I Introduction

After over a decade of ESAF and, before it, SAF programs in low-income countries in Africa, Asia, and Latin America, with uneven outcomes, it is understandable that there should be so much debate in development circles about such programs' effectiveness as instruments for bringing about sustainable poverty-alleviating growth. In the light of this continuing debate, and as part of its own program of internal evaluation, the Fund has conducted two major reviews of experience under the ESAF. The first one, discussed by the Executive Board in March 1993, covered the performance of 19 countries through mid-1992.[1] The second one, discussed by the Board in July 1997, covered countries that began ESAF-supported programs before December 31, 1994, numbering 36.[2] But the debate on country performance under the ESAF has continued, with a particular focus on its effectiveness in bringing about poverty-alleviating growth. In the circumstances, the Executive Board decided that the second internal review done by PDR should be complemented by an external evaluation, also to be completed in 1997, using mainly a case study approach.

Our terms of reference requested us to conduct an evaluation based on this approach, and to present unified conclusions for the design and implementation of ESAF-supported programs and the ESAF instrument focusing on three key topics, namely:

- development in countries' external positions during ESAF-supported programs;
- social policies and the composition of government spending during ESAF-supported programs; and
- the determinants and influence of differing degrees of national ownership of ESAF-supported programs.

Our terms of reference also required us to select a sampling of countries, numbering between four and seven, that was geographically diverse and included both strong and weak performers for each of the three topics, allowing for as much overlap as possible.

Accordingly, we agreed to evaluate Côte d'Ivoire, Malawi, Uganda, and Zimbabwe on all three questions, and to cover the external viability and ownership issues for Bangladesh and Vietnam, the ownership issues only for Bolivia, and the social issues only for Zambia. Our method of evaluation was based both on surveys in the field, in which we spoke to a very wide cross section of stakeholders in each country, and on a thorough reading of internal Fund documents as well as other available literature. Although the three topics we were asked to focus on are not exhaustive of all the concerns that have been expressed in the continuing debate, we believe that they are among the major ones.

In the area of external viability, savings performance has been disappointing in relation to rising, even if modest, growth and improved macroeconomic policies in ESAF countries. Current account deficits have therefore seen little reduction on average over the decade of ESAF-supported reforms, while the stock of debt of ESAF users has about doubled over the period 1985 to 1995.

The issue, therefore, is how these problems can be addressed, and what trail a search for solutions should follow. We note first that the current account of the balance of payments reflects a process of the intertemporal choices of a nation. The main component of the current account is a trade balance, which is essentially exports minus imports. Through national income identity, exports minus imports equals savings minus investment. The latter is a dynamic concept and can be interpreted as a result of intertemporal optimization, a factor that has been relatively neglected in the discussion of external viability.

As is already shown by Onitsuka (1974), the normal and optimal process of capital accumulation of a growing economy is not proportional to its growth. First, external borrowing increases, domestic capital accumulation follows, repayment of borrowing starts, and finally the country converges to a steady borrower or a steady lender state where the debt and GDP grow more or less proportionally. Whether the coun-

[1] Schadler and others, 1993. The conclusions of the Executive Board discussion of this evaluation are published in the IMF's 1993 *Annual Report*, pp. 61–64.

[2] IMF, 1997.

try ends up with a borrower position or a lender position depends upon whether its people are more patient or less patient than the average people of the world.

From this perspective, we have to reexamine various concepts of external viability. The ratio of exceptional finance is a good measure because it shows the degree to which a country should rely on nonmarket forces. Any ratios to export, like the ratio of debt service to exports or the debt-export ratio, are under suspicion because they are too sensitive to the openness of the economy. The ratio of debt service to GDP has better characteristics, but it is a static concept because it does not take into account the growth capacity of a country. We propose the use of REDB prepared by Obstfeld and Rogoff (1996), and the DDI, which built on the REDB. REDB is the change in the debt-GDP ratio if the current account is balanced, or the equivalently current account surplus as a fraction of GDP that is needed to keep the debt-GDP ratio constant. DDI is the change in the debt-GDP ratio that develops from the asset dynamics, and the ongoing current account, or equivalently the current account that is short of the current account corresponding to REDB.

The net present value is a dynamic concept. If one matches it with static concepts like exports and imports, the comparison is between two different dimensions—stock and flow.

The social impact of ESAF programs has also been controversial. Critics of the programs have claimed that they have accentuated poverty, whereas supporters have claimed the opposite. There are two broad mechanisms by which the poor can be affected by adjustment programs: through changes in their incomes and through changes in social expenditures. The 1997 internal review (IMF, 1997) did not give priority to analyzing the social costs, leaving this explicitly as an area for the external review, although it did investigate the effect on social expenditures and found that they were, on average, protected.

Policy changes can reduce or increase incomes, either of society as a whole or of particular groups. The transition economies are the most extreme example of society as a whole bearing short-term costs for long-term benefits. Since there is no doubt about the need for radical change in these economies, the policy issue is the extent to which social safety nets can be put in place. In the more usual ESAF cases, the main social effects arise not because of temporary, society-wide losses but because of long-lasting redistributions resulting from relative price changes. Here, one controversial issue is whether the groups that lose consist of poor people, since the compensation of better-off losing groups need not be a priority. A second controversy has been whether ESAF programs have, as a result of either suboptimal sequencing or public expenditure reductions, imposed avoidable temporary contraction on the economy.

Policy changes can also reduce or increase the delivery of basic social services. The most controversial issue has been whether ESAF programs have unnecessarily squeezed social expenditures, either as a side effect of generalized reductions in public expenditures, or because of an adverse change in the composition of expenditures. This is the issue on which the adjustment literature has focused. However, there are other ways in which social provision can be affected through ESAF programs, notably through relative price changes. The provision of social services may change substantially during adjustment, not because of a change in budget allocations but as a result of induced changes in the cost of provision.

In the area of ownership, in spite of near unanimity among all concerned—governments in both recipient and donor countries, the international and regional financial institutions, the Development Assistance Committee of the OECD, and the overwhelming weight of public opinion in developed and developing countries alike, that reform programs should be "owned" by the reforming countries—the debate on the subject has continued unabated. On the one hand, the Development Assistance Committee and its members, and their supporting financial institutions, have continued to profess their good intentions while recipient countries have, for their part, continued to protest in frustration.

The problem has been to define the concept of ownership for operational purposes. While it is indeed possible, as a number of academic writers and practitioners have demonstrated,[3] to define ownership with a reasonable degree of intellectual rigor, it has been difficult, for reasons of domestic political considerations and the deadweight of tradition and habit in development cooperation offices and in the Fund and Bank alike, to reconcile the declared intentions with practice.

Donors tend to see ownership as an acceptance by the recipient country of donor-driven priorities and programs, and the same sentiment often lurks behind affirmations of the need for country ownership by IMF and Bank staff. For the external agents then, it is as if the whole struggle is about getting the countries to "volunteer to adopt" donor-driven programs.[4]

Thus, a number of issues still need to be addressed in order to move the matter beyond the domain of political correctness to actualization. These include the following.

- What does ownership mean? What are its distinguishing determinants, and what are their

[3]See, for instance, Helleiner (forthcoming) and Botchwey (1996).

[4]Helleiner (forthcoming), p. 7.

relative weights and influences on program sustainability?

- How can ownership so defined be reconciled with a regime of conditionality that triggers access to resources, not only from the Fund and the Bank, but also from all other official development assistance sources?
- To the extent that a negotiated program is always a product of a largely lopsided compromise, especially for countries that have no alternative sources of financing, under what circumstances can it still be "owned," if at all, by the country?
- Given the legitimate need to ration scarce resources in support of "correct" or "appropriate" policies that have a reasonably good chance of success, and in a situation where there are no arbiters nor appellate bodies, what sort of conditionality regime can both achieve efficiency in the use of external resources and address the concerns about national ownership?

In this review, we have attempted to test, through the case studies, a number of hypotheses, including a definition of ownership based on the "rooting" or "anchoring" of the reform program in country support, and determinants of such ownership that relate to program authorship or origination, the scope of societal support, the level of government commitment, the role of specific initiatives by government and by the Fund in promoting ownership, and the role of the Fund's operating methods in fostering or inhibiting country ownership. We then make some recommendations for developing country ownership on the basis of common themes derived from the country experiences and lessons that they offer.