IV. The 13 In-depth Case Studies: Summary Tables

57. This chapter summarizes the findings of the 13 in-depth case studies. It begins with a brief introduction explaining the selection of the sample, the issues covered, the stakeholders that were interviewed, and the documentation reviewed. This is followed by two sets of tables highlighting key aspects of the 13 programs.

58. The 13 programs approved in 1999–2003 were chosen from a stratified sample to ensure representation of different types of programs and regional diversity.[22] The characteristics of the sample are largely representative of those observed more generally in the 103 arrangements approved during this period. PRGF arrangements, however, are somewhat over-represented—at about 60 percent of the sample, compared with about 50 percent of the total—reflecting the assessment that the greater variability of circumstances in these countries (including HIPC and non HIPC eligible countries) would help to understand better the forces that affect the design of SC. Although SBAs were, therefore, somewhat under-represented, the balance between precautionary and non-precautionary arrangements, and the share of programs in transition economies, matched their shares among the 103 programs approved in 1999–2003.

59. The analysis in this chapter was based on information on the design and implementation of structural conditions prepared by the evaluation team on the basis of Board and internal documents. For the most part, the evaluation team was able to identify the reasons for discrepancies between these reconstructed data and MONA. This reconciliation of the data permitted to overcome some of the shortcomings of MONA described in Chapter II. The analysis also benefited from discussions held with present and past government and central bank officials familiar with program negotiations and implementation. The evaluation team met with donors, with IMF and World Bank staff, and with other stakeholders (such as think tanks, local reporters, and NGOs), both in-country as well as in Washington, D.C. and other capitals. The team visited five of the countries (Armenia, Colombia, Kenya, Lao P.D.R., and Madagascar), and the rest of the interviews were conducted via teleconferences.

60. The first part of the analysis focused on the negotiations that took place before the arrangements were approved in order to understand the initial design of SC. In these instances, the main sources of information were missions' briefing papers (including departmental comments to them and reactions from management), and back to office and technical assistance reports. External documents such as those produced by the World Bank and country reports prepared by regional bodies such as the European Commission were also consulted. The evaluation team also met with mission chiefs and other mission members and,

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[22] The programs are: Colombia (SBA, 2003), Croatia (SBA, 2003), Dominican Republic (SBA, 2003), Ecuador (SBA, 2003), Romania (SBA, 2001), Armenia (PRGF, 2001), Cameroon (PRGF, 2000), Ghana (PRGF, 1999), Kenya (PRGF, 2000), Lao PDR (PRGF, 2001), Madagascar (PRGF, 2001), Mali (PRGF, 1999), and Pakistan (PRGF, 2001).

in some cases, with World Bank staff. To understand the motivation for specific conditions, the evaluation team also met with representatives from donor countries.

61. Next, the analysis focused on the evolution of conditionality throughout the lifetime of the arrangements and relied on similar documentation and interviews. The IEO teams also consulted Executive Directors' grays and Summings Up issued during Board meetings of program reviews in order to assess the impact that these meetings may have had on subsequent design of conditionality. Special attention was devoted in this phase to understanding the logic behind the introduction of new conditions during program reviews, factors that may have affected compliance with SC (such as technical capacity or domestic political economy issues) and the rationale for granting waivers in cases of non-compliance.

62. The analysis ended with an evaluation of compliance and short-term impact of SC. The analysis of compliance and effectiveness of conditionality at securing durable reforms, in particular, relied on Board documents, including staff reports for the first Article IV Consultation that took place after the expiration of the programs and, when available, ex post assessments.

63. The first group of tables that follow (Tables 4.1 and 4.2) provides comparisons across countries of the main areas covered by SC. It also contains brief assessments of compliance and observations about the short-term impact of SC.

64. The second group (Tables 4.3.1 to 4.15.4) contains country-specific tables with detailed information about the design and impact of SC. There are four types of tables in this second group.

- The first set highlights the main sectoral objectives of the program (e.g., "Improve the Fiscal Policy Framework"), broken down into more specific areas of intervention (e.g., Tax Policy, Budgetary Process, Fiscal Transparency, Expenditure Policy). For each of these areas, the tables document what the program was intended to achieve, including quantitative estimates when appropriate (e.g., a tax reform generating an increase of one percentage point of GDP in tax collections within a year).

- The second set shows the evolution of SC throughout the lifetime of the program. For each sector, the table indicates whether a condition was introduced, or modified, at the time of program request or during one of the program's reviews.

- The third set provides an analysis of compliance, together with explanations for the introduction of new conditions or modification of existing conditions, as well as reasons for granting waivers.

- Finally, the fourth set contains a sectoral assessment of the extent to which SC helped the authorities meet their objectives. The tables include, whenever possible, an identification of the factors that influenced the usefulness of SC.

Table 4.1. Summary Table: Structural Conditionality in Selected SBA-Supported Programs

	Main areas covered by SC	Assessment of compliance with SC	Observations on short-term impact of SC
Colombia	SC focused mainly on: (i) tax policy and administration reform; (ii) pension reform; (iii) reform of the budget process and systems; and (iv) divestiture of public banks.	Full compliance was observed on tax policy and administration, and almost full compliance on pension reform. Some delays arose in divestiture efforts. Compliance was weakest on budget process reforms, mostly due to the reluctance of Congress to approve the Budget Code.	Despite good compliance with SC in tax policy and administration, the tax structure remained complex and distortionary. Similarly, despite good compliance with SC in the pension system, important structural imbalances remained. Meanwhile, despite some delays, Ganahorrar was privatized and Bancafe restructured. A comprehensive budget reform remained essential at the end of the program to improve the effectiveness of the budget as a fiscal management tool and to achieve medium-term fiscal sustainability.
Croatia	SC focused mainly on: (i) improving budgetary processes; (ii) setting up clear rules for the extension of government guarantees; (iii) assisting in the process of strengthening the financial sector regulatory environment; (iv) promoting the privatization of the national oil company and a financial institution; and (v) pushing forward the process leading to the adoption of a new labor market law.	Compliance varied across sectors. Formally, full compliance was observed on labor market legislation and financial regulation. Some delays and technical difficulties arose in the implementation of SC on budgetary procedures and privatization of SOE. Less success was seen in the area of government guarantees. Nothing was achieved in the area of privatization of banks.	Despite fairly good compliance with SC in budgetary procedures, further progress was needed, particularly in the area of guarantees. SC on labor market reform was followed up by more durable actions (such as approval of the bill submitted to Parliament, which was not IMF SC, although the bill approved was somewhat weaker than the one submitted). Formal compliance with SC on SOE, which was relatively high, led to little meaningful change as no further state divestment from the oil company took place and the company continued to operate as a state monopoly.
Dominican Republic	SC focused on: (i) helping address the consequences and causes of the banking crisis; (ii) increasing revenues and reforming taxation; (iii) unifying the foreign exchange market; and (iv) reforming the electricity sector. In the financial sector, the program focused on problem banks, approving the Monetary and Financial Sector Law (MFL), passing by-laws needed to improve regulatory practices, and approving legislation needed to enable the authorities to deal with systemic crisis.	The bulk of the problem bank issues were dealt with as PAs. Legislation to deal with systemic crises was approved, as were several of the by-laws to the MFL. In taxation, only the use of distortionary taxes was approved at the start of the program and a more comprehensive tax reform did not materialize. The foreign exchange market was unified. Rising quasi-fiscal burden in electricity and the re-purchase of distribution companies contributed to fiscal difficulties.	The core of the banking crisis was controlled and the basis set for further work, such as the capitalization of banks. MFL regulatory reform remained incomplete. Considerable work remained to be done to improve regulatory and oversight practices in the banking sector. Temporary revenue measures led to greater reliance on trade taxation, which besides its distortionary effect was inconsistent with agreements under the Central America Trade Pact. The impact of SC on the electricity sector was minimal. The unification of the exchange rate has held. The subsequent program continued to develop these issues with greater emphasis on public expenditure management and electricity sector reform.

Table 4.1. Summary Table: Structural Conditionality in Selected SBA-Supported Programs (concluded)

	Main areas covered by SC	Assessment of compliance with SC	Observations on short-term impact of SC
Ecuador	SC focused on: (i) comprehensive tax reform; (ii) reforming and putting customs under the control of the tax administration; (iii) a civil service reform to unify standards and better manage the wage bill; (iv) cleaning up the remnants of the banking crisis; (v) putting the electricity and telecom industries under private management; and (vi) taking stock of oil and pension sector issues.	The laws on civil service and customs were passed, but considered not fully satisfactory. The comprehensive tax reform, including the removal of earmarking, was not presented to Congress. Limited progress was made in liquidating banks and collecting debts. Some of the bank deposits were paid. Electricity and telecom companies were not placed under private management.	Overall the impact of the conditionality on the intended objectives was very limited. There was disagreement on the impact of customs and civil service reform. Some of the fiduciary conditions served to meet fiscal targets at the time, but did not have a lasting impact on financial discipline. The consequences of slow progress in structural reform were mitigated by increases in oil revenues (price and quantity) and the growth of the non-oil economy.
Romania	SC focused on: (i) broad public enterprise sector; (ii) taxation; and (iii) financial sector. Coverage in the public enterprise sector extended to tariff realignment, collection discipline, wage and employment, and enterprise restructuring, liquidation and privatization. In finance, conditionality supported privatization of the largest bank in the country (BCR) and some regulatory changes. Tax reforms focused mainly on administration.	Electricity prices were aligned with costs, but gas tariffs remained below import parity at the end of the program. The rate of collection of utility services increased and came close to 100 percent. After a slow early start, enterprise privatization picked up. The BCR was not privatized as intended, but 25 percent was sold to EBRD and IFC. The BCR was later privatized. The quasi-fiscal deficit was reduced significantly. A thorough reform of the revenue agencies (taxes and customs) was initiated and began implementation with World Bank assistance.	Overall the program had a positive impact and helped turn the tide around in structural reform. But obtaining stable outcomes continued to require follow-up efforts. Attempts to bring prices in line with economic costs were part of the subsequent program. The program did not develop and apply permanent rules for price adjustments. Privatization increased the share of the private sector in the economy. Efforts at administrative reform of the revenue agencies set the basis for innovative work.

Table 4.2. Summary Table: Structural Conditionality in Selected PRGF-Supported Programs

	Main areas covered by SC	Assessment of compliance with SC	Observations on short-term impact of SC
Armenia	SC focused on: (i) tax policy and tax administration, particularly eliminating VAT exemptions and introducing a minimum profit tax; (ii) improving PEM; (iii) bank restructuring and liquidation of problem banks; and (iv) improving the regular tariff framework in the energy sector, complementing World Bank activities in helping unbundle and privatize operations in the sector; and (v) rehabilitating and restructuring the water and irrigation sectors	All structural conditions were basically fully met across all sectors.	The largest impact was attained in the energy sector, where the overall financial deficit went down from 4.1 percent of GDP in 1998 to a surplus of 0.2 percent in 2004. Collection rates rose to almost 100 percent associated with an improved regular tariff framework. In the banking sector, reforms contributed to a recovery in confidence and an acceleration in credit associated with an improved regular tariff framework (positive assessment of the FSAP). The tax base was expanded and the secular reduction of the revenue to GDP ratio was halted in 2004, then rose in 2005 helped by bolder enforcement. In PEM, a complete elimination of arrears was achieved in 2003 helped by measures that evolved from fiduciary to institutional reforms.
Cameroon	The focus of SC was on fiduciary measures to increase the transparency of government operations and overall governance. The program had one of the highest numbers of fiduciary conditions in the sample. Half of SC focused on public expenditure formulation, tracking, auditing and procurement. The program also included SC to: (a) implement the VAT, the large taxpayers unit and the tracking of uncashed taxpayers' checks; (b) audit the debt agency and the oil company; (c) draft action plans for reforming the judicial system; (d) advance the privatization agenda of SOEs in the areas of energy, transportation, and water (part of the World Bank program associated with HIPC); and (e) start rehabilitating the post-savings bank.	Compliance with SC was mixed. The first steps to rehabilitate the postal bank were taken and the improvements were made in the "Saisie-attribution" practice of freezing bank deposits under litigation. Some of the initial steps toward privatization of the key SOEs were also taken. However, some conditions were not fully met, including establishing the large tax payers' unit, auditing the debt agency, and taking better control of the size of civil service.	The structural impact of SC was minimal in the short term. The initial audit of the oil company took place but there was no impact on governance of the oil sector. SOEs continued to generate arrears and faced near insolvency by the end of the program. Attempts to increase the collection of non-oil taxes or reform the operations of customs did not materialize. In spite of introducing a computerized PEM, the system was under-utilized by the end of the program. Despite all the efforts to improve the management of public resources, the program went off-track in part due to the sizable public sector arrears generated. There was no follow-up on the program intent to support reform of the judicial sector. Some progress was made in implementing the FSAP conducted at the beginning of the program.
Ghana	The program covered a broad range of issues: (i) consolidating gains in taxation; (ii) opening up the cocoa sector to competition; (iii) modernizing the financial sector regulatory framework, as well as protecting the sector from the quasi-fiscal losses generated by the energy sector; (iv) transforming the public enterprise sector through pricing changes, restructuring and privatization; (v) improving the effectiveness and transparency of PEM and arrears; (vi) simplifying the trade regime; and (vii) improving statistics.	Compliance with SC was mixed. Measures to improve the tax base and to create a large taxpayer unit were implemented. However, some follow-up was weak, such as monitoring tax exemptions. The divestiture agenda supported by SC was only partially completed while a strategy for full recovery of utilities charges was developed. In the financial sector, progress was made on the regulatory framework and the divestiture of shares of the central bank in financial institutions. Little progress was made in tracking better fiscal arrears, reducing road sector arrears and improving macroeconomic and price statistics. Expenditure monitoring and control improved at a later stage when Ghana signed on for HIPC.	The impact of the program was mixed, despite the difficulties with implementation. The financial sector was healthy; rapid progress in PEM was followed by upgrading the supporting institutional expenditure framework (laws, etc.). Progress in reform of the public enterprise sector was mixed. The failure to keep up with adjustment formulae for energy/electricity price/tariff precluded the completion of the last review and remained a problem. These difficulties also delayed privatization. Ghana had a diversified system of taxes and revenue mobilization was high (23 percent of GDP), though many of these gains were achieved without conditionality support.

Table 4.2. Summary Table: Structural Conditionality in Selected PRGF-Supported Programs (continued)

	Main areas covered by SC	Assessment of compliance with SC	Observations on short-term impact of SC
Kenya	Irrespective of the sector, almost all structural conditions defined in the arrangement were aimed at addressing governance problems. Structural conditions were focused on: (i) anti-corruption legislation and institutions; (ii) the PEM system; (iii) the banking sector; and (iv) trade policy.	Compliance with reforms to reinforce anti-corruption legislation and institutions was very weak. Only one PA was completely implemented and no other conditions were basically met. De jure compliance with structural reforms of the PEM system and of the banking sector was relatively higher.	The impact of SC on the intended economic objectives was nil. The passage of anti-corruption legislation was hindered by a ruling from Kenya's High Court less than six months into the arrangement, which defined the Kenyan Anti-Corruption Agency (KACA) as unconstitutional. Attempts to re-establish KACA and implement an alternative strategy failed. Sustainable progress in PEM and the banking sector was also absent, despite the authorities' high compliance rate.
Lao P.D.R.	SC focused mainly on: (i) tax policy and administration; (ii) improving PEM; (iii) reform of the banking system; and (iv) reform of SOEs .	Compliance was significantly driven by the use of PAs while the program was on track. In banking reforms, there was almost full compliance with conditionality. Similarly, most conditions were met in PEM and SOEs. The sector that encountered the most difficulties was tax policy and administration.	Good compliance led to little meaningful structural reform because a large part of SC during the first stage of the program was basically fiduciary and procedural, with little emphasis on institutional changes to influence the incentive system and the governance of public institutions, such as SOEs and state banks. Thus, there was no opportunity for the program to progress toward more permanent and institutional types of measures. State commercial banks were still deeply insolvent, their underlying profitability was weak, and they were still vulnerable to pressures to extend credits on a non-commercial basis. Cash management remained complex due to the multiplicity of government bank accounts, some of which were outside the control of the treasury. Lack of overall central control over provincial expenditures remained a major problem. The main challenge on the revenue administration front was to recentralize authority over the tax and customs administrations, but the reforms encountered considerable resistance from provincial governors leading to very slow progress. Revenues as a share of GDP declined by 2 percent. In SOE, there was some progress in raising the tariffs of major utilities and in stopping the losses of Air Laos, but there was no program toward a more automatic and institutional process of price adjustment.
Madagascar	SC focused on: (i) increasing government tax revenues; (ii) improving PEM; (iii) implementing authorities' privatization program; (iv) strengthening the safeguard system in the central bank; and (v) implementing a continuous interbank foreign exchange trading system.	The compliance rate with SC defined in the 2001–05 PRGF was substantially higher than in any previous arrangement. Nine out of the ten performance criteria in the areas of tax, PEM, and privatization were implemented on time, while the other was implemented with delay. Almost all measures defined as SBs were eventually implemented.	The overall impact of SC on the intended objectives was very limited. This arrangement illustrates why strong compliance with SC does not necessarily entail progress on structural issues: (i) there was no noticeable increase in revenue performance; (ii) despite HIPC completion point documents (November 2004) recognizing the government's effort at improving its PEM system, assessments undertaken jointly by the IMF and the World Bank indicated that the number of benchmarks met actually decreased during the duration of the program; and (iii) slow progress of the authorities privatization agenda.

Table 4.2. Summary Table: Structural Conditionality in Selected PRGF-Supported Programs (concluded)

	Main areas covered by SC	Assessment of compliance with SC	Observations on short-term impact of SC
Mali	SC focused on: (a) new taxation for petroleum products reflecting changes in import prices; (b) assisting the cotton sector adjust to a price shock and enacting reforms to increase its competitiveness; (c) improvements in PEM including tracking of HIPC resources; (d) financial sector reforms; (e) continuing the divestiture programs, partly included in HIPC; (f) efforts at starting civil service reforms; and (g) improvements in the business environment and judicial practices.	Most conditions were met except for some actions related to further restructuring of the cotton sector to lower production costs and reduce its role in public services activities. The state energy company was privatized but not the telecom due to lack of interest. Compliance with conditions in the financial sector was high. However, limited progress was made in the sector, both in privatization and in the follow-up of an overall strategy. Progress was made in piloting a civil service reform.	The program had a reasonable impact on structural issues over the short term. There was progress on PEM (Mali's performance ranks the highest among HIPC countries), the telecom sector was opened to competition, several privatizations took place, and there was good progress in initiating the civil service reform. In cotton, the results were mixed. Some restructuring and opening to competition took place, but the lack of a clear agenda on cotton reform at the beginning of the program prevented progress. By the end of the program, an agenda of reform in the sector was developed which the subsequent program sought to implement.
Pakistan	The program focused on: (a) a set of detailed reforms in tax and administration (approximately 40 percent of all structural conditions) with an emphasis on eliminating exemptions, introducing self-assessments and enforcing compliance; (b) a program to reform public enterprises and the operations of utilities (25 percent of conditions) that ranged from pricing and regulatory reforms, restructuring and implementing performance plans, and privatizing the electricity sector; (c) measures to privatize banks; and (d) reforms to strengthen PEM, particularly the tracking of social expenditures.	Most of the agenda of SC in the area of tax administration and customs was implemented, including rules for self-assessment and integrating tax operations through a large tax unit. Specific measures to reduce tax subsidies to basic commodities and income tax exemptions were more difficult to implement. In the financial sector, two banks were privatized. Compliance with SC in the utilities and energy sector was mixed. Measures were taken to introduce multiyear electricity tariff frameworks and reduce uncertainties to producers, but little progress was achieved in unbundling the energy sector to enhance competition. Measures to track better social spending were implemented.	The impact of conditionality was uneven. Progress in the financial sector was significant. The privatization of banks and additional supervisory and prudential regulations improved sector efficiency, while further liberalization of the trade regime enhanced the role of the external sector. The approval of the Fiscal Responsibility Law reportedly was a major achievement to help steer fiscal policies. Conditionality on budgetary issues was limited, with donors providing direct assistance. Taxation (carrying on efforts from the previous operation) dominated the program, but additional mobilization of resources seemed nil. The authorities pointed, however, to a better relationship between the taxpayers and tax officials that helped reform efforts. The achievements in the energy sector were below expectations, particularly in reducing the quasi-fiscal deficit, restructuring of companies, and making progress toward privatization.

Table 4.3.1. Colombia: 2003–05 SBA—General Background: Objective of the Program and Areas Supported by Structural Conditionality

Overall objective of program as stated in the program request

In 2003, Colombia had been subject to contagion from other countries in the region, and from midyear the peso came under pressure in the foreign exchange markets. As in most other countries in the region, the sovereign spreads widened sharply. The Fund's support would be essential in providing comfort to the markets, helping the administration to implement needed policy adjustments and reforms, and providing additional resources.

Areas supported by SC throughout the program

Overall objectives	Reform Area	Objectives of SC
Improve the Fiscal Policy Framework	Tax Policy	In September, the government sent to Congress a tax package that would raise the special VAT rate of 10 percent, applicable to some products, to the standard rate of 16 percent, and provide for an expansion of the VAT base. The items to be added to the base, including some basic foodstuffs, would be taxed at 5 percent. The tax bill included a one-year surcharge on all income taxes, a lowering by half of the deduction of territorial taxes from the income base, and a cap on the generalized exemption for higher income individuals. Finally, the government's tax program called for a major advance in controlling tax evasion through new enforcement measures and stricter penalties, and closed loopholes in the financial transactions tax. At the territorial level, the reform proposed to simplify the tax on alcoholic beverages, and increased the surcharge on gasoline. The increase in tax collections as a result of these measures was estimated to be 1.6 percent of GDP in 2003, falling to 1.2 percent in 2004 after payments on the wealth tax ended.
	Expenditure Freeze	The government proposed to freeze a large part of the public sector's current primary spending for the next two years at the 2002 level in nominal terms. This measure would be the subject of a nationwide referendum in early 2003, and was expected to generate savings of 0.7 percent of GDP in 2003 and an additional 0.5 percent of GDP in 2004. Savings at the territorial government level related to the freeze would be allocated to the territorial government pension fund (FONPET) and other public pension funds to strengthen their finances.
	Budgetary Process	The government intended to submit to Congress in 2003 a reform of the budget law that sought to establish a budgetary process and a classification system consistent with international standards. In a major effort to restore the budget as an efficient and flexible instrument for implementing national priorities, the reform of the budgetary system would include proposals to rescind a large number of the legal bindings on budgetary spending. The government requested TA from the Fund and the World Bank in this area.
	Fiscal Transparency	The government expected that its proposed fiscal responsibility and transparency law would be approved in early 2003.
Reduce Quasi Fiscal Deficit	Pension Reforms	In September 2002, the government introduced to congress a comprehensive reform of the general pension system, designed to better equilibrate contributions and benefits, and also requested powers for the government to strengthen the finances of the special (privileged) pension regimes of teachers and the military.
	Restructuring and Downsizing Role of the State	These actions were part of a multiyear plan developed to restructure and reduce the administrative apparatus of the state. The plan also included a civil service reform under which the government's nonmilitary staff positions would be reduced gradually over four years, mainly through the closing of existing vacancies and attrition, ultimately reducing the nonmilitary staff positions by around 10 percent. An effective system of incentives would be established for public servants through performance-based hiring and compensation schemes. The plan also introduced changes in the management of the government's physical assets, new control systems to reduce fraudulent access to government benefit programs, new systems to control fraud in government contracting, and a strengthening of the state's legal defense services. The authorities expected savings from these measures to rise from 0.1 percent of GDP in 2003 to 0.6 percent of GDP in 2005.
Strengthen the Financial Sector	Bank Restructuring	The government would continue to pursue bank resolution through market-based mechanisms and would not establish new subsidy programs for borrowers. The divestment or liquidation of intervened institutions would be completed by end-2004, to the extent market conditions permitted.

Table 4.3.2. Colombia: Flow of Structural Conditionality (by area)

Reform area	Number of SCs	Request December 1999	First Review September 2000	Second Review March 2001	Third Review January 2002	Fourth Review *Cancelled*
Tax Policy and Administration	2 PA; 0 PC; 3 SB	Present Congress a tax package generalizing VAT and income-taxes and a once-for-all increase in wealth taxes. Measures to enhance penalties for evasion were postponed.			Measures to improve tax administration: integrated accounts, closing enterprises, evading, reporting of individuals in arrears.	
Pension Reform	1 PA; 0 PC; 6 SB	Approval by Congress of general pension reform and powers to the government to reform special pension regimes. Implement reform of pensions of military. Approve and implement a plan to reduce the deficit of health services provided by the social security system.	Implement the reform of regime for the military.	Follow actions to reduce deficit in the health services of the social security system.	Submit to Congress a constitutional amendment to eliminate special pensions regimes.	
Budget Process and Systems	0 PA; 4 PC; 8 SB	Congressional approval of fiscal responsibility law. Submission and, at a later date, Congressional approval of the budget code.	Submission of reform of the budget code.	Congressional approval of reform of budget code. Budget to include proper classification of expenditures. Issue by authorities a plan for reporting of the non-financial public sector deficit. Approve a strategy for fiscal decentralization by CONPES.	Budget to include a proper classification of expenditures according to SICS.	Authorities to publish study on revenue sharing system.
Legal Framework for Government Operations	0 PA; 0 PC; 2 SB	Presentation to Congress of Law 80 to improve government contracts to be then approved. CONPES to finalize plan to streamline management of government property. Completion of documents to strengthen government legal defense system and then implement.			Resubmit to Congress Law 80.	

Table 4.3.2. Colombia: Flow of Structural Conditionality (by area) (concluded)

Reform area	Number of SCs	Request December 1999	First Review September 2000	Second Review March 2001	Third Review January 2002	Fourth Review *Cancelled*
Divestiture and Privatization	0 PA; 0 PC; 5 SB	Divest Bancafe a year later and Granahorrar Bank 18 months later.			Announce auction of Granahorrar. Restructure Bancafe.	Announce auction of Granahorrar.
Labor Market Reform	1 PA; 0 PC; 0 SB	Present to Congress a proposal for labor market reform.				
Civil Service Reform	0 PA; 0 PC; 1 SB	Issue a decree to eliminate existing vacancies in the public service with immediate effect, and also close vacancies created by retiring staff.				
Macro Data/ Statistics	0 PA; 0 PC; 1 SB			Issue a plan to improve the statistical reporting system for the financing of the nonfinancial public sector deficit.		

Table 4.3.3. Colombia: Assessment of Output (by reform area)

Reform Area	Compliance with SC (SC met/Total SC)	Output Assessment
Tax Policy and Administration	5 / 5	All measures on tax policy reforms were complied with—many of them were PAs aimed at signaling the markets the policy commitments of the authorities on the fiscal front. Tax administration reforms were introduced during the third review and were also complied with, although there was no discussion in the documentation on how such conditions were measured or tracked. The program should also have had a time table to eliminate the distortive financial taxation (not mentioned in the reviews).
Pension Reform	6 / 7	This was perhaps one of the most critical and difficult areas of reform—inherited from the 1999 EFF. The Congress approved reforms to reduce the deficit of the pension system of teachers. The authorities counted then on a national referendum planned for 2003 to allow further long term reforms to cap public sector pensions and eliminate the special features of pension regimes for teachers and oil state sector employees. Because military pensions were left out of the referendum, an SB was introduced, and implemented, to make that system internally more equitable. The unfavorable outcome of the referendum (in October 2003) reduced the possibility of a more automatic reform in the pension regime. As a result, the authorities suggested to submit in early 2004 a constitutional amendment to scale down the benefits of the special pension regimes—which was eventually done.
Budget Process and Systems	6 / 12	This was also a critical area of reform. In these areas, SC was properly sequenced, calling first for submission to Congress and then approval at a later stage. The submission and approval of reforms of the budget code were reintroduced as PC, but were delayed and waivers given. Advances in the preparation of a plan to improve the decentralization system and territorial transfers was continuously delayed, in spite of it being a topic discussed during the EFF and well-studied in Colombia. This was a puzzling development, since it was under the control of the executive and the economic team.
Divestiture and Privatization	5 / 5	The SB in this area provided a lead time of 11 and 20 months for the privatization of the two state banks—the largest horizon of any measure in the program. Implementation of the measures was postponed due to the lack of bids. There were different views on the sources of delays, ranging from lack of appropriate market conditions at the time to issues related to liabilities associated with reduction of personnel. Some observers in Colombia believed this was an important area of reform because keeping these banks in state hands would always increase the risk of their politicization. Others believed that these banks were minor and did not constitute any threat to public finances vs. other areas.
Legal Framework for Government Operations	2 / 2	Again, in these areas, the program sequenced from the start different steps required for implementation—providing enough lead time to prepare plans, to submit and then call for approval of legislation. The biggest problem in this area was the legislature's difficulty in approving Law 80 to encourage a better and more transparent management of government contracts.

Table 4.3.4. Colombia: Other Factors and Likely Impact of Structural Conditionality

Reform Area	Assessment of SC's usefulness (factors influencing its usefulness)
Tax Policy and Administration	Signaling: When the SBA was approved, Colombia had lost access to international markets, and a program was seen by the authorities as a necessary "seal of approval" before talking to Wall Street in their efforts to regain access to debt markets. During their discussions with Wall Street—in particular with rating agencies—it became clear that the prompt approval of an IMF program was a necessity. Furthermore, it also became clear that the program had to address fiscal structural issues. With the approval of the program Colombia regained access to the markets (it placed a US$500 million bond in December 2003), and spreads shrunk in comparison with other BB-rated countries during the first year of the program. Finally, a program with the IMF was also seen a condition for access to IADB and WB loans. All this suggests that signaling provided by the IMF program and its conditionality in the tax area helped Colombia regain access to markets.
	Supporting the Economic Team in its discussions with Congress. At an early stage, the IMF team visited Colombia and met with the President, Unions and main Congressmen to emphasize the importance of approving the fiscal package set as a PA. These meetings seemed to have helped the approval of the fiscal package. Once the crisis subdued, the relative value added of SC seemed to have gone down and it may have even have become counterproductive.
Pension Reform Budget Process and Systems Legal Framework for Government Operations	In those areas where conditionality was not meant to avert an immediate crisis, it was least effective and probably counterproductive. There was a general view among experts that SC that called for passage of legislation involved significant risks and uncertainties, and there was a risk that Congress would use it as a bargaining chip, depending on how good the relationship between Congress and the Executive was. Furthermore, many counterparts suggested that a number of reforms were implemented outside the program and without any link to conditionality: flexibility for labor markets, adjustment in the price of energy, privatization of telecommunications, and downsizing the civil service. Having had conditionality in these areas would have generated resistance to change and made progress difficult.
Divestiture and Privatization	The privatization effort of Bancafe was not possible because its labor costs were much higher than those of peer banks. The large wage liabilities were a major problem in the February 2004 attempt to auction the bank. The attempt to sell Granahorrar immediately after the unsuccessful auction of Bancafe was seen as a high-risk strategy, with significant reputational risks. With the improvement of the overall economic situation, Granahorrar was eventually sold at the end of 1995. The successful experience of that sale and some restructuring of the liabilities of Bancafe increased the possibility of a successful auction of Bancafe; the authorities announced their intention to sell the bank.

Table 4.4.1. Croatia: 2003–04 SBA—General Background: Objective of the Program and Areas Supported by Structural Conditionality

Overall objective of program as stated in the program request

The authorities aimed at maintaining macroeconomic stability and strengthening the foundations for high economic growth in the run-up to parliamentary elections that were to be held by March 2004. To achieve these objectives, the program relied on fiscal adjustment and structural reform (including further privatization) in the context of a broadly stable exchange rate. The reference to the elections was an implicit reference to underlying pressures for fiscal spending in the run-up.

Areas supported by SC throughout the program

Overall Objectives	*Reform Area*	*Objectives of SC*
Improve Fiscal Policy Framework	*Budgetary Procedures*	*Submission and subsequent approval of a new budget law (i) requiring the submission of 3-year budgetary frameworks with each annual budget, presentation of all data on a consolidated general government basis, and regular publication of these data; and (ii) strengthening the enforcement of penalties for overspending units.*
	Public Debt Management	*Given the importance of guarantees in debt accumulation in Croatia, the authorities were to issue immediately a decree limiting the extension of new guarantees. Subsequently, the government was to prepare formal criteria for issuing guarantees and adopt them formally later on. The authorities were asked to periodically prepare complete registries of all active government guarantees.*
Reduce the Role of the State in the Economy	*Privatization of SOEs*	*Prepare the ground for the sale of "25 percent plus one share" of state power company INA. Conditionality was used to mark steps in the process through deadlines for (i) receiving binding offers, (ii) making a formal decision on the received bids; (iii) receiving the proceeds from the sale. The fiscal impact (revenue) of this measure was not important.*
	Privatization of Financial Institutions	*No clear/persuasive explanation of the strategy underlying the use of SC in this area, namely the privatization of the Postal Bank and, subsequently, preparation of a privatization plan for Croatia Banka, both with assistance from the IFC. Board documents failed to explain how privatization of the two chosen banks (90 percent of banks were already in private hands) would help "enhance growth potential" or contribute in any meaningful way to gather momentum for privatization.*
Strengthen the Financial Supervisory and Regulatory Environment	*Banking Supervision*	*The first regulatory measure (the inclusion of options in the calculation of banks' net open foreign exchange positions) was one of several identified by the authorities as essential for strengthening the financial sector's regulatory framework at a time when euroization of banks' assets and liabilities was growing significantly. What is not clear is why this, out of seven measures, was subject to SC. The second measure, which was fairly detailed (reporting to the central bank periodically their ten largest customers' foreign exchange exposure) was not clearly justified.*
Enhance the Efficiency of the Labor Market	*Labor Market*	*This measure (which called for the submission to parliament of a new labor law aimed at reducing the costs and relaxing the constraints of dismissals) was deemed key for modernizing Croatia's ill-functioning labor market. But Board documents failed to explain why this was judged to be a critical part of the IMF-supported program. What is clear is that the condition (a PA at the request level) assisted in getting the bill submitted to Congress and releasing the disbursement of the World Bank credit.*
Assist Macroeconomic Policy	*Fiscal Policy*	*These were largely "safeguard" measures calling for (i) approval of a current budget consistent with the program's fiscal target, and (ii) approval of measures yielding 0.5-1.0 percent of GDP (to offset losses arising from the expiration of past temporary measures and the introduction of new exemptions).*
	Monetary Policy	*This measure (calling for the government to place the proceeds from the second-tranche SAL disbursements in a foreign currency account with the CNB until early 2004) was an instruction to freeze an inflow of money to prevent it from contributing to faster liquidity creation than programmed .*

Table 4.4.2. Croatia: Flow of Structural Conditionality (by area)

Reform Area	Number of SC	Request February 2003	First Review August 2003	Second Review November 2003	Third Review *Not completed*
Budgetary Procedures	1 PA; 0 PC; 1 SB	Submission and subsequent approval of the new budget law.			
Public Debt Management	3 PA; 1 PC; 2 SB	Decree that limits the issuance of new guarantees. Government to prepare criteria for issuing guarantees.	Adopt criteria for issuing guarantees. Prepare a complete register of active guarantees. On the basis of a complete register of active guarantee, report data on government guarantees outstanding.		
Privatization of SOEs	3 PA; 0 PC; 1 SB	Maintaining January 2003 as the deadline for receiving binding offers for 25 percent plus one share in INA. Government to make a decision on the bids received for the privatization of INA	Reach a final, irrevocable decision on the privatization of 25 percent plus one share of INA.	Government to receive the proceeds of the partial privatization of INA.	
Privatization of Financial Institutions	2 PA; 0 PC; 4 SB	Government to prepare a privatization program for postal bank HPB.	Send a mandate letter to the IFC requesting due diligence of HPB with a view to subscribing 19 percent of its capital with veto powers. Sign a subscription with the IFC committing the latter to acquire 19 percent of HPB's capital with veto powers. Prepare a plan to privatize Croatia Banka.	Send a revised letter to the IFC requesting due diligence of HPB with a view to subscribing to 19 percent of HPB's capital. Obtain IFC Board approval to subscribe to 19 percent of HPB's capital.	
Banking Supervision	1 PA; 0 PC; 2 SB	Central bank to issue and enact a regulation to include options in the calculation of bank's net open foreign exchange position.		CNB to ask banks to report on their 10 largest customers' foreign exchange exposure.	
Labor Market	1 PA; 0 PC; 0 SB	Government to submit to parliament a new labor law.			
Macroecono mic Policy	3 PA; 0 PC; 0 SB	Parliament to approve a central government budget consistent with the fiscal program. Parliament to approve a package of measures increasing net revenue by 0.5-1.0 percent of GDP.		Government to place the proceeds from the second SAL disbursements in a foreign currency account with the CNB until early 2004.	

Table 4.4.3. Croatia: Assessment of Output (by reform area)

Reform Area	Compliance with SC (SC met/Total SC)	Output Assessment
Budgetary Procedures	2 / 2	The PA on submission of a new budget law was met and the SB on approval was met with delay.
Public Debt Management	5 / 6	The first PA limiting the extension of debt guarantees was met but the PC for designing criteria for the issuance of guarantees was not met on time. A waiver was granted on condition that corrective action be taken as two PAs for the completion of the 1st review: the adoption of established criteria for granting of guarantees and the preparation of a complete registry of government guarantees. These were met. On the basis of this registry, the government was also asked (SBs) to report data on guarantees by September and December. Both were met with delays.
Privatization of SOEs	3 / 4	A PA maintaining January 2003 as the deadline for receiving binding offers for 25 percent plus one share in INA was met. The SB calling for a decision by end-March 2003 on the bids received was not met on time. Compliance with it was made as a PA for the first review, which was met. Due to delays in the settlement of the transaction after approval of the sale, a PA was introduced at the second review asking the government to secure payment; this was met.
Privatization of Financial Institutions	3 / 6	Compliance indicators here mean little: conditionality was based on assumptions that did not materialize and, as a result, conditions kept changing and not being met. An SB calling for the preparation by end-March of a privatization program for postal bank HPB was met with a relatively large delay. The PA in the 1st review asking the authorities to send a letter to the IFC by June 15 requesting due diligence of HPB with a view to subscribing 19 percent of its capital with veto powers was met. But the SB asking the authorities to sign an agreement with the IFC committing the latter to acquire 19 percent of HPB's capital by September 30 was not met. Neither was another SB asking for the preparation of a plan to privatize another bank, Croatia Banka. At the time of the 2nd review, the IMF asked as a PA to send a "revised" letter to the IFC requesting due diligence of HPB and a SB aimed at securing IFC Board approval to subscribe to 19 percent of HPB's capital by December 31. At the end privatization of HBP did not happen, as the IFC decided not to acquire any stock in it.
Banking Supervision	3 / 3	The SBs on issuance by end-June 2003 and enactment by end-September 2003 of a regulation to include options in the calculation of banks' net open foreign exchange position were met ahead of time. The requirement to report commercial banks' FOREX exposure was met as a PA for the 2nd review.
Labor Market	1 / 1	The draft Labor Law was submitted to Parliament before the program was submitted to the Board. Following submission, the law was finally approved in late-2003, which allowed the disbursement of the 2nd tranche of the WB's SAL, and entered into force the following year.
Macroeconomic Policy	3 / 3	The 2 PAs in the original request calling for (i) approval of a budget consistent with the program and (ii) enactment of measures aimed at raising revenue by 0.5–1.0 percent of GDP were met on time. The PA for the 2nd review related to the placement in a deposit at the central bank of the proceeds for the 2nd tranche of the SAL was also met.

Table 4.4.4. Croatia: Other Factors and Likely Impact of Structural Conditionality

Reform Area	Assessment of SC usefulness (factors influencing its usefulness)
Budgetary Procedures	Budgetary procedures did improve, as the authorities knew that there were big problems in this area that needed to be addressed and the IMF insisted that certain improvements be made immediately. With hindsight, one wonders whether the program could have been more ambitious in this area (left out too many off-budget issues).
Public Debt Management	SC in this area seemed to have assisted in clarifying a very murky picture regarding the sources of growth of public debt. But a lot remained to be done. Beyond the issue of guarantees themselves, attention needed to be focused on other quasi-fiscal activities and sources of off-budget financing (many of which were picked up in the subsequent arrangement).
Privatization of SOEs	The program set out to sell 25 percent plus one share of the oil company INA. That was achieved with a very short delay. But little action beyond that occurred (no regaining of momentum of privatization more generally, INA continued to operate as a monopoly). SC did not seem to have gotten more mileage than narrowly defined compliance here.
Privatization of Financial Institutions	This was an unmitigated failure. Neither the target bank (HBP) nor a bank it was supposed to absorb (Croatia Banka) were sold. The various attempts at modifying the strategy failed. Since failure to clean up and sell HBP was one of the reasons for the discontinuation of the previous SBA (2001–02), it seemed as though the SC was aimed at helping someone in government committed (but not really empowered) to privatization.
Banking Supervision	There seemed to have been no opposition at all with the adoption of the regulatory measures (related to the inclusion of options in the calculation of banks' net open foreign exchange positions). They were one of several identified by the authorities as essential for strengthening the financial sector's regulatory framework at a time when euroization of banks' assets an liabilities was growing significantly. The second measure, which was fairly detailed (reporting to the central bank periodically their ten largest customers' foreign exchange exposure), seemed a bit ad-hoc but not unreasonable.
Labor Market	Apparently, SC was important in speeding up a process that was moving slowly and was politically difficult to carry on. Willingness to meet the PA by the authorities may have been linked to the desire to secure SAL disbursements which, in turn, depended on final passage of the reform.
Macroeconomic Policy	Acted as a safeguard for the IMF.

Table 4.5.1. Dominican Republic: 2003–05 SBA—General Background: Objective of the Program and Areas Supported by Structural Conditionality

Overall objective of program as stated in the program request

The program focused on: (1) measures to strengthen confidence in the banking system; (2) steps to reinforce public finances and ensure debt sustainability; and (3) a flexible exchange rate regime accompanied by strict monetary discipline. The objectives of the program were linked to deal with the immediate crisis.

Areas supported by SC throughout the program

Overall objectives	Reform Area	Objectives of SC
Strengthen Banking System	Problem Banks	Undertake immediate actions to address the problems of three weak banks (Baninter, Bancredito, and Mercantil) in a way that minimized systemic risk and limited the monetary and fiscal impact. Undertake immediate steps to ensure that no problem of accounting malpractices existed in other banks. Launch a comprehensive process of internationally assisted audits of all banks, which sought to unveil any accounting malpractices and determine their net worth.
	Banking Supervision	Develop the by-laws required to fully enforce the financial and banking law (MFL), with priority given to the by-laws for the access to lender-of-last resort facilities to deal with problems that may emerge in the future and a deposit insurance fund. Strengthen the legal framework for bank resolution. Strengthen prudential regulations to bring them in line with international best practices, including for loan classification and provisioning, capital adequacy, treatment of off-shore subsidiaries, market exposure, risk management, anti-money laundering, and governance issues.
Reduce Public Debt	Budget	Gradually increase the primary surplus to 3.5 percent of GDP (about twice the average in the 1990s), facilitated by a number of fiscal structural reforms. Assets sales, amounting to about 6 percent of GDP over three years (2 percent of GDP during the program period), would also contribute to achieving this objective.
Restrain Fiscal Expenditure	Budget	Impose strict limits on purchases of goods and services and transfers; low priority capital projects were cut in order to contain public investment outlays to about 5 percent of GDP in 2003 and 2004. The public sector minimum wage was adjusted in January 2003, and no additional wage increase would be granted in 2003; any adjustment in 2004 would be in line with expected inflation.
Enhance Fiscal Revenue	Tax and Customs	Introduce a number of revenue measures with an annual yield of about 2 percent of GDP, including the doubling of the airport exit tax, an adjustment in the fuel tax, and temporary tax increases including a 2 percent import surcharge, and a 0.15 percent tax on bank checks. To help finance a more gradual adjustment in electricity tariffs, the government introduced a temporary 5 percent tax on windfall gains in the tourism and export sectors resulting from currency depreciation. The government aimed to eliminate this tax by end-2004 at the latest as part of the broader tax reform.
Improve the Efficiency and Finances of the Electricity Sector	SOE: price policy	To place the sector on a viable footing, the government aimed to increase the price of electricity gradually by 3 percent per month to the level needed to meet costs. The government aimed to put in place a more comprehensive program to address problems in the sector, including theft, transmission and distribution losses, and the accrual of arrears, and to improve targeting of subsidies.
Unify the Foreign Exchange Market	Foreign Exchange Market	The government would unify the foreign exchange markets before end-2003.
Improve Monetary Policy	Monetary policy	Monetary policy would be implemented through greater reliance on indirect market oriented instruments. Traditionally, monetary policy had been conducted through direct net placement of central bank paper, but public auctions to place this paper would be introduced in August. The government was strengthening the independence of the central bank and its ability to conduct monetary policy. Major changes in the structure and management of the bank were approved as part of the monetary and financial law and would be implemented gradually in subsequent months, according to the timeline envisaged in the law.

Table 4.5.2. Dominican Republic: Flow of Structural Conditionality (by area)

Reform area		Number of SC	Request August 2003	First Review February 2004	Second Review *Not completed*
Tax Policy		1 PA; 1 PC; 2 SB	Short-term tax measures to raise revenues to be superseded later by a comprehensive tax reform.		
SOE		2 PA; 0 PC; 0 SB	Finalize the terms of reference to conduct an independent international valuation of the assets of Edenorte and Edesur	Design financial stabilization plan for the electricity sector and audit assets of two distribution companies.	
Financial Sector and Banking Supervision		3 PA; 4 PC; 7 SB	Prioritize by-laws for the MFL approved in 2002. Legislation to empower the government to deal with systemic crisis. Legislation on bank resolution under systemic risk to protect decision-makers during crisis. Strategy to strengthen the super-intendancy of banks.		
Problem Banks		4 PA; 0 PC; 2 SB	Final resolution of intervening bank Baninter. Carry out internationally assisted inspection of banks.	Issue terms of reference for a panel of experts to look into monetary and financial lapses during the crisis. Strategy to capitalize banks. Governance structure to dispose of assets acquired during the crisis.	
Foreign Exchange Market and Monetary Policy	Foreign Exchange Market	7 PA; 2 PC; 3 SB	Unification of public and private exchange rate.	Reaffirmation of commitment to unified exchange rate, by eliminating the commission on financial security and announcing the dissolution of the commission on the supervision of foreign exchange.	
	Monetary Policy		Introduce instruments to improve the effectiveness of monetary policy.		
Budget Formulation		1 PA; 1 PC; 0 SB	Congressional approval of a budget bill for 2004 consistent with fiscal targets in the program.	Congressional approval of 2004 Budget consistent with the 2004 fiscal target.	
Arrears Clearance		1 PA; 0 PC; 0 SB		Clearance of non-reschedulable arrears to external creditors.	
Anti-corruption		1 PA; 0 PC; 0 SB	Design and start implementing an appropriate communication strategy.		

Table 4.5.3. Dominican Republic: Assessment of Output (by reform area)

Reform area	Compliance with SC (SC met/Total SC)	Output Assessment
Tax Policy	2 / 4	The temporary and distortionary revenue measures proposed for the request were introduced, but some of the proposed surcharges were not collected. The burden of protecting the revenue floor fell on a surcharge on imports (purchases of foreign exchange), which yielded 4 percent of GDP. The comprehensive tax reform was not presented to Congress. Previous to the program, the new government would prepare and pass a tax reform that, while not comprehensive, served to buttress revenues by around 2 percent of GDP, which included additional tax reform to remove the reliance on trade taxation. On the positive side, it increased the VAT rate. With hindsight the strategy on taxation was risky because it postponed the substantive tax reform to the period right before elections. It would perhaps have been better to go for a more solid tax reform effort at the beginning of the program, rather than postpone it. It may not have been a comprehensive tax reform, but a tax reform package more consistent with long-term objectives.
SOE	2 / 2	The PA for the first review on electricity was met—a financial stabilization plan for the electricity sector and the terms of reference for an audit of the distribution companies. Also, although not a condition, the program called for external experts to review the government's re-purchase of two electric companies. This review was completed. The purchase of the electricity companies and the increasing quasi-fiscal burden in the electricity sector, despite the tariff adjustments approved at the request, helped derail the fiscal program and contributed to the delay of the first review. The World Bank proceeded cautiously in approaching sector reform, given a perception of low commitment. The subsequent program focused on the electricity sector in greater detail, however, the quasi-fiscal deficit still stood at around 1.5 percent of GDP. The program should have tackled the problems in the power sector earlier on. The power sector exhibited many problems: poor financial discipline, poor services (black-outs, limited coverage, etc.), tariffs were among the highest in Latin America, and the costs to the budget were high (1.5 percent of GDP). These problems were unrelated to the crisis, but the crisis made them worse. The crisis made it difficult to transfer the subsidies to the power companies, with the consequence that service worsened, leading to social unrest. This made the overall reform more difficult, because the public linked problems in the quality of delivery with the adjustment program. Limited progress was made in reducing the quasi-fiscal deficit in the sector. Some progress was made in targeting subsidies to low-income households.
Financial Sector: Supervision	5 / 14	Legislation to deal with systemic crisis was approved. Some of the proposed by-laws to the MFL were prepared (sanctions, contingency fund, and lender of last resort.) The subsequent program continued the banking sector regulatory agenda (by-laws to the MFL). Institutional progress in regulatory capacity was less notable. With hindsight, the regulatory reform agenda appeared ambitious and the compliance was quite low.
Financial Sector: Problem Banks	5 / 6	PAs contained the crisis in the three problem banks, although a bit late. The support of the banking system costed the public sector around 20 percent of GDP. The program also helped determine that there were no further problem banks. The detailed analysis of banks led to a strategy for capitalization, which was under implementation in the subsequent program.
Foreign Exchange Market	8 / 12	The unification of the exchange proved protracted, but it was completed. The position of the Central Bank continued to be precarious. The Central Bank had a debt of around 13 percent of GDP and generated around 3 percent of quasi-fiscal deficit yearly during the program. This put the Central Bank in a very dangerous situation. The subsequent program focused on increasing the formal independence of the Central Bank, which the pre-crisis situation proved to be weak.
Budget Formulation	1 / 2	The fiscal aspects of the program were the weakest link. The program left the medium term fiscal vulnerabilities unaddressed. External debt reached around 55 percent of GDP by the end of 2004. Meanwhile, tax revenue mobilization of 15 percent of GDP was lower than before the crisis. Pressures for public expenditures were high, given the devaluation of the currency. The fiscal pressures from the power sector and the quasi-fiscal deficit of the banking sector continued unabated. Despite previous efforts to improve the public expenditure management system, its failure to track capital expenditure helped derail the first review and contributed to misreporting. The sector ministries or spending agencies initiated investment programs with financing from abroad and only later (as obligations came due) were those expenditures recorded in the treasury. This pointed again to a general lack of dequate early diagnosis. This issue was not raised by the 2002 Article IV. The 2005 program focused on the issue.

Table 4.5.4. Dominican Republic: Other Factors and Likely Impact of Structural Conditionality

Reform Area	Assessment of SC usefulness (factors influencing its usefulness)
Taxation	The president and the government did not want to tackle taxation issues upfront during a pre-electoral period. The president also had lost cooperation from the Congress and therefore the chances for comprehensive tax reform were very limited. The crisis increased the reliance on trade taxation.
Banking Sector Reform	Despite the crisis there was considerable resistance in the banking sector to enhance supervision and enforcement of standards as, for instance, increasing the capitalization of banks. Also, troubled banks were well-heeded politically and exerted a strong countervailing force against a swift resolution of the crisis, which implied higher costs to the nation than would have been the case otherwise. The action plan was highly ambitious and part of the agenda was under implementation in the subsequent program.
Electricity	Reportedly, the political cost of increasing electricity tariffs was very high, especially when delivery was poor partly because of the shortage of fuel. The blackouts led to political disturbances, sometimes associated with the presence of the IMF. The sharp devaluation increased the domestic price of fuels and with control prices unadjusted the quasi-fiscal deficit increased and, hence, required transfers from the budget.
Exchange Rate	The government did not allow exchange rate unification because it wanted to maintain control on the flow of foreign exchange during the crisis.

Table 4.6.1. Ecuador: 2003–04 SBA—General Background: Objective of the Program and Areas Supported by Structural Conditionality

Overall objective of program as stated in the program request

The main objective of the government was to improve the living conditions of all Ecuadorians, particularly the poor, through sustained growth with low inflation, improvements in the social safety net, and better provision of public services. Ecuador remained committed to dollarization, and sustained growth under dollarization required achieving a strong fiscal position, restoring credit worthiness, and enacting structural reforms to improve the economy's competitiveness.

Areas supported by SC throughout the program

Overall objectives	Reform Area	Objectives of SC
Achieve Sustainable Prudent Fiscal Policy	Budget and Debt	Sustained prudent fiscal policies and continued structural reforms were essential to achieving strong output growth and other medium-term goals. The fiscal primary surplus would need to be maintained at a high level in 2004 and beyond, while revenues from extra oil exports would be used in large part to reduce the public debt. The government was confident that a diligent implementation of this strategy would significantly reduce the very high interest rates faced by Ecuador. Bringing down risk spreads would also enhance private sector growth.
	Fiscal	The government's fiscal policies were geared towards the following main objectives: (i) resolving immediate liquidity pressures and regularizing arrears left by the previous administration; (ii) tightening the fiscal stance to recover from the slippages of 2001 and 2002; (iii) protecting the poor by stabilizing their income levels and strengthening social programs; and (iv) improving the flexibility of fiscal policy and prioritizing expenditures.
Expand the Tax Base	Taxation	Before end-August 2003, the government would submit to Congress a comprehensive tax reform bill intended to allow for a more efficient allocation of public spending and to expand the tax base. The reform would include: (i) the elimination of revenue earmarking not mandated in the constitution; (ii) the elimination of tax exemptions; (iii) the removal of small taxes with low yields and high administrative costs ("nuisance taxes"); (iv) an increase in vehicle tax revenues; (v) a reduction in the standard deduction (minimo imponible) for personal income taxes; and (vi) the closing of some tax loopholes that allowed enterprises to deduct artificially inflated costs.
Overhaul the Customs Office	Custom	Before end-February 2003 (a PA under the program), the government would submit to Congress, as urgent legislation, a reform of the customs administration. This reform aimed to allow an overhaul of the administrative and personnel structure of the customs office, permit the internal tax administration (SRI) to upgrade the information systems, and bring the customs tax administration under the SRI. The government believed that this reform would make a major contribution to reducing corruption in customs, and improve the collection of revenues.
Reduce the Number of Public Sector Employees	Civil Service	Before end-April 2003, the government would submit to Congress a bill for public sector wage unification and civil service reform. Under the wage unification, the various components of remuneration would be brought together in one salary statement, which would be the basis for the assessment of social security contributions. The higher social security contributions would be withheld from the employees (phased in over four years) without increasing the public sector wage bill. The civil service reform would also seek a reduction in the number of public sector employees so that the central government nominal wage bill in the 2004 budget would be lower than that in 2003.
Strengthen the Pension System	Pension System	Efforts to strengthen the social security system would continue. With technical assistance from international institutions, the government would assess the operating procedures and actuarial balances of the three social security funds by end-September 2003. This assessment was intended to result in a reform strategy aimed at ensuring a reasonable and reliable income for retirees on a sustainable basis.
End the Experience of the 1999 Banking Crisis	Problem Banks	The government would make a strong and immediate effort to liquidate Filanbanco and at least eight of the closed banks in the Deposit Guarantee Agency (AGD) to end the painful experience of the 1999 banking crisis. This was a priority because the unpaid debts in the crisis banks helped create a culture of debt nonpayment.
Improve Efficiency of SOEs	SOE	The electricity distribution and telephone companies (Pacifictel and Andinatel) would be made more efficient. For this purpose, by end-June 2003 the companies would be placed under private management of reputable international firms. At the same time, the subsidies to these enterprises would be gradually eliminated.
Improve the Petroleum Sector	Petroleum Sector	Before end-June 2003, and with assistance from international experts, the government would conduct an economic and environmental analysis and prepare an action plan and a time table to improve the efficiency of the production, distribution, and sale of petroleum and its derivatives. Improvements in these areas would generate substantial savings to the economy.

Table 4.6.2. Ecuador: Flow of Structural Conditionality (by area)

Reform area	Number of SC	Request March 2003	First Review December 2001	Second Review *Not completed*
Tax policy and administration	1 PA; 1 PC; 0 SB	Present and approve tax reform law, including elimination of revenue earmarking not mandated in the constitution.	No changes made as deadline had yet to be met.	
Customs	1 PA; 1 PC; 0 SB	Pass customs reform legislation, including the subordination of the revenue agency to the tax agency.	Add provisions to the proposed civil service reform legislation to complete missing provisions in the approved customs reform law (removing customs officials from the civil service.)	
Financial Sector	2 PA; 5 PC; 4 SB	Bring Banco del Pacifico to the point of sale. Return all blocked deposits to depositors in closed banks under AGD. Liquidate Filabanco and at least eight banks held by AGD.		
SOE and utilities	3 PA; 2 PC; 0 SB	Adjust telephone and electricity tariffs. Concede the management of the electricity and the telecom companies to private operators. Develop action plan to arrive at cost effective production, distribution and sale of fuels and other petroleum products.	Initiate first steps for oil sector reform by creating a commission and initiating an audit of Petro-Ecuador.	
Budget	4 PA; 1 PC; 3 SB	Remove measures introduced by the previous administration that weakened the fiscal stance. Be current with external obligations.	Internal agreement amongst energy sector stakeholders to increase financial discipline and increase transfers to the treasury. Be current with external obligations.	
Civil service	2 PA; 4 PC; 0 SB	Unify public sector wage criteria and civil service reform to reduce the wage bill and control burgeoning employment.	Eliminate absentee workers from the pay-roll.	
Pension reform	0 PA; 0 PC; 1 SB	Assess operating procedures and actuarial balances for social security institutions.		
Trade	1 PA; 0 PC; 0 SB	Remove trade tariff preferences introduced by the previous administration		

Table 4.6.3. Ecuador: Assessment of Output (by reform area)

Reform area	Compliance with SC (SC met/Total SC)	Output Assessment
Tax Policy and Tax Administration	1 / 2	The tax reform law was not passed, a fact that contributed to the program going off track. Faced with significant opposition in Congress to the original intent of the proposed law, the government proposed a revised version of the law, which the IMF considered (as shown by internal documentation) inadequate. The revised version did not reduce earmarking and thus did not increase flexibility in the use of public resources and did not facilitate implementation of the fiscal responsibility law approved in 2002.
Customs	1 / 2	A law on customs was passed, but the original intent to subordinate customs to the tax agency was not met. A second attempt was made to achieve this objective through the proposed civil service law (see below.) This attempt did not work either.
Civil Service Reform	2 / 6	The civil service law was passed as part of the preparation for the second review. But the original intent to cover all the civil service and allow control of all public sector wages was not met.
Banking Sector	5 / 11	The progress made in resolving the residual balance sheet in the crisis banks was very limited, despite the high number of conditions. The Banco del Pacifico was not brought to the point of sale and remained in public hands. Closed banks were not liquidated. Part of the portfolio in the hands of the AGD was auctioned off.
SOE and Utilities	3 / 5	Public enterprise reform: Private sector management of the electricity and telecommunications companies did not occur. Towards the end of the program the government suggested greater focus on the reform of the public enterprise sector, but this also did not happen. Oil: The program sought to increase its focus on oil during implementation. The public oil sector in Ecuador was gradually deteriorating due to mismanagement, lack of financial discipline and low investment. The end result was dwindling production revenues and low support to the budget. The program failed to target this issue early on, missing an opportunity to reduce dependence on passage of legislation.
Budget	4 / 5	Basic Fiduciary: To improve fiscal standing, the program sought basic agreements on financial transfers, which should have already been routine in the operation of the public sector. The central government had recurrent problems in mobilizing resources from the rest of the public sector. Therefore, even if the overall public sector was in a comfortable position, the central government often faced financing difficulties leading to the accumulation of arrears. The program at the first review tried to deal with this problem by focusing on the mobilization of resources from the electricity sector through the oil company itself. But the program did not focus on increasing internal financial discipline early enough. Quasi-fiscal activity: The program did not tackle forcefully quasi-fiscal activity. Just as the program could have focused on the internal fiscal discipline, the program could have taken a broad view of quasi-fiscal activity and sought to bring down privileges across the board. The staff noted that the problem in Ecuador was that many constituencies did not want to lose their privileges relative to others. More attention to the program's effects on all stakeholders would have improved the chances of success.

Table 4.6.4. Ecuador: Other Factors and Likely Impact of Structural Conditionality

Reform Area	Assessment of SC usefulness (factors influencing its usefulness)
Taxation	Private and public sector beneficiaries opposed the removal of earmarking public revenues and the elimination of exemptions. The government could not find the necessary support in congress, and the position of the government weakened with time. Placing the tax law condition last because it was the most difficult was likely a strategic mistake. Probably it would have been more effective to have sought a less ambitious but more targeted law at the beginning. The authorities argued that with hindsight this objective was not that critical.
Customs	There was considerable opposition from political and regional interests as well as from customs officials to bring customs under the purview of the tax administration, which had been successfully reformed during the previous administration. The new administration appointed military personnel to management positions in customs. Meanwhile, changes introduced by the authorities in the tax administration weakened earlier gains.
Civil Service	Even partners of the political coalition in power opposed the civil service reform. In fact, some left the coalition when the government presented the proposed law to the Congress. Opinions differed as to the worth of the final outcome. Some observers believed that despite its limitations, the civil service reform was an achievement as seen on par with similar efforts in the region. Others were of the opinion that the law, as approved, put further pressure on the wage bill by unifying the salary structures. Some in the government felt that the law, designed with international assistance, was highly complicated and few in the government grasped the scope and content. Still, it appears that the emphasis on civil service reform was adequate, given that the highly decentralized rules for the contracting and remuneration of civil servants provided ample opportunities for political patronage.
Trouble Banks	There was opposition from former bank owners and debtors to the conditionality. The former authorities explained that the member of the political coalition in charge of resolving banking crises lacked the technical knowledge, and, furthermore, that civil servants working in the sector faced the risk of judicial prosecution for their actions in implementing the program, given that special interests were influencing the judicial system. The authorities claimed that the IMF did not appreciate the difficulties of carrying out these takes, and automatically assumed that corrupt practices were at the heart of the difficulties. According to them, this led to emphasis in areas that were not critical to the success of the program.

Table 4.7.1. Romania: 2001–03 SBA—General Background: Objective of the Program and Areas Supported by Structural Conditionality

Overall objective of program as stated in the program request

The main macroeconomic objectives over the medium term, 2001–05, were as follows: to make steady progress to reach single digit inflation by 2004 or 2005 at the latest. With substantial projected foreign direct investment inflows and EU pre-accession aid, it was expected that the current account deficit, after reaching about 6 percent of GDP in 2001, would decline to around 5 percent of GDP by 2005, a level that would assure that the overall foreign debt-to-GDP ratio increased only moderately, while the net foreign debt-to-GDP ratio would start to decline already in 2002. It was expected that the economy would grow in this period on average by 5–6 percent, helping to reduce the development gap relative to the EU.

The macroeconomic policies to achieve these objectives would focus on a supportive fiscal stance; prudent wage policy in the budgetary sector and public enterprises; measures for reducing quasi-fiscal spending and losses in the energy sector and other public enterprises, including the acceleration of privatization; and tight monetary policy. The disinflation strategy would not rely on the postponement of necessary adjustment in administered prices, and the program would continue to eschew any direct intervention with respect to liberalized prices.

Areas supported by SC throughout the program

Overall objectives	Reform Area	Objectives of SC
Support Disinflation and Reduce Fiscal Deficit	Fiscal and Taxation	Fiscal policy in 2001 and in 2002 would strongly support the disinflation objective and help to contain the external current account deficit. The authorities decided to tighten the fiscal target for 2001, and limit the deficit of the consolidated general government to 3.5 percent of GDP. For 2002, the authorities would limit the deficit to 3.0 percent of GDP, in line with the Medium-Term Economic Framework submitted to the EU. Tax policy would focus on reducing payroll taxes, eliminating distortionary tax incentives and modernizing the tax system.
Strengthen SOEs and Reduce the Quasi-fiscal Deficit	SOE: Energy sector	The authorities were aware that the performance of public companies in the energy sector was crucial to improving the overall financial discipline in the public sector and achieving a reduction in the quasi-fiscal deficit. Further steps would, however, be needed to increase electricity and heating prices to the cost-recovery level, eliminate losses due to weak collections, and bring the gas prices to the import parity level.
	SOE: Wage	Public sector wage discipline was essential to the financial performance of state-owned enterprises and, by providing a signal for private sector wage settlements, to reducing inflation and preserving external competitiveness.
	SOE: Privatization	The authorities were fully committed to privatization of the very large state-owned sector, as this was a crucial requirement for establishing a vibrant market economy, attracting FDI, and catching up with other EU accession countries. In the enterprise sector, following the slow pace in the second half of 2000 and the first half of 2001, the authorities would accelerate privatization and focus on completing several large projects to send a strong signal.
Strengthen the Financial Sector	Financial Sector	The government would further strengthen the legal and regulatory framework of the financial sector, and would complete the cleanup of the banking system. To continue to reduce the government's role in the banking industry, the government would attach the highest priority to the privatization of the Romanian Commercial Bank (BCR). Reform measures would also be implemented concerning two other state-owned banks, Romanian Savings Bank (CEC) and Eximbank.

Table 4.7.2. Romania: Flow of Structural Conditionality (by area)

Reform area		Number of SC	Request October 2001	First/Second Review August 2002	Third Review April 2003	Fourth Review October 2003
Banking Privatization		4 PA; 3 PC; 1 SB	Commitment to privatize BCR, including dated time table.	Privatization timetable for BCR delayed and new detailed steps adopted.	Strategy changed to sell 25 percent of BCR to EBRD/IFC, due to lack of bidders.	Initialization of contract between BCR and EBRD/IFC.
Financial Sector and Banking Supervision		3 PA; 0 PC; 2 SB	Three regulatory ordinances and focus on improving loan classification and implementation.	Alignment of regulation with new CIT law with enforcement of loan classification.		Publish of report of actions taken to prosecute wrongdoing in the financial sector.
Tax and Customs		6 PA; 1 PC; 2 SB	Focus on the selected elimination of tax exemptions.	Approve VAT add CIT laws (as per request) and increase in excise rates.	Focus on tax exemptions and improvement of the revenue administration through the creation of a separate tax agency and the merger of tax and social security collection.	
SOE and Utilities: excluding Pricing and Privatization	Financial Discipline	20 PA; 3 PC; 8 SB	Report to IMF on improved collections; Put in place mechanism to distribute collections amongst generators and distributors.	Disconnect non-payers.	Disconnect non-payers.	Disconnect non-payers.
	Public Expendit. Restructure		Adopt PE budget consistent with wage policy. Commit to wage and employment containment.	Adopt PE budget consistent with wage policy. Wage bill and employment reduction targets. Transfer to municipalities local heating companies.	Employment reduction and wage bill containment targets. Restructuring plan for main steel company.	Employment and wage bill containment targets.
SOE and Utilities: Privatization		5 PA; 0 PC; 7 SB		Continue privatization of large companies. Revise privatization rules to weight more heavily offer prices. Initiate privatization of Petrocom and two electricity companies.	Advance privatization of Petrocom and electricity companies. Continue privatization of large companies. Liquidate targeted non-viable companies.	Tender Petrocom. Liquidate target non-viable companies.
SOE and Utilities: Pricing		9 PA; 11 PC; 0 SB	One time increase in end-user electricity and heating producer pricing & commit to continuous adjustment.	One-time adjustment in end-user electricity prices. Continuous adjustment in electricity producer prices. Commit to maintain end-user electricity prices in dollar terms.	One time increase in end-user prices of gas. Keep end-user electricity prices constant in dollars. Adjust producer & heating and the national reference heating price. Request IMF/Bank assistance on mid-term approaches to tariff adjustment.	Increase: end-user prices for gas, electricity distribution tariffs, heating and coal.
Budget		5 PA; 0 PC; 0 SB	Submit 2002 budget, as agreed with IMF staff, to parliament. Establish a registry of local authority foreign borrowing. Cancel Emergency Ordinance on debt-for-equity swaps for called guarantees.		Approve of Emergency Ordinance eliminating the legal basis for “civil contracts.”	Publication of the report of the National Control Authority on arrears in the health system.

Table 4.7.3. Romania: Assessment of Output (by reform area)

Reform area	Compliance with SC (SC met/Total SC)	Output Assessment
Tax and Customs	8 / 9	With the support of conditionality Romania launched a broad revenue administration reform, which included the merger of tax and social security collection, which was considered innovative. The World Bank provided technical support to implement these initiatives. The tax and customs exemption was reduced.
Finance	10 / 13	Although BCR was not privatized as originally intended, 25 percent would eventually be sold to EBRD/IFC. The Savings Bank remained the last large bank in public hands. The conditionality focused lightly on banking regulation, which was sporadic and unconnected. Previous to this program the World Bank and the IMF had provided extensive support to the reform of the banking sector. The 2004 FSAP did not find cause for immediate concerns in the banking sector; the financial sector overall was highly underdeveloped in relative terms to Central Europe. The FSAP judged the financial sector solid even if it relied on local accounting rules.
Budget	5 / 5	Conditionality on budget issues were met. The conditionality, however, referred to fiduciary and disparate issues.
SOE and Utilities excluded Pricing and Privatization	29 / 31	Public Enterprise restructuring: Progress was made in restructuring the public enterprise sector through the combination of wage, employment and pricing policies. Additionally, some enterprises (heating) were unbundled and their units transferred to local governments. Still, the institutional reform of the energy sector remained unfinished. Collection discipline: Conditionality on collection discipline appeared at the beginning of the program and was met. The collection rate in electricity and gas was between 90 and 100 percent, although the percentage of payments in cash was lower. But collections in the district heating sector hardly improved, reflecting the absence of a strategy for reforming the sector. Also, the wholesale electricity collection rate remained problematic. Generally, Bank-Fund cooperation has proved successful in improving the collection rate. Wage policy: Wages in SOEs persistently exceeded agreed norms, primarily reflecting a lack of determination on the part of line-ministries to enforce the approved wage budgets. As a result, PAs on the wage bill of enterprises were used to bring the program on track.
SOE and Utilities: Privatization	11 / 12	Faster privatization of enterprises in the portfolio of the Privatization Agency (primarily comprising industrial sectors outside the energy sector) was initially constrained by requirements that investors provide guarantees to preserve employment and make sizeable investments. Privatization picked up in 2003 with a large-scale voluntary employment reduction program, generous severance payments for laid-off workers and write-offs of liabilities. Over 35 large companies were privatized in 2001–03, of which half came in 2003. Key enterprises such as Petrocom were privatized after the completion of the program. The subsequent program continued to engage in the privatization agenda, especially in the electricity sector.
SOE and Utilities: Price Policy	19 / 20	Pricing conditionality covered electricity, heating, water and gas—both at the retail and producer levels. Price adjustment helped reduce the cost of quasi-fiscal activities from 4.7 percent of GDP in 2000 to 2.8 in 2003. By the end of the program, average heating and electricity tariffs had reached cost recovery levels, but gas tariffs had not. However, further increases would be needed to provide an appropriate return on equity. Gas prices remained below import parity by the end of the program, despite substantial increases. This agenda continued in the subsequent program. Bank-Fund cooperation has proved successful in raising energy prices at a level attractive to further investment.

Table 4.7.4. Romania: Other Factors and Likely Impact of Structural Conditionality

Reform Area	Assessment of SC usefulness (factors influencing its usefulness)
Banking	The government's interest in privatizing the BCR followed from the previous strategy to reform the banking sector and break the link to the enterprise sector. Several successful banking privatizations had taken place. The privatization of the BCR was also included in a previous Bank operation and was included as well in a newer Bank plan. The IMF conditionality appeared as a lending hand for the privatization of the largest bank in the country. Notably, the number of conditions to privatize BCR increased from 3 to 8, as the privatization process was delayed and transformed (from finding a strategic investor to the sale of 25 percent to the EBRD and IFC.) This again confirms the difficulty of timing privatization. The conditionality on banking regulation was ancillary. The bulk of the regulatory reform was undertaken prior to the program.
Privatization	Privatization of public sector enterprises was at the core of breaking the opposition to reform from sectoral interest groups and transforming Romania into a market economy. The Fund emphasized principles of transparency in the privatization, which to some extent delayed presentation of the program to the Board. Still, by the time of Article IV, short deadlines for some privatization projects, including those in which minority private shareholders benefited from the write-off of tax arrears, raised transparency concerns. Some major privatization projects, including Petrom, were delayed by investors' requests to have more time for due diligence, unresolved legal issues, and the authorities subdued enthusiasm. Privatization was at the core of the strategy to reduce the power of the forces opposing reform, which were strong. The collusion between the management of large SOEs, labor unions, and factions within the ruling parties frequently hampered efforts to accelerate privatization. Concerns on social impact of restructuring and privatization were used by vested interest to defend unviable SOEs. Privatization projects in the energy sector were delayed and became part of the subsequent program. Conditionality helped provide the economic leverage to the reform team. An important lesson is that significant downsizing of loss-making SOEs should be accompanied by enhancing the social safety net and programs for retraining and relocation. Concerns on such issues were used by vested interests to prevent privatization.
Wage Policy	Wages in SOEs persistently exceeded agreed norms, primarily reflecting the lack of determination on the part of the line-ministries to enforce the approved wage budgets. This fact often delayed reviews, including the last one.
Energy Price	The high concentration of conditionality on energy pricing reflected the priority given to reducing the quasi-fiscal deficit. Delayed compliance increased the number of conditions further. The level of detail of the conditionality was very high, with limited emphasis on improving the institutional environment. This type of conditionality reflected a lack of confidence in the sector ministries and the regulatory agencies, and sought to help the economic team implement the program. The delay in setting up a safety net for the poor delayed adjustment of the gas prices. Lack of a comprehensive medium-term strategy contributed to a weak result collection rate in the district heating system. A similar approach to price adjustments continued in the subsequent operation. Bank-Fund cooperation has proved successful in raising energy prices at a level that would attract further investment. Still, there were areas in which earlier and more systematic involvement of the Bank would have improved prospects for meeting the program targets.

Table 4.8.1. Armenia: 2001–04 PRGF—General Background: Objective of the Program and Areas Supported by Structural Conditionality

Overall objective of program as stated in the program request

The program intended to strengthen public finances to eliminate the outstanding stock of budgetary arrears, maintain a rate of monetary growth consistent with continued price stability, progressively eliminate financing gaps in the quasi-fiscal sectors, further improve regulation of the banking sector, and improve governance through increased transparency and reduced corruption. The envisaged reforms were consistent with the I-PRSP, growth and poverty reduction. The program would be modified appropriately once the PRSP had been finalized.

Areas supported by SC throughout the program

Overall objectives	Reform Area	Objectives of SC
Increase Government Revenues	Tax Policy	As the administrative capacity for VAT refunds improves and interest rates decline, the authorities intended to make every effort to extend collection of the VAT to the border for all eligible goods.
	Tax and Custom Administration	Strengthening of tax collections would come largely from improved tax and customs administration, and through improved governance including increased transparency and reduced corruption.
Improve Public Expenditure Management and Arrears	Public Expenditure Management	The authorities aimed at (i) gradually reducing the deficit and eliminating the stock of arrears; (ii) maintaining an appropriate balance between current and capital expenditures while reducing nonproductive expenditure; (iii) rationalizing social expenditures and possibly increasing them. Improving expenditure efficiency would require the authorities to: (i) improve and consolidate development of the treasury system; (ii) improve the internal audit function of the Ministry of Finance and Economy (MFE) and the line ministries; (iii) strengthen the government's capacity to assess potential public investment projects; (iv) improve the management of state debt (including both external and domestic debt); and (v) refine the Medium-Term Expenditure Framework (MTEF) and integrate it into future budget preparations.
Reduce Quasi Fiscal Deficit	Restructuring of SOEs	The authorities intended to implement a reform strategy designed to eliminate the culture of nonpayment, particularly in the quasi-fiscal sectors (defined as energy, irrigation, water and sewage companies, district heating, and the Nairit chemical company). In the irrigation sector, the authorities aimed to reduce energy usage in irrigation pumping stations and gradually increase tariffs. For Yerevan Water and Sewage Company, the authorities recruited an international water operator to manage the company under a four-year performance contract. For Armenia Water and Sewage Company, the authorities intended to reform billing and collection, and further improve the company's accounting practices. Moreover, the authorities intended to treat the Nairit company as a commercial enterprise, which needed to be viable to remain in operation.
	Privatization of SOEs	In the energy sector, privatization of the energy distribution companies (EDCs) to internationally reputable companies on the basis of competitive tenders would be essential to promote the efficient and least costly operation of the companies. Following the successful privatization of the EDCs, the authorities intended to work out a strategy for restructuring energy sector debt with World Bank assistance.
Improve the Financial Sector	Banking Restructuring	Restructuring and privatization of the Savings Bank, the only remaining state-owned bank, in consultation with the World Bank staff, would be a key step in the process of restructuring the banking sector.
	Banking Regulation	It would also be important to maintain the practice of government noninterference with the operations of commercial banks or the enforcement by the CBA of prudential regulations. The authorities would continue to review the procedures for enforcing these regulations to see if further strengthening was needed, and continue to strengthen banking supervision.

Table 4.8.2. Armenia: Flow of Structural Conditionality (by area)

Reform Area	Number of SC	Request May 2001	First and Second Review September 2002	Third Review March 2003	Fourth Review November 2003	Fifth Review April 2004	Sixth Review November 2004
Arrears and Public Expenditure Management	7 PA; 1 PC; 5 SB	Strong emphasis on avoiding increases in the stock of arrears.	Eliminate all arrears, and implement commitment controls and improve the budget reporting system (BRS).	Submit to parliament changes to the BRS.			
Tax Policy	1 PA; 2 PC; 2 SB		Expand the tax base by collecting VAT at customs.		Further expansion of the VAT base, and introduction of a minimum profit tax.	Further expansion of the VAT base, and introduction of a VAT deferral system.	Simplify the minimum profit tax.
Tax Administration	3 PA; 4 PC; 16 SB	Comprehensive auditing systems operational in all tax offices.	Implement post-clearance verification at customs. Establish fully operational internal audit units at the MFE and Customs.	Expand the ASYCUDA to all customs offices.	Regulate cash registers Reinforce post-clearance at customs.	Reinforce post-clearance verification at customs. Implement audit system based on risk criteria.	Enact legislation to facilitate the carrying out of effective tax audits. Approve law to regulate the use of cash registers and register traders at large retail markets.
Bank Restructuring	2 PA; 2 PC; 11 SB	Approve new laws on bankruptcy of banks, on the Central Bank of Armenia (CBA) and banks and banking activity.	Liquidate three of the banks under interim CBA administration.	Formulate resolution strategies for two additional banks. Amend the Civil Code, bank bankruptcy law to make more effective bank resolution.	Finalize resolution of intervened banks by nominating liquidators.		Terminated CBA administration of the last intervened bank.
Transparency	2 PA; 1 PC; 0 SB	Approve a law on financial disclosure of public officials.	Publish key data under the financial disclosure law.				
SOE Reform and Privatization	2 PA; 1 PC; 2 SB	Hire an external auditor to manage privatization proceeds.	Repay to the central government loan extended to the energy sector.	Work on a new BRS for SOE.	Restructure debts for the energy, water and irrigation. Restructure (privatize) the midstream energy sector and establish an independent board with an internal audit unit. Begin regular reporting for SOE.	Prohibit Armanegro from signing any new contracts or making transactions in the energy sector. Extend regular reporting to government-owned organizations.	

Table 4.8.3. Armenia: Assessment of Output (by reform area)

Reform Area	Compliance with SC (SC met/Total SC)	Output Assessment
Arrears and Public Expenditure Management	12 / 13	Strong emphasis was placed at the beginning of the program on halting the accumulation of additional arrears. Once this was accomplished the emphasis switched to improving the Budget Report Systems and Treasury. These measures resulted in the complete elimination of arrears by the end of 2003.
Tax Policy and Administration	24 / 28	Tax Policy had two pillars: first, expanding the VAT tax base by reducing the number of articles that were exempt at the border, and second, introducing a minimum profit tax to reduce evasion by all companies. The VAT base expansion had to be accompanied by a VAT deferral system because delays on VAT refunds were imposing a high cost on companies. Tax administration centered around enforcing post-clearance verification and automatization in customs, and the establishment of audit units in the MoF that followed risk assessment criteria. This sector was the one that received the most attention throughout the life of the program with over 25 structural conditions. Tax administration measures were followed with measures that sought to enhance enforcement, such as publishing the list of the largest 300 taxpayers. The impact of these conditions was least effective among all the different sectors in Armenia. However, there were some encouraging signs, such as halting the secular reduction of the revenues to GDP ratio in 2004 and its increase in 2005.
Bank Restructuring	14 / 15	Conditionality in this sector concentrated simultaneously on setting up the legal framework for banks' restructuring, and liquidating intervened banks. These measures were successful. As assessed by the 2005 FSAP update, this contributed to a recovery in confidence in the banking sector and an acceleration in credit growth, despite high lending rates. Credit growth in 2004 reached 37 percent. Rapid growth from a low base represents a desirable expansion, particularly when the banking system is highly liquid (with loans equivalent to 38 percent of total assets) and well capitalized (with a capital adequacy ratio of 37 percent).
Energy Sector	4 / 5	Energy sector reform began in 1997 with the setting up of the basic regulatory framework, the establishment of the Energy Regulatory Commission, and increases in tariffs toward cost-recovery levels. But by 2000, the sector was still a drain on budgetary resources and a source of inter-enterprise arrears. The situation was aggravated during 2000-01 owing to mismanagement and corruption in SOEs. A number of corrective actions, however, were taken since 2001, including enforcement of interruption of service to nonpaying customers, the privatization of the electricity distribution company and two power plants in 2002 and 2003, and the removal of Armanegro from all cash transactions. The overall financial deficit in the energy sector went down from 4.1 percent of GDP in 1998 to a surplus of 0.2 percent of GDP in 2004. During the same period, collection rates rose to almost 100 percent.
Transparency	3 / 3	Since 2001, Fund conditionality began focusing on measures to combat corruption. The quality of regulations was improved, licensing procedures were simplified, a new criminal code was introduced, and laws and regulation were widely disseminated. As a result, Armenia was ahead of most CIS countries according to EBRD governance indicators. Corruption remained a serious problem, particularly in tax and customs agencies and the judiciary.

Table 4.8.4. Armenia: Other Factors and Likely Impact of Structural Conditionality

Reform Area	Assessment of SC usefulness (factors influencing its usefulness)
Arrears and Public Expenditure Management	SC was successful at the beginning of the program in halting the accumulation of arrears mostly by using PAs. Furthermore, the introduction of a commitment control system, as a part of treasury reforms, contributed to the almost complete elimination of domestic expenditure arrears by end-2003. This was a particularly important achievement given the acute arrears problems in the early 2000s. Adjustment lending of the WB was used to clear domestic arrears by mid-2003.
Tax Policy and Administration	Problems with design: Profit tax legislation introduced in Armenia in 1997 followed international standards, including those on accounting for, among other items, deductions, depreciation and loss carry forward. Yet, the consequences of adopting international-standard legislation in the Armenian context without the resources and capabilities to administer it were widespread evasion and the steady decline of direct tax revenue yield (see TA report). For instance, the loss carry provision allowed the corporate sector to record losses amounting to 20 percent of GDP. Lack of urgency to reform: Product of the very rapid economic growth the Armenian government achieved fiscal consolidation and benefited from growing revenues, without having to increase its tax effort. Despite the fall in direct taxation as a share of GDP, total real revenues grew at an annual average rate of more than 10 percent between 2001 and 2004 at the same time the fiscal deficit went down from 3.8 to 1.7 percent of GDP. The NPV of external debt in percent of exports went down from an average of 147 percent between 1998–2000 to an estimated 59 percent in 2004. This reinforced the view of many in the government that not only were tax exemptions and favors to businesses not a problem that had to be tackled, but on the contrary they were growth-enhancing. Clearly, there was no sense of urgency to increase the tax to GDP ratio and implement reforms that might upset key stakeholders. Vested interests: The main culprit for the low tax to GDP ratio was direct taxes. Between 2000 and 2003, profit tax receipts as a percentage of GDP almost halved from 2.0 to 1.1 percent and, as share of total tax revenue fell from 10.7 to 6.3 percent. There were two main factors contributing to this reduction. First, the government introduced tax holidays for foreign investors in 1999. These gave considerable advantages to foreign companies provided their cumulative investment was greater than $500,000, an extremely low threshold. Revenues from companies with foreign investment had declined by about 0.5 percent of GDP since 2000. Second, tax evasion was widespread in an atmosphere of poor corporate governance. Despite double-digit economic growth, many of Armenia's largest enterprises reported massive losses. In 2002, the corporate sector recorded losses amounting to 20 percent of GDP. In sum, the beneficiaries of a low tax to GDP ratio were mostly large enterprises and companies with foreign investments. These groups were particularly influential because their crucial support was needed to win presidential elections, and because of their presence in parliament. Also they were relatively small and wealthy, and thus capable of pursuing their collective interest in a more aggressive way than the population at large. As a result, the political cost of increasing direct tax revenues for any given reformist was likely to be significantly higher than that of reducing the quasi-fiscal deficit. Learning and moving to enforcement: A minimum profit tax was introduced by the end of 2003 supported by a structural PC as means to tackle evasion. The objective was to tax enterprises on some notion of income that was independent of their declared income for tax purposes, given the proven inability/unwillingness to properly track profits and income. Furthermore, in May 2005 Armenian authorities agreed—as a PA—to publish the names of the 300 largest taxpayers to improve compliance. This measure had the effect of raising the cost for tax evaders through public scrutiny, and augmenting awareness among the Armenian public of the need to tackle tax evasion. This enhanced transparency contributed to a growing acknowledgment by the authorities of the need to increase the tax effort. In early 2005, the Executive announced a major crackdown on tax evasion. In separate high-profile meetings with the leaders of his government's taxation and customs administration services, the Executive called for both agencies to tackle forcefully both evasion and corruption. The above initiatives were heavily publicized by state television and other channels controlled by the Armenian leader. The minimum profit tax along with the publication of the 300 largest taxpayers were successful in increasing revenues. The number of companies claiming perennial losses was reduced drastically. Collection of profit taxes went up in 2004 and 2005, and as a result, tax revenues as a percentage of GDP went up after several years of declines. The effectiveness of these measures suggests the importance of incorporating political economy factors when designing conditionality. Admittedly, these measures cannot substitute for necessary capacity building conditions in tax and customs administration. However, by shaping the incentives of the key players in the domestic arena they can greatly enhance the effectiveness of overall SC.

Table 4.8.4. Armenia: Other Factors and Likely Impact of Structural Conditionality (concluded)

Reform Area	Assessment of SC usefulness (factors influencing its usefulness)
Bank Restructuring	Bank restructuring suffered from a weak legal framework and occasional political interference with the supervisory authorities. The banking problem became a key concern for the PRGF program and most of the SBs covering money and banking for subsequent reviews focused on the resolution of weak banks to restore confidence in the system. Yet the preferred method by the CBA for resolving insolvent banks delayed this process. The CBA thought its liberal use of the process of temporary administration was preferable to court-supervised liquidations because it believed court-supervised liquidations would result in lower recoveries of assets and higher losses to depositors. This along with problems related to the functioning of the judicial system, poor accounting by firms, and weak corporate governance in banks explained the sluggish remonetization and financial intermediation effort up until 2003. In short, whereas the CBA wanted to close down insolvent banks slowly, Fund staff emphasized the need for an expedited resolution of troubled banks. The result of these discrepancies was a set of structural conditions that envisioned a liquidation of banks that was slower than IMF staff desired but faster than the CBA preferred.
Energy Sector	The design of SC in energy was adequate and coherent with a long-term plan designed along with the World Bank in the late 1990s. There were two factors that may have contributed to make conditionality in this sector more effective than in others. The negative experience of the acute energy shortages of the mid 1990s probably convinced the government that the costs of not reforming the energy sector were high. In the 1990s electricity was provided to many areas for only 4 hours a day, and the supply of natural gas suffered periodic interruptions. To heat their homes during winter, residents stripped the capital Yerevan of virtually everything made of wood, leaving few trees standing. It is estimated that in 1998, more than 70 percent of the quasi-fiscal deficit went as a subsidy to Armenian households. Thus, reducing the quasi-fiscal deficit meant reducing subsides to the population at large. However, the negative effects of tariff increases on the poor were mitigated by the increase in family benefits targeted at poor families by the World Bank.

Table 4.9.1. Cameroon: 2000–04 PRGF—General Background: Objective of the Program and Areas Supported by Structural Conditionality

Overall objective of program as stated in the program request

As spelled out in the interim PRSP, the primary development goal of the government was to achieve a sustainable improvement in living standards and a significant reduction in poverty. Accordingly, the authorities intended to: (a) promote high rates of economic growth; (b) implement ambitious social policies, including well-targeted poverty reduction measures; (c) improve the efficiency of public expenditure; and (d) strengthen governance. In this context, the overriding goal of the authorities was to achieve the international goal of reducing poverty in half by 2015.

Areas supported by SC throughout the program

Overall objectives	Reform Area	Objectives of SC
Strengthen Public Finance and Enhance Governance	Budget (PEM)	The government was determined to enhance transparency and accountability in its operations and to fight corruption. As spelled out in the recently adopted National Governance Program, which was annexed to the I-PRSP, the main objectives were to: (a) achieve greater transparency in the management of public affairs; (b) make managers more accountable; and (c) improve service delivery at the institutional level, with particular attention to bringing services closer to beneficiaries. Within these broad objectives, the government would place emphasis in the following areas: (i) improvement of the expenditure system, including comprehensive reform of the procurement system; (ii) judicial reform to enhance the credibility of the judiciary by strengthening its independence and internal control, including rendering operational, in a harmonious manner, the jurisdictional institutions called for in the Constitution; (iii) deconcentration of service delivery in key areas, including health, education, and basic infrastructure; (iv) establishing an anticorruption coalition, which would include representatives from civil society, the private sector, NGOs, and other partners; (v) improvement of access to citizen information on public affairs; and (vi) implementation of community-level pilot projects.
	Oil	With a view to enhance transparency in this sector, the government would continue to conduct annual financial audits of SNH, with the audit for 1999/2000 to be completed by end-February 2001 by an internationally reputed auditing firm. Similarly, the organizational and operational audit of SNH would be completed by end-December 2000, and on the basis of the recommendations, the authorities would prepare a strategy to refocus the activities of SNH by end-March 2001. In addition, an overall strategy defining the respective roles of both the public and the private sector in the petroleum sector would be prepared.
	Tax and Customs	The government would reinforce the customs and tax administrations, reduce tax fraud, and broaden the tax base. On that basis, it is expected that non-oil revenue would increase by about 2 percentage points of GDP to 15 percent of GDP in 2003/04.
Strengthen the Financial Sector	Financial Sector	The government would pursue its ongoing reforms and follow-up on the recommendations of the FSAP, with a view to consolidating sectoral stability and improving regulations and control of microfinance institutions. Financial deepening would be pursued through the launching of a transitory financial market. The government would continue to ensure that the monetary policy conducted at the regional level was consistent with the objectives of reduced inflation and strengthened zone-wide net foreign assets position.
Liberalize Trade	Trade	The government would seek, in concert with the other members of the Communaute Economique et Monetaire de 1'Afrique Centrale (CEMAC), to reduce the common external tariff to a maximum level of 20 percent, and to decrease the number of tariff bands from 5 to 4.
Ensure the Benefits of Growth to Reach All Segments of Society	HIPC and Budget	Detailed objectives and policies for poverty reduction, including a matrix of actions, were reflected in the I-PRSP, with an emphasis on the areas of education, health, water and sanitation, infrastructure and rural development, delivery of quality social services, and improved governance. These policies and measures would be further developed in the full PRSP. The government would continue to increase budgetary resources to the priority sectors, while ensuring an effective and efficient use of debt relief under the HIPC Initiative.

Table 4.9.2. Cameroon: Flow of Structural Conditionality (by area)

Sector	Number of SC	Request December 2000	First Review July 2001	Second Review January 2002	Third Review September 2002	Fourth Review December 2003	Fifth Review *Not completed*
Tax and Trade	2 PA; 2 PC; 2 SB	Render operation security control at customs (PAGODE).			Implement an action plan for VAT.	Operationalize a large taxpayers office and track uncashed payers' checks.	
Finance	0 PA; 0 PC; 6 SB	Rehabilitation plan for the postal bank.	Start implementing savings bank plan.	Complete bank liquidation process (with some exceptions). Complete investigations of misuse of saissie-attribution and make recommendations.	Issue circular on saisse-faire (procedures, penalties, etc.).	Sign accord with regional central bank to protect accounts from saissie-attribution misuse.	
Budget	5 PA; 7 PC; 13 SB	Complete the census of public servants and update their salary file. Recruit observers to render operational the procurement system.	Prepare to introduce a new integrated and computerized PEM system—formulate an action plan; develop the computer interface for the government payroll system; finalize the treasury balance in FY1999/2000. Render operational the regulatory agency for procurement.	Introduce the new PEM system—adopt the action plan consistent with FAD recommendation; complete critical links between the central and the regional level; function the computer interface to keep the government payroll system updated; finalize the new budget classification. Adopt an action plan for a external audit body of the state financing.	Ensure effective functioning of the new PEM system—ensure the new expenditure system works; evaluate the stock of executed commitment without payment order; submit to the Fund a report on expenditure process. Launch the debt agency.	Complete the final phase of the new PEM system in accordance with new budget classification. Treasury reform initiated with a view to introducing a single treasury account—prepare the central government financial operation table; complete the audit of the treasury department; transform all government accounts into regular treasury accounts. Specify the poverty reduction expenditure-related budget. Audit the debt agency. Update the stock of domestic public debt.	
SOE and Utilities	2 PA; 0 PC; 4 SB	Issuance to the successful bidder of the fixed telecommunications company (CAMTEL) of an invitation to negotiate; complete organizational, operational and financial audit for SNH.	Forward to the IMF the Head of State's notification letter validating the recommendations on privatization of CAMTEL and the power company (SONEL); resume discussions with the successful bidder for the water company (SNEC).			Adopt action plan to address financial situation of CAMAIR.	

Table 4.9.2. Cameroon: Flow of Structural Conditionality (by area) (concluded)

Sector	Number of SC	Request December 2000	First Review July 2001	Second Review January 2002	Third Review September 2002	Fourth Review December 2003	Fifth Review *Not completed*
Judicial/ Legal Reform	1 PA; 0 PC; 3 SB		Launch the technical audit of the judiciary system.	Sign a contract with a consultant and notify them of the terms of reference, together with the effective launching of the technical audit of the judiciary system.	Formulate an action plan for the establishment of a Constitutional Council.	Adopt an action plan for the reform of the judicial system .	
Social Expenditures / Safety Nets	0 PA; 0 PC; 1 SB	Prepare exhaustive quarterly reports on the financial and physical execution of the budget for the social ministries, namely Education, Health, Public Works and Agriculture.					
Foreign Exchange/ Monetary Policy	0 PA; 1 PC; 0 SB					Implement the new foreign exchange regulations of the CEMAC.	
HIPC	1 PA; 0 PC; 0 SB	Finalize the priority spending plans to be financed by HIPC resources.	Hold the first meeting of the national consultative committee for the follow-up on the implementation of the HIPC Initiative.				

Table 4.9.3. Cameroon: Assessment of Output (by reform area)

Reform area	Compliance with SC (SC met/Total SC)	Output Assessment
Tax and Customs	4 / 6	Tax reform efforts took place in the previous program. Measures during the program came mostly towards the end and were largely related to bolstering the collection of non-oil revenues. A large taxpayers unit was created, but it did not become fully operational during the program. Some of the conditions were highly detailed and focused on timely collection of cash-checks, including the preparation of lists of monthly uncashed checks. On customs, the security system for the computer network at customs was rendered operational, restricting access to authorized personnel only. This condition was part of an action plan prepared before the request for the operation. The non-oil revenue decline was due largely to a weak performance of VAT and excises, and the larger-than-expected revenue losses from the January 2004 personal income tax reform. This reflected a weakening of tax administration, lower tax compliance in an election year, a shift in activity from the formal to the informal sector following completion of the Chad-Cameroon pipeline in 2003.
Budget (Public Expenditure Management)	20 / 25	The governance agenda focused on improving PEM, the main pillar of the program. The emphasis on creating a modem PEM framework was initiated during the previous program and received considerable technical support from the IMF and from other donors. Fund technical assistance focused on improving internal audit procedures and implementing the action plan for the full integration of various information systems at the Ministry of Finance. Subsequently, attention was given to improving Treasury operations in order to enhance the accuracy and transparency of fiscal data. A new budget classification and a new chart of accounts were adopted, which has facilitated economic analysis. However, a reliable monitoring and recording system had not yet been fully implemented. The condition on creating a procurement agency was met, as was one on preparing an action plan for the external control of State Finance. The conditionality on setting an automated system of public expenditure was very detailed, and met mostly with delays. Conditionality, towards the end of the program, on bringing treasury accounts into the treasury was partially met. Among the conditions that were not met was an audit of the debt agency's operations (2000–02). Other conditions did not address structural issues but focused on basic fiduciary issues such as evaluating the status of expenditure commitments, which had been executed without issuance of a payment order. Thus, while a program to automate expenditures was under implementation, basic budget procedure rules were not being followed, leading to substantial arrears. The financial situation of the largest public enterprises was weakened considerably, adding to actual and contingent fiscal liabilities. The deterioration reflected weak management as well as growing payment arrears of the government.
Finance	5 / 6	Financial sector conditionality followed recommendations of FSAP 2000/1. The process to rehabilitate the Postal Savings Bank was set under way with the help of the World Bank. The condition on bank liquidation (with some exceptions) was met. Also, a circular regulating the use of the procedure of saisie-attribution was issued. Conditionality on an agreement with the Banque des Etats de l'Afrique Centrale (BEAC) was not met.
SOE and Utilities	6 / 6	Public enterprises and privatization: Three conditions on privatization (CAMTEL, SNEC and SNEL) were met. An action plan to address the financial situation of CAMAIR was prepared. Participation in HIPC required a condition on the completion of the SAC-III operation with the World Bank. SAC-III contained a significant privatization component and was completed. Oil sector: focus on oil was an integral part of improving governance. The financial and organizational audits of the oil company (SNH) were completed for the request and the first review; thereafter there was no conditionality on follow-up measures.
Judicial/Legal Reform	3 / 4	The initial focus on the reform of the judicial sector was part of the governance improvement strategy. While an independent study of the judicial system was done and an action plan elaborated, the reform measures taken were not operational (establishment of the audit office and the constitutional council). Also, measures to improve the investment climate made limited progress.
Social Expenditures/ Safety Nets	1 / 1	The level of social spending (health and education) probably increased slightly (the data for the functional breakdown of expenditure is incomplete), and the use of HIPC relief improved slowly.

Table 4.9.4. Cameroon: Other Factors and Likely Impact of Structural Conditionality

Reform Area	Assessment of SC usefulness (factors influencing its usefulness)
Revenue	Although there was a delay in making operational the large taxpayers unit, this was done eventually and, reportedly, it operated satisfactorily. Perhaps an earlier emphasis on tax administration reform would have helped buttress non-oil revenue performance earlier. Also, revenue performance seemed to have been affected by the change in the payment mechanism from check to bank transfer, which led to detailed conditions of collection on checks that had been left uncashed. Given that tax rates were high, in particular for the VAT, the program should have emphasized broadening the tax base through reducing exemptions and improving tax incidence in the informal sector. Initial customs reform presented at the request as part of the governance agenda was not followed by conditionality. The subsequent program turned its attention again to customs.
Public Enterprises and Privatization	The agenda on privatization was strong, especially considering that HIPC included as a parallel condition successful completion of the SAC-3 operation with the World Bank (which focused on privatization). The electricity utility and several public enterprises (SONEL, HEVECAM, SOCAPALM, CAMRAIL, and BICEC) were successfully privatized. Regulatory agencies for the telecommunications and electricity sectors were established, and the mobile telephone system was liberalized and competition was introduced. However, privatization of other companies was not attempted or failed (CAMAIR, SNEC, CAMTEL, and SCDP). Cameroon's PRSP presented by the government in early 2003 set further ambitious targets. The subsequent PRGF retook the privatization agenda.
PEM	The priority given to creating an automated public expenditure system yielded only partial results. The Article IV consultation following the program reported that: (i) the expenditure classification adopted in 2003 was still to be integrated in all financial reports; (ii) a database of government employees (SIGIPES) was created and matched to payrolls in four pilot ministries, eliminating "ghost workers" and improving personnel management practices; (iii) expenditure monitoring and control remained weak; and (iv) attention to the creation of a unified treasury came only at the end of the program. Overall, these efforts remained under-utilized. Reportedly, the utilization increased overtime. Conditionality focused on procurement only in the request and the first review. A new public procurement code was adopted in September 2004, but follow up on cases of noncompliance needed strengthening. Then, a procurement law was approved. HIPC's tracking of the progress in improving the quality of the public expenditure systems (APA) afforded an alternative view of the progress made. According to the 2004 APA, Cameroon met 7 of the 15 APA HIPC criteria, requiring improvements in the transparency of public expenditure. According to APA, Cameroon made hardly any progress between 2002 and 2004 (compared to other relevant countries).
Oil	Although the initial conditionality on the oil company (SNH) was met, the program did not follow it up. Reportedly, the government continued to audit SNH, with long delays and using local accounting companies. But, SNH made, on behalf of the government, significant expenditures, which contributed to the fiscal difficulties that derailed the program. The EPA takes a positive note, reporting that the petroleum market was liberalized and that the national oil company SNH underwent a series of audits, adopted an accounting system conforming to international standards, and strongly improved revenue transfers to the government budget. It appears that the improvements in the management of oil resources occurred later, but that progress during the PRGF was limited.
HIPC	IMF documentation reported continuously on the low use of available HIPC resources; it also noted that reporting on the receipt and use of HIPC relief had lacked transparency.
Governance	The Audit Office and Constitutional Council were set up in a formal sense, but neither has become operational. The staff urged the authorities to focus less on general policy intentions and more on generating results.
Finance	Attempts to improve the health of the Postal Savings Bank did not have an impact. According to the follow-up Article IV, the Postal Savings Bank continued to face a liquidity crisis even after it was merged with the cash-generating mail operations in April 2004 to form CAMPOST, and required cash injections from the government to meet the strong demand for cash withdrawals. The size of implicit government liabilities remained to be determined. The EPA reports that the banking system was largely rehabilitated and liberalized, while banking regulation and supervision were strengthened in a regional framework. The majority of the key recommendations of the FSAP conducted in 2000 were implemented, including restructuring of the insurance sector and the regulation of the microfinance sector.

Table 4.10.1. Ghana: 1999–2002 PRGF—General Background: Objective of the Program and of Areas Supported by Structural Conditionality

Overall objective of program as stated in the program request

The objectives of the program were to continue the process of macro-stabilization and to advance the structural reform agenda building on the government's agenda 20/20 of 1995, which spelled out "a coordinated program of economic and social development policies aimed at making Ghana a middle-income country within one generation." The program called for sustained economic growth to be achieved through an open and liberal market economy, supported by measures to foster private investment, human development, basic infrastructure, and a supportive legal and administrative environment. Rural and urban development issues were also emphasized to help sustain a rise in the standard of living of the population.

Areas supported by SC throughout the program

Overall objectives	Reform Area	Objectives of SC
Move Toward a Balanced Overall Budget	Tax and Budget	The central objective of the medium-term fiscal policy was to move toward a balanced overall budget, achieving primary surpluses to reduce the interest burden. These fiscal objectives were expected to be achieved by increasing the total revenue-to-GDP ratio to about 19 percent by broadening the tax base and improving tax administration, without compromising on the planned reduction of cocoa taxation and on tariff reform, and by restraining the growth of expenditures. However, expenditures in health and education would be protected.
Reduce Inflation and Improve Monetary Policy	Monetary Policy and Central Bank	The government would place before parliament a new Bank of Ghana bill that would ensure the independence of the central bank in formulating monetary policy and supervising the financial system, while making it more transparent and accountable by end-1999. Monetary policy would aim at reducing inflation to not more than 5 percent in 2001 by limiting monetary expansion to that consistent with nominal GDP growth.
Foster Efficient Resource Reallocation and Reduce Quasi-fiscal Deficit	Cocoa Sector	Key elements of the government's medium term strategy for cocoa included: increasing competition by giving licensed buying companies equal access to Cocobod's (cocoa marketing board) warehouses and crop financing, while allowing them to begin exporting a significant share of the crop starting in the 2000/01 crop season; outsourcing the Produce Buying Company for divestiture and offer it for sale by the end of June 1999; increasing farmers' income by raising the producer price and reducing the taxation of cocoa and Cocobod's share.
	Other SOEs	The government would continue to implement public sector reforms aimed at refocusing its priorities on core areas, in particular agriculture, the social sectors, and basic infrastructure. Actions to overhaul the energy sector would remain crucial. The government would vigorously implement a divestiture program, which would cover about 80 state-owned enterprises during the first two years of the ESAF arrangement. In doing so, it would enhance the transparency of the divestiture program through timely publication of audited financial statements of the Divestiture Implementation Committee. The government projected divestiture receipts of ¢l00 billion in 1999, and ¢l00 billion and ¢50 billion in 2000 and 2001, respectively.
Improve the Allocation of Financial Savings	Financial Sector	The government would foster the development of a sound and competitive banking system. Both the government and the Bank of Ghana would take steps to complete the divestiture of its shares in financial institutions other than the Agricultural Development Banks by December 1999. It would also withdraw the licenses of banks not meeting the obligatory capital adequacy requirements by end-September 1999. In doing so, it would ensure that depositors were protected and that debts were collected. A new banking law would be submitted to modernize regulatory practices. Banking supervision would be strengthened.

Table 4.10.2. Ghana: Flow of Structural Conditionality (by area)

Reform Area		Number of SC	Request May 1999	First Review November 1999	Second Review August 2000	Third Review June 2001	Fourth Review February 2002	Fifth Review *Not completed*
SOE	Cocoa	4 PA; 1 PC; 0 SB	Cocoa medium term strategy to improve entry, and price to farmers, and privatize main produce company.	Offer the Produce Buying Company for sale.	Inform the Fund on cocoa policy and allow entry in cocoa exports.			
	Restructuring and Privatization	7 PA; 5 PC; 5 SB	Complete restructuring of oil refinery for sale (TOR). Provide to the Fund a divestiture work program for 1999–2001. Appoint sales advisor for railways, airways and electricity companies.	Complete the divestiture of State Transport Company and GHACEM (cement factory).	Offer TOR for sale. Select an advisor for the sale of Ghana Telecom. Hire financial advisor for the concession of Ghana Railways.	Restructuring of TOR debt and setting of automatic petroleum price adjustment formula; strategy to achieve full cost recovery in public utilities. Approve asset list for no less than $50 million to be sold in 2001. Complete financial audit of nine public enterprises, including the Electric Company of Ghana (ECG), Ghana Water Company Limited (GWCL), Tema Oil refinery (TOR), and Volta River Authority (VRA).		
Financial Sector		3 PA; 2 PC; 4 SB	Withdraw banking licenses when capital adequacy requirements not met; announce removal of the freeze on licensing of new banks. Establish monitorable quarterly targets for banks not meeting capital adequacy requirements. Divest Bank of Ghana shares in the National Investment Bank, Bank of Housing and Construction, Bank of Credit and Commerce, Ghana LTD, and the COOP.		Withdrawal of banking license from BCC. Submit Bank of Ghana Act and Banking Act to Parliament. Divest Bank of Ghana's shares in commercial banks.			

Table 4.10.2. Ghana: Flow of Structural Conditionality (by area) (continued)

Reform Area	Number of SC	Request May 1999	First Review November 1999	Second Review August 2000	Third Review June 2001	Fourth Review February 2002	Fifth Review *Not completed*
Budget excl Arrears Clearance	3 PA; 0 PC; 6 SB			Respond to FAD's PEM report.	Detailed monthly reporting on budgetary outcomes. Implementation of a system of cash flow forecasting and commitment controls.	Detailed monthly reporting on budgetary outcomes and issuance of expenditure ceilings.	
Arrears Clearance	1 PA; 2 PC; 4 SB	Targeted reduction of road arrears	Eliminate existing external arrears.Targeted reduction of road arrears.	Targeted reduction of road arrears and commitment to eliminate them over time.Complete audit of fiscal arrears. Eliminate existing external arrears.	Complete audit of fiscal arrears.	Publication of audit of non-road arrears.	
Tax and Trade	4 PA; 2 PC; 5 SB	Completion of import tariff review. Reduce the top tariff rate to 20 percent.	Submit to Parliament increase in the VAT rate. Report on efforts to improve customs. Complete tariff review.	Ensure new VAT rate and petroleum excises become effective. Monitor Exemptions. Ask parliament to eliminate the special import tax or replace it with anti-dumping.	Supplementary tax measures to buttress revenue yield. Elimination of special import tax.	Announce creation of Large Taxpayers Unit. Piecemeal tax measures to improve the revenue yield.	
Foreign Exchange/ Monetary Policy	6 PA; 0 PC; 5 SB	Submit new draft of Central Bank and banking law. Enforce revised regulations for foreign exchange exposure limit.	Release data on international reserves. Adopt new methodology to calculate market exchange rate.	Announce that foreign exchange market to be allowed to operate without interference. Revise accounting of monetary survey. Improve flexibility and responsiveness in the treasury bill market.	Terminate direct foreign exchange sales to the Refinery (TOR). Submit revised Central Bank Law.	Commence audit of Central Bank	

Table 4.10.2. Ghana: Flow of Structural Conditionality (by area) (concluded)

Reform Area	Number of SC	Request May 1999	First Review November 1999	Second Review August 2000	Third Review June 2001	Fourth Review February 2002	Fifth Review *Not completed*
Macro Data/ Statistics	1 PA; 1 PC; 4 SB	Reconcile trade data from the Automated System for Customs Data (ASYCUDA) with CEPS's manual tabulation.	Make summary information on the Ghana Living Standard Survey available to the Fund. Provide the Fund with summary information on the methodology for national accounts. Publish monthly trade and travel data. Publish the Consumer Price Index and the statistical digest of the Ghana Statistical Service (GSS) and the Bank of Ghana.				
Anti-corruption	0 PA; 0 PC; 1 SB			Complete survey on corruption perceptions and issue report			

Table 4.10.3. Ghana: Assessment of Output (by reform area)

Reform Area	Compliance with SC (SC met/Total SC)	Output Assessment
Tax and Customs	5 / 6	The conditionality on customs and taxation was mostly met. Taxation conditionality focused on buttressing revenue in the aftermath of the terms of trade shock, through increases in the VAT rate and excise taxation. Towards the end of the program, efforts to improve tax administration led to the creation of large taxpayer offices. The conditionality on monitoring of exemptions was not met.
Banking Sector	8 / 9	The Central Bank divested its holdings in financial institutions, even if with a delay. Progress was made on far-reaching and important reforms of the legal framework for Ghana's financial system.
Budget	12 / 16	Compliance with PEM conditionality was the lowest, especially regarding auditing of budget and road arrears and provision of information on expenditures by public agencies. Ghana experienced a break down of expenditure control in the run-up the 2000 presidential elections. This led to substantial budget and road arrears and contributed to the non-completion of the fifth review.
SOE: Reform and Privatization	13 / 13	All of the conditionality (other than on cocoa) was met. There was an initial impetus on privatizing both utilities and non-utilities. The privatization agenda sought to disengage the state and to generate revenues, especially during the crisis. Implementation of the conditionality proceeded at a pace slower than the IMF expected, with the authorities arguing that such delays were needed to assure the integrity of the process.
SOE: Pricing	4 / 4	All of the conditions on pricing were met. Failure to adjust the petroleum prices was one of the reasons for the failure to complete the fifth review.
SOE: Cocoa	4 / 5	The program focused on the strategy for the cocoa sector at the beginning. All of the conditions were met except for the sale of the Producer Buying Company (PBC), which was sold at a public share offering, with some delay, in late 2002 (with receipts due in early 2003). The conditionality on cocoa stops after the second review, as well as reports on developments and reform in the sector.
Sectorwide Systemic Anti-corruption	1 / 1	A survey on corruption perceptions was completed.
Foreign Exchange/ Monetary Policy	10 / 11	Compliance with conditionality was high. The program supported strengthening the central bank, through a new law and an external financial audit. The authorities presented the legislation to parliament, but redrafted it following the recommendation of the FSSA. The new legislation was approved and is in operation. The conditionality on introducing flexibility to the domestic treasury bill market to improve the use of monetary policy was met, as was the public commitment to a flexible foreign exchange market.
Trade	4 / 5	Trade conditionality was mostly met, including a revision of the tariff structure and the reduction of the top tariff to 20 percent. The program also sought elimination of a general import surcharge introduced to buttress revenues during the macroeconomic difficulties. This condition was not met during the program, but it was met later.
Macro Data/ Statistics	4 / 6	The conditionality on statistics was only partially met, but the 2003 program again points to serious weaknesses in the statistics system.

Table 4.10.4. Ghana: Other Factors and Likely Impact of Structural Conditionality

Reform Area	Assessment of SC usefulness (factors influencing its usefulness)
Pricing	The emphasis on introducing an automatic pricing formula for oil products was adequate and macro-relevant. However, it became a highly contested political issue, leading even to social unrest. Therefore, the adjustment of petroleum prices and electricity tariff followed a stop and go path, further complicated by inflation. Non-compliance with the formulae prevented completion of the fifth review. The IMF helped undertake a poverty impact analysis of the price increases.
Public Enterprise Reform and Privatization	Privatization, especially of the large enterprises, was a contentious issue. Important privatization included sale of shares in Ghana Telecom, the State Transport Company, GHACEM and the Produce Buying Company. The emergence of sizeable quasi-fiscal deficits in the energy sector led to the postponement of the privatization of TOR and the ECG. IMF documentation referred to a slow pace of privatization. The authorities expressed concerns about the speed of the process and the quality of the outcomes.
Financial Sector and Monetary Policy	Program efforts to improve the legal framework for banking and the central bank, enforce regulation (capitalization) and sell the participation of the Central Bank in financial entities had a positive impact as reported by IMF assessments. An FSAP and its update, during the program, helped sharpen work on the financial sector and the overall program as well. The FSAP recommendations included revision of proposed central bank legislation, and clearing debt from the oil refinery to banks. These issues were included in conditionality.
Public Expenditure Management	PEM issues were driven by the existence of budgetary and road arrears, partly linked to the macroeconomic difficulties, the growing public debt and institutional shortcomings in the road sector. Weak public expenditure management prevented the conclusion of the fifth review. After the country joined HIPC, the emphasis on improving PEM increased.
Taxation	Ghana had in place a comprehensive taxation system. Revenues were well diversified among direct (30 percent), indirect (48 percent), and trade taxes (22 percent, including export tax on cocoa). Tax revenues were growing faster than income as a result of increases in rates and improvements in administrative practices. Still, there was considerable earmarking of tax revenues. The need for conditionality was marginal.
Trade	Focus on trade reform came only at the beginning of the program and disappeared thereafter. Removal of the import surcharge introduced to raise revenue during the crisis would be eliminated after the program.

Table 4.11.1. Kenya: 2000–03 PRGF—General Background: Objective of the Program and of Areas Supported by Structural Conditionality

Overall objective of program as stated in the program request

The primary development goal of the government was to achieve sustained poverty reduction through policies and reforms to increase economic growth to high and sustainable levels and through reforms in social areas, including well-targeted poverty reduction measures. These objectives were to be achieved by the implementation of the policy framework outlined in the government's I-PRSP. Although Kenya's I-PRSP provided various strategies to achieve the program's goal of removing the constraints to sustainable economic growth and poverty reduction, it was clear to everyone involved in program negotiations that the central, if not only, objective of the program would be to address governance problems.

The donor and IFI community had come to the conclusion that the key obstacle to Kenya's development was the pervasive corruption in its public institutions. There was a general consensus that corruption had significantly increased the cost of doing business, reduced the level and effectiveness of private sector investment, and thus led to slower economic growth and employment creation. Tackling corruption was not only critical in reaching the program's general objective of increasing growth and reducing poverty, but was also a key trigger for external official financing, which was essential for the viability of the program.

Areas supported by SC throughout the program

Overall objectives	Reform Area	Objectives of the SC
Promote Good Governance	Anti-Corruption Legislation and Institutions	The program supported the submission of two pieces of anti-corruption legislation to Parliament. The first was aimed at strengthening the legal framework underpinning the Kenya Anti-Corruption Agency (KACA), which itself had been a request of the donor and IFI community in 1997. The second required all public officials (and their immediate family) to disclose their assets and liabilities upon appointment to public office and every three years thereafter to discourage graft in the public sector. Other conditions required that authorities provide adequate financial support to expenditure control and anti-corruption institutions.
	Public Expenditure Management (PEM) 1/	Strengthen budget management and expenditure commitment control by implementing short-term recommendations from a February 2000 FAD TA mission, and by designing and implementing a more concrete medium- to long-term action plan.
Strengthen the Financial Sector	Banking Sector Reforms 1/	Reduce vulnerabilities in the financial sector by: privatizing the Kenya Commercial Bank (KCB) in order to reduce the opportunities for politically-motivated lending decisions; strengthening the central bank's role in supervising the banking sector; and supporting the commercial bank loan recovery effort. An additional (informal) PA was added a few months into the program to ensure that commercial banks' interest rates remained market-determined.
Support Trade Liberalization	Trade Policy 1/	Elimination of tax and duty exemptions to reduce rent-seeking opportunities; and support the rationalization and reduction of import duties in line with international agreements

1/ Although not explicitly stated, many SC defined in PEM, the financial sector and trade policy were also aimed at tackling the abuse of public power for private benefit (i.e., corruption)

Table 4.11.2. Kenya: Flow of Structural Conditionality (by area)

Reform Area	Number of SC	Request July 2000	Informal PAs for 1st Review 5/ *Not completed*
Anti-Corruption Legislation and Institutions	4 PA; 1 PC; 2 SB (2 PA;)1/	Submission of legislation to strengthen KACA, "essentially similar" to the draft legislation prepared by a parliamentary committee prior to the program's approval. 2/ 3/ Submission of legislation to Parliament containing a code of ethics for public officials. 4/ Amendment of the draft code of ethics for public officials to require that public officials also declare assets and liabilities of all their immediate family members. 2/ 4/ Provision of adequate budgets to the KACA and Controller of the Auditor General's office, and competitive remuneration to the staff of the Controller and Auditor General's office.	Re-establish the KACA with investigative and prosecution powers.6/ Substantially strengthen the Office of the Attorney General and oblige that the new investigation unit of the police (part of former KACA) be operationally autonomous and that the Attorney General does not block or delay corruption cases.7/
Public Expenditure Management	2 PA; 2 PC; 7 SB	Re-issuance of letters of appointment to accounting officers to stress their responsibility in strengthening expenditure control and inform them of the sanctions they will face if they do not. Shift supervision of district treasury officers from the Office of the President to the Ministry of Finance. Bring all financial management units in the line ministries under the control of an independent finance officer linked to the Ministry of Finance. Include information on expenditure commitments and pending bills in the "vote book" (i.e., the instrument used to record expenditures by program and activity). Complete and submit to Parliament audited public accounts for fiscal years 1998/99 and 1999/2000. Reconcile external debt data held by three government units on a quarterly basis. Require that all government public institutions draft and implement a strategy to eliminate outstanding pending bills and prevent any further accumulation of pending bills. Adopt a plan, to be developed with the assistance of FAD, to considerably strengthen expenditure management. Develop, with technical assistance from the Fund, a system to strengthen expenditure control in districts. Develop and implement a plan to reform the internal audit system.	

Table 4.11.2. Kenya: Flow of Structural Conditionality (by area) (concluded)

Reform Area	Number of SC	Request July 2000	Informal Prior Actions for 1st Review 5/ *Not completed*
Financial Sector Reforms	0 PA; (1 PA;)1/ 0 PC; 7 SB	Gradually sell the government's shares in the Kenya Commercial Bank (KCB). Submit amendments to the banking act giving the central bank the authority and responsibility to supervise and regulate banks and enabling courts to deal more effectively with fraud and realization of security. Issue prudential regulations by the central bank to decrease prohibited activities. Complete a review of operating procedures of the banking sector's Deposit Protection Fund (DPF) and implement its recommendations. Create a system to enable private banks to share debtor information.	Parliament approval of a version of the so-called "Donde Bill" that would preserve the central bank's independence in maintaining control of monetary policy and allow for bank interest rates to remain market-determined.
Trade and Tax Policy	0 PA; 1 PC; 1 SB	Devise a tariff reform program to be implemented under the 2001/02 budget and a plan to eliminate major import tax and duty exemptions awarded to the public sector to be implement under the 2001/02 budget.	

1/ Excluding informal PAs for the first review.

2/ In a highly unusual manner, these measures were defined as both a SB at the Program Request and as a PA for the 1st review.

3/ The submission of legislation to strengthen KACA had originally been discussed at the Executive Board as being a PA for the approval of the program (see EBM/99/133 and EBM/00/77). However, it was not included as a PA in the staff's report on the authorities' request for the 2000-2003 PRGF (EBS/00/138). This informal PA for program approval was not met as the authorities argued that the parliamentary schedule could not allow them to submit the requested legislative changes on time. Since the legislation was not submitted to Parliament before the IMF Board Discussion, it was transformed into a much more stringent measure requesting specific legislation given concerns that authorities might water-down the requested legislation once they received the program's initial disbursement.

4/ The submission of legislation on the code of ethics was a PA for the approval of the program. However, unlike what had been agreed to with IMF staff, the bill submitted to Parliament prior to program approval did not require that public officials declare the assets and liabilities of their immediate family members. IMF staff, and some technocrats in the KACA, argued that the law would have served little purpose if the obligation to declare the assets and liabilities of immediate family members was dropped. Making amendments to the draft bill submitted to Parliament to include immediate family members was thus defined as a structural condition at the program request.

5/ This column should be interpreted as the informal PAs requested by the IMF to get the program back on track (when eventually never happened).

6/ Kenya's High Court ruled KACA to be unconstitutional in December 2000.

7/ This measure replaced the previous informal action for the 1st review once attempts by the Kenyan President to change the constitution to re-establish the KACA failed.

Table 4.11.3. Kenya: Assessment of Output (by reform area)

Reform Area	Compliance with SC (SC met/Total SC)	Output Assessment
Anti-Corruption Legislation and Institutions	3 / 5	The passage of anti-corruption legislation was hindered by a ruling from Kenya's High Court in December 2000 that defined the KACA as unconstitutional. The highly contentious ruling was based on the judges' opinion that KACA violated the country's constitution, which they interpreted as assigning the office of the Attorney General with the exclusive right to prosecute corruption cases. The Kenyan Parliament rejected the Code of Ethics Bill shortly after this ruling, on the grounds that it contravened the principle of separation of powers among the executive, judiciary and legislative branches of government. Failure to enact anti-corruption legislation was the main reason for the program going off-track. Attempts to re-establish KACA and/or implement an alternative strategy all failed. The donor and IFI community softened its requirement that Kenya's anti-corruption body have the power to prosecute cases following the arrival of the new administration in 2003 (after the expiration of the 2000–03 PRGF). The Kenya Anti-Corruption Commission (KACC), which replaced the former KACA, handed over its investigations to the office of the Attorney General.
Public Expenditure Management	10 / 11	No substantial progress in PEM despite the authorities' high compliance rate. The measures that were implemented were initial steps of a long reform process and were not pursued further once the program fell off-track. Domestic budgetary arrears continued to accumulate throughout the duration of the program and public financial accounts continued to be submitted to the Auditor General with substantial delays. A joint assessment from the IMF, the World Bank and various donors in early 2003 (i.e., towards the end of 2000–03 PRGF) described Kenya's PEM systems as being very weak. Only 3 out of 15 indicators were deemed as being satisfactory. The assessment of the lack of sustainable progress in this area during the 2000–03 PRGF is also supported by the fact that Kenya's successor 2003–2006 PRGF included almost identical structural conditions aiming to achieve the same objectives (i.e., development of an action plan to prevent the further accumulation of pending bills; obligation to present final budgetary accounts to the Auditor General).
Financial Sector Reforms	5 / 7	No progress on the financial sector reform agenda despite five SBs being met. The SB on the privatization of the Kenyan Commercial Bank was not met, as the authorities decided to put their plans on hold a few months into the program. The SBs that were met were complied with de jure rather than de facto, as the actions taken by the authorities did not fulfill the conditions' intended objectives. The submission to Parliament of amendments to Kenya's Banking Act to transfer banking sector supervision from the Ministry of Finance to the central bank provides a good example. Although this measure was described as being met, Kenya's 2004 FSSA (SM/04/401) argued that the central bank continued to lack supervisory independence, as the Banking Act still vested key powers in the Minister of Finance. The assessment of the lack of progress in this area is also supported by the fact that Kenya's successor 2003–2006 PRGF included similar structural conditions aiming to achieve the same objectives (i.e., transfer financial sector regulatory functions to the central bank; develop a time-bound plan to restructure/privatize public-sector owned banks). The authorities' financial sector policies actually worsened throughout the duration of the program, as evidenced by the enactment of a version of the "Donde Bill" which aimed to set controls on commercial banks' lending and deposit rates. The authorities ignored IMF conditionality and signed the bill into law in July 2001. The Kenya Bankers' Association responded by mounting a legal challenge against the law in Kenya's High Court. Wrangling in court on the legality of this law carried on until the December 2002 presidential election and the expiry of the program in August 2003. A continuous performance criteria against the imposition of government controls on commercial banks' interest rates was included in Kenya's subsequent PRGF.
Trade and Tax Policy	2 / 2	The PC requiring the development and implementation of a trade tariff reform program was met with a delay. The 2002 Article IV report confirms that the authorities incorporated the first phase of their comprehensive tariff reform strategy in the 2001/02 budget, which included a reduction of the maximum tariff rate and a reduction in the duty on some raw materials and capital goods. Authorities also discontinued some major import duty exemptions to the public sector, which were a major source of corruption and revenue loss.

Table 4.11.4. Kenya: Other Factors and Likely Impact of IMF Structural Conditionality

Reform Area	Assessment of SC usefulness (factors influencing its usefulness
Anti-Corruption Legislation and Institutions	Defining structural conditions on the submission of laws to strengthen KACA and enact a Code of Ethics for the public service were crucial for the support of large bilateral donors and their representatives at the IMF Executive Board. Large bilateral donors argued that their financial support was contingent on progress on this legislation rather than on the mere presence of an on-track IMF program. The inclusion of these measures as PAs in the arrangement led, however, to the politicization of SC and to the IMF getting involved in a very complex domestic political situation. The IMF also got involved in an area where its expertise is limited. The official opposition was highly critical of any support that would legitimize the previous administration, irrespective of the quality of the bills submitted to Parliament. This case study provides an example of how SC can actually stigmatize desirable measures.
Public Expenditure Management	SC on PEM was mostly aimed at strengthening expenditure controls to reduce the civil servants' opportunity to extract rents and were strongly supported by most donors. Their effectiveness was impeded by the low degree of political would to implement them (i.e., ownership). SCs was met to please donors rather than out of self-interest, as evidenced by the lack of motivation to pursue the process any further once the program fell-off track. Their effectiveness was also affected by the lack of skilled technocrats to implement the measures. Despite the lack of any beneficial impacts in the short-run, however, some argued that SC in this area (in conjunction with IMF TA) helped convince public servants of their usefulness and thus facilitated negotiations in the follow-up program.
Financial Sector Reforms	The reform-oriented technocrats at the central bank asked that the IMF to define financial sector reforms as structural conditions in the PRGF arrangement. A coherent roadmap of crucial financial sector measures had been developed following various IMF TA missions sent to Kenya in the aftermath of its banking sector crisis in late 1998. Central bank officials understood the importance of addressing the financial sector's significant vulnerabilities, but were concerned that the Ministry of Finance, which held the final say over financial sector policies, would not be eager to do so. Central bank officials explained that having these measures defined as SBs in the program enabled them to place a greater sense of urgency on their implementation. The lack of political will to push these reforms through nevertheless prevailed. In the case of the privatization of the Kenya Commercial Bank, this lack of political would was largely the result of narrow vested interests blocking the reform process.
Trade Policy	The measure requiring the development and implementation of a tariff reform program was aimed to support Kenya to get in line with the commitments it had made under the Cross-Border Initiative (CBI) and to facilitate the achievement of the common external tariff structure under the Common Market for Eastern and Southern Africa (COMESA) and the East African Cooperation (EAC). The successful implementation of this reform program was facilitated by the fact that trade issues and regional integration were prominent within the government's policymaking priorities.

Table 4.12.1. Lao P.D.R.: 2001–05 PRGF—General Background: Objective of the Program and of Areas Supported by Structural Conditionality

Overall objective of program as stated in the program request

The program aimed at maintaining sound macroeconomic policies to further reduce inflation and sustain it at low levels, supported by strong actions to reform the state banking and enterprise sectors, develop the private sector, and attract foreign investment. The government would target its overall fiscal stance at protecting medium-term sustainability and generating more resources for poverty reduction. Underpinning this effort would be greater mobilization of revenue and prioritization of expenditures, and the decentralization of administrative responsibilities. There are reasons to believe that the main objective of the program was signaling the World Bank officials and private sources of finance contemplating the financing of the Nam Tum hydro-electrical project.

Areas supported by SC throughout the program

Overall objectives	Reform Area	Objectives of SC
Improve the Fiscal Balance	Tax Policy	The revenue target for 2000/01 implied increasing revenues by 2 percentage of GDP to be achieved through broadening the tax base, some increases in excise duties, and major improvements in tax and customs administration. The key measures to increase revenues included: (i) using periodic adjustments to maintain the exchange rate for tax assessments within 5 percent of the current banks' exchange rate; (ii) increasing excise rates on beer, tobacco, soft drinks, and spirits; and (iii) narrowing tax exemptions for investment under the Foreign Investment Law through the issuing of the implementing regulations. In addition, the operation of the large taxpayer unit (LTU) would be enhanced through the use of improved on-site audits and strengthened procedures for delinquent taxpayers. In line with the decentralization policy, 3 to 4 parallel LTUs would be also set up in key provincial centers with appropriate control mechanisms. To strengthen further the tax base, the government decided to introduce a VAT in 2003, and established the VAT Steering Committee to this end. Steps were also taken to strengthen the transfer of royalties, especially on timber exports, to the central government accounts and thus reduce unidentified expenditures.
	Expenditure	The Public Expenditure Review, to be conducted jointly by the World Bank, AsDB, and IMF in the first half of 2001 would review the poverty focus of expenditures, the balance between recurrent and capital expenditures, fiscal transparency, and the mechanisms for expenditure planning and management. In addition, the government would closely monitor the implementation of the decentralization policy to determine its impact on the fiscal stance.
Strengthen the Financial Sector	Banking Sector Reform	The reform strategy for the banking sector aimed at fundamentally restructuring the deeply insolvent state banks to avoid the recurrence of large nonperforming loans (NPLs) and foster efficient financial intermediation. Central to this approach were improving the performance and governance of banks in parallel with recapitalization, and phasing-out of directed lending through the State-Owned Commercial Banks (SOCBs). The main elements were to: (i) foster meaningful operational improvements, especially better lending and risk control practices; (ii) establish effective internal debt workout units in each of the SOCBs; and (iii) phase out policy lending through SOCBs and transfer such existing lending to a central unit under the Ministry of Finance. To set a baseline for financial restructuring, external audits using international standards were initiated for the three SOCBs for the 1999 and 2000 accounts in March 2001. Also, on-site and off-site supervision would be reinforced.
Restructure SOEs	Price Adjustment	The commercialization of the 24 nonfinancial SOEs declared by the government to be strategic, would be restarted. Initial emphasis would be on ensuring that their prices cover costs, including debt service. In order to sustain the commercialization of Electricité du Laos, an agreement was reached with the World Bank to keep increasing retail prices by 3-3½ percent per month through end-2001, and, in mid-2001, conduct a study on pricing policy to achieve fuller cost recovery starting in 2002, including its social impact. After adjustments in August and September, petroleum prices approximately covered costs, and would henceforth be adjusted more frequently to avoid losses by the Lao State Fuel Company. Domestic fares of Lao Aviation were increased by 20 percent in December 2000 and would be adjusted again in May 2001. Further fare adjustments would be made to ensure that by March 2002 Lao Aviation could achieve commercial viability and meet all its costs (defined according to international standards).
	Divestiture of SOEs	The remaining strategic enterprises would be divested. The government recognized that the previous widespread leasing of enterprises did not lead to the desired improvement in efficiency and would examine alternative ownership arrangements at both the central and local government levels. A range of measures were also adopted, or were being implemented, to promote the private sector by removing barriers to entry and leveling the playing field vis-à-vis the state sector. Implementing regulations for the 1994 foreign investment law would be issued, consistent with its liberalizing spirit and narrowly interpreting the scope of tax exemptions and reductions.

Table 4.12.2. Lao P.D.R.: Flow of Structural Conditionality (by area)

Reform area	Number of SC	Request April 2001	First Review February 2002	Second Review August 2002	Third Review September 2003	Fourth Review *Not completed*
State Banks	6 PA; 4 PC; 4 SB	Formulate plans to restructure the SOCB. Initiate external audits of the SOCBs and enforce banking regulations, particularly to stop lending to defaulting borrowers.	IMF to audit the Bank of Lao PDR (BOL) and review its internal controls. Implement banking regulations to ensure SOCB set provisions for NPLs, and reflect them in their income statement.	Restate end-2001 accounts of SOCBs, and inspect them to verify asset quality and regulation enforcement. Formulate plan to restructure the weakest SOCB and complete audit of BOL.	Two international advisors to initiate their tasks in the SOCBs, and complete on site inspections. Audit BOL's 2002 accounts, and amend the Law to allow foreign banks to operate nationwide.	
Tax Revenues	3 PA; 1 PC; 4 SB	Use current market exchange rates on tax assessments.	Complete audits of the 100 largest taxpayers, and implement a nationwide network of tax and customs. Meet 2001–02 fiscal targets.	Strengthen central tax & customs departments, and transfer a large provincial customs point to the national customs service.	No tax incentives will be granted, transfer the 20 largest enterprise from provinces to the central LTU, and centralize customs and treasury.	
Public Financial Management	7 PA; 0 PC; 2 SB	Publish budget outturns, and begin operation of external debt monitoring unit.	Publish 2001/02 budget and 2000/01 outturns, and agree on a plan to improve PEM.	Agree on the terms of reference of a PEM TA mission.	Close the fiscal gap, start clearing arrears, and finalize the report on budget arrears. Classify expenditure by type of administrative unit in 2004 budget.	
SOE	4 PA; 1 PC; 0 SB	Adjust electricity, petroleum and airline prices, and provide income statements and balance sheets for electricity, water, fuel, and airline companies.	Complete the sale of Lao Brewery.			
Trade	1 PA; 0 PC; 1 SB	Introduce automatic licensing for exports, and remove quantitative restrictions on items liberalized under the Asean Free Trade Area (AFTA).				

Table 4.12.3. Lao P.D.R.: Assessment of Output (by reform area)

Reform Area	Compliance with SC (SC met/Total SC)	Output Assessment
State Banks	12 / 14	Some progress was made under the restructuring plans established for the two State-Owned Commercial Banks (SCBs). International banking advisers placed in both banks helped strengthen the banks operations and credit management practices, helping to contain the growth of NPLs. Progress was also made in strengthening bank supervision. Yet, significant risks remained. Both SCBs were still deeply insolvent and their underlying profitability was weak. Moreover, the risk of new NPLs was high, as they were still vulnerable to pressures to extend credits on a non commercial basis. In particular, implementing their governance agreements, especially with regard to the credit management procedures, was more problematic. For instance, there had been a number of cases where the bank's procedures were overridden, resulting in loans being extended in breach of sound lending principles. As a result of the difficulties in restructuring the two state banks, greater priority was given to finding joint venture partners for the banks.
Tax Revenues	7 / 8	The poor revenue performance since the start of the program in 2000/01 was the overriding concern. Instead of rising by 2 percent, as originally envisaged under the program, the revenue to GDP ratio declined by 2 percent of GDP (below its 1999 level). The original revenue gained was based on the assumption that the VAT would be introduced in 2003 and that supporting administrative reforms would bolster revenue collections in the interim. Yet the introduction of the VAT or reduction of tax incentives were not implemented . Furthermore, a deterioration in tax and customs administration following a decision in 2000 to decentralize fiscal management to the provinces, was a major contributor. In this context, the main challenge on the revenue administration front was to recentralize authority over the tax and customs administration. The focus in 2003/04 had been on centralizing the customs department, starting with the seven main international check points. Some advances were made in restoring central authority over the staff and revenues at the check points, but the reforms encountered considerable resistance from provincial governors leading to a very slow progress. Some improvements took place in tax administration proved to be unsustainable as the central tax administration remained weak, and the LTU surrendered most large tax payers to the provinces. Little progress in the critical fiscal reforms related to the centralization of the customs and treasury departments –the main reason why the program went off-track.
Public Financial Management	9 / 9	Little progress was achieved in this area. Cash management remained complex due to the multiplicity of government bank accounts, some of which were outside the control of the treasury. Lack of overall central control over provinces expenditures remained a major problem. Even establishing a PEM plan proved unfeasible. This was reflected in the reluctance of the authorities to request TA in this area. Agreement on the terms of reference for a FAD mission was eventually made a PA for the second review, and the mission took place in October 2002. However, the follow-up actions to implement the mission's recommendations fell short of expectations.
SOE	4 / 5	Most of the SC focused on the adjustment of energy and electricity and rising fares of Lao Aviation. Substantial adjustments were made in the tariffs for the major utilities. The authorities also took steps to address the losses of Lao Airlines, whose financial position deteriorated sharply, partly as a result of leasing a new Airbus. These actions were to be accompanied by deeper institutional reforms to improve the oversight of SOE, enterprise restructuring to enhance their governance independence and reform the overall system of tariffs to be included in the companion of World Bank FMAC operation. The IEG (of the World Bank) evaluation in this area is that, with the exemption of improvements in the oversight, little progress was achieved.

Table 4.12.4. Lao P.D.R.: Other Factors and Likely Impact of Structural Conditionality

Reform Area	Assessment of SC usefulness (factors influencing its usefulness)
Banking	The main obstacle was the absence of the willingness to take measures in this area on the part of the authorities. Additionally, there was no roadmap to eventually change the governance and system of incentives of the banks to protect them from interference in their lending decisions that many times got worse during the program. The most important measure, to increase the incentives for foreign shareholders and permit foreign banks' branches to operate nationwide would come two years later as SB. The question is why such a measure was not introduced earlier—with a sufficient lead time—and made a PC. Some progress was made toward amending the law so as to equalize capital requirements for domestic and foreign banks. However, during 2004, credit discipline weakened again, particularly due to lending to "priority projects." The Bank of Laos seemed to have promoted such credits, in spite of being inconsistent with banking regulations.
Tax	The rationalization and strengthening of the framework for intra-governmental fiscal relations was a key, but difficult element of the reform program. Decentralization in Lao responded to fundamental shifts of power that were unlikely to be stopped by IMF conditionality. As a result, the most important component of the IMF supported program ran into insurmountable political obstacles. Yet, other factors also contributed to the poor effectiveness of conditionality. Some key structural conditions were rather vague: "implementation of tax reform measures, including reducing exemptions, broadening the base and strengthening the large taxpayer unit" to be subject to 1st and 2nd review. In spite of the large amount of TA previously provided and the centrality of the revenue issue it is puzzling that the program was unable to provide a roadmap of actions involving increasingly steps of more complex institutional nature. In spite of weak revenue performance (although additional resources were provided to the tax department), the SB introduced during the second review remained quite general. Only in the third review, SC became more specific calling for the transfers of large taxpayers from provinces to the center, increasing audits and issuing directions to centralize staff under central controls, a well as to prevent new tax incentives. But, some of the initiatives suffered a setback through a prime ministerial decree suggesting customs controls were assigned to the provinces—in spite of previous efforts by the Ministry of Finance to recentralize customs.
PEM	The authorities were reluctant to strengthen the central treasury, rationalize government banking arrangements, and publish audit reports on budget outcomes. An action plan for treasury reforms was drawn up with FAD technical assistance in 2002 and was an integral part of the IMF program in 2003. Before its expiry, the PRGF program attempted to bring the central-provincial treasury issue to the forefront, by suggesting that the authorities drafted a concept paper for a new legal framework for the National Treasury and to develop integrated cash planning. However, this would necessarily require an improvement in the cooperation between central and provincial treasuries, an issue which the authorities appeared reluctant to tackle.
SOE	Reforms in this sector were the least controversial, mostly because the majority of SOE were already privatized before the approval of the PRGF and as a result the SOE sector was relatively small.

Table 4.13.1. Madagascar: 2001–05 PRGF—General Background: Objective of the Program and of Areas Supported by Structural Conditionality

Overall objective of program as stated in the program request

The staff request included the usual broad objective of "fostering macroeconomic stability, and promoting an acceleration of growth, while contributing to the reduction of poverty and the improvement of key social services". In order to reach this goal, the arrangement set out three main intermediate objectives: (i) increase government tax revenues; (ii) improve PEM and increase poverty-reducing spending; and (iii) implement the privatization process related to the state airline, the main telecommunication company and other key enterprises in the manufacturing and service sectors.

Areas supported by SC throughout the program

Overall objectives	Reform Area	Objectives of SC
Increase Government Revenues	Tax Policy	Broaden the tax base by promoting compliance in the mining sector. Avoid the implementation of new VAT exonerations, which had rendered the tax code excessively complicated.
	Tax Administration	Strengthen domestic tax administration through the implementations of FAD TA recommendations.
	Customs Administration	Strengthen customs administration through the installation of the updated Automated System for Customs Data (ASYCUDA) and the implementation of FAD TA recommendations.
Improve Public Expenditure Management	Public Expenditure Management	Budget execution: enhance budget execution with the creation of a monitoring system for the budgetary cycle and by improving internal audit functions. Budget reporting: strengthen the treasury accounting system to insure that government accounts are closed and audited in a timely manner.
Restructure and Privatize SOEs	Restructuring of SOE	Place JIRAMA (water and electricity) and SIRAMA (sugar) under private sector management contracts to minimize their drain on public finances. Complete the privatization of SOLIMA's (oil) main assets.
	Privatization of SOE	Privatize HASYMA (cotton) to eliminate their drain on public finances.
Strengthen the Safeguard System in the Central Bank	Central Bank Accounting and Transparency	Implement recommendations of the IMF's stage one safeguard assessment
Make the Exchange Rate Fully Market Determined	Exchange Rate Policy	Replace the open outcry foreign exchange auction system by a continuous interbank foreign exchange trading system. Revise the guidelines for central bank intervention in this market to facilitate its operation.
Support Governance Reform Agenda	Enhance Check and Balances	Support the establishment of the independent anti-corruption bureau.

Table 4.13.2. Madagascar: Flow of Structural Conditionality (by area)

Reform Area	Number of SC	Request February 2001	First Review November 2001	Second Review December 2002	Third Review June 2003	Fourth Review March 2004	Fifth Review October 2004
Tax Policy	1 PA; 3 PC; 0 SB	Expand the tax base by attempting to bring mining activity into the formal sector through a decrease in the mining excise tax (to be compensated by an increase in mining royalties).				Inclusion of 15 tax policy measures in the 2004 budget law. Commitment to not grant any additional tax or tariff exemptions.	
Tax Administration	2 PA; 0 PC; 0 SB			The authorities' plan to defer VAT payment obligations must follow international best practices.	Create committee to oversee implementation of a detailed tax and customs administration reform plan.		
Customs Administration	0 PA; 2 PC; 2 SB	Installation of newer versions of the country's ASYCUDA.			Payment of arrears to an import pre-shipment inspection company.		Install and use the latest version of ASYCUDA in customs offices.
Budget Execution and Budget Reporting	0 PA; 2 PC; 3 SB	Budget execution: complete study aimed at improving the government's internal audit function (IGE) and implement its recommendations. Budget reporting: computerization of the Treasury's Accounts system. Strengthen budget control by separating the functions of the Chairman of the Central Procurement Committee and the Director General of Expenditure Commitment Control.		Budget reporting: prepare monthly balances for the Treasury's accounts. Prepare budget execution laws to enable the Auditor General to exercise external control over public finance.			
Procurement	0 PA; 0 PC; 1 SB	Separate the functions of the Central Procurement Committee and the Expenditure Commitment Control.					

Table 4.13.2. Madagascar: Flow of Structural Conditionality (by area) (concluded)

Reform Area	Number of SC	Request February 2001	First Review November 2001	Second Review December 2002	Third Review June 2003	Fourth Review March 2004	Fifth Review October 2004
Arrears Clearance	2 PA; 0 PC; 0 SB				Clearance of VAT reimbursement arrears. Settle external commercial arrears to a preshipment inspection company.		
SOE Restructuring	6 PA; 1 PC; 2 SB			One-time elimination of JIRAMA's arrears to private sector petroleum suppliers with these suppliers' tax obligations. Approval of SOLIMA's various financial accounts.	Audit of JIRAMA's operations and financial condition. Clearing of SOLIMA's arrears towards the central bank.	Placing JIRAMA under a private sector management contract. Placing SIRAMA under a private sector management contract. Collect amount owed to government by the new private sector oil companies.	
Privatization	1 PA; 1 PC; 0 SB					Completion of the bidding process for the purchase of HASYMA.	
Central Bank Accounting and Transparency	0 PA; 0 PC; 4 SB			Reform the central bank's internal audit department. Conduct an internal audit of the management of central bank reserves.	Publication of the central bank's financial statements.	Publication of the central bank's financial statements.	
Exchange Rate Policy	0 PA; 0 PC; 2 SB				Introduction of a continuous interbank trading system.		Establish guidelines for central bank intervention in the FX market.
Good Governance	1 PA; 0 PC; 0 SB						Begin operations of the independent anticorruption bureau.

Table 4.13.3. Madagascar: Assessment of Output (by reform area)

Reform Area	Compliance with SC (SC met/Total SC)	Output Assessment
Tax Policy	4 / 4	Despite meeting all structural conditions, no noticeable improvements were detected in the quantitative outcomes or in the quality of tax policy. The tax-revenue-to-GDP ratio at the end of the program was still below the pre-2002 crisis level (10.9 percent). The authorities implemented additional distorting VAT and tariff exemptions on investment and consumption goods in September 2003 (which were repealed, as originally envisaged, in September 2005). Tax revenue leakage remained severe. The bi-partite committee in charge of overseeing the implementation of FAD TA recommendations stopped convening after less than a year, resulting in most recommendations not being put into practice. The IMF's area department did not request FAD to provide follow-up assistance on their action plan. The IMF EPA (May 12, 2005) argues that the absence of significant improvement in tax collection was one of the greatest failures of the IMF's long-term involvement in Madagascar (i.e., 1989–2005).
Tax Administration	1 / 1	
Customs Administration	4 / 4	No improvement in this area despite the fact that all the performance criteria were met. The ASYCUDA system was installed, but was not being used by customs officers. The bi-partite committee created to oversee the implementation of the action plan (drafted by the 2003 FAD mission) stopped convening after less than a year. Most recommendations were thus not implemented. The IMF's area department did not request follow-up assistance from FAD after the committee was dissolved or after it was clear that ASYCUDA was not being used by customs officials.
Budget Execution and Budget Reporting	3 / 5	External assessments of the progress in PEM during the duration of the program seemed to be rather mixed. The IMF's EPA (May 2005) suggests that "slow progress in PEM reform remain(ed) a bottleneck in the fight against poverty." The update on PEM assessments in HIPCs seemed to concur (see assessments in next column). These assessments were in contrast, however, with HIPC Completion Point Documents (November 2004). These documents praised the government's effort at improving its public financial management system. 1/
SOE Restructuring	1 / 1	Sugar: SIRAMA was put under a private sector management contract. Despite being better managed, SIRAMA and the whole sugar production sector in Madagascar continued their decline. The management contracts with private firms would expire in end-2006.
	3 / 3	Electricity and water: The two administrations strongly opposed increases in electricity tariffs during the duration of the program, despite various reports stressing the urgency for substantial price increases to cover production costs and finance badly needed capital investments. Authorities convinced the IMF to delay price hikes until a restructuring program was designed with the help of the World Bank. JIRAMA was first audited, and was then put under a private management contract. Its financial situation remained extremely precarious, and its services to the population continued to deteriorate. The chronic lack of investment in its production capacity led to an insufficient supply of electricity and recurrent blackouts, which is having a damaging impact on production in many sectors, such as tourism.
	4 / 5	Oil: Despite procedural problems in the privatization process, the privatization of SOLIMA's assets (which was made under the World Bank's 1999-2001 SAC II) was described as being satisfactory by later evaluations of the World Bank. The measures in the IMF's PRGF finalized the complicated privatization process and insured that no contingent liabilities would affect the government's budget.
Privatization of SOEs	1 / 2	The privatization of the cotton company HASYMA was eventually completed in late 2004. The privatization process was difficult. The IMF's original target date was too ambitious, as witnessed by the investment bank's decision to pullout of the project because of its short timeframe. The first bidding process eventually had to be annulled. The final outcome, however, was seen as being satisfactory. The privatized HASYMA was not only no longer a drain on the budget, but was also more efficiently run and produce better quality output.
Central Bank	4 / 4	All of these fiduciary measures, which resulted from the IMF's November 2001 safeguard assessment, were complied with.
Exchange Rate Policy	2 / 2	The introduction of continuous interbank trading system was delayed on 2 occasions before becoming operational on July 30, 2004. The central bank provided guidelines setting out the rules and regulations of the market one day before the opening of the market. Private bankers in Madagascar argued, however, that central bank intervention on this market was erratic and did not follow the published guidelines.
Good Governance	1 / 1	The new administration that took office in mid-2002 initiated numerous anti-corruption activities. The new president created a committee in charge of drafting the TORs and creating this anti-corruption bureau in late 2002. The anti-corruption bureau became operational in late 2004.

1/The Fund-Bank AAP database suggests that progress in budget execution was minimal between 2001 and 2004, as there was no change in benchmarks met. The Fund-Bank AAP database also suggests there was no progress in budget reporting between 2001 and 2004, as the number of benchmarks met actually declined by one.

Table 4.13.4. Madagascar: Other Factors and Likely Impact of Structural Conditionality

Reform Area		Assessment of SC usefulness (factors influencing its usefulness)
Tax Policy		Reaching program objectives was complicated by different advice provided by the World Bank, which proposed the idea of offering tax and VAT exonerations to temporarily spur investment in the aftermath of the 2002 political crisis.
Tax Administration		The lack of a coherent roadmap in the first few years of the program resulted from FAD's reluctance to provide TA given the authorities' lack of resolve at implementing recommendations during the previous ESAF. TA was provided to the new administration in early 2003 and produced a coherent roadmap. The creation of the bi-partite committee to monitor its implementation was a good first step, but should have been followed up on once interests from the committee's participants started to wane.
Custom Administration		The lack of a coherent roadmap was also caused by FAD's reluctance to get involved in this sector given the authorities non-compliance during the previous ESAF. The failure of the installation of new customs software to impact custom revenues should have been expected given the failure of previous ASYCUDA versions to deliver any results throughout the 1990s. SC in the program failed to account for the resistance of vested interests in the customs administration, particularly at the local level, which had been flagged as a problem in various TA reports. No conditions were defined on measures aimed at tackling widespread corruption in custom administration. (Efforts at using import values by independent pre-inspection companies seemed to be having a positive impact on effective custom revenues.)
Public Expenditure Management		When trying to assess the impact of IMF structural conditions on PEM, one has to be mindful that the IMF was a very small player within the IFI and donor community in this reform area. The IMF's role in this area clearly decreased throughout the duration of the program, as witnessed by the fact that it did not define any SC in this area after December 2002. The World Bank's PRSC1 (2004) and PRSC2 (2005), on the other hand, had a very strong focus on PEM. The authorities stated that the SC in the PRGF were not necessary as debt relief under the HIPC initiative was described as being enough of an incentive for them to implement the measures.
SOE	JIRAMA	SC were useful in pressing the authorities to design a strategy to deal with this large potential liability. The new management team convinced the government to raise the electricity tariffs some 60 percent. As one cannot expect a few SC to undo decades of mismanagement, this is a good example of a sector where one program is insufficient to achieve the targeted outcome.
	SIRAMA	SC was useful in getting the authorities to start looking for solutions to the problem (i.e., drain on the government's budget). Some government officials argued that conditionality was not needed given the fact that the government was already planning to implement this measure regardless of it being a condition or not. SC, however, is likely to have pressured the government to act. The authorities were likely to face a similar dilemma (i.e., what to do with the SOE) with the expiration of the management contract in 2006.
	SOLIMA	The SC was useful in completing the privatization of SOLIMA's main assets, which had run through numerous procedural problems under the WB's SACII. No roadmap was needed as the privatization process was close to completion.
Privatization		The decision to include the privatization of HASYMA in the program seemed to have been made impulsively by IMF staff. The World Bank was not part of the process, and questioned why the IMF had chosen to focus on this particular SOE (which, in their opinion, was not a significant drain on the budget). The excessively short time frame given for its implementation seemed to have been unhelpful, particularly given the fact that it did not take into account that the authorities had already set their own time frame to privatize it.
Central Bank		These measures were basically fiduciary in nature.
Exchange Rate Policy		The criticality of defining the introduction of the continuous interbank foreign exchange market was questionable. Central bank authorities, which had requested TA assistance to implement such a system as early as 1998, supported its implementation. Bankers the evaluation team met explained that the introduction of the new market was not macro-critical and that the previous system (i.e., the open outcry system) worked just fine. They described the switch from the open outcry trading system to the continuous interbank system as being rather inconsequential given the small amount of players on the foreign exchange market (6 banks and the central bank) and the small volume traded (some EUR3 million and US$ 3.3 million per day). Bankers were much more concerned with the Central Bank's erratic intervention in the foreign-exchange market (open-outcry or continuous market) than it was with the structure of the market itself.
Good Governance		The use of SC in this sectors was rather ad-hoc. Officials of the anti-corruption bureau stressed that senior government officials supported the creation of this office and that they were going to implement the requested measure regardless of it being defined as a PA or not.

Table 4.14.1. Mali: 1999–2003 PRGF—General Background: Objective of the Program and of Areas Supported by Structural Conditionality

Overall objective of program as stated in the program request

The new program sought to consolidate the gains obtained during the previous programs. The broad objectives of the program centered on ensuring strong and sustainable economic growth, achieving internal and external viability over the medium term, and reducing poverty. The government program covered: (i) improving public finance; (ii) deepening and accelerating structural reforms, including the continued reduction of the role of the state in productive activities, the decentralization of public administration and the establishment of an enabling environment for the private sector; (iii) strengthening financial intermediation and improving social services, mainly health and education. Therefore the program objectives were rather broad and they reflected the content of the of the framework of the medium-term adjustment strategy described in the policy framework paper (PFP) for 1999–2002, which took into account the encouraging results of the preceding programs. Also, I-PRSP was available at the time.

Areas supported by SC throughout the program

Overall objectives	Reform Area	Objectives of SC
Improve Government Finance	Overall Fiscal	To further consolidate government finances, the overall fiscal deficit (on a commitment basis and excluding grants) should be reduced to 5 percent of GDP in 2002. Fiscal policy would emphasize increased revenue mobilization, especially of domestic revenue, to offset the potential losses in customs revenue arising from the introduction of the CET.
	Tax	The success of this effort would require a broadening of the tax base, the prompt implementation of the direct and indirect tax reforms, and improved performance of the collection agencies.
	PEM	At the same time, strict control should be exercised over public spending, while rationalizing its structure and increasing its efficiency, so as to allocate more resources to the social sectors, including the provision of key services to the rural areas, and ensuring adequate allocations for investments and maintenance of public infrastructures.
	Civil Service	The wage bill, in particular, would have to be kept within reasonable limits, while allowing scope to provide the necessary incentives for greater productivity and to rejuvenate the civil service. Improved budget control and strict public resources management would help to release the necessary public savings to finance the investment expenditure needed for a higher growth rate.
Deepen Structural Reforms Reduce the Obstacles for Potential Investors	Legal, System, SOE	The main actions to be undertaken were: (i) the improvement of the legal, judicial, and institutional environment to support the development of the private sector and increase domestic and foreign private investment; (ii) the acceleration of the existing privatization program and the restructuring of the public enterprises remaining in the government's portfolio; and (iii) reforms in the energy, telecommunications, agricultural and mining sectors. The government was aware of the crucial importance of the cotton subsector and intended to implement the relevant measures identified in the technical audit of the subsector, which was completed at end-1998.
Strengthen Financial Intermediation	Financial Sector	The authorities implemented a reform of the financial sector in order to increase financial savings and ensure efficient credit allocation.

Table 4.14.2. Mali: Flow of Structural Conditionality (by area)

Sector		Number of SC	Request August 1999	First Review September 2000	Second Review July 2001	Third Review December 2001	Fourth Review July 2002	Fifth Review February 2003	Sixth Review July 2003
SOE and Utilities	Cotton	14 PA; 5 PC; 7 SB	Action plan for cotton sector reform and new contract between government and CMDT (cotton parastatal).	CMDT financial audit. Prepare measures to increase CDMT transparency and efficiency.	LDP on Cotton Sector Reform. Repayment CMDT debt to banks and plan for financial restructuring for CMDT. Plan for CMDT to withdraw from public sector activities and launching of bids to sell assets and allow entry in pilot zones. Mechanism for determining the internal price of cotton.	Complete study for the next stages of cotton sector reform.	Prepare detailed plan for the next stage of the cotton sector reform.		
	Other Sectors		Adoption of a plan for the reform of the public enterprise sector. Divestiture of set of manufacturing companies as well as the power company (EDM). Liberalization of the telecommunication sector.	Launch bid for EDM privatization. Announce new reform plan for telecommunication.	Discrete increase in water and electricity tariffs.				
Financial Sector and Social Security		0 PA; 0 PC; 3 SB	Financial sector reform action plan. Complete restructuring the Banque Internationale pour le Mali (BIM-SA) and call for bids to open the Banque Malienne de Crédit et de Dépôts (BMCD). Complete audit of the social security agencies.	Adopt plan to rehabilitate financial situation of social security institutions.					

Table 4.14.2. Mali: Flow of Structural Conditionality (by area) (concluded)

Sector	Number of SC	Request August 1999	First Review September 2000	Second Review July 2001	Third Review December 2001	Fourth Review July 2002	Fifth Review February 2003	Sixth Review July 2003
Budget	0 PA; 2 PC; 6 SB	Ten-year financial plan for education.		Plan for the allocation of HIPC expenditures. Introduction of budget codes to track HIPC expenditure.	Adopt law on 2002 budget completion. Complete study of modalities to track poverty spending.	Adopt expanded nomenclature to track poverty reducing expenditures. Identify list of government liabilities.		
Tax and Customs	2 PA; 1 PC; 0 SB	Implement single 18 percent VAT rate.	Adopt new tax system on petroleum products to reflect changes in import prices.	Implement the new taxation system for petroleum.				
Civil Service	1 PA; 0 PC; 2 SB			Completion of organizational plan for civil service reform.	Adoption of a plan for the reform of the civil service.		Launch civil service physical census in pilot area.	
Judicial/ Legal Reform	0 PA; 0 PC; 1 SB	Appointment of new adjudicators at the commercial courts.						
Business Regulation	0 PA; 0 PC; 1 SB	Creation of a steering committee to simplify administrative procedures to establish new enterprises.						
Pension Reform	1 PA; 2 PC; 0 SB	Completion of an audit of the Caisse de Retraite du Mali (CRM) and the Institut National pour la Prévoyance Social (INPS).	Adoption of an action plan to rehabilitate the financial situation of the CRM and the INPS. The start of the financial audits of the CRM and the INPS.					
Social Expenditure/ Safety Net	0 PA; 0 PC; 1 SB	Preparation of a financial action plan for education development program.						

Table 4.14.3. Mali: Assessment of Output (by reform area)

Reform area	Compliance with SC (SC met/Total SC)	Output Assessment
Finance	3 / 3	The government prepared, with the help of the World Bank, a plan for the reform of the financial sector. The plan was adopted. The restructuring of BIM-SA was completed and the call for bids for the privatization of BMCD made. There were no other additional conditions in the financial sector. [See below on related social security issues.]
Tax	3 / 3	The program completed the implementation of a single 18 percent VAT rate, an action that remained to be done from the previous program. Also, it implemented a new taxation for petroleum products reflecting the changes in import prices in retail sale prices. The last measure was intended to buttress revenues.
Public Expenditure Management	8 / 8	All conditionality on public expenditure was met. Amendments were introduced to the budget classification in order to track poverty and HIPC related expenditures. Also, the government adopted a draft budget act for 2000 budget to close the government accounts on a timeline basis.
SOE and Utilities	21 / 26	Cotton: The cotton conditionality focused both on regaining and maintaining macroeconomic balance and setting the basis for a thorough restructuring of the sector. A total of 13 conditions were set on cotton, of which three were not met. Conditions to address the short-term priorities (plan to repay debt owed by the cotton parastal (CMDT) to the banks, a financial audit, etc.) were met. Compliance with cotton conditionality seeking to produce a more durable solution was weaker. First, some of the conditions were not satisfactory, such as a new contract between the government and the CMDT. Second, conditionality on definitive plans for the reform of the sector and the company could not be completed on time due to a delay in the funding of the background studies. However, a detailed plan for the next stage of reform of the cotton sector was met.
		Telecom: The government adopted a plan for the reform of the telecommunications sector early during the program. The conditionality on granting a cellular license to a private operator, originally a SB was met as a PC.
		Privatization: The 1997 program and the HIPC had assigned priority to privatization. Substantive advances in privatization were reported in the previous program. In the 1999–2003 program, the government adopted at the request a plan to reduce the number of non-bank public institutions from 33 at the end of 1999 to 18 by end of March 2002. The privatization of the water and electricity company (EMD) was the major sale. Also, an agreement in principle for the sale of SONATAM (tobacco and matches) was signed and the minority shares held by the government were sold in the Sociéte Malienne de Conserve (SOMACO), the Mali Tombouctou Air Service (MALITAS), the Société Malienne de Produits Chimiques (SMPC), and the Société d'Equipement du Mali (SEMA). After streamlining, the only privatization in the cotton sector remained in the program.
Business Regulation	1 / 1	A committee was created with private sector participation to simplify administrative procedures and reduce the time required to establish new enterprises.
Pension Reform	2 / 3	The financial rehabilitation action plan of the pension system (CRM and INPS) was adopted but not implanted fully.
Social Expenditures/ Safety Nets	1 / 1	The government prepared a financial plan for the implementation of the 10-year development plan in education. A similar condition was in Enhanced HIPC.
Civil Service Reform	3 / 3	The government adopted a plan for the reform of three civil services with a view to modernizing it and unifying the various salary grids. It completed an organizational plan for the civil service and launched a physical census on a pilot basis. All conditions were met.

Table 4.14.4. Mali: Other Factors and Likely Impact of Structural Conditionality

Reform Area	Assessment of SC usefulness (factors influencing its usefulness)
Cotton	The two key achievements under cotton were to help deal with the short-term of the crisis (i.e., the impact of the quasi-fiscal from cotton on the banking sector), and the development of a strategy for the reform of the cotton sector. Although the initial program included the development of an action plan for the reform of the cotton sector with the assistance of the World Bank, it was really the crisis that set work on cotton going and led to a different approach to the development of a strategy for reform with shareholders' participation. By the end of the program, the cotton company had divested from some non-core operations, there was a strategy to break-up the company so as not to create a monopoly with privatization, and the level of competition in the sector had increased with the entry of third parties in some activities (transportation, etc.). Despite the conditionality, the structural reform of the sector proved protracted, due to the relative size of the sector in the economy, the number of stakeholders, etc. Cotton sector reform continued in the subsequent program (2004), which included at the request the development of a timetable for the privatization of the CMDT. All in all, the liberalization of the cotton sector reform is still at a very early stage.
Public Expenditure Management	Mali made significant progress in the development of a public expenditure system. The program helped incorporate tracking of poverty expenditures and focused as well on implementation. Emphasis on PEM came with streamlining during the second review. Mali, with Tanzania, ranked the highest in the quality of their expenditure management amongst HIPIC countries (AAP). Both of them complied with the 11 of the 15 tracking categories. Additionally, Mali posted significant improvement in overall PEM. World Bank indicators (CPIA) confirm that Mali improved in critical PEM areas between 2002 and 2004.
Privatization	The privatization of the water and electricity company (EDM) was completed. However, the privatization of EDM included mutual agreements between the government and a foreign company on pricing and investment. The agreements fell through and the company recently left the country. The 2004 program came back to some remaining aspects of privatization. Article IV 2003 notes correctly that if privatization did not yield concrete results, it would not gain support of the population.
Civil Service Reform	The program helped launch the process of civil service reform, which was under implementation.
Finance	Achievements by the end of the program did not appear to have been substantive. The intended privatizations did not take. The dialogue on regulatory issues took place with the regional authorities, and was not a key part of the program. According to staff the financial situation may be weaker than originally thought.
Taxation	The government with Fund helped worked on tax administration, but this was not included in the conditionality. Tax revenue mobilization was high in Mali, for a poor country, and increased during program implementation.
Telecommunications	The sector was opened to competition and mobile licenses were granted. The subsequent PRGF has retaken SOTELMA privatization.
Judicial Reform and Business environment	A series of themes were included initially but then not developed (business regulation and judicial reform.). The program focused at the beginning on business regulation and judicial reforms, but dropped them afterwards from the conditionality. These themes are part of a regional agenda (OHADA).

Table 4.15.1. Pakistan: 2001–04 PRGF—General Background: Objective of the Program and of Areas Supported by Structural Conditionality

Overall objective of program as stated in the program request

The PRGF arrangement had three main objectives: raising the growth rate close to Pakistan's potential of at least 6 percent, reducing vulnerability to shocks, and improving social indicators. Accordingly, macroeconomic policies aimed at further fiscal adjustment to reduce the public debt overhang, while simultaneously increasing the revenue intake and reducing transfers to state-owned entities to create additional room for social spending. Structural reforms were aimed at improving investor confidence and creating an environment in which the private sector could flourish.

Areas supported by SC throughout the program

Overall objectives	Reform Area	Objectives of SC
Reduce Poverty Consolidate Macroeconomic Stabilization Reduce the Public Debt Burden	Budget	Policies to improve access to basic services such as primary education, preventive health care and population and welfare services, and measures that increase efficiency in the delivery of public services would take center stage. The government targeted quantified improvements in a series of monitorable social indicators in the areas of education, health, and population welfare. To achieve those objectives, the government committed to raising over time the resources allocated to programs deemed effective in supporting social development and responding to the poverty problem, as indicated in the I-PRSP. To reduce the burden of poverty affecting the people of Pakistan, the government was aware that the need to reduce the debt overhang must be sustained by substantial fiscal consolidation and a continuous reduction in the fiscal deficit over the program period.
Increase Tax Revenue	Tax	The government expected tax policy and tax administration reforms to generate a gradual but continuous improvement in tax revenues to 14.3 percent of GDP by the end of the program period.
Improve the Quasi-Fiscal Situation	Pension System	Contain the growth of future pension liabilities by improving the actuarial situation of the system.
Governance Reform and Private Sector Development	Public Utilities Reform, Including Privatization (Water and Energy)	Increase budget savings by reducing the energy sector reliance on key the budget. Providing an environment for private sector participation through reforms in pricing, regulatory framework, and a strategy for privatization.
Maintain a Market-based Exchange Rate	Exchange Rate Market	The maintenance of a market-based and competitive exchange rate would remain at the core of the exchange rate policy, while the functioning of the foreign exchange market would be strengthened. The State Bank of Pakistan (SBP) would gradually discontinue its kerb market purchases and promote the integration of the kerb market into the interbank market so as to further reduce the spread between the two rates. Intervention in the inter-bank foreign exchange market would be limited at ensuring a smooth functioning of the interbank market, while ensuring the SBP's reserves accumulation objective under the program.
Contain Inflation Support a Steadfast Accumulation of Reserves	Monetary Policy	Monetary policy would be geared towards containing inflation and supporting a steadfast accumulation of reserves to reduce external vulnerability. The SBP would maintain a prudent monetary stance and use interest rates flexibly to preserve appropriately tight domestic liquidity conditions to ensure the inflation target, in view of the expected continued instability of money demand.
Financial Sector	Financial Sector	Ultimately, the conditions aimed to achieve budget savings by reducing the financing costs of the government by aligning yields on National Savings Scheme instruments to market rates.

Table 4.15.2. Pakistan: Flow of Structural Conditionality (by area)

Reform Area	Number of SC	Request December 2001	First Review March 2002	Second Review July 2002	Third Review November 2002	Fourth Review February 2003
Tax and Customs	9 PA; 12 PC; 11 SB	Action strategy for the reform of the tax agency; no new exemptions; start operation of the LTU, and income tax reform package, including self-assessment.	No new exemptions plus selected elimination of exemptions.	No new exemptions; petroleum levies; customs reform plan; make operational pilot medium taxpayers unit.	No new exemptions; compensate new exemptions in sales taxes; proposals for further policy reforms; regulation on self-assessment.	No new exemptions and eliminate exemption; no interest withholding; amendment to administration procedures.
SOE and Utilities	7 PA; 9 PC; 5 SB	Utility pricing				
				Interim electricity tariff adjustment consistent with the Water and Power Development Authority (WADPA) financial plans.	Multi-year electricity tariff framework in place (KESC).	
		Financial restructuring and privatization				
		Bring Karachi Electric Supply Corporation (KESC) to the point of sale	Cabinet decision on KESC privatization strategy.	Financial plans and quarterly performance targets for selected enterprises, including WADPA and KESC.	Financial improvement plan for KESC.	Advance in the breakup of WAPDA and complete legal transfer of assets and liabilities to the WAPDA successor companies; make effective purchase agreements with new companies.
Budget	2 PA; 5 PC; 1 SB	First Report on social and poverty related expenditures and reports on implementation on a continuous basis.	Report on the implementation of the poverty reduction strategy; report on federal fiscal expenditure.	Report on poverty related expenditure; prepare budget according to new accounting method.		Submit to parliament fiscal responsibility Law.
Finance	0 PA; 1 PC; 1 SB	Bring United Bank to the point of sale				Privatize Habib Bank
Judicial/Legal Reform	0 PA; 2 PC; 0 SB					Prepare strategy to reduce holding ownership under different names (Benami).
Pension Reform	1 PA; 3 PC; 2 SB	Establish a contributory pension scheme and prepare a third phase public pension reform.				Adjust the rates of return on pension funds.
Social Expenditures/ Safety Nets	2 PA; 0 PC; 2 SB	Provision of first progress report on social and poverty-related spending; quarterly published progress reports on implementation of PRSP.				Approve and initiate program for evaluation of annual core welfare indicator survey; publish first report on intermediate social outcomes.
Foreign Exchange/ Monetary Policy	3 PA; 1 PC; 3 SB	Achieve the target of official reserves; comply the Article VIII; issue a manual on Forex transaction.		Eliminate the restriction on foreign currency deposits; strengthen the central bank autonomy.		

Table 4.15.2. Pakistan: Flow of Structural Conditionality (by area) (concluded)

Reform area	Number of SC	Fifth Review June 2003	Sixth/Seventh Review October 2003	Eighth Review June 2004	Ninth Review December 2004
Tax and Customs	9 PA; 12 PC; 11 SB	Eliminate at least 20 percent of income tax exemptions, with parliamentary approval.	No new tax exemptions; pilot customs house; propose parliament further tax exemption reduction; setting of medium taxpayers offices.		
SOE and Utilities	7 PA; 9 PC; 5 SB	Utility pricing			
		Action plan for the regulatory agency; limit downward electricity tariff adjustment to meet yearly target consistent with companies' financial plans.	Government to notify on the tariff adjustment decisions taken by the regulators; limit downward electricity tariff adjustment to meet yearly target consistent with companies financial plans.	Announce tariff and subsidy policy for regional electricity setting; limit downward electricity tariff adjustment; report on WADPA's (or successors) financial improvements; timely report on regulator's tariffs decisions.	
		Financial restructuring and privatization			
		Report on the implementation of WADPA financial adjustment plan.	Report on the implementation of WADPA financial adjustment plan.	Report on the implementation of WADPA financial adjustment plan.	
Budget	2 PA; 5 PC; 1 SB	Submission to cabinet by the "Benami" taskforce of a report.			
Finance	0 PA; 1 PC; 1 SB				
Sectorwide Systemic Anti-corruption	0 PA; 0 PC; 1 SB	Decision by Cabinet on future of the National Anti-Corruption Strategy.			
Judicial/ Legal Reform	0 PA; 2 PC; 0 SB	Submission to cabinet by the "Benami" taskforce of a report.			
Pension Reform	1 PA; 3 PC; 2 SB		Establish a new formula for the rates of return on pension funds to reflect the market.	Adjust the rates of return on pension funds according to a new formula.	
Social Expenditures/Safety Nets	2 PA; 0 PC; 2 SB				
Foreign Exchange/ Monetary Policy	3 PA; 1 PC; 3 SB				

Table 4.15.3. Pakistan: Assessment of Output (by reform area)

Reform area	Compliance with SC (SC met/Total SC)	Output Assessment
Tax and Customs	29 / 32	The conditionality covered a broad spectrum of tax issues and was highly detailed. The bulk focused on broadening the tax base by targeted elimination of exemptions or privileges (edible oil, etc.), mainly through the continuous condition for not granting new exemptions regarding customs duties, sales tax and income tax. All tax policy conditions, except for three, were met. In tax and customs administration, eight conditions covered the adoption of a plan for the reform of the tax agency (CBR), the organizational reform of headquarters, introduction of large taxpayers offices and medium and small taxpayers offices, and preparation of a customs reform plan. All of these conditions were met. Additionally, to improve the relationship between the taxpayers and the officials, the program introduced universal self-assessment for the income tax as well as complementary norms on record keeping. These conditions were met. The rest of the conditions covered: revenue targets for the sales tax, proposals for the revision of income and sales tax appeals and conflict resolution rules and their implementation, auditing plans, reporting on interest income by financial institutions, and revision of the sales tax and customs refunds rules and procedures. Most conditions were met. Lastly, one condition called for the full restoration of petroleum levies to February 2002 levels.
Finance	2 / 2	The program included the privatization of two banks—Habib and United Bank Ltd. The conditionality was met, but a waiver for a PC was needed. The banks were sold. There was no conditionality on financial sector regulatory aspects.
Budget	8 / 8	A key achievement supported by conditionality was the presentation to Parliament of the Fiscal Responsibility Law, which was approved in 2005 and established legal targets for reducing the public debt burden and improving reporting requirements. The rest of the conditionality had a limited structural content and covered a wide range of disparate issues: budget consistency with the program, provision of detailed information to the IMF on federal fiscal expenditure, and transition to a new accounting methodology. All conditions were met.
SOE and Utilities	15 / 21	The number of conditions focusing on the public enterprise sector was second only to taxation. A total of 12 conditions referred to tariffs or related regulatory issues. Eight of them were fully met. Most of the conditions had limited structural content; they targeted tariff increases, or called for consistency between the tariff increase and the plans to improve the financial situation of the energy companies—KESC and WADPA. Only one condition focused more on structural pricing issues calling for the preparation of an action plan to establish by the end of 2003 a transparent regulatory framework for the setting of electricity tariffs that in particular clarifies the roles of the government, the regulatory agency (NEPRA) and the power companies. This condition came towards the end of the program and is reported as not met. A series of conditions supported the strategy of breaking down the national conglomerate WAPDA into regional companies. Two conditions were not met, including the transfer of assets to the successor companies and making effective purchase agreements between WAPDA and the successor companies. The conditionality on the privatization of KESC was met, but the company was not privatized. Finally, one condition called for the preparation of financial plans and quarterly performance targets for PIA, Pakistan railways, and Pakistan Steel Mills. The condition was met with a delay.
Sectorwide Systemic Anti-corruption	1 / 1	The conditions on deciding the future of the anti-corruption strategy were met in 2002, but there was no further follow-up in the program.
Judicial/Legal Reform	2 / 2	The conditionality to reduce the scope for abuse of "Benami" (use of third party to avoid legal obligations) were met.
Pension Reform	6 / 6	Conditionality on pensions centered mostly on adjusting rates on accounts to reflect market conditions and ensure sustainability of the funds. The conditions were met, but they had limited structural content. One condition called for the establishment of a contributory pension scheme for new recruits of the civil service, and preparation of a third phase public pension reform package, with World Bank support.
Social Expenditures/ Safety Nets	4 / 4	At the beginning, the program supported the government in the implementation of the I-PRSP and the allocation of funds to social expenditure. All conditions were met. The conditionality related to the tracking of poverty expenditure, and reporting. Civil servants' pensions constituted a contingent liability that was not yet being quantified.
Foreign Exchange/ Monetary Policy	7 / 7	Conditionality focused on compliance with Article VIII obligations. Also, one condition called for the amendment of the central bank (SBP) act to strengthen its autonomy, in particular in the area of reserve management, per Safeguard Assessment recommendations. This condition was only partially met.

Table 4.15.4. Pakistan: Other Factors and Likely Impact of Structural Conditionality

Reform Area	Assessment of SC usefulness (factors influencing its usefulness)
Taxation: Policy and Administration	The EPA notes that tax and customs administration was strengthened and made more taxpayer-friendly, while customs tariffs and tax rates were reduced and rationalized. It also notes that the authorities enthusiastically embraced these reform efforts. The high level of detailed conditionality raised the issue of criticality. Of the 33 conditions on taxation, 22 were either PAs or PC. Many of them by themselves cannot be considered as critical, although the emphasis on improving the relationship between taxpayers and the officials is critical to a better business environment and possibly better revenue in the long term. However, PCs were often breached and waivers were granted basically because the impact of measures was minimum, which raises the question of how critical they were. According to the 2005 Fiscal Brief, despite policy and administrative measures, including those undertaken during this program, revenue collection as a percentage of GDP continues to decline. Reportedly also, the 2005/2006 budget introduced tax exemptions reverting the trend set during the program to reduce them. It is not clear that revenue generation is a fair measure of the success of the intervention, given that the strategy centered on broadening the tax base, improving the relationship with taxpayers with emphasis on self-assessment and appeal mechanisms and administrative reform. The conditionality was purposefully light on enforcement, reportedly because the objective was to broaden first the net. Also the strategy sought to avoid facing up to the vested interests and pockets of non-compliance directly. A fairer test is whether the business environment improved or if the number of registered taxpayers increased. Under this strategy, the impact on revenues would be expected to take place once the institutional reforms take hold. This would, of course, depend on the continued effort of the government and the provision of technical assistance by the IMF, World Bank and others.
Utility Pricing	Like in taxation, there is no doubt about the criticality of price alignment in the context of reform of the energy sector. The same cannot be said for the detailed individual conditions. The conditionality was framed in the context of multiyear tariff plans, which were intended to be consistent with the financial restructuring plans of the enterprises. There was limited emphasis on building up the credibility of the regulatory agency. This evidenced a limited trust of the regulatory agency. Only towards the end of the program was there a call for a plan to define clearly regulatory responsibilities. This experience also illustrates the different perspectives from which the IMF and the Bank approach a similar problem. The IMF, with emphasis on the fiscal impact, seeks tariff adjustments consistent with the targets, irrespective of the decisions of the agency. The Bank, with a focus on institutional reform, assigns lower priority to meeting the financial targets.
Public Enterprise Reform	The emphasis on public enterprise reform complemented the pricing agenda. Besides performance plans, the conditionality supported the breaking down of the energy complex (WADPA) and privatization of KESC. The latter did not take place. The government found the bidders not credible. The reform of the energy sector proceeded slowly. Despite the progress made, including KESC and WAPDA and the new tariff regime, technical losses in the system remained high and revenues were not enough to cover rising costs, let alone much-needed investments to repair and expand the system. The public enterprises in the sector continued to require budget support. Indeed, the World Bank considered the government ownership limited and henceforth did not engage fully, leaving the IMF alone. Moreover, the reform of the power sector is a long-term process, with limited scope for quick results within a program's horizon. Political constraints prevented the government from moving faster and more decisively on power sector reforms. Slippages in power sector conditions were never deemed serious enough to warrant program interruption and waivers were frequently requested and obtained. Energy sector: waivers were often needed because delays in implementation rather than an outright lack of implementation. Energy sector measures required more time to overcome political or technical hurdles, causing an increase in the waiver rates.
Finance and banking	The privatization of the two banks included in the program was part of a successful agenda to modernize the financial sector: the banking sector was largely privately owned and became more competitive and efficient, following restructuring and privatization. This was complemented by strengthening of supervision and prudential regulations as noted in the FSSA. Banks' financial soundness indicators improved and dollarization was reduced substantially. The FSAP (2004) survey did not identify any major risk, although the recommendations betray still a very weak sector.
Public Expenditure Management	The IMF conditionality on PEM was present at the beginning of the program and disappeared later on. The World Bank and DFID were the main providers of technical support. The IMF introduced conditionality to support the efforts of the other development partners.