Mwega*, 1990, £3.50, ISBN 0 85003 135 4
40: ACP Export Diversification: Jamaica, Kenya and Ethiopia, *Christopher Stevens*, 1990, £3.50, ISBN 0 85003 136 2
41: ACP Export Diversification: The Case of Mauritius, *Matthew McQueen*, 1990, £3.50, ISBN 0 85003 137 0
42: An Econometric Study of Selected Monetary Policy Issues in Kenya, *F M Mwega*, 1990, £3.50, ISBN 0 85003 142 7
43: Differences in Econometric Performance between Franc Zone and other Sub-Saharan African Countries, *Christopher E Lane and Sheila Page*, 1991, £3.50, ISBN 085003 148 6
44: Monetary Policy Effectiveness in Indonesia, 1974–1900, *Christopher E Lane, David C Cole and Betty F Slade*, 1991, £3.50, ISBN 0 85003 150 8
45: Monetary Control in Ghana: 1957–1988, *Nii Kwaku Sowa*, 1991, £3.50 ISBN 0 85003 152 4
46: The IMF in the 1990s: Forward to the Past or Back to the Future, *Graham Bird*, 1991, £3.50, ISBN 0 85003 153 2*
47: What Can We Know About the Effects of IMF Programmes?, *Tony Killick, Moazzam Malik and Marcus Manuel*, 1991, £3.50, ISBN 0 85003 154 0*
48: Country Experiences with IMF Programmes in the 1980s, *Tony Killick with Moazzam Malik*, 1991, £3.50, ISBN 0 85003 155 9*
49: Evaluating the Impact of NGOs in Rural Poverty Alleviation: India Country Study, *Mark Robinson*, 1991, £5.00, ISBN 0 85003 157 5

WORKING PAPER 69

CONTINUITY AND CHANGE IN IMF PROGRAMME DESIGN, 1982–92

Tony Killick

November 1992

ISBN 0 85003 194 X

Overseas Development Institute
Regent's College
Inner Circle, Regent's Park
London NW1 4NS

Summary

The nature of IMF programmes in developing countries, and the policy conditions (or 'conditionality') attached to these, became the subject of an almost ritualised controversy during the 1960s and 1970s but this debate has lost much of its fire in recent years. The purpose of this paper is to examine the extent to which Fund conditionality has changed since the author last studied this subject a decade ago, against the background of the earlier controversy, and to evaluate the changes that have occurred.

Contents

Tables

I Pressures for Change and the Fund's Response

Developing-country criticisms

Much of the case of those who complained about the inappropriateness of Fund conditionality to developing country circumstances is encapsulated in a report by the Group of 24, an intergovernmental grouping of developing country members of the IMF (G-24, 1987 p.9):

> The experience of developing countries that have undertaken Fund supported adjustment programs has not generally been satisfactory. The Fund approach to adjustment has had severe economic costs for many of these countries in terms of declines in the levels of output and growth rates, reductions in employment and adverse effects on income distribution. A typical Fund program prescribes measures that require excessive compression of domestic demand, cuts in real wages, and reductions in government expenditures; these are frequently accompanied by sharp exchange rate depreciation and import liberalization measures, without due regard to their potentially disruptive effects on the domestic economy.

Underlying the complaint about excessive reliance on demand compression, was the view that the IMF was too much of a monetary organisation, rather dogmatically applying a monetarist approach to balance of payments policy in standardised ways which paid insufficient heed to individual country circumstances, and that it was inflexible in its dealings with debtor governments. Fund programmes were thus seen as too short-term to be appropriate for developing countries confronting long-term balance of payments deficits, neglecting the more structural, supply side causes of payments difficulties. (Developing country representatives were ambivalent about this, however, for they were wary of any extension of the range of Fund policy conditions and succeeded in writing into a 1979 set of IMF guidelines on conditionality provisions intended to restrict its performance criteria to a limited number of macroeconomic variables.[1])

---

[1] See IMF *Annual Report, 1979*, pp.136-7. Performance criteria are those provisions in a Fund-supported programme which must be observed if the borrowing government is to continue to have uninterrupted access to outstanding tranches of an agreed credit. These are usually quantified indicators of such variables as domestic credit ceilings, budget

(continued...)

This critique of its conditionality was sometimes merged into a more thorough-going opposition along the lines that the Fund was a key part of a fundamentally inequitable world economic system, characterised by a marked asymmetry in treatment between persistent deficit and persistent surplus countries, and that a consequence of this was that excessively deflationary policies were forced upon the former group, with often inadequate financial support for the programmes of policy reform agreed with the Fund. Some went further yet, viewing the institution as ideologically pro-capitalist, dealing particularly harshly with left-leaning deficit governments, disruptive not only of their economies but also of their political systems.[2]

It was against this background that the present writer and colleagues undertook a substantial evaluation of the policies of the IMF as they related to developing countries, published in two volumes in 1984 (Killick *et al.*, 1984A and B—the 1984A volume was the principal one and is referred to hereafter as *Quest*). While by no means substantiating all the complaints just described, the findings of this study were critical of Fund conditionality in a number of important respects.

In particular, while we found little strong evidence that Fund programmes had major adverse impacts on such variables as economic growth, employment and poverty, we were critical of the institution for failing to adopt a cost-minimising approach, suggesting that programmes were preoccupied with the restoration of payments viability irrespective of other economic effects. We suggested that the payments problems of many developing countries were essentially structural in character and that to address these chiefly by means of demand restraint was liable to be a high-cost solution. There were those within the Fund who broadly agreed with this but traditionalists generally had the upper hand and, in any case, industrial-country shareholders were unwilling to countenance fundamental changes.

Similarly, on the complaint about IMF inflexibility we found that, while Fund staff made serious efforts to adapt programme designs to suit country circumstances, this was a flexibility rather narrowly constrained within the familiar parameters of the institution's distinctive approach to stabilisation policy. We were particularly critical of its failure to adequately recognise the special adjustment

---

[1] (...continued)
deficits, external reserves and borrowings. See Killick *et al.*, 1984A, pp. 191-96 (hereafter referred to as *Quest*) for a fuller discussion.

[2] These controversies, as they stood by the early–1980s, are described and analysed by Bird in *Quest*, chapter 5.

problems faced by the poorer developing countries and the lesser responsiveness of their economies, and we remarked on the 'strength of the internal and external resistances to an adaptation of IMF conditionality' (*Quest*, p.222).

For a while, in the late–1970s, it seemed that the institution was responding to developing country concerns, with some relaxation of stand-by conditionality and increased willingness to agree medium-term programmes under the Extended Facility (EFF) introduced in 1974. However, as a delayed response to the accession of the Reagan administration and the beginnings of the 'conservative revolution' in Europe, there was a distinct hardening in 1981–82, to a policy stance nearer to the late–1960s position than to the late–1970s. The EFF was all but abandoned, one-year stand-bys became the norm once again and policy conditions became more stringent (*Quest*, p.212). This helps to explain why as late as 1987 the G-24 still felt it necessary to give voice to the complaints quoted earlier that were already familiar 10 or 15 years earlier.

With the Fund restored to its traditional mode of operations and with the earlier ODI study having been completed at the end of that year, 1982 thus makes a natural starting-point for our present enquiry. Since then a great deal has happened to world economic conditions and the question arises, to what extent has Fund conditionality adapted to these changing realities? Were the G-24 to prepare another report today, would it still have to make the same complaints?

Pressures for change

The emergence of the debt problem in the early 1980s was a traumatic development and has exerted a decisive influence on the policies of the IMF. In the early years the debt situation posed a serious threat to the whole structure of international banking. It thus impinged forcefully on the national interests of some of the Fund's most powerful shareholders, most notably the USA, and eventually made them open to policy shifts which previously they had resisted.

The effect of the large debt servicing burdens of the heavily-indebted countries, and their greatly reduced access to world capital markets, shifted the adjustment-financing balance sharply towards adjustment and in most such countries it was a task of the Fund to ensure that sufficiently rigorous policy responses were put in place. Initially, when debtor countries were viewed as essentially facing a liquidity problem, the rapid spread of Fund programmes among indebted countries was not seen as posing any novel issues for the design of conditionality; it was more a matter of administering the familiar medicine in larger doses and with less sugar coating.

However, it gradually came to be recognised that the immediate post–1982 response was unviable. Indebted countries were pushed into prolonged recessions, with most of the benefits of often fiercely deflationary demand-management policies seen as accruing to foreign commercial bankers and other creditors, and with the Fund increasingly perceived as playing the role of debt collector. The political unsustainability—and perhaps the economic undesirability—of this situation gradually dawned, not least on the then Treasury Secretary, James Baker. The 1985 'Baker Plan', based on the premise that 'Sustainable growth with adjustment must . . . be the central objective of our debt strategy', brought a marked shift in policy (even though the 'plan' itself bore few fruit). Not the least surprising aspect of this shift was that it brought the US Administration into the camp of those vocally critical of anti-growth Fund programmes. 'Adjustment with growth' became the watch-word of the day, with the Fund staff under pressure to prepare 'growth-oriented' programmes.

The Baker Plan was chiefly addressed to the positions of countries, mostly in Latin America, which had borrowed heavily from commercial banks. Concurrently, there was also growing concern about the position of heavily indebted and impoverished 'official borrowers', chiefly in sub-Saharan Africa, whose debt situations continued to worsen. The manifest unviability of creditor policies towards this group of countries, and political and humanitarian considerations, increased pressures for new initiatives which would alleviate their plight.[3]

There were other forces working on the Fund. One was the rapid growth during the first half of the 1980s of 'structural adjustment' lending by the World Bank. This initiative carried the Bank into the territory of the IMF, by giving it a 'seat at the table' in macroeconomic policy formation in debtor countries and by offering a form of balance of payments support that appeared to respond more directly to the structural nature of the payments weaknesses of many developing countries.

This change called for a Fund response. First and foremost, it had to ensure that it was not overshadowed by the Bank and that it retained its lead role in the area of macroeconomic policy. Because of the growing overlap between the two institutions, it also had to work out modalities of cooperation with the Bank, to reconcile its approach to balance of payments management with the latter's more structurally-oriented approach.

Yet another element to which the IMF had to respond was the emergence for the first time of an important group of countries which had fallen into arrears in

---

[3] For a good account of the connections between the debt difficulties of African countries and changes in IMF policies see Martin, 1991, chapter 7.

servicing past credits from the Fund. In the earlier study we were able to report (*Quest*, pp.184–85) that 'the Fund has never suffered a formal default of more than a technical or transitional nature, although some accounting acrobatics and some rolling-over have been necessary to avoid a default . . .'. This situation changed dramatically during the 1980s. The Fund's Annual Reports show three countries to have become overdue to the extent of SDR 0.3bn by April 1984, figures which had grown to eleven countries and SDR 3.3bn by April 1990—an amount which can be compared with total outstanding Fund credit at the latter date of SDR 24.4bn.[4] This deterioration put considerable pressure on the Fund, raising questions about the soundness of its lending decisions and for the first time calling into question the quality of its balance sheet. We shall see shortly that this exerted a substantial influence on the institution's policies in the second half of the decade.

These symptoms of the straightened financial situations of many of its developing-country members thus called into question the appropriateness of traditional Fund policy stances. The well-researched recommendations of the G-24 report cited earlier added to the pressures for policy reform, as did the growing volume of academic evaluations of its performance and policies.[5] At the same time, we reported earlier the strength of resistance to reform within the Fund's staff and Executive Board, so to what extent was it able to respond to these pressures for change?

The Fund's response

The most notable response was the creation of new facilities designed specifically to provide medium-term assistance to low-income debtor countries facing protracted payments difficulties, thereby accepting the principle that such countries required special provisions. The first of these was the Structural Adjustment Facility (SAF), set up in 1986 and financed by reflows of Trust Fund money. SAF credits were limited to a maximum of only 70% of a country's quota but were available at a heavily subsidised interest rate and repayable over up to 10 years. They were in

[4] The eleven countries in question were Cambodia (SDR 39mn); Liberia (351); Panama (181); Peru (625); Sierra Leone (86); Somalia (126); Sudan (1008); Vietnam (101); and Zambia (862). Source: *Annual Report, 1991*, Tables 5 and 6.

[5] At the end of the decade the dramatic break-down of communist rule in Eastern Europe and subsequently in the then USSR threw up yet further major new challenges. We neglect them here, however, because our focus is on policies towards developing countries.

support of medium-term (i.e. three year) programmes and the conditionality attached to these credits was not very demanding. Almost all SAF loans were to low-income African member states.

The SAF led on to the creation in late 1987 of the so-called Enhanced Structural Adjustment Facility (ESAF), which, although also restricted to low-income countries, has had greater influence. ESAF credits are also in support of medium-term programmes and on the same soft financial terms as SAF but are generally a good deal larger (up to 250%, or exceptionally 350%, of quota).

The effect of the opening of the SAF and ESAF windows on the overall pattern of Fund lending is shown in Tables 1 and 2. Table 2 shows that SAF and ESAF programmes made up nearly half of the total number of all credits outstanding at the end of 1991. However, Table 1 helps to keep the significance of these new facilities in perspective, for it shows that at all times the aggregate value of stand-by lending has far exceeded SAF and ESAF lending, and that EFF credits became large at the end of the period. In value terms SAF and ESAF credits made up only 15% of the total because the credits were usually small, being for poor and usually small countries. However, ESAF credits made up a high proportion of lending to low-income countries, and virtually all lending in sub-Saharan Africa.[6]

Both SAF and ESAF credits are based on a Policy Framework Paper (PFP) which is supposed to be worked out co-equally by the staffs of the borrowing government, the IMF and the World Bank. The PFP outlines a three-year adjustment programme, which is then fleshed out and monitored by means of 'benchmark' indicators and, in the case of ESAF, by performance criteria. As will be shown later, the policy coverage of ESAF programmes is extensive.

By common consent, performance and monitoring provisions are much the more stringent with ESAF credits. There are quarterly financial and structural benchmarks and half-yearly performance criteria. In the diplomatic language of the IMF, 'Although disbursements are not directly related to the observance of benchmarks, deviations would indicate the need for policy adjustments under the subsequent annual program.'[7] Continuing access to ESAF, but not SAF, money is conditional on observance of performance criteria.

---

[6] The entry in Table 2 of SDR 1656mn stand-by credits to low-income countries relates to just one large loan, to India in October 1991.

[7] *IMF Survey*, August 1990, Supplement, p.13.

Table 1: **Composition of IMF lending by facility, 1980/81 to 1991/92[a]**

	Commitments during the year									*Total outstanding commitments at year-end*									
	Stand-bys		*EFF*		*SAF*		*ESAF*		*Total*	*Stand-bys*		*EFF*		*SAF*		*ESAF*		*Total*
	SDRM	*%*	*SDRM*	*%*	*SDRM*	*%*	*SDRM*	*%*	*SDRM*	*SDRM*	*%*	*SDRM*	*%*	*SDRM*	*%*	*SDRM*	*%*	*SDRM*
1980/81	5,197	50	5,221	50	–		–		10,419	5,331	49	5,464	51					10,795
1981/82	3,106	28	7,908	72	–		–		11,014	6,296	39	9,910	61					16,206
1982/83	5,450	39	8,671	61	–		–		14,121	9,464	38	15,561	62					25,025
1983/84	4,287	98	95	2	–		–		4,382	5,448	29	13,121	71					18,569
1984/85	3,218	100	–		–		–		3,218	3,925	34	7,750	66					11,675
1985/86	2,123	72	825	28	–		–		2,948	4,076	83	831	17					4,907
1986/87	4,118	89	–	–	488	11	–		4,605	4,313	80	750	14	327	6			5,391
1987/88	1,701	58	245	8	1,009	34	–		2,956	2,187	48	995	22	1,357	30			4,540
1988/89	2,956	65	207	5	441	10	955	21	4,560	3,054	46	1,032	16	1,566	24	955	14	6,608
1989/90	3,249	29	7,627	67	45	–	415	4	11,337	3,597	26	7,834	56	1,110	8	1,370	10	13,911
1990/91	2,786	50	2,338	42	53	1	426	8	5,603	2,703	18	9,597	65	539	4	1,813	12	14,652
1990/91[b]	–		–		–		–		–	5,449	31	9,666	55	101	1	2,499	14	17,716

Notes: [a] Years ending 30 April.
[b] As at 31 December 1991.

Source: IMF *Annual Reports* and *Memorandum*, 3 February 1992.

Table 2: IMF commitments as at end–1991

	Stand–bys			*EFFs*			*SAFs*			*ESAFs*			*Total*		
	No.	*SDRM*	*%*	*No.*	*SDRM*	*%*	*No.*	*SDRM*	*%*	*No.*	*SDRM*	*%*	*No.*	*SDRM*	*%*
Low-income countries	1	1,656	9	–	–	–	6	101	1	17	2,499	14	24	4,256	24
of which sub-Saharan Africa	–	–	–	–	–	–	5	81	–	14	1,682	9	19	1,763	10
Other developing countries	17	2,491	14	3	7,327	41	–	–	–	–	–	–	20	9,818	55
Total developing countries	18	4,147	23	3	7,327	41	6	101	1	17	2,499	14	44	14,074	79
Former Comecon countries	4	1,301	7	2	2,338	13	–	–	–	–	–	–	6	3,639	21
Total	22	5,449	31	5	9,666	55	6	101	1	17	2,499	14	50	17,716	100

Source: IMF *Memorandum*, 3 February 1992.

Another significant development was the conversion through a series of decisions during the 1980s of the long-standing Compensatory Financing Facility from a more-or-less automatic fund for largely non-conditional assistance for countries experiencing temporary export short-falls for reasons beyond their control into a modest source of supplementary finance largely confined to member countries which have already agreed a stand-by or other high-conditionality programme. In effect, this has become a high-conditionality facility. As access to this facility was tightened, however, its coverage was widened, first to include temporary increases in cereal import requirements, usually arising because of climatically-induced harvest failures, and then to incorporate a contingency mechanism offering additional finance to countries whose stand-by or other programmes run into difficulties because of unforeseen deteriorations in export or import prices or in international interest rates. This facility is now called the Compensatory and Contingency Financing Facility (CCFF).

Implicit in these alterations to the CCFF was a change in the balance between the intensity of the adjustment effort and the provision of finance. This balance changed sharply during the 1980s, chiefly as a result of the emergence of the debt crisis. After 1982 there was an abrupt cessation of net commercial bank lending to most developing countries and the banks began endeavours to reduce their exposure. There being no comparable increase in flows of public monies, indebted countries judged that they had little choice but to embark upon often severely deflationary fiscal and monetary policies, a feature which had a particularly acute effect on heavily-indebted Latin American countries.

The IMF responded to this situation by modifying its procedures for stand-bys so that, for heavily indebted countries, it could delay programme approval or activation until the commercial banks had entered into specific commitments on debt relief. This increased the pressures on the banks, whose outstanding loans were unlikely to be serviced by the debtor country until the programme became operative. Such provisions were quite common for a few years from 1983, although they were unable to do more than slow down the rate at which the banks secured a net return flow from the debtors. Early in the 1990s, the Fund went further and partially relaxed its previous insistence that countries must avoid arrears with the banks as part of programme conditionality, in a move intended to reduce the extent to which the Fund appeared to be acting as debt collector for the banks.

The Fund also greatly increased its own lending to indebted countries after 1982 and the rules governing the maximum size of its credits were relaxed, so that in exceptional cases there was no formal upper limit at all. For all that, however, the average size of Fund credits declined from an average of 158% of quota in

1979–83 to 64% in 1984–90.[8] Moreover, its interest charges on ordinary credits (i.e. other than the subsidised SAF/ESAF) rose sharply, in line with world capital market rates.[9]

II Changes in Policy Approaches

Given this evolution in the facilities and lending patterns of the Fund, the issue that particularly concerns us here is the extent to which the institution responded to the criticisms outlined earlier concerning the design of its programmes. To what extent has its conditionality also evolved? We begin our examination of this question by looking for changes in stated programme objectives.

Programme objectives

The Fund has long described the objective of its programmes as to restore *viability* to the borrowing country's balance of payments. An authoritative early–1980s gloss on this was provided by Guitian (1981 p.24):

> The concept of a viable balance of payments typically means, especially for many developing countries, a current account deficit that can be financed, on a sustainable basis, by net capital inflows on terms that are compatible with the development and growth prospects of the country.

(Note that the only reference to growth and development pertained to the terms on which external borrowing was undertaken.)

Similar language is still employed but with subtle variations. For example, a 1989 internal staff review, states that the main programme objective is to achieve 'a sustainable balance of payments over the medium term in the context of an open trade and payments system . . .'. As we will see shortly, significance attaches to the references both to the medium term and to payments liberalisation. No less significant was that document's reference to domestic social and political objectives, which went beyond traditional Fund ritual to accept that there were circumstances in which such objectives could act as a 'basic constraint' on programme design.

---

[8] Calculated from Kafka, 1992, Table II.

[9] *ibid.*, Table III.

In the case of ESAF programmes the objective has been formally re-defined so as to elevate economic growth to a primary objective, the goal being now stated as 'to promote, in a balanced manner, both balance of payments viability and growth through mobilization of domestic and external resources, improvements in resource allocation, and the removal of structural impediments . . .'. This up-grading of the growth objective has been one of the more notable changes of recent years. The Fund traditionally took the view that its primary task was to strengthen a country's payments position and that, by doing so, it was 'laying the foundations' upon which improved growth could be achieved in the future (*Quest*, p.187). The then Managing Director, Jacques de Larosiere, stated bluntly in 1986 that 'economies beset with widespread price distortions, misaligned exchange rates, rampant inflation, pervasive trade restrictions, large budget deficits, heavy external debt, and wholesale capital flight simply cannot and do not grow rapidly for any sustained period of time.'[10] As late as 1987 the Group of 24 report was much concerned to persuade the IMF to up-grade the growth objective, in effect arguing that minimum growth targets should constrain the programme designs. By 1990, however, Managing Director Camdessus was using very different language from that of his predecessor: 'Our prime objective is growth. In my view, there is no longer any ambiguity about this. It is towards growth that our programs and their conditionality are aimed.'[11]

The Fund has also responded to the urgings of UNICEF and others in the direction of giving its programmes more of a 'human face'. The traditional Fund position was that it was a matter for the government to concern itself with the distributional impact of stabilisation programmes and that it would be inappropriate for the Fund to involve itself in such matters. It was as good as its word. In a review of 30 stand-by programmes during the 1960s and 1970s, our earlier work found only one which contained provisions to protect the poor against possible adverse consequences (*Quest*, Table B, p.225).

This position has gradually changed, however. Fund missions now commonly discuss distributional aspects with government when preparing programmes and there is a requirement that the Policy Framework Papers prepared in connection with SAF/ESAF programmes should 'identify measures that can help cushion the possible adverse effects of certain policies on vulnerable groups . . . in ways

---

[10] Remarks to the UN in July 1986, quoted by de Vries, 1987, p.241.

[11] Remarks to UN, July 1990, quoted by Polak, 1991, p.19. See Polak pp.17-22 for a discussion of the evolution of the growth objective within the Fund.

consistent with the program's macroeconomic framework.'[12] An increasing number of programmes now contain safety-net provisions for such groups, although the chief examples of such programmes are in the former communist states of eastern Europe, not in developing countries.

A further facet of the Fund's greater sensitivity to concerns going beyond the balance of payments is the increasing interest it is taking in the level of military spending by governments coming to it for assistance. This was another area previously regarded as off-limits in programme negotiations and even now remains outside the Fund's formal conditionality. However, according to Polak (1991, p.29) in at least one country it sought and obtained assurances about plans for military spending and had exerted pressure to reduce such expenditures in a few other cases. We will see later that the institution has recently been taking more interest in the detailed composition of government expenditures but that it should be doing so in such a sensitive area is significant.

In another area the Fund has been more resistant to change, namely the environmental impact of its programmes. Under pressure from the environmentalist lobby, the US administration and some other shareholders have been pushing the Fund to address this issue but when the Managing Director brought proposals before the Board he was rebuffed by representatives of most major European shareholders and others, who saw a danger that macroeconomic conditionality could be diluted in exchange for some concessions on environmental matters that were largely irrelevant to the Fund's remit. The Board thus contented itself with the conclusion that the staff 'should be mindful of the interplay between economic policies, economic activity, and environmental change', that it should avoid policies that could have undesirable environmental consequences in ways 'consistent with the Fund's mandate, size, and structure' (*Annual Report, 1991*, p.54). In short, it stonewalled.

One other, unstated, aspect of balance of payments 'viability' which has also assumed greater importance in recent years is a requirement that the borrowing country should be able to service the IMF's own credits! We saw earlier how the emergence of arrears in interest and amortisation payments to the Fund had emerged as a serious concern during the 1980s. According to one senior staff member, this led the Fund to go close to defining viability in terms of the likelihood that the country would be able to repay Fund credits when due. Operational guidelines issued to the staff in 1988 emphasised the aim of limiting current account deficits to levels that could be financed by capital inflows that

---

[12] IMF *Annual Report, 1991*, pp.51-52.

would not jeopardise the country's debt servicing position, and the desirability of providing for an accumulation of international reserves to protect against adverse contingencies and to 'ensure the capacity to repay the Fund'.

Finally, we can revert to the reference in the 1989 staff review to the goal of achieving balance of payments viability 'in the medium term'. This too signals a shift of emphasis. The Articles of Agreement empower the IMF to make its resources 'temporarily available' to member countries seeking to strengthen their balance of payments and part of its traditional theology was that it was a credit co-operative whose resources were used on a 'revolving fund' basis. In the past this made the Fund reluctant to overtly accept a situation in which a country was making repeated use of its facilities and rather insistent that programmes should aim for quick results. In 1981 the Managing Director stated that, wherever possible, balance of payments viability should be restored during the programme period (typically 12 to 18 months in the case of stand-bys); more often the restoration of viability was linked to the stand-by repayment period of three to five years.

In recent years, however, the Fund has come to recognise the tensions between its insistence on short-term credits and programmes and the provision of effective support to countries whose problems are deeply rooted in structural weaknesses. It now acknowledges that the restoration of balance of payments viability will often take a long time, especially in low-income countries. At least in the case of ESAF programmes, it now only requires the objective that 'substantial progress' should be made within a three-year period. Indeed, so far has this lengthening of time horizons gone that one authoritative commentator has concluded that the idea of the Fund as a credit union has been 'wholly overtaken' (Polak, 1991, p.2).

The Fund has similarly gone further to a *de facto* acceptance of the repeated use of its facilities by developing-country members, further diluting the principle that it can only lend on a 'temporary' basis. Although it formally does not encourage more than three successive programmes, the Board is willing to go along with prolonged use so long as this is carefully justified in the papers presented to it for decision. In fact, various countries have made repeated use of Fund credits. *Working Paper No. 48* reports the results of studies of a sample of seventeen countries that borrowed from the Fund in 1979–89; of these no less than eight had a minimum of six programmes or programmes covering a minimum of six-and-a-half years during this period.[13]

[13] Its formal policies notwithstanding, however, repeated use has a long history among developing-country members. Goreux, 1989, p.148, states that six countries had had credit outstanding for 20 to 29 consecutive years, and 15 others for 14 to 19 years.

Changing emphases in traditional conditionality

There have been important changes in the content of IMF conditionality in recent years but these have not incorporated any fundamental movement on the provisions that have traditionally formed the bedrock of Fund programmes: restriction of domestic credit creation and budget deficits, and currency devaluation. The financial programming model used in the estimation of country performance criteria has remained largely unchanged for many years. It has not, for example, been modified to bring in more of the supply side of the economy, despite modelling advances in this area.[14] Even in the longer-term, more production-oriented ESAF programmes requirements (often in the form of preconditions) for currency devaluation and traditional performance criteria on fiscal and monetary variables remain at the centre of the policy package.[15] Indeed, insistence on devaluations has increased over the years. Polak (1991, p.36) calculates that in 1963–72, 32% of all programmes (excluding currency union countries) incorporated exchange rate measures; that this proportion rose to 59% in 1973–80;[16] went up again to 82% in 1981–83 and rose to 'nearly 100%' thereafter.

While there has been no retreat on the eternal verities of Fund conditionality, there have been significant changes of emphasis. One change evident in recent staff writings is insistence that the policy coverage of programmes should be broad, and well-balanced as between its traditional demand-management provisions and more supply-side measures. In language radically different from what might have been expected in an equivalent document ten years earlier, a 1989 staff paper complained that governments often preferred to stick to the familiar parameters of Fund programmes, leaving a danger that inadequate attention to structural weaknesses could endanger or slow adjustment. It went on to raise the question of 'how far the Fund staff should go in making key structural adjustment a prerequisite for granting an arrangement, or for interrupting purchases . . .'. Other internal papers echo this theme, as does the *1991 Annual Report* (p.24): 'A

---

[14] See, for example, Khan and Montiel, 1989.

[15] Thus of 22 SAF and ESAF programmes for which a full programme year was completed during July 1988 and December 1989, all included benchmarks and/or performance criteria relating to domestic credit, credit to the government and/or the public sector, and external borrowing; eight contained similarly binding provisions relating to the budget balance (from an unpublished 1990 staff report).

[16] This is similar to the estimate of more than half of all programmes contained in *Quest*, pp.193–95, for 1973–81.

recurring theme of discussions with developing countries . . . was the need to sustain broadly based macroeconomic stabilization and structural reforms over the medium-term . . .' .

Another shift has been an up-grading of the objective of trade liberalisation. While the desirability of this has long been written into letters of intent it was not often taken very seriously in the sixties and seventies[17] and our earlier investigations showed very little association between Fund programmes and actual liberalisation (*Quest* pp.236–38). However, we have already drawn attention to the 1989 document which, unusually, states as the main objective of stand-by programmes a sustainable balance of payments 'in the context of an open trade and payments system'. This was not a casual insertion for there are various pieces of internal evidence indicating an up-grading of the trade liberalisation objective. Some countries have reportedly been refused programmes because of unwillingness to act in this area; and liberalisation is now sometimes written in as a performance criterion.

There have also been important changes with respect to the Fund's thinking on fiscal conditionality, particularly under the influence of the head of its Fiscal Affairs Department, Vito Tanzi.[18] Internal staff papers now write disparagingly of the past tendency of programmes to go for 'quick fixes' and to over-concentrate on aggregate spending ceilings. In consequence, Fund missions now pay more attention to the details of the budget and to how governments are going to secure the overall spending cuts they promise.[19]

A number of influences have pushed the Fund in this direction. For one thing, governments have become increasingly canny in evading overall spending ceilings; for all their experience, it is very difficult for Fund missions to compensate for informational asymmetries and close all possible loopholes. Secondly, the up-

---

[17] Goldstein, 1986, Table 5, provides details of the policy content of 17 stand-bys agreed in 1980, of which only four contained trade liberalisation provisions. The proportion with 1980 EFF programmes was five out of 13.

[18] See especially Tanzi, 1989, on which the following paragraphs are based.

[19] The earlier Fund position that it was up to governments to decide how to implement overall cuts has always been fairly extensively honoured in the breach, however, so we are describing a shift of emphasis, rather than a complete turnaround. Thus, the Fund's Deputy Director of its Africa Department until 1987 wrote that after negotiating an overall expenditure cut a Fund mission 'has to discuss with the authorities how to implement this cut by analyzing the budget line by line' (Goreux, 1989, p.143). See also *Quest*, p.190.

grading of the growth objective, reported above, has pointed up the obvious fact that how the burden of cuts is spread across the government's expenditures can make a great deal of difference to their impact on the economy. In the absence of safeguards, there is, for example, a near-universal tendency for governments to cut first on capital expenditures, and then on maintenance and current supplies. They may also be tempted to impose disproportionate reductions in the provision of economic services, in attempts to avoid reducing the size of the civil service and/or the military budget. To put it differently, there can be a trade-off between the quantity and 'quality' of government spending reductions, with given balance of payments and growth targets being consistent with smaller high quality expenditure cuts (which protect productive expenditures) or larger but lower-quality reductions.

However, while Fund teams are nowadays more likely to involve themselves in the details of budget-making, Tanzi (1989, pp.25–28) acknowledges that this has so far made only a limited difference, partly because of political resistances, and that spending cuts still fall particularly hard on government capital formation. This is borne out by our findings on the impact of Fund programmes in *Working Papers 47* and *48* which, indeed, suggest that the Fund's measurable impact on fiscal policy is quite restricted.

Another new emphasis, and often a *de facto* extension of conditionality, is the far larger volume of technical assistance which is now provided by the Fund. This was formerly a rather minor part of its work but has been expanded rapidly in recent years, frequently in support of a stand-by or other high-conditionality programme.[20] Acceptance of such assistance is commonly made a condition for agreeing a programme and the Fund has used the personnel thus installed to improve the execution and monitoring of programme measures, especially in the area of fiscal policy.

The rise of structural conditionality

The spread of the Fund's influence beyond its traditional remit of fiscal-monetary matters into 'structural' matters has been rather more dramatic. Although it was a process begun in the 1970s with the introduction of the EFF, it has been taken a good deal further through SAF and ESAF programmes, and through the resumption of EFF lending. Even some stand-bys nowadays contain structural provisions, for

---

[20] Thus, in 1990/91 the Fund provided 194 experts and consultants to 65 member countries. Most of these worked in the areas of 'research and policy, bank regulation and supervision, and central banking', with debt management another significant subject (*Annual Report, 1991*, pp.55-56, 103-04).

example with regard to pricing policies, although only exceptionally are these preconditions or performance criteria.[21]

Examination of the content of this 'structural' conditionality indicates three main but overlapping thrusts: (1) to increase the role of markets and private enterprises relative to the public sector, and to improve incentive structures; (2) to improve the efficiency of the public sector; and (3) to mobilise additional domestic resources.

As regards the first of these, programmes commonly contain measures to bring prices closer to market-clearing levels, for example by the reduction or elimination of public subsidies and the removal of price controls. The pricing of petroleum products has been a frequent target in countries which have subsidised these or followed tax policies which kept final prices below true economic costs. Agricultural producer prices have also featured quite often, to ensure that adequate incentives are offered. The operation of the market mechanism has also been promoted through the liberalisation of trade and payments, already mentioned; and the realm of the private sector relative to the public has been extended in a substantial number of programmes by requirements for the privatisation of public enterprises.

Privatisation shades into the second chief thrust of 'structural' programmes—raising the economic efficiency of the public sector. In addition to sales of enterprises to private shareholders, programmes have provided for some of the more chronically inefficient public enterprises to go into liquidation. More often, there have been provisions for diagnostic studies of ailing enterprises and the preparation of action programmes. These have led in some cases to financial and/or managerial re-structurings and to other rehabilitation measures (not necessarily as a preliminary to privatisation). Some programmes have incorporated the device of performance contracts for public enterprises; more have required overhauls of enterprise pricing policies.

A fairly wide range of fiscal reforms have also been promoted as means of improving public sector efficiency. These have included tax reforms intended to reduce incentive distortions and to increase the buoyancy or elasticity of the tax

[21] To illustrate from one of the few country programmes which is publicly available, the stand-by approved for Cameroon in September 1988 included provisions for the preparation of an action plan for the forestry sector, movements towards the rationalisation of industrial protection, the rehabilitation and restructuring of the commercial banking system, and increased taxation of petroleum products. However, the all-important performance criteria were restricted to the conventional ceilings on domestic credit, credit to government and new external debt, and minimum reductions in external arrears.

system, including improvements in revenue collection. As mentioned above, much detailed attention has also been paid to improving the content of government expenditures. In quite a number of cases this has included reviews of, and/or reductions in, the size of the civil service; and examination of its remuneration levels and incentive structures. Attempts have been made to protect capital formation in government budgets, although it is doubtful whether these have been effective.

Strengthening the revenue side of the public finances also promotes the third thrust mentioned above: improved domestic resource mobilisation. In addition, a substantial proportion of programmes have included provisions for the reform and strengthening of the financial sector. These have included the re-capitalization of banking institutions and re-structuring their asset portfolios; the decontrol or reform of interest rates, generally with a view to raising these to positive real levels; the development of new financial instruments, to encourage the development of capital markets; and actions to strengthen the supervisory and technical assistance capabilities of central banks.

Some indication of the relative importance attached by the Fund to these various provisions is provided by information on the subject coverage of benchmarks and performance criteria in SAF and ESAF programmes (although this is also influenced by the feasibility of defining measures with sufficient precision for them to be given this status).[22] By this test and paying special attention to the more rigorous ESAF programmes, fiscal reforms were given the greatest weight by a substantial margin, with reforms in the areas of public enterprises, financial sector, agriculture and trade scoring about equally in second place. In about two-fifths of programmes, progress on one or more of these 'structural' provisions was given the status of a performance criterion.

It is clear, then, that the IMF's 'structural' programmes have substantially widened the coverage of its conditionality. It has in this way responded to earlier criticisms that the Fund did too little to address balance of payments weaknesses emanating from the productive system and weaknesses in economic structures. It is also clear, however, that the provisions just described take a rather partial view of what constitutes 'structural'. It is a view which coincides rather precisely with the pro-market, disengage-the-state approach of its major shareholder countries and this fact doubtless smoothed the way for the Fund to broaden its conditionality in this way.

---

[22] The following is based on an unpublished 1991 IMF study of 28 SAF and ESAF programmes in 22 countries considered by its Executive Board by April 1991.

A further aspect of the IMF's shift into 'structural' programmes through the vehicles of the SAF and ESAF is that it has introduced a potentially important modification to programme-formulation and negotiation processes. As described earlier, SAF and ESAF programmes are intended to be based on three-year Policy Framework Papers drafted jointly by the borrowing government, the IMF and World Bank. In the early years after this innovation it was rather notoriously the case that in reality the role of the government in the process was often minimal, and that the PFPs were written in Washington by Fund and Bank staff. As much was admitted by a former senior member of the Fund's staff dealing with Africa, writing of the mid and later–1980s: 'Unfortunately the PFP so far has been primarily a subject of negotiation between the staffs of the Fund and the Bank . . .' (Goreux, 1989, p.162). He might have added, '. . . with the Fund generally having the final say.'

However, it appears that this situation has gradually improved and that some borrowing governments have acquired more of a voice in the process. There has been some relaxation in Fund procedures which have given its missions more degrees of freedom to modify draft PFPs to accommodate government views. And to counter the long-standing criticism that IMF missions largely confine their discussions to the Finance Ministry and Central Bank there has also been an effort to involve a wider range of ministries in the preparation of these documents, including the line ministries which must implement the adjustment measures agreed to. Yet a further widening of the process is occurring through greater consultation with bilateral and other aid donors, both to be able to take their views into account and as a way of mobilising their financial support for the programmes. In consequence, the Fund is on record as believing that the PFP process, 'has become an increasingly effective instrument for designing medium-term policy measures' (*Annual Report, 1991*, p.57), although there are doubtless still a good many governments which still see the PFP as essentially a 'Washington' document in which their views and priorities are inadequately reflected.

IMF flexibility

In the past one of the commonest complaints about the Fund, particularly where governments were seeking to stabilise in the face of economic and political turbulence, was that it was too rigid in its negotiating stances, too uniform in its approach to programme design. Has this too changed during the last decade? To answer this we can draw on the survey of 17 country case studies described in more detail in *Working Paper No. 48*. Although these provide only limited information, what is remarkable about them is the relative absence of complaints about inflexibility.

Matin's (1986, 1990) writings on Bangladesh's programmes are an exception, arguing the need for a more judgemental approach to IMF decisions about continuing access to a credit, rather than a mechanistic approach based on observance of quantified performance criteria. Information on the fiscal effects of exogenous shocks also suggested that the Fund was on occasion too reluctant to adjust performance criteria in the light of changed circumstances, leading to programme breakdowns. Our materials also include many cases in which programmes were suspended or abandoned and some of these breakdowns may have been the result of Fund rigidity. However, if we confine ourselves to the literature on the countries surveyed, there are rather more examples of apparent flexibility than of the opposite.[23]

We should, however, make a distinction between that type of flexibility which leads the Fund to avoid taking up a rigid position during programme negotiations and flexibility in their execution. As regards the former, the Fund could be described as having taken up relatively amenable positions in several of the countries studied. A stand-by programme negotiated with Mexico in 1986 is of special interest in this connection because it incorporated elements of pliability in a programme which was unique. This contained provisions that varied the terms of the programme depending on external trading and other conditions, with both automatic modification of performance criteria and of the size of the credit according to the value of petroleum export earnings and the growth of the economy.

Martin (1991, chapter 2) reports little equivalent pliability by the Fund in its dealings with African debtor countries. In his view, 'Even debtor-negotiators who were well-prepared, united, flexible, experienced, persuasive, skilled in politics and economics, and who understood the Fund, received few concessions' in programme negotiations (p.42). Some IMF missions are described as taking a dogmatic 'take it or leave it' attitude; even sympathetic staff apparently regarded themselves as having little freedom to depart from their briefs.

Martin's findings become consistent with others showing greater Fund negotiating flexibility if we bear in mind the political isolation, or insignificance, of many African debtor countries. For country experiences point clearly to a strong correlation between the IMF's negotiating stance and political pressures that may

---

[23] Stiles (1991, p.198) also reports a substantial degree of IMF flexibility in his study of country programme decision processes.

work upon it to 'do a deal' with the country in question.[24] This political favouritism is reported more fully in *Working Paper No. 48.* In addition to clarifying differences of treatment as between African and major Latin American debtor countries, that political favouritism is an important factor is implicitly supported by Stiles's findings linking Fund flexibility with the extent of personal involvement of the Managing Director, which is strongly related to the extent of politicisation of the decision. Similar political influences also underlie Martin's finding that the Fund secured relatively few of their objectives in negotiations with Sudan and Zaire, with a staff member describing these programmes as 'cobbled together so a few donors could justify propping up their friends' (1991 p.53).

It is tempting to conclude from this that Fund missions display negotiating flexibility only when the institution comes under external pressures to do a deal but this may be unfair. There is internal evidence, for example, that the institution gives more weight than formerly to the political sensitivities of their task, with a 1989 staff report observing:

> . . . programs need to be developed with due regard to the domestic social and political objectives, the economic priorities, and the circumstances of the members. In framing their economic programs, member country authorities may be faced with important constraints that limit their ability to undertake as bold a program as might be called for on purely economic and technical grounds. In such circumstances, an approach that might be second best in an economic sense may be accepted, provided that it has sufficient focus on external viability.

Overt acceptance that political conditions in the borrowing country may require the Fund to settle for a sub-optimal programme is new language in the staff papers we have seen over the years, although there was doubtless *de facto* acceptance of this reality in many earlier programmes. We should, moreover, not make too much of

---

[24] Mosley *et al.*'s study of World Bank structural adjustment lending arrives at a similar conclusion (1991, Vol. 1, p.125):

> ...significantly tighter conditions were negotiated with the poorer countries in the sample, those with the worst balance of payments problems, and those most dependent on [structural adjustment] finance for official capital flows from abroad. The poorer the recipient's initial *political* bargaining position, in other words, the more stringent the conditions imposed upon it, regardless of the severity of *economic* mismanagement...

this acceptance, for only four of the 40 programmes reviewed in that document were actually classified as second best in the sense just described.

A final aspect of flexibility in negotiation on which there has been a little progress has been in the direction of including contingency provisions—clauses which vary the terms of a programme and/or the amount of supporting finance in the light of unforeseen changes in external conditions. The 1986 Mexican agreement mentioned above excited hopes that such provisions would be extended to other countries. Had this happened it would have been a major movement in the direction of greater flexibility but in the event Mexico was treated as a special case—the politics was paramount again.

The extension of the old Compensatory Financing Facility to include additional finance in the event of certain unfavourable developments beyond the control of borrowing governments, described earlier, was another potentially useful move, but the terms under which this support becomes available to governments are unattractive and this new provision has been little used. Of greater practical value has been a relaxation of what the Fund calls 'access policy', i.e. the rules governing the amount of credit it may grant in support of a given programme. These are now sufficiently loose to permit credits to be enlarged should external conditions turn against a borrowing country and threaten to derail the programme. A substantial number of countries have benefitted in this way.

Other changes in IMF practices to take greater account of the effects of exogenous developments have been far less favourable to borrowing governments. One is the more frequent inclusion of contingency provisions which increase the stringency of credit ceilings when *favourable* external developments occur, e.g. larger-than-forecast aid receipts. Another is requirements in programmes for larger increases in external reserves, *and therefore more stringent policies,* against the possibility of adverse external movements.

When we turn from flexibility in negotiation to flexibility in implementation there are additional developments to describe. The most important change in the 1980s was the adoption as more-or-less standard practice in both stand-by and the medium-term programmes of provisions for six-monthly review missions. The purpose of these is to assess progress with the programme over the preceding half-year and to reconsider or determine performance criteria and other provisions for the following half-year. As such, they reduce the Fund's reliance on predetermined quantitative indicators and facilitate the modification of programmes in the light of changing circumstances. They therefore should reduce the risk complained of by Matin (above) of mechanistic reliance on quantified credit ceilings and the like. They also make it easier for the Fund to incorporate provisions which cannot be reduced to quantified indicators, and situations where the data base is poor and uncertainties are large.

There are costs, however, because the more judgemental nature of the review mission process increases opportunities for political favouritism and governments have less assurance of continued access to an agreed credit. For this latter reason, the *doyen* of the Executive Board has suggested that borrowing governments should be given a choice between programmes based around performance criteria or programmes containing only periodic reviews (Kafka, 1992).

III An Assessment

How much has the Fund really changed?

A good many of the changes described above are surely to be welcomed. The broadening of programme objectives to give greater weight to growth and to be more sensitive to the impact of adjustment measures on vulnerable groups are changes that move the Fund in directions that have long been urged upon it by developing countries and independent observers. Although more controversial, the broadening of programmes to give them more structural and 'real economy' coverage may also be seen positively, particularly when viewed in conjunction with the lengthening of the Fund's time horizons, for it has increased the appropriateness of the institution's conditionality and financial support. This is particularly so for its poorer, less developed member states. For them, acceptance of the need for special forms of support, formally enshrined in the SAF and ESAF, was also an important move forward, and we have suggested that the PFP mechanism associated with these facilities has been evolving in ways which increase borrowing-government involvement in programme formulation. We should further welcome the apparent increase in the scope for IMF flexibility over programme implementation resulting from the greater use of review missions and its greater freedom to increase the amount of credit when necessitated by deteriorating external circumstances.

All these movements are in desirable directions because they enhance the Fund's ability to provide effective balance of payments assistance to its developing-country membership. What is much more difficult to judge is *how far* these changes have actually taken the agency—how much difference have they made at the country level? Inevitably, there is a gap between the policy statements of the Managing Director and the actuality on the ground, but is it an unbridgeable chasm?

We should here recall from Table 2 that a large proportion of IMF lending to developing countries is in the form of stand-by programmes. By common consent, these have changed only modestly over the years. They are still dominated by the Fund's traditional balance of payments objective. They still embody the same financial programming approach and performance criteria that have long been the hallmark of stand-bys, and continue to take a demand-restraint-plus-devaluation approach to balance of payments management.

While the Fund is now giving some greater prominence to the goal of economic growth it must be doubted how much difference this change has made to stand-bys. Growth is still not accepted as constraining the design of stand-by programmes, except for a greater reluctance to submit to the Executive Board programmes which are manifestly inconsistent with a resumption of growth. A small amount of evidence on the extent of change in stand-bys can be gleaned from the few recent stand-by programmes which have been made publicly available by the borrowing governments. We have information on stand-bys in Argentina in 1990, in the Dominican Republic in 1991 and in Jamaica in 1991. All reflect some, but not all, of the conditionality trends discussed above.

The *Argentinian* programme included considerably more 'structural' content than would have been expected a few years earlier. This included provisions for the reform and/or privatisation of certain public enterprises, the liberalisation of interest rates and various tax reforms. Performance criteria were, however, restricted to the types of variables that have long been conventional in stand-bys, and there were no less than eight of them. There was nothing in the programme which could justify calling it growth-oriented and it was silent on the protection of poverty groups.

The programme in the *Dominican Republic* differed in that the government explicitly acknowledged its responsibility to protect the living conditions of the poorest and committed itself to the creation of a 'social fund' and promotion of labour-intensive social services. However, here too there was little to protect economic growth. There was a commitment to measures intended to boost domestic saving but, against this, the programme envisaged a disproportionately large cut in government capital formation. There was little in the programme of a specifically 'structural' nature.

The *Jamaican* programme incorporated further variations. Although it was unspecific about growth, it was set in a medium-term framework and envisaged an increase in government investment expenditures, both absolutely and proportionately. Although it is not clear that this was a negotiated provision, the programme accommodated a rise in poverty-related state spending and specific poverty-alleviation measures. The overtly 'structural' content was limited but included actions to reform certain public enterprises, the liberalisation of import marketing and the elimination of some price controls.

The fact that they are less short-term in nature, more addressed to supply-side constraints and usually accompanied by World Bank 'structural adjustment' programmes probably means that ESAF programmes are able to give greater weight to the growth objective. The same is likely to be the case with EFF programmes, and the recent revival of this facility (Table 1) is also encouraging from the growth perspective. Evidence from the 1970s indicated that EFFs were more successful in protecting economic growth than stand-bys (*Quest*, pp.248–49), although they achieved little success in strengthening countries' balances of payments. Unfortunately, the revival of this facility and introduction of ESAFs are too recent for there to be reliable evidence on the results achieved.

We are similarly only able to conjecture about the extent to which movements in Fund policy have had any actual impact in protecting poverty groups from adverse effects. However, while there are specific instances where safety nets have been erected (particularly in the formerly communist countries of eastern and central Europe), it can rather confidently be asserted that, if we take an overall view, rather little has actually been achieved thus far. Indeed, in an interview Managing Director Camdessus expressed dissatisfaction with the operational impact. Part of the problem, of course, is that a good many borrowing governments do not themselves give high priority to protecting the poor.

If we step back and ask the question, just how different is the Fund today from how it was 10 or 15 years ago, different well-placed observers reach contrasting conclusions. A former long-standing senior member of the Fund's staff who is now a member of its Executive Board sees the recent changes as 'less a break than an elaboration of earlier policies' (Mohammed, 1992, p.245) whereas Polak sees their cumulative effect as having wrought 'a fundamental shift' in the Fund (1991, p.2). Our own assessment stands in an intermediate position. It does less than justice to both the extent of change and the aggregate effect of this on the stance of the institution relative to its developing-country members to describe it as merely an elaboration of past approaches, even though there are admittedly historical antecedents for many of the shifts. But to say that the Fund's relations with its Third World members has changed fundamentally is to over-egg the cake. The policy changes described above have been in a generally desirable direction and are making a difference to programme realities. But in many cases the difference is modest—a good deal smaller than the extensive changes in economic policy stances of many of its developing-country members over the same period.

The extent of difference, in any case, depends on the type of developing country we are considering. The changes have been largest in programmes in African and certain other low-income countries, which have been able to benefit from the SAF/ESAF innovations. They have often been quite small in middle-income developing countries, which are not eligible for SAF/ESAF and which usually receive assistance in the form of short-term stand-bys repayable over three to five years on near-commercial terms. That large and important group of countries is unlikely to consider that there has been a fundamental shift in the Fund. One of the problems now confronting it is to develop ways of reducing the short-term, demand-management bias in its dealing with these middle-income countries. The revival of the EFF can be understood in that light, but is at present only a very partial response, with a mere three EFF programmes in developing countries at the end of 1991 (Table 2).

In drawing up the balance sheet, we should also remember that the more important reforms described earlier have been achieved at a cost which many developing country governments will regret: a proliferation of conditionality. This is most obvious in the case of the ESAF (and EFF); we have already described the wider scope of the policy coverage of these programmes. It has also occurred in some degree in stand-bys. In addition, there has been extensive use of preconditions in SAF/ESAF programmes. However, the starkest evidence on the proliferation of conditionality is provided by the following averages for the number of performance criteria per programme:[25]

1968–77	below six
1974–84	seven
1984–87	nine-and-a-half

Evidently the attempt to use the 1979 conditionality Guidelines to limit the number of performance criteria was unsuccessful.

This proliferation (or 'deepening', as the staff would describe it) is a problem for the Fund itself as well as for implementing governments. For one thing, it increases the risk of slippage in programme execution and may help explain the rising proportion of programmes breaking down in recent years (see *Working Paper No. 47)*. It also seems that the particularly stringent degree of conditionality attached to ESAF programmes has had a strong deterrent effect on the utilisation

[25] From Polak, 1991, p.14. The overlap in the first two periods is presumably because the data are taken from staff studies which contained these overlapping periods.

of this facility, which explains the failure for lending from this facility to grow as expected after its introduction, shown in Table 1. As Feinberg (1991, p.6) ironically observed, 'When the ESAF was initiated, Fund management emphasized that the resources would only be used to support strong adjustment programmes. Evidently the Fund has honoured this commitment.' It may be, on the other hand, that a recent scaling-down in the number of preconditions in ESAFs is an attempt to encourage more governments to use this facility.

The deteriorating finance-adjustment balance

Incorporated in the Bretton Woods settlement at the end of World War II was the idea that international finance was desirable for countries facing balance of payments difficulties in two circumstances. It was desirable (i.e. in the interests of the wider international community), firstly, to encourage countries to ride-out problems of a temporary, self-liquidating nature, e.g. caused by temporary commodity price slumps or harvest failures. Policy adjustment (essentially cuts in aggregate demand) was not regarded as appropriate in such cases because it would impart a deflationary bias to the domestic and world economies; and also because the time lags involved made it unlikely that the policy corrections could produce the needed results quickly enough. When the nature of a balance of payments problem was not regarded as temporary then domestic policy corrections were appropriate and in this case financial support from the IMF (and other sources) was seen as complementary to adjustment, facilitating action, giving the deficit country more time to achieve results, reducing the adverse social impact of the policies.

Over the years, and particularly since the beginning of the 1980s, this philosophy has been systematically undermined and a number of the changes in the Fund reported above have been symptomatic of this regression. One illustration is provided by the policies adopted towards heavily indebted countries after the debt crisis broke in 1982. These countries (not surprisingly) experienced a dramatic decline in access to world capital markets and the policies adopted by creditor-country governments were intended to keep any compensating increase in public financial provisions to an irreducible minimum, forcing many debtor countries to embark upon drastic deflationary policies. The effect has tended to be self-defeating, as Sachs has frequently argued (e.g. Sachs, 1989), because the debt overhang acts as a tax on economic reforms: the country's population bears the cost of reforms while the creditors appropriate many of the benefits.

The change in philosophy is revealed too in the changes that have occurred in the former Compensatory Finance Facility, which we have shown to have changed from the semi-automatic provision of finance as an alternative to demand deflation in the face of temporary export short-falls to a fund effectively only available to provide additional money for high-conditionality programmes. Less well known but even more starkly illustrative is the trend in the Fund's approach to contingency planning in its programmes, requiring governments to accumulate additional reserves (by means of more stringent policies). Nothing could more clearly illustrate the movement away from internationally co-operative solutions than that the possibility of unforeseen developments should require anticipatory demand reductions rather than international finance in the event of need.

This complaint is, moreover, much more than theoretical. The survey reported in *Working Paper No. 48* shows that 'exogenous shocks' are a common source of balance of payments difficulties, and other evidence presented there shows a statistically strong association between adverse terms of trade movements and programme break-downs.

The country studies reported there also revealed the frequency with which *natural disasters*, including droughts and hurricanes, are an important, sometimes dominant, factor in decisions to adopt an IMF programme. Stabilisation programmes have to be an inefficient response to such events. It contradicts the precepts of economic management that the levels of economic activity should have to be cut back as a result of such shocks. Countries—like Bangladesh, in Africa's Sahelian zone and in many small island economies—which are particularly vulnerable to disasters require policies which will minimise the risks (e.g. through early-warning systems) and which cushion their economies from the adverse effects of these events when they do strike (such as the maintenance of stabilisation and contingency reserves). The economies in question are often so poor and hard-pressed that they are limited in what they can do along these lines, which points to a need for international support. Although some assistance is available, our evidence suggested that this is neither large nor rapid enough to prevent an inherently inefficient policy response from becoming inescapable.

The Bretton Woods arrangements were themselves unable to avoid a fundamental disproportion in the required policy responses of surplus and deficit countries. The trends just mentioned have deepened this imbalance, moving even the Fund's official historian to observe (de Vries, 1987, p284):

> . . . there is an understandable perception of asymmetry between developing and industrial country members in that the conditionality applied to the use of the Fund's resources have significantly affected developing members, while surveillance under Article IV . . . seems to have had little practical effect on the large industrial members.

The prime movers in this erosion of the principles of international co-operation have been the governments of major OECD countries, and it mirrors the 'conservative revolution' in many of these countries since the early–1980s. The IMF as an institution has been largely powerless in the face of these developments, although it has not been specially eloquent in defence of the system of which it was the lynch-pin. Our point here, however, is that the positive developments in the Fund's policies described above have to be set in the context of a less co-operative international system, so that gains on the swings have probably been more than offset by losses on the roundabouts.

References

Blejer, Mario I and Chu, Ke-Young (eds) (1989), *Fiscal Policy, Stabilization and Growth in Developing Countries*. Washington: International Monetary Fund.

Feinberg, Richard E (1991), 'The Bretton Woods agencies and sub-Saharan Africa in the 1990s: Facing the tough questions' in I Husain and J Underwood, *op. cit.*, chapter 7.

Frenkel, Jacob A and Goldstein, Morris (eds) (1992), *International Financial Policy: Essays in Honour of J J Polak*. Washington: International Monetary Fund.

Goldstein, Morris (1986), 'The global effects of Fund-supported adjustment programs', *IMF Occasional Paper* No. 42, March. Washington: International Monetary Fund.

Goreaux, Louis M (1989), 'The Fund and Low Income Countries' in Gwin and Feinberg (eds) *The International Monetary Fund in a Multipolar World, op. cit.*

Group of Twenty-Four (1987), *The Role of the IMF in Adjustment with Growth*, Report of a Working Group, March. Washington.

Guitian, Manuel (1981), 'Fund conditionality and the international adjustment process' in *Finance and Development*, a series of articles: 'The early period 1965–70', December 1980; 'The changing environment of the 1970s', March 1981; 'Fund conditionality and the international adjustment process: a look into the 1980s', June.

Gwin, Catherine and Richard Feinberg (eds) (1989), *The International Monetary Fund in a Multipolar World: Pulling Together*, US–Third World Policy Perspectives, No. 13. Washington: Overseas Development Council.

Husain, Ishrat and Underwood, John (eds) (1991), *African External Finance in the 1990s*. Washington: World Bank.

Kafka, Alexandre (1992), 'Some IMF problems after the Committee of XX' in J A Frenkel and M Goldstein (eds), *op. cit.*

Khan, Mohsin and Montiel, Peter J (1989), 'A framework for growth-oriented adjustment programs' *IMF Staff Papers* 36(2), June. Washington.

Killick, Tony *et al.* (1984A), *The Quest for Economic Stabilisation: The IMF and the Third World*. London: Overseas Development Institute.

Killick, Tony (ed.) (1984B), *The IMF and Stabilisation: Developing Country Experiences*. London: Gower Publishing Company and Overseas Development Institute.

Martin, Matthew (1991), *The Crumbling Facade of African Debt Negotiations*. London and New York: Macmillan and St Martins.

Matin, K M (1986), *Bangladesh and the IMF: An Exploratory Study*, Research Monograph No. 5, January. Dhaka: Bangladesh Institute of Development Studies.

Matin, K M (1990), 'Structural Adjustment Under the Extended Fund Facility: The Case of Bangladesh' in *World Development*, Vol. 18, No. 5.

Mohammed, Azizali F (1992), 'Recent evolution of Fund conditionality' in J A Frenkel and M Goldstein (eds), *op. cit.*

Mosley, Paul; Harrigan, Jane; and Toye, John (1991), *Aid and Power: The World Bank and Policy-Based Lending* (2 volumes). London: Routledge.

Polak, Jacques J (1991), 'The Changing Nature of IMF Conditionality' in *Essays in International Finance* No. 184, September.

Sachs, Jeffrey D (1989), 'Conditionality, Debt Relief, and the Developing Country Debt Crisis' in Jeffrey D Sachs (ed.), *Developing Country Debt and Economic Performance, Vol. 1. International Financial System*, University of Chicago Press.

Sachs, Jeffrey D (1989), 'New Approaches to the Latin American Debt Crisis' *Princetown Studies in International Finance* No. 174, July.

Stiles, Kendall W (1991), *Negotiating Debt: The IMF Lending Process*. Boulder: Westview Press.

Tanzi, Vito (1989), 'Fiscal policy, growth and the design of stabilization programs' in M I Blejer and K-Y Chu, *op. cit.*, chapter 1.

de Vries, Margaret Garritsen (1987), *Balance of Payments Adjustment, 1945 to 1986: The IMF Experience*. Washington: International Monetary Fund.

50: Evaluating the Impact of NGOs in Rural Poverty Alleviation: Bangladesh Country Study, *Sarah White*, 1991, £5.00, ISBN 0 85003 158 3
51: Evaluating the Impact of NGOs in Rural Poverty Alleviation: Uganda Country Study, *John De Coninck*, 1991, £5.00, ISBN 0 85003 159 1
52: Evaluating the Impact of NGOs in Rural Poverty Alleviation: Zimbabwe Country Study, *Ann Muir*, 1991, £5.00, ISBN 0 85003 160 5
53: Environmental Change and Dryland Management in Machakos District, Kenya: Environmental Profile, *edited by Michael Mortimore*, 1991, £4.00, ISBN 0 85003 163 X
54: Environmental Change and Dryland Management in Machakos District, Kenya: Population Profile, *Mary Tiffen*, 1991, £4.00, ISBN 0 85003 164 8
55: Environmental Change and Dryland Management in Machakos District, Kenya: Production Profile, *edited by Mary Tiffen*, 1991, £4.00, ISBN 0 85003 166 4
56: Environmental Change and Dryland Management in Machakos District, Kenya: Conservation Profile, *F N Gichuki*, 1991, £4.00, ISBN 0 85003 167 2
57: Environmental Change and Dryland Management in Machakos District, Kenya: Technological Change, *edited by Michael Mortimore*, 1992, £4.00, ISBN 0 85003 174 5
58: Environmental Change and Dryland Management in Machakos District, Kenya: Land Use Profile, *R S Rostom and Michael Mortimore*, 1992, £4.00. ISBN 0 85003 175 3
59: Environmental Change and Dryland Management in Machakos District, Kenya: Farming and Income Systems, *edited by Mary Tiffen*, 1992, £4.00, ISBN 0 85003 176 1
60: Explaining Africa's Post-Independence Development Experiences, *Tony Killick*, 1992, £4.00, ISBN 0 85003 177 X
61: The Informal Financial Sector: How Does It Operate and Who Are the Customers?, *J J Thomas*, 1992, £4.00, ISBN 0 85003 178 8
62: Environmental Change and Dryland Management in Machakos District, Kenya: Institutional Profile, *edited by Mary Tiffen*, 1992, £4.00, ISBN 0 85003 179 6
63: Environmental Change and Dryland Management in Machakos District, Kenya: Tree Management, *Michael Mortimore*, 1992, £4.00, ISBN 0 85003 180 X
64: IMF Lending: The Analytical Issues, *Graham Bird*, 1992, £4.00, ISBN 0 85003 182 6
65: The Seed Sector in Developing Countries: A Framework for Performance Analysis, *Elizabeth Cromwell, Esbern Friis-Hansen and Michael Turner*, 1992, £6.00, ISBN 0 85003 183 4
66: The Performance of the Seed Sector in Zimbabwe: An Analysis of the Influence of Organisational Structure, *Esbern Friis-Hansen*, 1992, £4.00, ISBN 0 85003 184 2
67: Political Regimes and Economic Policy Patterns in Developing Countries, 1978–88, *John Healey, Richard Ketley, Mark Robinson*, 1992, £4.00, ISBN 0 85003 185 0
68: The Impact of NGO Poverty Alleviation Projects: Results of the Case Study Evaluations, *Roger Riddell and Mark Robinson*, 1992, £4.00, ISBN 0 85003 1923
69: Continuity and Change in IMF Programme Design, 1982–92, Tony Killick, 1992 £4.00, ISBN 0 85003 194 X

* *currently out of print*

Overseas Development Institute
Regent's College
Inner Circle
Regent's Park
London NW1 4NS
UK

Telephone: 071–487 7413
Fax: 071–487 7590
Telex: 94082191 ODIUK
odi @ gn.uucp (GreenNet)
10074: SKK1133 (Dialcom)
141: UNX096 (Unienet)

£4.00