



# Introduction

1. Beginning in the mid-1980s, IMF lending was increasingly made conditional on structural reforms that aimed to strengthen the sustainability of macroeconomic adjustment, foster growth, guide the transformation of transition economies, and, more recently, reduce poverty. This trend was associated with the emergence of longer-term facilities for low-income countries and with the challenges being posed by transition economies. The sectoral and thematic coverage of structural conditionality (SC) expanded over time and covered changes in legislation, policies, and the structure of economic incentives, as well as institutional reform.

2. The increased use of SC evoked considerable criticism, including that SC is intrusive and undermines national ownership of policies; that SC lacks prioritization and overwhelms local capacity; that SC is not useful because with strong ownership of reforms it is unnecessary, and without ownership it is unlikely to work; and that the conditions imposed in areas such as trade reform and privatization are ideologically based and often misguided.<sup>1</sup> Also, many stakeholders, both within and outside the IMF, are opposed to the IMF becoming too involved in reforms that are outside its core areas of competence, and that they argue have resulted in mission creep.

3. In response to these criticisms, in September 2000 the IMF's Managing Director issued an

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<sup>1</sup>Background Document Chapter I discusses the case for, and main criticisms of, structural conditionality.

Interim Guidance Note (IGN) aimed at streamlining SC (IMF, 2000). The IGN emphasized the need for member countries' ownership of the policies supported by Fund arrangements and introduced the requirement that structural conditions be "macro-relevant." Two years later, the Executive Board approved new Conditionality Guidelines (CG) which require "parsimony" in the use of conditions and stipulate that conditions must be "critical to the achievement of program goals" (IMF, 2002). The CG were expected to lead to fewer and more focused structural conditions and to greater involvement of national authorities in program design. Hereafter, the issuance of the IGN and the approval of the CG are together referred to as the streamlining initiative.

4. The evaluation covers programs approved in 1995–2004 and focuses on two sets of issues. First, how has SC worked in bringing about structural reform, i.e., what design characteristics and country conditions make SC more effective? Second, what has been the impact of the streamlining initiative on the number of conditions and on their composition?

5. The report is organized as follows. Chapter II briefly describes the methods and data used in the evaluation. Chapter III provides background on IMF programs and on the use of structural conditions, and presents the main evaluation findings on the effectiveness of SC. Chapter IV discusses the streamlining initiative and examines its impact, and Chapter V concludes with recommendations.