European University Institute
ROBERT SCHUMAN CENTRE FOR ADVANCED STUDIES
EUI WORKING PAPERS
RSCAS 2016/60
Robert Schuman Centre for Advanced Studies

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EUI Working Paper **RSCAS** 2016/60

ISSN 1028-3625

Printed in Italy, December 2016
European University Institute
Badia Fiesolana
I – 50014 San Domenico di Fiesole (FI)
Italy
www.eui.eu/RSCAS/Publications/
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Abstract

Policy conditionality has been a frequently used tool in the context of the Euro zone crisis management. By linking the disbursement of loan instalments to specific policy requirements the macro-economic adjustment programmes used conditionality as leverage to promote structural reforms.

How does conditionality induce policy change? This central question is examined by considering conditionality as a 'mega' policy instrument that seeks to guide the domestic policy system and define its reform trajectory. Policy conditionality thus determines the areas of reform and prescribes their direction while also defining the means and timeframe within which they have to be implemented. Conditionality impacts on domestic governance and transforms the policy making system into a compliance and implementation mechanism.

The paper argues that the reform potential of conditionality relies on its interaction with the domestic political system and policy process. A public policy lens can help to better understand the dynamics inherent in this process as well as highlight the strengths and limitations of conditionality. Following the conventional stages of public policy, the contribution focuses on the political challenges involved and sketches out a prospective empirical research agenda.

Keywords

Policy conditionality, structural reform, domestic governance, euro crisis management, Policy instrument

Introduction

Since the emergence of the euro crisis in 2009 and the slow-motion establishment of a crisis management apparatus, policy conditionality has permeated every discussion at both the domestic and supra-national levels. In essence, policy conditionality is the practice of requiring specific domestic policy changes as a condition for financial support (Nelson 1996) or, put otherwise, "the use of financial leverage to promote donor objectives" (Killick 1997, 487). It is a prominent instrument that has been used for decades by international financial institutions such as the IMF (and the World Bank),[1] making urgently needed financial resources available in return for prescribed policies.[2]

Policy conditionality is therefore far from new. Although it has been a topical subject since the beginning of the euro area crisis, it is also a legacy issue from the decades when it was practised in the context of loan programmes for Latin America, Asia and post-communist countries after 1990. The track record of conditionality in former programme countries such as Brazil, Indonesia and Russia is at best mixed, if not outright disappointing. More importantly, the substance of policy conditionality was frequently contested by those on the receiving side.

More recently, an IMF template has been extensively adopted in the context of the eurozone crisis. This template became the default rescue architecture of the IMF, the European Commission and the European Central Bank, thereby forming a new institutional arrangement termed the 'troika'. A double novelty is associated with this arrangement. For the first time, policy conditionality was used in the context of a decade-old monetary union, which excluded the option of exchange rate adjustments, i.e. currency devaluation. Second, the IMF had to collaborate with European institutions, i.e. the European Commission and the ECB in euro area programme countries.

The euro area countries that faced urgent solvency and/or liquidity problems (Greece, Ireland, Portugal and Cyprus) received financial assistance packages which linked 'conditional lending' to the implementation of mandated economic adjustment programmes. These included macroeconomic stabilization policies and 'structural reform' obligations, involving a broad range of policy areas. The policy agenda mirrored the 'structural adjustment programmes' promoted and implemented by international financial institutions (IFIs) since the 1980s.

At first sight, policy conditionality refers to the technicalities of loan agreements. Financial assistance does not come for free. The beneficiary country needs to make defined policy commitments in return for loans which are to be disbursed in tranches, following the progress of implementation, i.e. monitoring of compliance with the terms of the loan agreement. However, a closer look adds some important details from a policy perspective: policy conditionality is intended to induce policy and institutional changes. It determines the *areas* of reform, it prescribes the *direction and the means* of reform and it defines the *time frame* within which they have to be implemented. It further involves

[1] The practice of policy conditionality is at the core of the 'Washington Consensus,' seen as a 'transnational policy paradigm,' which helped diffuse it around the world (Babb 2013, 269). "More than a set of economic ideas, a policy paradigm is a powerful and enduring framework of related ideas and standards about policy – a model that specifies both the instruments that should be used in a policy area and the goals that the policy should be addressing" (Hall 1993, 279). On the 'IMF policy paradigm' also see David 1985; Lütz 2015.

[2] Conditionality was used by the EU vis-a-vis accession countries during the eastern enlargements (see Schimmelfennig & Sedelmeier 2004). It is still in use in the future Balkan enlargement and tends to expand and become more and more demanding (Bieber 2013). It bears, however, a number of differences with respect to the eurozone crisis conditionality, which cannot be discussed in this paper. To mention only a few: a context of lender-borrower relations; the extreme dependence of programme countries on the provision of financial assistance due to an imminent risk of sovereign default; the nature and content of the conditions; the imposed timeframe determined by the volume of resources available and committed by the lenders; a higher prominence of moral hazard in the design of conditions; the type of monitoring procedures; a stronger perception of sanctions vs. rewards etc. Additionally, as Dreher (2009) notes, the payoff associated with an IMF programme is much lower.

tight deadlines and often intrusive monitoring procedures under the terms ‘prior actions,’ ‘pending actions’ and ‘milestones.’

Despite decades-long experience with conditionality, the policy dynamics it produces remain a long-standing conundrum. While the domestic level is often seen as holding the key to its success, the phenomena it is likely to generate have not received proper attention.

The purpose of this paper is to bring conditionality[3] back into its natural habitat: the domestic policy-making process. The main argument is that the way it works (or not) cannot be understood without proper attention to its interaction with the domestic processes it intends to influence. The paper therefore takes conditionality as an independent variable[4] and analyses how this external constraint affects various aspects of policy-making from agenda-setting to decision-making and implementation. In this endeavour, it offers an overview of critical features and sketches out a prospective research agenda.

The paper focuses on policy conditionality as a *policy instrument* and on its interaction with the domestic political and policy environment. It does not deal directly with the austerity content of policies or the ‘Washington consensus’ approach[5] to dealing with crisis, and neither with the social and economic effects. It considers conditionality as a lever to induce change. In this context, reform refers to policy prescriptions under conditionality, although not all of them necessarily constitute proper reforms. Some may simply be *ad hoc* measures or actions. Their appropriateness is an issue to be examined on a case-by-case basis and is only indirectly treated here.

Up to now, the study of policy conditionality has mainly been the *domaine réservé* of economists concerned with international development. With the exception of some political economy approaches stressing implementation challenges and the domestic factors affecting them, the reasons for its unpredictability and its yielding uncertain results remain obscure, at least on the formal policy scene.

The ‘added value’ of this paper lies in that it envisages policy conditionality in interaction with the domestic policy-making process. This is a theoretical endeavour trying to set a framework and a prospective research agenda on policy conditionality which seems to have been ignored by the public policy approach. It attempts to move the analysis of the ‘implementation gap’ away from aphorisms such as political will and ownership by bridging the public policy and political economy approaches it draws upon. Undoubtedly, not all factors can be treated in this paper. In the analysis that follows, external actors and factors shaping the more general economic and political constraints reflected in conditionality requirements are not examined.

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3 Implicit in many reform proposals is a model that is roughly linear. Thomas & Grindle (1990) highlight that implementation is ignored or seen as simply being carrying out what has been decided upon. The critical choice is the decision and the rest just follows.

4 Although the way it is shaped is also an important issue. See, for example, Stiles 1990; Best 2007; Barnett & Finnemore 2004. The particular case of eurozone conditionality needs to take into account the respective dynamics of the IMF and the EU/EZ.

5 The term was first used in 1989 by John Williamson (2008) “referring to the lowest common denominator of policy advice being addressed by the Washington-based institutions (IMF, World Bank and US Treasury) to Latin American countries as of 1989.” He listed ten corresponding reform areas based on neoclassical economics: fiscal discipline; re-ordering public expenditure priorities; tax reform; liberalizing interest rates (financial liberalization); a competitive exchange rate; trade liberalization; liberalization of inward foreign direct investment; privatization; deregulation; an secure property rights. For a discussion of the evolution of the term, see Serra & Stiglitz 2008. The policy paradigm remains well and alive with certain adaptations and some refinement of its policy conditionality instruments. See Babb 2013, 285 ff. Stiglitz (2000, 553) underlines that the term has evolved over time to signify a set of ‘neoliberal’ policy prescriptions rather than the more descriptive use (Williamson) originally intended in discussing reforms to be undertaken by Latin American economies in the 1980s. “The policies that now fall under the ‘Washington consensus’ rubric are often (…) incorrectly- taken to be both necessary and sufficient for substantial development.” Rodrik (2001) argues that there now exists an ‘Augmented’ Washington Consensus. Also Lütz 2015.

The structure of the paper follows the conventional stages of the policy cycle. A central argument is that the very design of conditionality programmes may be responsible for their success or failings. After explaining the rationale of policy conditionality with a focus on structural adjustment policies (1), the processes that lead from agenda-setting to formal decision-making are examined (2), followed by the challenges emerging at the implementation stage (3). This by no means implies adopting a linear perspective; on the contrary, the underlying argument is that what may appear as an implementation gap is likely to find its roots in the formally 'preceding' policy stages.

1. Policy conditionality: a 'mega' policy instrument

Conditionality can generally be seen as a process of 'external anchoring' or 'external governance,' as a political strategy seeking to provide external incentives for a target government to comply with its conditions (Schimmelfennig & Sedelmeier 2004). To the extent that it aims to induce a process of policy change, it can be seen as an instrument (Lascoumes & Le Galès 2007) which structures the policy environment and tries to guide domestic action according to its own logic. While it appears technical (i.e. non-political), it constitutes a "powerful mechanism for the control and direction of behaviours" (ibid.) by directly and explicitly targeting the incentives of government actors in view of prescribed choices. As with any policy instrument, the core underlying issues revolve around its legitimacy, its effectiveness and the potential trade-offs between them.

Domestic policymaking as implementation of conditionality

Seen from this perspective, policy conditionality is much more than technicalities. It emerges as a '*mega' policy instrument*' which shapes the domestic policy environment in a unique manner, affecting its processes and outcomes. It can be considered the constraint *par excellence* on responsible national governments stemming from increased interdependence across national boundaries (Rose 2014). This constraint goes far beyond anything known in the framework of 'multi-level policy making' within the EU, because of the sheer weight it poses on domestic political and policy systems and the restrictions it involves. More specifically, while policy conditionality needs to be '*implemented,'* i.e. complied with, this implementation embraces and substitutes the whole policy-making process, since most of the policy goals, tools and timing are out of the government's hands.

What conditionality describes as implementation is in reality decision-making by national-level political actors (e.g. governments, parliaments etc.), as well as domestic implementation. In other words, a government subjects its political function to outside decision-makers (international lenders, IFIs) who prescribe priorities, ends and means. Conditionality superimposes an additional layer on the domestic policy-making configuration. It does not operate merely as (sometimes beneficial) external pressure; it instead represents a lever to gain control over the domestic political-administrative and policy-making system. As a *remote control device,* it attempts to guide the domestic policy system, circumscribing its breathing space and channelling its course. In sum, policy conditionality tends to transform the domestic policy-making system into an implementation and compliance mechanism. In this sense, it is a 'mega' policy instrument with an aspiration to substitute for a domestic governance system.

Altering the incentive structure

Policy conditionality rests on the assumption of diverging interests and objectives between private lenders and borrowers. Indeed, conditionality has no sense when no heterogeneity (conflict) of interests exists (Drazen 2002, 5; Bird 1998, 93).[6] It targets the domestic incentive structure in order to *align* the objectives of the 'agent' (recipient government) with those of the 'principal' (lenders, IFIs) (Khan & Sharma 2001, 13). "It influences the behaviour of the governments that receive IFI assistance, by encouraging them to pursue a different set of policies than would have otherwise been the case or by locking them in to the policies preferred by the IFIs over a specific period of time" (Bird 1998, 92).

In other words, conditionality aims at altering the domestic equilibrium of policy preferences by shaping a system of sanctions and rewards. For Killick (1997, 487), the essential problem is how 'principals' can design contracts which embody rewards that make it in the interest of 'agents' to further the principal's objectives. Based on a certain balance of promises and threats for (non-)compliance with its requirements, its effectiveness is supposed to depend (among other things) on their credibility.

Obviously, policy conditionality seeks to prevent 'free-riding' by the agent at the expense of the principal, i.e. primarily ensure the repayment of loans. This is commonly referred to as the risk of 'moral hazard'. Drawing on agency theory, it implies a lack of trust in principal-agent relations. Borrowing countries need to 'do their part' or 'their homework,' namely to consent to the implementation of specific policies in return for financial assistance. In order to make sure that there is not 'time inconsistency,' i.e. that policy-makers are 'locked in,' that their policy preferences do not change over time and that their commitments remain active, loans are disbursed in instalments after review of the progress achieved in the implementation of the agreed policy agenda. Thus, conditionality implies close monitoring, based on roadmaps, milestones and fixed deadlines. If implementation is not deemed satisfactory, the disbursement is suspended.

It is, nevertheless, not always clear what conditionality primarily represents: a guarantee against moral hazard in debtor countries or a reform tool which needs to operate efficiently in country-specific circumstances where bounded rationality and political constraints are primarily at work?

A reform tool?

Policy conditionality is also presented and legitimated as a *reform* tool. Prescribed reforms are promoted as being in the interest of the country subject to it. In this perspective, its *design* is supposed to provide the appropriate inducements or rewards to orient the behaviour of borrowing countries towards specific policy changes. In a more positive light, policy conditionality is meant to tip the balance of power in favour of domestic reformers.

In this sense, conditionality is primarily addressed to governments who sign a loan agreement. The underlying assumption is that if the costs and benefits associated with policy change are appropriately manipulated (i.e. by increasing the costs of persisting with policies and/or the benefits from prescribed reforms) governments will alter their previous preferences. They are seen as utility-maximizing actors who respond to the external manipulation of costs and benefits and are therefore expected to 'deliver.'

The rational actor model is obvious in this approach. It assumes the existence of a single actor adjusting his preferences and behaviour in view of specific benefits provided (or promised) and in full control of the parameters concerning his action. No attention is paid to the socio-political dynamics inherent in democratic decision-making and the implementation processes. In sum, the government is seen as a single, central, purposefully-acting actor either in full control or cut off from these dynamics.

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[6] The official IMF narrative stresses the commonality of objectives between borrowers and creditors. IMF financing and recipient country policies are basically presented as two components of a successful programme and lending as complementary to policy reform (Drazen 2002, 5).

Removing allocative inefficiencies: Structural conditionality

There are two broad categories of policy change targeted by conditionality: *macro-economic stabilization* and *structural adjustment*. The first basically involves fiscal adjustment and austerity policies, since monetary adjustment (devaluation) is not an option inside a single currency union. The second encompasses various microeconomic and institutional reforms to remove allocative inefficiencies and it is expected to ensure adequate growth rates. Structural reform is the focus in this paper.

Structural conditionality was gradually developed by the IMF (following the World Bank) as part of its various lending facilities. Lack of satisfactory results from macro-economic adjustment in terms of growth (Guitián 1995, 32; Polak 1991, 17 and 31) has been a recurrent argument for its continuous expansion in new areas since the 1980s. Structural reforms are meant to change patterns of misallocation of resources and to transform 'underlying structural distortions' in the economy and, with them, in state-society relations. They may start from fiscal policy but extend over almost any policy sector, since allocative efficiency may be seen as problematic in any policy that has a macroeconomic impact.[7]

Once interest shifted to structural issues, a self-reinforcing process made the number and detail of loan conditions explode. "A growing variety of structural reforms, ranging from financial sector restructuring to governance issues, came to be seen as potentially relevant for the macroeconomic objectives of Fund-supported programs" (IMF 2001a, 12). Indeed, the very notion of *structural* issues involves increased interconnection between a broad range of policy areas and macroeconomic variables.

Structural adjustment measures are more 'intrusive' than macro-economic policies (Polak 1991, 32).[8] Not only do they involve policy areas not directly related to economic governance but they also target the deeper patterns on which state, society and the economy operate. Furthermore, the expansion of structural conditionality saw new challenges emerge:

(a) since quantification is insufficient regarding structural policies, there is a need to devise (apparently technical) appropriate monitoring tools, which have a tendency to become more politically intrusive (Polak 1991, 32; IMF 2001b, 27);

(b) the deeper involvement in the domestic issues of debtor countries as a result of structural conditionality raises issues of its legitimacy; and

(c) the common experience of weak compliance and unsatisfying results puts its efficiency to test.

Growing awareness of these problems led the IMF to undertake successive efforts at 'streamlining,' focusing and reducing structural conditionality – with varying success (see IMF 2001a, 2012a and 2012b). However, emphasis on structural adjustment in the context of the euro crisis was increased by the EU's focus on selected policy areas (such as market liberalization, privatization etc.).

Conditionality and policy transfer: coercion and consent

Normative and coercive elements are both to be found intertwined in policy conditionality. First, they refer to the diffusion of intellectually and politically hegemonic policy ideas and a policy paradigm

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7 e.g. health, procurement, pension system, institutional policies (public administration, tax administration, toolkit for the business environment), opening of regulated professions, labour market liberalization, product market and service liberalisation etc.

8 Structural conditionality is more intrusive for domestic political and policy systems. The problems it generates explain why the conditionality guidelines have been constantly revised. See Babb 2013; Babb & Garruthers 2008; Lodewijks 2009; IMF 2001a & 2001b.

(Hall 1993; Evans 2009).[9] The spread of economic liberalization, for instance, as a form of paradigm shift takes place – among other things – through conditionality, as practised by international actors such as the EU and the IMF (Simmons & al. 2008, 10-11).[10] Indeed, policy conditionality can be seen as a form of policy transfer[11] or policy diffusion.[12] These processes may range along a continuum which runs from voluntary (learning/lesson drawing) to coercive (direct imposition). Conditionality is a form of 'negotiated policy transfer'[13] and comes closer to direct imposition (Evans 2009, 245; Dolowitz & Marsh 2000, 13; Simmons et al. 2008, ibid.).

Coercive elements obviously derive from the asymmetry of power between lender and borrower.[14] However, conditionality in the context of lender-borrower relations appears in the form of an 'agreement,' which may be described as a coercion/consent process (Barnett & Finnemore 2004, 47-48 & 165). Coercion includes the material resources that allow the economic costs and benefits for a borrower country to be manipulated, but also the control of information and expertise that especially IFIs dispose of and that further allows them to orient action towards specific policies (Barnett & Finnemore 2004, 6-7).[15]

The content of policy conditionality is presented as an expert assessment, as the 'one best way' out of a country's problems that is difficult to counter-argue. Prescribed policies are a reflection of the claim to a monopoly on expertise and the 'paternalism' characterizing IFIs (Barnett & Finnemore 2004), whose role in global policy diffusion is well established. This inherent claim of rationality contrasts with the 'bounded rationality' (Simon 1976) and the political nature of policy constraints (Lindblom 1959; Wildavsky 1987).

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9 Stiles (1990, 972) underlines, for instance, "the significance of IMF ideology in shaping the adjustment policies of nations even when IMF staff are not directly involved in the national policy process."

10 While structural adjustment is obviously a multifaceted process, present practice emphasizes the role of liberalization, or what is often called 'market oriented reform' (Rodrik 1990, 933).

11 Policy transfer is "the process in which knowledge about policies, administrative arrangements, institutions and ideas in one political setting (past or present) is used in the development of policies, administrative arrangements, institutions and ideas in another political setting" (Dolowitz & Marsh 2000, 5).

12 Simmons et al. (2008, 2 & 7)'s assumption is that national policy choices are at least to some extent interdependent. "International policy diffusion occurs when government policy decisions in a given country are systematically conditioned by prior policy choices made in other countries (sometimes mediated by the behaviour of international organizations or private actors and organizations)."

13 Evans (2009, 245) refers to 'negotiated policy transfer' specifically in the case of the structural adjustment programmes of the IMF and the World Bank. He describes it as "a process in which governments are compelled by, for example, influential donor countries, global financial institutions, supra-national institutions, international organizations or transnational corporations, to introduce policy change in order to secure grants, loans or other forms of inward investment. Although an exchange process does occur, it remains a coercive activity because the recipient country is denied freedom of choice."

14 As Babb notes (2013, 278), the diffusion of the Washington consensus was uneven: it influenced government policies in countries that were desperate to get access to IFI resources. Simmons et al. (2008) observe that the diffusion of liberalization takes advantage of the temporary vulnerability of a country. Carlos Diaz Alessandro (1984 in Khan & Sharma 2001) describes conditionality as follows: "If you ask for a gift, you must listen to your patron." The IMF totally defends itself against such a perspective. Efforts at developing an alternative vision as part of IMF intellectual production include Khan & Sharma (2001, 3) who set out to "dispel the widespread notion that conditionality stems from a 'patron-beneficiary' relationship between the IMF and the borrowing country."

15 Their power consists in a) material coercion (or inducements), such as the resources that they lend to states in need which lead governments to adopt prescribed policies they would not otherwise adopt; b) manipulating information i.e. by collecting, publicizing and strategically deploying information, creating transparency and monitoring compliance, thus changing the incentives for state action; and more fundamentally c) using their authority to orient action and create social reality, i.e. analysing information in a way that orients and prompts action, by taking raw data and coupling them to particular policy problems (e.g. definition of development, sound policies etc.) transforming information to knowledge (Barnett & Finnemore 2004, 6-7).

Consent refers to the effort to convince borrowing states that these policies are objectively warranted, reinforced by the possibility of educating national officials in borrower countries about macroeconomic policy-making. However, the asymmetry of power and an urgent need for funding are strong enough arguments to make convincing easy.[16]

Does conditionality determine success?

However, policy conditionality is no guarantee of effectiveness.[17] Its failings, its uncertain or disappointing results (including in terms of growth) have been debated extensively, mainly from an economic point of view, and have motivated an infinite number of studies and publications.[18] Various remedies have been proposed, either in the framework of the institutions practising conditionality (IMF, World Bank) or in the wider academic debate on international development issues. They range from more and tighter conditions and stringent monitoring procedures to the replacement of ex-post with ex-ante conditionality, to restriction of lending to only those countries with a good reform record, or even plainly to its abolition.

In these debates it is common "to call for greater efforts to strengthen institutional capacity or to blame failure on lack of political will, an explanation often propounded by external analysts and donors who see countries not carrying out reforms they consider desirable" (Thomas & Grindle 1990, 1164). But, as Bird (1998) asks, is it simply a matter of political will? All the more since there is evidence that the degree of compliance is a decreasing function of programme severity.[19] "The circumstances in which the programme is most likely to be implemented" need to be given some thought.[20]

The policy-making chain from decision-making to implementation involves numerous actors within and outside government, who may be more or less exposed to the above-described coercion/consent process of adopting conditionality prescriptions. They may hold different views and pursue various interests, be they 'universalistic' or 'particularistic.' The question remains of how the process of coercion/consent underlying conditionality will go beyond the central actors involved in the negotiations and the agreement (typically, core economic ministries led by the ministry of finance) to encompass the rest of government, social partners, professional groups and society in general.

[16] Buira (2003, 5) states that "within broad limits, conditionality is a relation of power… it can be said to be coercive when the cost of not accepting conditionality is so much higher that it has no choice than to accept conditions making the country do things it would not do otherwise, particularly as countries have a strong preference for avoiding the costs of default". "At its best, conditionality is a form of paternalism, by which the country is guided towards its own good."

[17] Effectiveness itself needs to be explained: output or outcome is the first question. Does it concern the full and faithful implementation of the agenda or bringing about the promised growth? And who are the priority beneficiaries – the global economy, the country's economy or its society and which groups? What is its time horizon, given the short-term concentrated social costs and the non-specified future benefits? These pressing questions highlight the need to strike a balance directly linked to the legitimacy of present decisions and policies. See, for example, Bird 1998; Nelson 1996. Furthermore, the distinction between first, second and third order change (Hall 1993; Evans 2009) may also be useful to identify the depth of changes intended.

[18] See, for example, Killick 1997; Dreher 2009; Bird 1998, 2001, 2009; Feldstein 1998 etc., and the series of IMF reviews of conditionality. Most of them are concerned with the determinants of compliance.

[19] Bird (2003) explores the question "Is there a conditionality Laffer curve?"

[20] "If the ultimate objective of policy conditionality is to improve the economic performance of countries to which it is applied, then it is insufficient to design a program which is appropriate in merely economic terms." (Bird, 1998, 91).

Still struggling with the issue,[21] in defence of policy conditionality new ideas and explanations were brought in by institutions that practise it. One is the concept of 'reform ownership,' which more recently partly replaced 'political will' as a factor explaining or defining the conditions for its success.

In sum, conditionality is a controversial policy instrument, both from the point of view of effectiveness and from that of legitimacy. Despite being presented as a set of technical and technocratic issues, policy conditionality appears as a political device *par excellence*. Not only does it promote

(a) a specific normative content, but

(b) it also takes advantage of asymmetrical relationships

(c) to alter domestic governance processes.

Despite being presented as self-evident when compared with the private relations between lenders and borrowers, it generates more controversy because the borrower is a sovereign country,[22] especially when it touches on sensitive policy issues and therefore becomes politically intrusive.

The most visible signs of the multiple rationality underlying policy conditionality are focusing on the incentive structure while dealing with moral hazard. Incompatibilities and internal contradictions are not excluded. On the contrary, they need to be highlighted by research dealing with the implied reform potential and efficacy. What appears as a central issue is a lack of understanding or recognition of the processes that shape the preferences of policy-makers. The 'functionalist' approach of prescribed policies, which emphasizes their necessity, urgency and the prospective benefits, appears to oversimplify. It also avoids any uneasy discussion of the short- and medium-term social costs, and even more fundamentally of the design and the authoritative definition of the problems and solutions it includes, which are kept immune to competing views.

2. From agenda-setting to decision-making

We now turn to an overview of the policy cycle. What does conditionality mean for the agenda-setting and decision-making processes? How does it affect policy-makers' breathing space and action?

Agenda-setting and issue definition. An exclusive process?

The process of agenda-building usually involves different groups inside the government or in society promoting issues of interest to them. It includes political conflicts over issue definition and adoption, and as a result has a filtering effect, by which certain issues are allowed access to or excluded from the agenda (Cobb, Ross & Ross 1976).

Obligations and requirements of conditionality imposed by (external) lenders[23] represent a special kind of 'demand stress' (Easton 1965) on the domestic political system, since they (are meant to) take precedence over domestic needs and demands. In fact, conditionality forces pre-selected issues onto the formal governmental agenda.[24] It operates as a parallel agenda-setting process, bypassing the

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[21] Structural conditionality is a perennial issue for the IMF, as evidenced by the successive efforts to 'streamline' conditionality guidelines and the inconclusive discussion regarding its merits and drawbacks. See IEO/IMF 2007; IMF 2001a, 2001b and 2012a.

[22] "Conditional loans to nation states necessarily involve messy questions of national sovereignty and internal politics" (Babb & Garruthers 2008).

[23] Whose role Nelson (1996, 1557) qualifies as 'invasive'.

[24] Cobb, Ross & Ross (1976, 126) distinguish two types of agendas: the *public* agenda, consisting of issues which have achieved a high level of public interest and visibility; and the *formal* agenda, including the list of items which decision-makers have formally accepted for serious consideration. Kindgon (2003, 3-4)

normal channels and establishing a priority access path. It also operates as an additional filter, restricting the access of groups and the issues they promote to the government's agenda if they are not compatible with its stated priorities. In other words, conditionality gains control over the agenda-setting process.

Prescribed reforms frame problems and define priorities and remedies, excluding or preventing alternatives from emerging. "There are great political stakes in problem definition," underlines Kindgon. Some are hurt and others are helped, depending on how problems get defined. Problem definition includes values, comparisons and categories which structure the perception of problems. In particular, categorization is a typical arena for the struggle over problem definition (2003, 110-111).

The freedom of the government and outside groups to promote a different definition and prioritization and to specify alternatives is consequently restricted. Given that conditionality-related issues are additionally accompanied by monitoring and follow-up mechanisms with a view to increasing (if not guaranteeing) the chances of their further progress (i.e. implementation), they become absolute priorities, overshadowing or side-lining competing claims.

Crisis as opportunity and garbage can model

But how is crisis linked to reform? Crises are 'focusing events' that can affect problem definition. "They may create a sense that something is amiss and should be re-examined," explains Kingdon (2003, 94 ff). They may trigger a learning process that allows a reconsidering or reassessment of past certainties and which facilitates policy transfer. They generally create a sense of urgency and room for 'special politics' for a finite period of time.

However, this needs a certain level of 'agency' or 'policy entrepreneurship,' that is, it does not come automatically. The opportunity provided by the change in the policy environment, i.e. the 'policy window' (Kingdon 2003, 166-167), has to be exploited/put to use by domestic policy-makers wishing to pursue reforms of their choice. While a series of requirements are linked to the conditional lending, other policy objectives may also find an opening to be put into effect. Reformers may then "package immediately needed or required reforms with reforms desired in the longer run" (i.e. macroeconomic with microeconomic reforms) (Tommasi & Velasco 1996, 199).

The content of policy conditionality is formally shaped after negotiation with the representatives of creditors (IMF, troika). It takes the form of contracts (agreements) as expressed in 'Letters of Intent' and 'Memoranda of Understanding' (MoU). The urgency of the financial situation which brings states to the creditors' doorstep does not allow a real margin for manoeuvre. In order to avert outright disaster, governments tend to reluctantly accept prescribed policies, since by definition they have no funding alternatives. In reality, this may cover a number of alternative situations, regarding who has drafted the programme, what the involvement of the country was, what the government included on its own, and what was required, as well as the probability of the programme attaining its objectives.

Sometimes, besides 'core conditionality' issues, i.e. ones directly linked to the access to funding, loan agreements may comprise policies that a government has decided to include in the conditionality requirements ('pro forma' conditionality, according to Killick 1997, 487).[25] The share of each is difficult to assess and a particularly interesting matter for empirical research. This is likely to be the rationale of reformist governments, who may hold a generally positive perception of the reform potential of policy conditionality. For them, it may open a 'policy window' of which they take

(Contd.)

distinguishes the governmental agenda (list of subjects or problems getting attention) from the decision agenda (those that are up for an active decision).

[25] "Hard core conditionality can be defined as policy changes stipulated as a prerequisite to the approval of, or continued access to, a grant or loan, or to subsequent assistance." 'Pro forma' conditionality: "mutually agreed, or non-significant, or formalistic provisions which both parties find it convenient to write into a program." (Killick 1997, 487).

advantage to promote decisions as part of an emergency agenda to strengthen the chances of implementation ('crisis-as-opportunity'). The opportunity may also be that they resort to scapegoating the lenders' representatives for difficult reforms the necessity of which they share.[26] They can also try to 'appropriate' a mixed reform agenda in this way.[27] In any case, the 'pro forma' conditionality issues will have to pass a 'compatibility test' with regard to core conditionality, while their inclusion in the agenda will ensure (a) that they are subject to a higher-level national priority, i.e. continuing funding and (b) the obligation to respect the same deadlines and monitoring procedures.

It is sometimes argued that the critical financial situation in which a country finds itself when its economic survival depends on conditional lending suspends – or tolerates the suspension of – the normal agenda-setting processes (i.e. the political processes). In other words, the criticality of the situation (*l'état d'urgence*) is a *substitute policy framework* that renders any further debate – including opposition – redundant. This substitution is in part implicit in the 'new conventional wisdom on reform' (Tommasi & Velasco 1996, 197), i.e. the assumption that a crisis is an opportunity, a 'critical juncture' when it is possible to do almost everything that has not been accomplished or even remotely envisaged in the past.

A 'crisis-as-opportunity' approach may also be an invitation to promote various objectives dressed up as solutions to the problems. This describes a 'garbage can' case,[28] i.e. an opportunity to promote selected policies and priorities even *beyond* the needs of crisis management. Advocates of solutions look for current problems to which to attach their preferred solution, notes Kingdon (2003, 123 and 87-88). This is the 'garbage can model,' in which 'multiple streams' (of problems, policies and politics) which operate largely independently of one another are coupled at critical junctures producing (or explaining) significant agenda changes.

However, certain questions unavoidably emerge regarding *who* promotes *which* policy and *in view of* which objective. As much as domestic policy-making, policy conditionality combines technical issues with political choices. Who is the author of these policies and based on which criteria? How far should conditionality go into the domestic issues? The fact that its requirements tend to become expansive and intrusive is a recurrent issue in the corresponding debates.

This is why on many occasions and following different formulations there are calls for parsimony, with fewer, focused and more flexible conditions. The need to increase or strengthen domestic policy entrepreneurship or 'ownership' is intricately linked to these debates. Even if the argument is that the problems are deep and numerous, how realistic are the chances to solve them from the outside? Perceptions that they are imposed by external non-domestic actors often result in tensions that not only

26 IMF 2001b, 20-21. The IMF acknowledges cases where domestic authorities "wish to use Fund conditionality to crystallize their own reform program and possibly to send a signal to markets or various domestic constituencies. This would explain the extensive or detailed conditionality. In these cases, the government may wish to use a Fund-supported program to lock in certain reforms and help resolve domestic policy disagreements. The Fund at times has agreed to play this role to help reform-minded elements in the government to accomplish change – perhaps supporting those taking the opportunity of acute financing needs to accomplish long-needed reforms. This approach has some drawbacks, however: even when it essentially helps the authorities (or some elements among them) to accomplish reforms, it may be seen as short-circuiting legitimate domestic political processes. Moreover, allowing the Fund to be cast as an unyielding external partner may generate resistance to policy implementation and, in the longer run, undermine the overall effectiveness of the institution. Finally, as noted above, a longer list of conditions raises the likelihood of slippages, and may distract attention from what is really crucial."

27 Killick underlines that "the pro forma elements may be important: in supporting the position of reformers within government; in defining and timetabling actions with a precision they would not otherwise have; and in making agreements acceptable to each negotiating team's superior authorities." (Killick 1997, 487).

28 "A major feature of the garbage can process is the partial uncoupling of problems and choices. ... Problems are worked upon in the context of some choice, but choices are made only when the shifting combinations of problems, solutions and decision-makers happen to make the action possible" (Cohen, March & Olsen 1988, 323).

the representatives of the lenders face but also governments who pursue them, undermining their legitimacy and implementation capacity.

Mobilization of support

Governments are no less monolithic than societies. The political processes developing around policy conditionality coexist with wider socio-political claims that compete for influence on the government's agenda. In a crisis situation the costs of delay become enormous and key players move to a 'closed rule' (ibid. Tommasi & Velasco 1996, 199). In this process it is the ministry of finance that mainly sees its power and influence reasserted. As loan conditions are typically negotiated under time and economic pressure by a small group inside the government around the minister of finance, the various sectoral ministers and other actors hardly have any say in the process. They are instead invited to share and serve these priorities.

While lenders and their representatives dominate agenda-setting, the room for counter-proposals is restrained. The possibility of 'issue expansion,' i.e. a redefinition that allows its adoption by wider groups inside and outside the government, is greatly limited. The weight of the initial definition of policies and remedies in the loan agreement tied to funding considerably restricts their policy initiatives. Hence, divergence within government and even more with outside actors is likely to persist and manifest itself at a later stage.

In contrast to the 'outside initiative model' (Cobb, Ross and Ross 1976),[29] issues falling under policy conditionality access the governmental agenda without having first been debated or having obtained support in society. Policy goals are defined under external influence (or even pressure) without having received backing even within the political-administrative apparatus. Given the scope and depth of reforms prescribed, which greatly affect the wider population as much as organized interest groups, expanding the issue to the population and generating mobilization of support or at least tolerance for the policy changes would be essential to their legitimacy and success.

How much is this part of a policy conditionality agenda? Three claims may be made in this regard.

(a) Mobilization is not deemed necessary or desirable because the government as the central decision-maker can ensure their adoption.

(b) The lack of involvement of society is a favourable condition, to avoid public reaction.

(c) Creating support mobilization is the duty of the domestic government.

The first two claims mean that a strong central government can take the necessary decisions without having to open up the process to social actors, or even that it is better to avoid this. This relies on a twin assumption: it sees the government (a) as a single powerful actor and (b) as cut off from or else fully in control of the political system and society's potential reaction. Undoubtedly, this scenario would be the simplest and most effective for the external actors imposing policy conditionality, were it

[29] Cobb, Ross & Ross distinguish three different models of agenda-building depending on variation in the four major stages of issue careers: initiation, specification, expansion, and entrance. The first, the *outside initiative* model, accounts for the process through which issues arise in nongovernmental groups and are then expanded sufficiently to reach first the public agenda and finally the formal agenda. The second, the *mobilization* model, considers issues which are initiated *inside government and consequently achieve formal agenda status almost automatically*. Successful implementation of these issues often *requires, however, that they be placed on a public agenda as well*. The mobilization model accounts for the ways decision makers *attempt to implement a policy by expanding an issue from the formal to the public agenda.* The third, the inside initiative model, describes issues which arise within the governmental sphere and whose supporters *do not try to expand them* to the mass public. Instead these supporters base their hopes of success *on their own ability to apply sufficient pressure to assure formal agenda status,* a favourable decision and successful implementation. In this model, initiating groups often specifically wish to prevent an issue from expanding to the mass public; they do not want it on the public agenda (Cobb, Ross & Ross 1976, 127-128).

reconcilable with democracy. This is why one strand of criticism of conditionality hints at its implicit preference for strong executives (and for some, for authoritarian regimes).

The idea of 'reform ownership' corresponds to the claim that the government is responsible for generating domestic support. However, this depends on the political and policy space available to redefine the issues and the preferred solutions. As argued above, the government's choices are limited (a) in terms of substance and (b) in terms of time (see below). In other words, even if mobilization in support of the prescribed agenda is an objective, the way policy conditionality requirements are formed is likely to restrict the probability of such an enterprise.

How much can the representatives of the lenders do in this direction? To what extent could they contribute by communicating information and by involving opposition parties, social partners or other actors in the discussion? And to what extent may this help the process of adopting the policy-conditionality priorities? There is certainly a lot of room for empirical research. It seems, however, that although it might be beneficial there are limits to such an action coming from external 'third parties.'

To the extent that agenda-setting under policy conditionality significantly restricts the possibility for society and various groups to see their concerns, reactions and aspirations taken into account in the policymaking process, a likely result is strategies of conflict expansion "which are crucial to outside groups seeking to place their issue on the formal agenda" (Cobb, Ross and Ross 1976, 130).

By creating a restrictive and constraining filter between the political system and society, policy conditionality is likely to undermine both the legitimacy of policies and the political capital of the government that implements them. It superimposes an additional layer of 'gatekeepers' that reduce the government's capacity to be responsive and thus stimulate (either diffuse or specific) support when producing its authoritative outputs that allocate values and resources.

Decision process: a mere formality?

Once the issues under policy conditionality are on the government's agenda, the formal decision-making process is initiated. Given that most of these polices substantially alter social and economic relations and rights, they normally need to be approved by the parliament. This changes the arena of politics. Up to this stage, policy requirements tend to be kept in the narrow confines of government and the bureaucracy. Now comes the moment when the parliamentary debate opens the process to political parties, and also to society and interest groups. This is the last chance for the government to hold an inclusive debate, convince and shape alliances, and generate support. How does the process unfold? How are policy decisions announced, debated and institutionally sanctioned? Does the practice of closed circles that dominated agenda-setting continue?

Divergence of opinion and interest-based (re-)action are elements inherent in the policy process that need to be taken into account and accommodated. Pluralistic democracies rest on the premise of involvement, participation, persuasion and similar processes that relate decision-making power to its social environment. The institutional technology for deliberation, consultation and debate includes most visibly the parliament, but also social dialogue institutions and participation bodies etc. Their importance rests in their potential for building alliances and shaping compromise among 'stakeholders.'[30] They define the procedural legitimacy that is a minimum requirement for democratic decision-making.

[30] Boughton & Mourmouras (2002, 7-8) underline that "in order for conditionality to be effective, it must be consistent with the recipient country's domestic political economy equilibrium, which is determined by the strategic interactions between the government and various collective or individual stakeholders in the public sector whose consent is needed for reforms to be implemented." The support of key actors outside the government is important.

Actors until then directly or indirectly excluded from the process tend to position themselves vis-à-vis the government's policy initiatives. The optimum usually sought is that all parties or the majority of them support the policies. This is where the nature of the political system and the degree of consensus between and within parties increases in importance. Political systems in the euro area range from more consensual to adversarial. Their features are known in advance and the likely positions and reactions of parties can broadly be anticipated. If legitimacy and consensus for the policies on the decision-making agenda have not been built during the agenda-setting process, it is likely that dissents will appear exacerbated in the public eye and polarization will increase. Most of the pressure involved in these processes is likely to fall on the shoulders of the government majority.[31]

Procedures, as much as deliberation and democracy, need time. Given that disagreement and opposition are more or less to be expected, it is important to allow room for arguments to be exchanged and compromises to be reached. Sometimes, 'buying time' helps shape more favourable conditions. Temporarily removing an item from the agenda and postponing a decision may better prepare the field; 'slicing' is also a method for advancing in an incremental way. This option is clearly inexistent under policy conditionality. The government is thus deprived of a sufficient margin to shape a reform strategy.

Operating under policy conditionality results in the reassertion of the executive vis-à-vis the legislature. Given the imperative timetable for the implementation of the reform agenda, governments under time constraints are likely to try and minimize procedural requirements. This may range from not submitting a loan agreement to the parliament at all to resorting to 'emergency' procedures and abridged deadlines for parliamentary discussion of important pieces of legislation and 'omnibus bills' dealing with many diverse issues. Governments may even need to use executive orders to respect the deadlines and minimize reaction within their ranks, as well as from other parties.

Hence, to varying degrees, normal institutionalized decision-making procedures are bypassed either formally or in substance. Not only is there not sufficient debate on important issues but transparency and quality of legislation issues arise.

In such a context, society tends to become a mere spectator. Reference to 'ownership' often implies that beyond governments support by other actors is also important. But these actors are excluded by the way policies are defined and promoted. While the successive revisions of IMF conditionality guidelines systematically stress the need for outreach, it is not necessarily a priority. Outreach has to do with space for developing arguments and for persuading that the ends and means prescribed by conditionality policies are appropriate. The social costs involved are an important but not the only contentious aspect of programme implementation. However, the conditions for substantial policy discussion are limited in terms of time and space in the agenda-setting process as much as in the Parliamentary arena.

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Policy conditionality not only promotes one of the possible ways of framing (or defining) the policy problem to tackle and prescribes the way it should be acted upon (ends/means) but also defines the time frame for taking action. These factors in combination greatly reduce the government's and the parliament's margin for manoeuvre. Their policy space almost vanishes.

They need to 'deliver', i.e. to promote generally unpopular policies, without being in a position to choose either the policy tools or the timing. In a nutshell, by design the way the domestic policy process unfolds under policy conditionality hardly takes into account the importance of process, time and the conditions for successful reform implementation. Above all, it threatens the reservoir of

[31] In this regard, it would be interesting to examine the dynamics of governmental change before, during and after the completion of an adjustment programme.

support for the government and for the reforms themselves. All this is likely to be tested in the implementation stage.

3. Implementation: confronting realities on the ground

There is a long-standing debate concerning the capacity of governments to achieve the desired policy objectives and the common experience of 'implementation gaps' (Bardach 1977, Pressman & Wildavsky 1973; Sabatier & Mazmanian 1981). The question has been raised independently of whether governments follow their own reform programme or have to implement an agenda supported by external anchors (donors, lenders, technical assistance programmes etc.).

This has, however, been an issue of particular concern regarding structural adjustment reforms undertaken under policy conditionality requirements. The poor and disappointing results observed for decades contradict the effectiveness promised by this policy instrument and those who promote it as a lever for reform.[32] The issue is even more important because of its unintended side-effects and the tension it maintains with legitimacy grounded in other important values, such as democracy and accountability.

Top down rational accounts of implementation assume full control over the corresponding process and their arguments are mostly based on the technocratic merits of the initial plan. The complexities of the process, however, make 'perfect implementation unattainable' (Hogwood & Gunn 1984, 198).

Contrary to assumptions and prescriptions, conditionality forces selected issues onto the agenda, constrains decision-making, but does very little in assisting policy implementation. Still, implementation (described as the process of putting decisions into effect) is the most crucial part of policy-making. It involves interaction between state and society, a process that includes constant redefining of problems and solutions as well as new decisions, often at the executive and bureaucratic level. But it also provides a new arena where support and opposition as well as unintended consequences are likely to emerge, which need to be accommodated by new policy responses. In this sense, 'policies have lives of their own, independent of human volition' (Wildavsky 1987, 3).

Specificities of structural policies

Implementation issues cannot be understood without reference to the specific features of policy areas and problems. One of the issues that merit attention is the type and characteristics of the individual policy. Policy determines politics, as highlighted long ago by Lowi (1972), i.e. the type of conflicts potentially generated by a policy, the arena of power where they manifest themselves, the distribution of costs and benefits, and the corresponding potential for mobilization in favour or against it.

In principle, the benefits of structural policies are widely distributed while the costs concentrate on particular groups. Adding the temporal dimension, i.e. that the benefits are to be seen in the distant future, such policies are likely to face resistance if they do not have strong support (Wilson 1980; Olson 1971). These aspects determine the challenges a government is confronted with, which may be more or less within its reach. Not all policies can be handled in the same way, hence the importance of appropriate strategies.

In this regard, the distinction between economic and structural conditionality makes a significant difference. Policies linked to economic stabilization and fiscal consolidation are centrally decided and

[32] Based on a literature review, Geer (2014, 60 ff.) summarizes the problems of structural adjustment policies as follows: severe implementation problems, at best mediocre for growth, bad for equality, health and social cohesion, not destabilizing entrenched elites, having unintended consequences. He concludes 'The procedural legitimacy of the conditional loan as a policy instrument had always been weak and its outcome legitimacy – the extent to which it works justifies it - turned out to be weak as well' (ibid. 66).

implemented, involving a small set of central economic actors around the ministry of finance – and IFIs – with little, if any, debate and minimal dependence on other societal actors. They comprise changing macro rules and reducing the size and scope of the state through drastic budget cuts, tax reforms, deregulation and generally decisions which have an immediate impact.

In contrast, structural policies and institutional reforms have a medium- and long-term horizon and, frequently, lower public visibility. They encompass a broad range of reforms, such as boosting competitiveness and exports by product-market and labour-market reforms, increasing the capacity of the administration, the regulatory institutions and the judiciary, reforming health, education and other sectors of social services. Deep 'structural' changes engage a broader set of government actors, but also involve a wide array of social, economic and professional groups, the bureaucracy, the media, social partners, the private sector, political parties etc. They can hardly be carried out without lengthy discussion and participation, the technical expertise of the affected parties and the building of legislative and interest-group bases of support (Tommasi & Velasco 1996, 227. Nelson 1994 and 1996).

Because of this wide involvement, implementation can be qualified as 'decentralized.' The leverage that the ministry of finance has to set rules and enforce them based on its *central implementation capacity*[33] is not matched by line ministries. Even if decisions are centrally made, they are exposed to inter-organizational and social dynamics much more, and necessitate the commitment of more agencies and social actors. They may remain empty shells as long as they do not manage to gain the cooperation, acceptance or (even unwilling) consent of social, economic and professional groups at the receiving end.

Therefore, these two types of policy conditionality point to different reform processes. In an open political system, structural reforms (such as labour market liberalization) require a wider inclusive approach. As mentioned above, structural policies by definition aim to change the underlying structures of operation of the economy, the society and the state. They affect a large number of actors and interests and their interaction. They inevitably deal with past policies and their effects as well as with social behaviours, culture and traditions.

While they reallocate costs and benefits, often in a radical way, they depend on the response of the societal actors involved. The change in the rules of the game does not automatically bring the intended results and time is needed for behaviour to be re-modelled.[34] Their implementation is complex and difficult at any time, and even more under the pressure of conditionality requirements. They are likely to be achieved gradually, in 'better times,' when there is some 'fiscal space,' rather than under austerity conditions.[35] There is no need to stress that they test the capacity and endurance of any government that undertakes such reforms.

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[33] See, for example, fiscal reforms, financial management reforms and some administrative and local government reforms. These are qualified as *'self-implementing* policies,' i.e. ones that do not require depth and continuity of administrative resources (Thomas & Grindle 1990, 1171). Of course, there might be an issue of sustainability. Nelson (1996, 1556) concludes that reformist politicians and external (donor) agencies seeking to support and encourage reform must reconsider their strategies and techniques.

[34] Brawley & Baerg (2007) highlight the micro-level processes underlying adjustment which are not taken into account by the 'unrealistic assumptions' of the economic models behind structural adjustment programmes. "These micro-level dynamics shape the domestic politics of structural adjustment. Political opposition often has made structural adjustment programmes unsustainable. Structural adjustment programs have failed to appreciate the uncertainties and risks inherent in the adjustment process. These risks have shaped the behaviour of domestic actors – adjustment failed whenever workers would not jump from one sector to another or when farmers would not change the types of goods they produced. Risks have also influenced the politics adjustment generated. The typical models we use in political economy often assume away the risks, thereby yielding unrealistic portraits of domestic actors' preferences" (ibid. 601).

[35] The broad components of reform stabilization, liberalization, institutional and structural reforms and public sector reform "operate on different timetables and pose different challenges" (Nelson 1996, 1554). Beyond stabilization, other reforms may be slower and more complex and extend over many years.

A counter-argument might be that these policies have not been undertaken in the past and therefore the pressure of conditionality may act as a reform enhancer. It is important, however, to distinguish between the pressure conditionality exerts on government and the room the latter needs in order to successfully promote reforms and deal with the consequences they have on society.

Reform strategies: time, sequence, sustainability

The provision of financial assistance in exchange for conditional policies is supposed to create a favourable environment, in the sense of giving *time* to the country to introduce these adjustments. Time as a policy resource is certainly important, but when the time necessary for reforms is determined by the financial resources committed it may not represent what is actually needed. Time pressure can be taken for granted under policy conditionality.

Given the unavoidable frictions they provoke and their social costs, the rhythm of structural reforms (i.e. the speed and sequencing) raises important issues: should they be implemented fully and immediately or gradually? Should they be undertaken simultaneously or in a sequence? High reform ambitions, such as in a 'big-bang' or 'shock therapy' approach, describe 'full speed on all fronts' as the only strategy available to reformers. Although others make the case for gradualism and argue that a big bang strategy involves unbearably high transitional costs and hence weakens political support for reform,[36] the big bang approach often dominates (Tommasi and Velasco 1996; Stiglitz 2000; Rodrik 2016). The crisis-as-opportunity argument is often reinforced by the restricted character of financial assistance, and therefore of the limited time available.

Thus, an overcrowded reform agenda is a frequent feature of conditionality.[37] But the scope and the depth of reforms matter for implementation. Typically, structural conditionality has steadily increased despite efforts to streamline and focus it on priority issues. While this expansion has often been justified by the 'synergy effect' created, in practice it requires a volume of resources that often may not be available in the domestic political system.

On the contrary, a dispersion of efforts and resources on too many fronts may prove counterproductive. When a reform does not stand alone but is one of a series of unpopular actions, "it might become the straw that breaks the camel's back. If so, the question of timing becomes important to allow the government to assess and replenish its political support bases" (Thomas & Grindle 1990, 1175). The conventional wisdom that 'there are never good times for hard decisions' overlooks the fact that there are better or worse moments.

The pace and sequence of reform is further crucial for its success and *sustainability* (Stiglitz 2000). Quick wins may not pay adequate attention to the systemic nature of the reform process and the need for complementary reforms. Rodrik (1990) considers sustainability[38] more important than the content of reforms (e.g. liberalization). He distinguishes between two reform dimensions: range and magnitude. The first relates to the narrow or wide range of areas covered by reform. The second refers to the large or small magnitude of the reform in any given area. Four combinations stem from these

36 For a discussion from a political economy perspective, see Tommasi & Velasco 1996, 204-208; Rodrik 2016.

37 As Stiglitz (2000, 572-573) notes, "all too often, the reform agenda overreached: it included elements that were not central to the immediate problems of the country, and indeed, behind which there was not even consensus within the economics profession […]. In many cases, the reforms went well beyond what was required to address the crisis, into longer term structural issues; the issues certainly needed addressing, but not without a more democratic strategy of building understanding and support for structural reforms."

38 His 'message' is: 1. Do not introduce policies which may not be maintained, no matter how attractive these policies are in principle. 2. Do not change policies which are perfectly sustainable, no matter how costly they may seem in terms of resource misallocation. 3. Finally, in choosing among policies, give priority to those that enhance the stability of the overall policy environment (Rodrik 1990, 943). Also, Stiglitz 2000.

two dimensions. Among them, the most compatible with sustainability is a large reform in a narrow area (Rodrik 1990, 943).

In other words, focus and prioritization make better use of the available resources and should guide the design of structural adjustment programmes. "Casting too wide a net increases the danger of contamination across policy areas when some of the reforms get into difficulty; broad objectives also increase the demands on the few available policy instruments. Radical reform in a narrow range of policies is an appropriate compromise" (Rodrik 1990, 944). A similar argument is made by Wildavsky (1987, 3): "The larger each policy grows in its own sector, the more it insinuates itself into the manmade environment with which we must contend."[39] These concerns are not unknown to the institutions practicing conditionality, which are at times seen as moving towards more selectivity, a less intrusive form of conditionality (Nelson 1996, 1552). However, the way the representatives of the lenders operate on the ground is a matter for empirical investigation.

Overall, reform overload generates a social uncertainty which undermines *the 'reform tolerance' level*. Numerous simultaneous actions take place in a charged policy environment because of the parallel fiscal consolidation.[40] Taken together, they are likely to interact in an adverse manner. Their interaction does not necessarily produce – as some seem to assume – a positive effect but rather a *negative synergy effect*. Reforms deployed simultaneously generate many fronts; then, independently of the prospective benefits, a generalized contest is likely to be the result of their interaction.

This affects the 'perception' of costs and benefits (rather than the costs and benefits themselves); reforms that are expected to produce diffuse and long term benefits on the wider population are not understood and valued. Even worse, the atmosphere of generalized contest easily leads public opinion to a rather favourable stance towards interest groups that bear the immediate concentrated costs. Instead of gaining support to advance reforms, policy-makers are undermined in their capacity to persuade and build alliances. In reality, this is likely to favour vested interests which find allies in the wider population for the defence of the status quo. The government then suffers a double loss.

From a policy transfer perspective, policy failure may be generally attributed to three significant factors (Dolowitz & Marsh, 2000, 17): (i) uninformed transfer, (ii) incomplete transfer, and (iii) inappropriate transfer (differences between the economic, social, political and ideological contexts). To these factors a fourth one should be added: the *process* through which the transfer is expected to be integrated in the destination context.

In the light of the above, while incomplete transfer is seen as a reason for policy failure, the very transfer by conditionality may provide an additional explanation. Reform cannot take place or survive by ignoring the political context and its constraints. Policy conditionality is confronted with the question of the reform conditions, the political realities, and the resources required for an appropriate reform strategy.

Sufficiency of resources

Policy implementation and sustainability of reform efforts require resources. This is even more true because of the social costs of structural reforms, especially in times of austerity. The more radical the

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[39] "Building in failures from the beginning by seeking objectives that can't be met is not justifiable, (…) unless pious words are a substitute for good deeds," notes Wildavsky (1987, 23).

[40] As Walter (2016, 844-845) notes, structural reforms are implemented in a context of painful internal devaluation implying "austerity (brought about by higher interest rates, public spending cuts, and tax increases) which in the short run, typically leads to higher unemployment, lower wages, asset price deflation, and recession. It is particularly costly when implemented in a macroeconomic environment that is weak to begin with, when the budget is already in deficit, and when the economic structures that structural reforms intend to liberalize are deeply entrenched. This creates huge political obstacles for democratically elected governments, and is therefore a strategy that these have found very difficult to implement."

reforms are, in terms of the degree to which they change existing patterns of operation, the more demanding they are in terms of resources. Furthermore, time constraints are translated into heavier political constraints. And when reforms need public involvement some clear positive perspective is critical for their sustainability. The political momentum in favour of adjustment packages will not last if the package does not generate investment and growth within a reasonable time span, underlines Rodrik (1990, 936).

Resources may be distinguished in two large sub-categories. The first is those of a 'technical' nature (e.g. organizational, managerial, expertise, infrastructure and sometimes financial resources).[41] Their importance seems self-evident. It needs to be underlined, however, that while structural reforms may be 'expensive' in terms of expertise, the mobilization of technical resources becomes difficult in a context of fiscal consolidation.

The second is of a more political nature. More than the overemphasized 'political will' (Bird 1998; Thomas & Grindle 1990 etc.), it includes credibility, legitimacy and support for the government that implements unpopular reforms in the form of consensus, or at least tolerance. When time and financial resources are in low supply, as is typically the case under policy conditionality, the implementation and sustainability of reforms depend even more on the government's political capital. It needs to convince, mobilize in support and generally absorb or amortize opposition. And inversely, these resources determine political and governmental stability, which is in turn a precondition for reform sustainability.[42]

Since policy determines politics, it also defines the necessary mix of resources. Issues that reach the public arena require a different mix of resources to those contained within the bureaucracy.[43] And these need to match the resources of opposing groups inside or outside government (e.g. 'veto players'). The domestic dynamics generated by structural reforms in such conditions therefore need better understanding.[44]

Creating multiple ownerships

Lacking alternative sources of funding, governments (even reluctantly) commit to a policy conditionality agenda agreed with a lender of last resort. No government takes the responsibility of allowing a sovereign default lightly. It is something that would remain its hallmark together with its dramatic economic and social consequences. This is an important dimension of the asymmetrical relationship manifested in policy conditionality. The conditions under which the agreement is reached may nevertheless leave some doubts concerning the government's capacity to implement it. In

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[41] This is a conventional distinction. In many situations, technical resources may have a more or less political dimension. I focus rather on the political resources without forgetting that the provision of such resources may also have political aspects, e.g. the normative content of the expertise, the indirect influence of technical assistance etc.

[42] A tentative definition of sustainable reform is provided by Tommasi & Velasco (1996, 224). A reform is sustainable "if national elections have taken place since the beginning of the process and the election outcome has not caused backsliding. A reform is strongly sustainable if it has been pursued by governments of both the right and the left in the same country or if the reforming coalition has been ratified in at least two national elections. A 'sustainable' policy environment is one which … can continue in the foreseeable future and is perceived as stable by the private sector" (Rodrik 1990, 933). Unpredictability regarding future government policies leads to short termism, shortening of time horizons and inability to plan.

[43] A reaction in the public arena entails high stakes for the government which needs considerable resources to sustain the reform. It may threaten the stability of the government and its capacity to undertake further reforms. Reaction from bureaucracy means lower stakes for the government but requires a different type of resources to sustain the reform (competence and compliance of the bureaucracy) (Thomas and Grindle 1990, 1171-2).

[44] Alexiadou (2013) highlights the interaction between the type of government and the type of trade union movement, which determines the success or failure of unpopular reforms.

principle, a government will not completely renege on its commitments. But there are many different cases that conform to this principle.

Governments may be reform-minded. They may fully agree with the prescribed reforms and seize the opportunity to promote them. This does not eliminate the difficulties, obstacles or resistance to policies the implementation of which upsets existing structures in the economy and society. Governments may be over-optimistic concerning their own resources to implement the prescribed agenda. The reform process may prove difficult in practice or become increasingly difficult as larger parts of society are affected and as time passes without visible positive results. Policies may not have their intended effects or may have unintended effects. Governments cannot ignore these aspects. This is why the implementation of policy conditionality 'lies on a knife edge' (Bird 1998, 107).[45]

Taking into account the restricted margin for manoeuvre that governments dispose of in such a context, it is not surprising that they may not be in a position to completely fulfil their commitments.[46] It is not excluded that they attempt to avoid, delay or water down difficult decisions.[47] And, somewhat paradoxically, this is when conditionality becomes stricter and monitoring procedures more stringent. Instead of acknowledging difficulties and focusing on priority issues, conditionality tends to expand and become more inflexible. This has for decades been the reaction of the IMF to the failings of conditionality, even when realizing its limits (See, for example, IMF 2001-02). And this is where the terms 'political will' and 'ownership' come to its rescue. The very reference to 'reform ownership' after decades of practising policy conditionality shows that many unresolved challenges remain.

Ownership is defined as "a willing assumption of responsibility for an agreed program of policies, by officials in a borrowing country who have the responsibility to formulate and carry out those policies, based on the understanding that the program is achievable and is in the country's own interest" (IMF 2001c, 6). As Boughton & Mourmouras (2002, 4) note, important difficulties stem from such a concept: it is on a judgement, it is dynamic (changes in positions of officials over time) and there are many potential 'owners.'

For a long time, policy conditionality was seen as creating ownership, because of its assumed impact on the incentive structure of policy-makers. More conditionality would create more commitment. This narrow cost/benefit understanding of the factors that determine a government's behaviour was gradually reviewed. It was acknowledged that conditionality "is not conducive to ownership, cannot substitute for ownership or even undermines the very idea of ownership."[48] However, this new understanding did not reach the practice of conditionality at the institutional level, i.e. technical teams and their political leaders. The more a programme faces implementation difficulties, the more the conditions attached become strict and demanding.[49] The latest revisions of

45 There may be governments who negotiate programmes with little intention of carrying them through. There may be others, where, although the intention is to implement the programme, the effects of the programme turn out to differ from what was expected, especially when costs prove to be higher. Then governments adjust their behaviour and non-compliance may be the result (Bird 1998, 107).

46 Governments need flexibility and time if they are to create conditions favourable to their reform initiatives. Thomas & Grindle underline that decision-makers may decide to forego initiating a significant change because reforms that fail can be worse than no reforms at all. They jeopardise future prospects for reform and unnecessarily squander resources (1990, 1178).

47 "It is, therefore, far too common for the Fund to find that would-be borrowers prefer to use traditional macroeconomic policies to more intrusive measures of structural adjustment. Thus the borrowing member may not be prepared to accept enough structural components in its stand-by arrangement or, even if it signs on for them, may find ways to delay their implementation" (Polak 1991, 32).

48 The nature of conditionality affects the degree of ownership in important ways (Boughton & Mourmouras 2002, 7-8).

49 "When faced with difficulties in the implementation of a program, the Fund sought to gain credibility by resorting to the introduction of additional conditions" (Buira 2003, 16).

conditionality (IMF 2012a) confirm such lasting practice, despite efforts at introducing some flexibility, and fewer and more focused conditions with clear prioritisation.

Lack of (country) ownership is the generic summary explanation of failing conditionality, i.e. insufficient implementation of the reforms prescribed. The blame goes to the 'catch all culprit' of political will (Thomas & Grindle 1990, 1164) and domestic policy-makers (Paloni & Zanardi 2006, 282). However, political commitment, political will or the rather vague concept of 'ownership' constitute an 'inadequate' or 'tautological explanation' of the poor record of programmes, since they do not analyse the determinants of the degree of political commitment (Bird 1998, 90-91). This oversimplifies (ibid.) and lacks operational content (Boughton & Mourmouras 2002). The term ownership has been so "used and abused that it now is at best unhelpful and at worst misleading and obfuscating" (Buiter 2007, 651).

The use of 'country ownership' lacks precision concerning its target. Given the heterogeneity of views and interests, can it refer to a whole society? Although the answer to this is left unclear, it seems that it is primarily addressed to a government, as the most visible and responsible policy institution. However, as mentioned above, besides the finance ministry and its officials, other ministers, the central bank, NGOs, labour and business organizations, civil society etc. are in some way or another involved in the implementation process. How realistic is it to expect that everyone or even a critical mass provides a lasting agreement on the conditionality agenda?

Furthermore, contrary to its current use, ownership is not an all-inclusive concept in terms of actors and policies. It instead refers to the creation of the sufficient and appropriate alliances *for each and every reform*, which will include different sets and configurations of actors. 'Programme ownership' can only refer to the sum of *multiple reform ownerships*. This 'plural' approach to ownership exhibits the complexities hidden in the 'black box' of domestic policy dynamics described by 'ownership.' It also highlights the likelihood of negative interaction between the numerous parallel reforms on the conditionality agenda on the one hand and the necessary resources on the other, among which are political legitimacy and support.

In short, 'ownership' seems to reflect the clash between a technocratic rationale and the political constraints on the ground seen as 'noise' to be done away with. Ownership then becomes a convenient technocratic argument that neither calls into question the design of the programme nor takes into consideration the conditions for its implementation. This is probably why, more and more, the expression 'programme implementation progress' is replaced by the term 'compliance.'

Conviction and capacity

'Ownership' is too problematic a concept to explain what really happens on the ground. To the extent that it is not simply a synonym for compliance, an alternative view is needed. Unpacking the idea of 'ownership' meets the basic determinants of a government's stance towards policy conditionality requirements. Two dimensions need to be considered, which may be seen as encompassing various other parameters: (a) the *conviction* that the conditionality programme is the right remedy and (b) the *capacity* to implement it, mainly in terms of political resources.

In other words,

(i) a government may be convinced that the prescribed policies are the right ones and may estimate that it has the necessary capacity and resources to implement them. Or,

(ii) it may disagree and doubt its capacity to achieve them but has no alternative.

There are also intermediate cases where:

(iii) it lacks the capacity to implement although it accepts the advantages of the conditional policies, or

(iv) it is not convinced about their merits even if it would have the capacity. In any case, conviction and capacity are a matter of degree.

(a) Conviction

From the way it is used, 'ownership' seems to refer primarily to conviction, i.e. to a fundamental agreement that prescribed policies are appropriate and necessary. The 'logic of appropriateness' relates to a 'learning process' that facilitates policy transfer (Schimmelfennig & Sedelmeier 2004, 667). Governments that adopt them argue that the changes should have been undertaken long ago, on their own initiative. In this case, conditionality appears as the ally of reformist governments. To what extent this leads to successful implementation needs to take into account the second aspect, namely capacity (infra).

Poor implementation may reflect lack of conviction that the prescribed policies are appropriate. However, agreement or disagreement with the policies prescribed may not necessarily refer to the whole agenda. This links to the above-mentioned 'multiple ownerships' argument. Some of the prescribed policies may be seen as appropriate and some not. Moreover, disagreement may not concern the objectives but the *timing or the means* to achieve the reforms and their estimated effects.[50] Frictions may also arise from the monitoring processes and techniques. In other words, it is rather simplistic to refer to the conditionality agenda as a whole and as fully appropriate by definition. If ownership refers to the gap between a government's unconstrained preferred policy and that preferred by the IFIs (Bird 1998, 104), this gap needs to be empirically assessed in terms of its size on a case-by-case basis, taking into account the above-mentioned aspects.

Last but not least, conviction may be enhanced depending on the results achieved within a reasonable time frame. When there are not positive but instead adverse effects (e.g. on unemployment or on growth and with a contraction of the economy) which do not match prior expectations, conviction cannot be sustained. Inversely, visible improvements encourage conviction and provide policy-makers with arguments in favour of continuing reforms, at least for a certain time.

(b) Capacity

Capacity, especially in terms of the political resources required, is an important condition for the promotion of a series of basically unpopular reforms. In difficult times, such as those that bring a country to seek conditional lending, political resources are by definition scarce, fragile and volatile. Even reform-minded governments which have to operate in such a constrained policy space, amidst many parallel unsettling and unpopular reforms, may not have enough political resources to overcome

[50] As Bird (1998, 104-105) observes, "the costs may not relate to the design of economic policy in broad terms but to the specific quantification of policy in terms of preconditions and performance criteria, which again create the impression of subservience to the IFIs and (…) increases the extent to which the IFIs intrude in policy formulation." Furthermore, costs evolve over time, they are dynamic: while they were formerly uncertain they may become certain and therefore carry greater weight.

Buira (2003) directly links time, financing, type of conditionality, commitment and the success of the programme. "Since structural adjustments will normally require greater amounts of financing over an extended period of time than demand management alone, the type of adjustment policies to be followed will often give rise to policy differences and tensions between the Fund and the member country. … Thus the nature of the imbalance, the amount of support and the duration of the adjustment process will be issues for discussion and negotiation between the authorities of the member country and the Fund. … the answers given by the Fund to these and other questions, as embedded in the program, frequently determine whether the conditionality applied in a particular case is seen as appropriate or as too severe and whether the authorities will be committed to the success of the program. The adjustment of an imbalance is not simply an economic problem, but one that will usually have significant social and political repercussions."

such difficulties and persist.[51] Political and governmental instability is a likely result. Even governments initially elected with high majorities and enjoying wide acceptance are sooner or later exhausted. Ownership is both dynamic and fragile, note Boughton and Mourmouras (2002, 19). Both conviction and capacity are dynamic categories that interact and may change with time and political conditions (change of government, no sight of positive results, 'reform fatigue' etc.).

It is important to underline that 'capacity' is not defined in absolute terms. It instead reflects the above-mentioned relation between the government's resources (which may vary over time) and the difficulties in the policy environment shaped by policy conditionality and its requirements. The more restricted the policy environment is, the more political resources are needed. As explained above, time and timing are important resources in policy-making in many respects. The less time is available the more political capital is needed. A new government in the initial stages of a programme is likely to show more commitment. However, the political capital of a genuinely reformist government may soon be exhausted under the time pressure, restricted policy space and a lack of positive results in sight.[52] In this context, the argument that conditionality tips the balance of power in favour of reform-minded governments (Bird 2009) may appear weak. The difficult environment within which they have to operate is likely to point to the opposite.

Political capital is not a passive inalienable quantity. It is dynamic and can easily evaporate, something that not only threatens the stability of government but also the sustainability of reforms. Thus, strict conditionality, which assumes that it can basically rely on the government's capacity to promote prescribed reforms, is very likely to lead to a waste of political capital and also of opportunities. Attention needs to be paid to domestic political dynamics in order to prevent them from jeopardizing reforms.[53]

Appropriate design

Implementation is a complex and dynamic political process. Its success depends on a series of factors (Hogwood & Gunn 1984, 198-206), some of which concern the formally preceding stages. In other words, there is a connection between the policy formulation stage on the one hand and implementation conditions on the other. "Policies imply theories (…) they point to a chain of causation between initial conditions and future consequences" (Pressman & Wildavsky 1973, xv).

Every policy is based on assumptions relating causes and effects, and the motivations and incentives regarding those it intends to influence. Their accuracy and realism are put to test in the implementation stage. This link is one of the keys to the 'capacity' to implement. Bringing capacity into play *ex post* in order to explain gaps and deficiencies seems to be rather a theoretical exercise.
Difficulties and resistance can be anticipated. If the objective is to encourage reform, considerations of capacity (including type, volume and mobilization of resources) need to be assessed in relation to the *expected difficulties* and should be integrated into the design of policy conditionality. This is how the conditions of implementation can be prepared and therefore the intended outcome of policy reform influenced – as one important factor among others.

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[51] As Polak (1991, 32-35) points out, "not all governments are able to marshal a sufficiently strong coalition of broad segments of the population that can be expected to benefit from structural adjustment measures and from the avoidance of excessive reliance on demand-management policies."

[52] The political momentum in favour of adjustment packages will not last if the package does not generate investment and growth within a reasonable time span (Rodrik 1990, 936).

[53] "The political process can be viewed as a dynamic game. Actions taken in one period may affect coalition formation and therefore the set of admissible reforms at a later stage. (…) Perhaps the most important part of the political process of reform in democratic societies is the creation of political support for the reform" (Stiglitz 2000, 571). "As long as there is not consideration of the policy process underpinning the implementation of conditionality, the result will be 'misallocated resources, wasted political capital and frustration" (Thomas and Grindle 1990, 1178). Also see Brawley and Baerg 2007.

The design needs to also take into account the interaction among simultaneous reforms and adjust their timing. Synergy is far from being an automatic effect of parallel reforms. An overburdened agenda of unpopular policies, time pressure and a restricted policy environment may exceed the (or any) government's capacity.[54]

These concerns seem to be absent from the conditionality agenda, although in various ways on multiple occasions and using different terms their importance has been underlined by various authors (including by IMF researchers). Boughton & Mourmouras (2002, 6), for instance, recommend looking more into the heterogeneity of interests in the country. This would contribute to designing programmes appropriately, especially when they include major structural reforms which may inevitably have a concentrated negative impact on some sectoral interests. Bird (1998, 107-108) directly confronts the issue: "Modifications to the design of conditionality need in the first instance to narrow the gap between a government's preferred policies and those favoured by the IFIs." Among other things, a clearer appreciation by the IFIs of the distributional, and therefore the political, dimensions, of their preferred programmes could improve their implementation. He concludes that programmes need to be well-designed in terms of addressing the appropriate issues, their internal consistency, the appropriate sequencing and not being over-ambitious.

While implementation is a process with formal and informal aspects, policy conditionality seems to turn a blind eye to process. Boughton & Mourmouras (2002, 19-21) emphasize that process is likely to generate 'ownership' by giving the authorities of the borrower country as much flexibility and empowerment as possible. This includes greater control over the agenda, building a relation of trust and helping nourish domestic coalitions for reform. For Nelson (1996, 1558), broader participation and consultation could contribute to accelerated learning, heightened responsibility and self-respect, and better communication and coordination within the government and between it and other groups. It can also facilitate implementation even if the proposals generated in this way are less than optimal from a technical perspective. Although it may not bring harmony, such a shift is constructive since it "substitutes explicit disagreement over substantive issues at a time when they may be constructively resolved for submerged resentments and disagreements expressed in delay, erosion and obfuscation in the course of implementation" (ibid.).

In any case, the implementation gap is easier to observe than the accurateness and appropriateness of the design of a reform programme, which require a second-level analysis. This probably explains why 'poor implementation' and 'insufficient commitment or ownership' are commonly advanced as the obvious explanations for policy failures.

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Before concluding: Who governs?

Conditionality as a policy instrument intervenes in the domestic *governance process* with the intention to guide it. In doing so, it manifests an underlying clash between a deeply technocratic approach to policy reform and its political prerequisites.

Given its previously-described weight on the domestic policy process, a broader issue needs to be addressed. This has to do with the relation of the political and policy system to its social environment and the issues of sovereignty, legitimacy and accountability. Drazen (2002, 4), for instance, places IMF conditionality in the context of the relation to its sovereign members. Conditionality is viewed as

[54] The design of conditionality and its relation to ownership have been analysed from an economic point of view. The various analyses may more or less stress the economic or political aspects of the issue. See, for example, Paloni, Alberto & Zanardi 2006; Boughton and Mourmouras 2002; Rodrik 1990; Bird 1998, 2001, etc.

'imposing conditions' on a country in a way that infringes on its national sovereignty.[55] The reforms typically appear to be imposed by outsiders in return for the loans, underlines Rodrik (1990, 936). An investigation into the formative symbolic events and attitudes towards domestic authorities, which are often reproduced and amplified by the media, would show the sensitivity of public opinion to this issue and the fragility of any governmental effort to 'create domestic ownership.' How are the prescribed policies perceived by domestic constituencies and society in general? How and to what extent does a government have room to initiate the required policies as its own? Who sets and revises the targets to be achieved? Who announces the programme and its requirements? How are subsequent issues put on the agenda? These questions have to do with processes, methods and incidents that shape social perceptions regarding the question of who governs.

The issue of sovereignty is not just a formality. Through conditionality, lenders exercise strong leverage as a means to bring a borrowing country in line with macro-economic and structural requirements. Thus, policy conditionality constitutes a 'cross-level issue', a symbol of the encounter between the supra-national (international financial institutions, representatives of the lenders and the EU) and the national (borrower country) with the ensuing contradictions regarding the norms, processes and concerns that prevail at each level.

In this process, the questions of democracy and accountability need to be addressed. Are technocratic requirements beyond democratic scrutiny? Who is accountable to the population for mis-targeting, mistakes, negative unintended outcomes and legacies the costs of which are to be borne by society?

At the conceptual level, accountability includes a normative argument, namely that elements of conditionality can be challenged by different domestic constituencies in terms of process as well as in terms of outcome. Indeed, it is likely to be challenged through various means, either institutionally (elections, parliament, courts, the media) or by social mobilization in civil society. Since policy conditionality constrains the margin of alternatives and the policy space of the government, responsiveness to both is limited, although often to different degrees. Accountability lines tend to shift away from domestic society and towards the representatives of the creditors, with the accountability relation between domestic policy-makers and society being critically weakened. As a result, trust in government is eroded.

Generally, EU decision-making and globalisation processes reduce the power of governments to determine outcomes for which they are nationally accountable (Rose 2014). However, as shown above, the impact of conditionality surpasses what is implied by these contextual pressures. Governments are caught between two 'masters' in an era of 'constrained choice' (Laffan 2014).

Any government in a democracy needs to maintain a level of legitimacy and to be open to accountability. Otherwise, its political capital is quickly eroded. Unless there is a visible positive result, it is unlikely that the next government will be able to survive the same conditions. That it is an emergency situation is an argument likely to work for a certain amount of time, but it has limits of persuasion.

The argument that the need to borrow *de facto* restrains national sovereignty seems a pragmatic acknowledgment of an asymmetrical power relation but it can be dangerous in normative terms.[56] It also unveils a lack of cognizance of modern democratic standards (legitimacy, accountability) as well as of the requirements for successful implementation (effectiveness). The transformation of a whole policy-making system into a mere implementation mechanism does not go without consequences. It

55 "Hence, use of conditionality is not simply a question of prudent economic behaviour, but a potentially_politically charged question of the proper relation of the IMF to its members" (Drazen 2002, 4).

56 "Conditionality is obviously not good from the standpoint of democracy or national sovereignty. ... the justification of the EAPs was not democracy in Europe. It was debt..." observes Geer (2014, 52).

further reveals that conditionality constitutes a ‘mega policy instrument’ with an aspiration to substitute a domestic governance system.

Returning to the main question of this paper, i.e. the reform capacity of policy conditionality, the proposed conclusion is that it is limited. Although the external pressure may act as a beneficial factor, i.e. making political systems confront their own deficiencies, one can wonder how much is possible from the ‘outside.’ Domestic dynamics deserve a closer examination. Conditionality has time, scope and political limitations. Its influence tends to fade after the decision-making stage, while implementation conditions and constraints seem to be ignored. Its negative side-effects may undermine its reform potential. Above all, it cannot avoid the bias of being part of a loan agreement, which orients its rationale, priorities, methods and processes. Applying a policy lens to domestic policy conditionality implementation may therefore prove a rich research endeavour.

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