DOİ: https://doi.org/10.71447/3005-2696-2026-01-02

INTERNATIONAL MONETARY FUND'S (IMF) EXPANDING STRUCTURAL CONDITIONALITY AT WORK: THE TURKISH CASE IN 2001

Fırat BAYAR
Ministry of Foreign Affairs, Türkiye
E-mail: firat.bayar@mfa.gov.tr

Abstract
The main argument in this paper is that International Monetary Fund (IMF) conditionality has evolved towards encompassing structural elements particularly since mid-1990s and Strengthening the Turkish Economy: Türkiye's Transition Program, implemented following the 2001 crisis in Türkiye is a good illustration of the latter.
The structural conditionality dimension of ongoing IMF programs are consisted of issues going beyond traditional aggregate demand management and deal with regulatory and institutional features of the market economy.
When the Turkish program and the subsequent Letter of Intent in 2001 are examined, it is figured out that many of these elements are present in the latter and thus reflect the expanding trend of IMF structural conditionality in Fund supported programs.

Keywords: International Monetary Fund (IMF), structural conditionality, Turkish economy

INTRODUCTION

The main objective of this paper is to analyze the structural conditionality dimension of "Strengthening the Turkish Economy: Türkiye's Transition Program", designed and implemented with the support of International Monetary Fund (IMF) in the aftermath of the 2001 economic crisis in Türkiye. Turkish experience in 2001 presents a well-fitting example for the increasing trend of structural conditionality in IMF programs since mid-1990s.

The concept of conditionality could simply be defined as the means and measures demanded by the donor from the recipient in exchange for financial support. In the case of IMF, conditionality is considered as the basic tool in ensuring the use and securing the coming back of resources in a continuous manner. (Buira, 2003: 3)

Although the concept of conditionality was absent in the original Articles of Agreement of IMF and incorporated as part of the First Amendment in 1969 with a narrow focus on fiscal and monetary macroeconomic issues, afterwards, its limited scope was expanded beyond its traditional domain. (IMF, 2001b: 83), (Buira, 2003: 25), (Kapur and Webb, 2000: 2) In that context, IMF conditionality began to encompass structural policies in Fund-supported economic programs which were beyond aggregate demand management, the latter, which IMF conditionality was originally designed for. IMF started to deal with regulatory and institutional features of the market economy such as liberalization of trade and financial system, privatization, and policies of labor market, revenue and expenditure, pricing and marketing, social security and pension, transparency and disclosure, etc. Accordingly, an increase in structural policy commitments (prior actions, structural benchmarks, program reviews and performance criteria) have come into being. Besides, with the introduction of these structural conditionalities, there has been a strong initiative of the Fund to pay attention to the quality of governance in its programs.

However, this expansion of structural conditionalities has been the source of a variety of severe criticisms that put the need of streamlining on the agenda. As a result of that, the Executive Board of the Fund approved new guidelines on conditionality in 2002. The basic features of these guidelines were enhanced emphasis on national ownership of programs, parsimony in the application of conditions, tailoring the program to the member's circumstances and clarity to the essential aspects of the program that must be complied with. (Buira, 2003: 14), (IMF, 2002: 8), (Goldstein, 2000: 5)

Nevertheless, the topic of conditionality is still one of the most controversial policies of international financial institutions (IFIs), in particular the IMF. IMF's attitude towards conditionality is being criticized not only from the point of economic affairs; yet also gives rise to significant political concerns as well. As for the former, IMF conditionality is criticized for its short-run orientation, loss of focus on growth, underestimation of income distribution and social spending, expansion beyond its competence, etc. As for the latter, especially accompanied with the rise of structural conditionality, the discussion has centered basicly on the issue of ownership, whose reconciliation and alignment with conditionality is regarded a pre-condition for the success of economic programs. (Buira, 2003: 1-2), (Khan and Sharma, 2001: 3-4)

In this context, Türkiye was one of the countries that has been in the center of the

debate on conditionality. Türkiye's affiliation in the past with IMF-supported programs containing numerous structural commitment and conditionalities presents a good test-case to study the subject. In particular, Strengthening the Turkish Economy: Türkiye's Transition Program mentioned above constitutes a beneficial document to analyze in that respect.
When we examine the main pillars and strategies of this program, we figure out that the two concepts that have been given utmost emphasis are governance and regulation, in accordance with the above-mentioned shift of IMF conditionality towards structural elements. The initiatives in the program are concerned with almost all sectors of the economy. Via regulatory reform, the program aimed at correcting distortions and weaknesses underlying the crises; enhancing transparency in economic management; improving governance in both the public and private sectors; restoring macroeconomic stability; facilitating disinflationary efforts; finalizing banking sector rehabilitation and restructuring, etc. Obviously all these initiatives correspond to and necessitate the implementation and fulfillment of various types of structural conditionalities.
On that basis, this paper is composed of four sections, including introductory part. In the first section, the topic of conditionality will be introduced and its course of evolution in IMF will be examined. This section will touch upon the expanding trend of conditionality towards structural elements as well as the accompanying critiques and the orientation of IMF towards the formulation of new guidelines. The second section is devoted to the Turkish experience in 2001. Strengthening the Turkish Economy: Türkiye's Transition Program supported by IMF will be examined from the point of changing nature of IMF conditionality. In that respect the basic document other than the program that will be benefited in this analysis will be the Letter of Intent of May 2001. The content and implementations of the structural conditionalities in the latter will try to be investigated. The last section of the paper is comprised of brief concluding remarks.

SECTION 2
THE CONCEPT OF (STRUCTURAL) CONDITIONALITY

2.1. Definition of Conditionality

According to the Articles of Agreement of IMF, one of the primary functions of the Fund is "to give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with the opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity" (Article I (V), www.imf.org).
The concept of conditionality, referring to the linkage between financing and implementation of economic policies (IMF, 2001a: 3), enters into the picture at that point. Conditionality, in general, could be defined as "the means by which a party offers support and attempts to influence the policies of another in order to secure compliance with a program of measures; a tool by which a country is made to adopt specific policies or to undertake certain reforms that it would not have undertaken, in exchange for support". Within the context of the International Monetary Fund (IMF), it refers to the "policies a member is expected to follow in order to secure access to the financial

resources of the Fund". (Buira, 2003: 3)
In that context, IMF states that "the intended purpose of conditionality is as a mechanism to help bring together a combination of financing and policies as a solution to economic difficulties: It is needed to provide assurances to both the authorities and the Fund that both parts of the package are provided together. This concept of conditionality is fully consistent with a cooperative approach to designing and implementing programs. An implication of this formulation is that conditions should be limited to those that are necessary to evaluate whether the program is being implemented in a way that ensures that its objectives are achieved" (IMF, 2001a: 12). With that comprehension, conditionality serves for two ends: First of all, it tries to ensure that the resources of IMF are used for their intended purposes. Secondly, it aims to contribute to the IMF for operating as a revolving Fund to benefit all its member countries. (Boughton, 2003: 1)

2.2. Monitoring Tools of Conditionality

Once a program is designed between IMF and the program country, execution and performance of conditionality is continuously monitored. IMF conducts that monitoring process with various tools, illustrated in Table 2.1.

Table 2.1: Monitoring Techniques of Conditionality

Prior Actions (PAs)	are measures taken at the outset of an adjustment program or prior to the completion of a review to improve the capacity of the program to meet its objectives. Their implementation constitutes a precondition for program approval or completion of review. PAs are particularly important in cases of severe imbalances or a weak record of policy implementation. Prior actions for the completion of reviews are frequently applied to structural benchmarks whose implementation has repeatedly been delayed.
Performance Criteria (PCs)	are intended for structural measures that are critical to the success of the adjustment program and whose implementation in a timeframe is important. They need to be defined in precise, objectively verifiable terms. Their implementation constitutes a condition for purchases under an arrangement. Non-implementation by the deadline requires a request for a waiver, which the staff can support if the delay or non-implementation is not seen as overly detrimental to the attainment of the program's objectives, or if adequate compensatory measures are taken.
Structural Benchmarks (SBs)	were first introduced in the context of the Structural Adjustment Facility (SAF) but are now used across Fund arrangements to monitor structural policies. They are typically used to monitor the implementation of reforms that are important but not as critical as are PCs, critical measures where the timing is less important, or critical measures that cannot be defined sufficiently precisely to constitute a structural PC. They are monitored in the context of reviews rather than directly linked to purchases.
Program Reviews (PRs)	provide a framework for assessing structural reforms against established benchmarks, or progress in implementing reforms that are difficult to define ex ante with a high degree of precision, or reforms characterized by a series of smaller steps, which may be of only moderate significance individually but can make an important contribution to meeting a program's objective when a critical mass is implemented. The completion of a review is linked to a purchase.

Source: IMF, 2001b

2.3. Expansion of IMF Conditionality: The Way towards Structural Conditionality

Historically, there is almost no reference to the concept of conditionality at the time of establishment of the Fund. (Dreher, 2002) Conditionality in a limited manner was introduced in the 1950s and was "incorporated as a requirement into the Agreements in 1969, as a part of the First Amendment of the Articles". Its task was simply to safeguard the financial integrity of the institution. (Kapur and Webb, 2000: 2) Its limited scope has endured till 1980s, which centered on monetary, fiscal and exchange affairs. (Buira, 2003: 25)

The case of the other key Bretton Woods institution, namely the World Bank was similar as conditionality had at the beginning a narrow focus concentrating on micro, sector-specific, financial issues. (Kapur and Webb, 2000: 2) Moreover, an agreement was concluded between IMF and the World Bank in 1966, designating the boundaries of conditionality tied to their programs. Accordingly, IMF would deal with issues such as exchange rates, temporary balance of payments disequilibria and stabilization programs; whereas the Bank would generate broader strategies of development and pursue evaluations of projects. As for the overlapping topics, they were identified as "financial institutions, capital markets, domestic savings and the financial position of the borrowing countries" (Dreher, 2002: 9).

However, beginning with the 1980s, the scope of conditionality has started to be extended to areas, which were outside its coverage before. In that context, besides the traditional fields mentioned above, IMF conditionality has begun to encompass "structural change in the trade regime, pricing and marketing policy, public sector management, public safety nets, restructuring and privatization of public enterprises, the agricultural sector, the energy sector, the financial sector, and more recently to issues of governance and others in which the expertise of the Fund is limited". (Buira, 2003: 25) In the case of the World Bank, a similar upward shift in the number of conditionalities has come along with the structural adjustment lending that commenced in 1980. Beginning from the 1980s, conditionalities tied to the World Bank programs have deepened and widened at considerable extent. (Kapur and Webb, 2000: 2)

The average number of conditions in IMF programs has risen from about six in 1970s to ten in 1980s; whereas that of the Bank's rose from thirty-two in 1980-1983 to fifty six by the end of the decade. (Kapur and Webb quoted in Buira, 2003: 6) The rise of conditionality in the 1990s was basicly due to the expansion of the so-called structural conditionalities. (Buira, 2003: 6)

In that context IMF argues that, though in the mid 1980s, conditionality related to structural reforms was relatively limited in Fund-supported programs, by the mid 1990s, virtually all program and arrangements included some type of structural conditions. (IMF, 2001a: 22) Likewise, another IMF report asserts that "by the late 1980s, almost two thirds of Fund-supported programs contained structural conditionality-structural performance criteria, benchmarks or prior actions-and by the mid-1990s, nearly all arrangements included some structural conditions". (IMF, 2001b: 9)

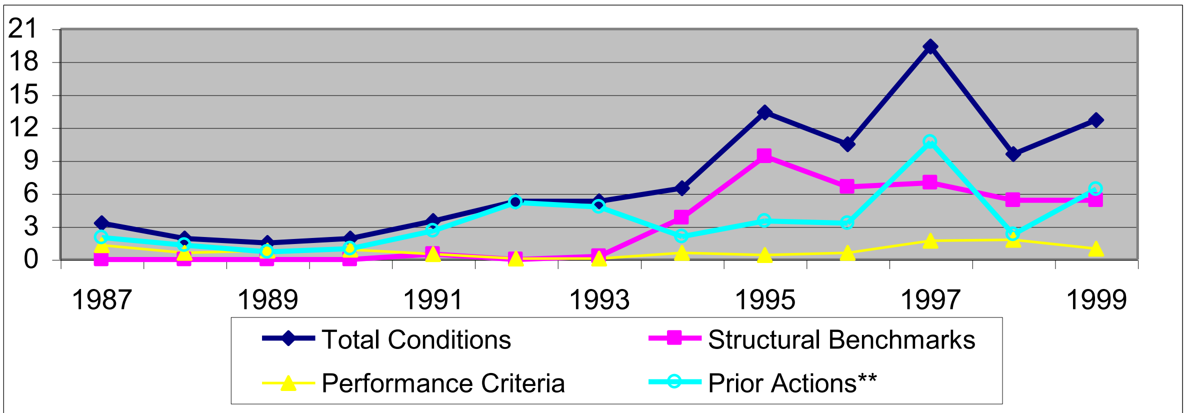


Fig. 2.1: Structural Conditions of Stand-by Arrangements by Type of Condition, 1987-1999 (Conditions per Program Year*; Averages)

*Covering programs with at least one of the following structural conditions: Performance criteria, structural benchmarks, prior actions, or conditions for completing of review; adjusted for differences in program length

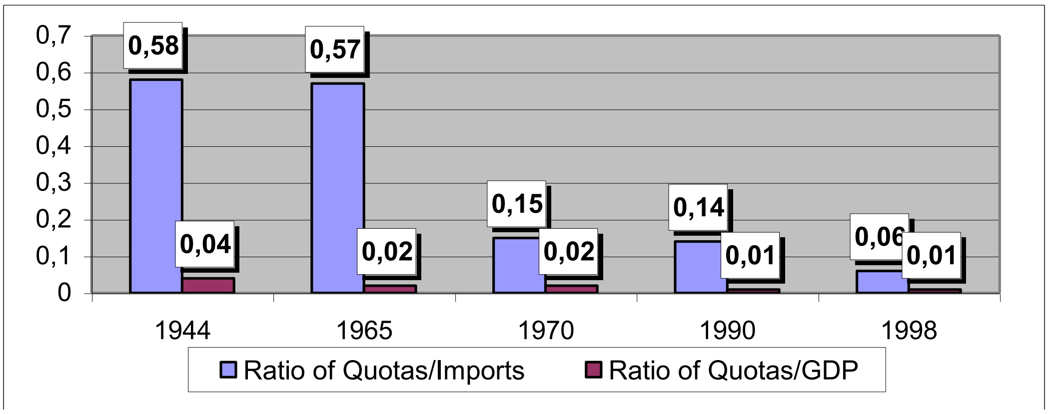
**Including conditions for completion of review

Source: IMF, 2001a

Several reasons could be cited explaining this upward shift in IMF conditionality. First of all, to reply the poor growth performance of heavily indebted countries and address to the criticism that IMF programs had focused very much on short-term demand restraint, IMF began to give more prominence to the issue of growth and thereby structural reforms. Secondly, the establishment of Structural Adjustment Facility (SFA) in 1986 and Enhanced Structural Adjustment Facility (ESAF) in 1988 has contributed to shift the orientation of Fund lending towards programs with a structural component. Third of all, with the disintegration of Soviet Union, a large number of former centrally planned economies have acceded into the Fund, which demanded a comprehensive structural transformation in their economies. (IMF, 2001a: 83)

In addition to these, two more probable accounts could be cited in explaining the reasons for this drastic increase in conditionality, one technical, the other non-technical. The technical explanation is that the continuous decline in Fund resources since the inception of the Fund in 1944, measured as a ratio of international trade or GDP could be put forward as one of the main reasons for the expanding magnitude of conditionalities in IMF programs. (Buira, 2003: 17) As the quotas of IMF have eroded relative to international trade and GDP, and it was allowed for member countries to borrow greater percentage of quotas, that imbalance was tried to be overcome by enhancing conditionality tied to lending. (Kapur and Webb, 2000: 2) Besides, unlike the 1970s, during which the developing countries had the opportunity to borrow easily from private markets, following the debt crisis, in 1980s, almost the sole alternative for them to borrow was the IMF. That has contributed to the strengthening of IMF's leverage against these countries and thereby paved the way for tightening conditionality. (Dreher, 2002: 21)

Fig. 2.2:
The Size of the Fund as a Proportion of İnternational Trade and GDP



Source: Buira, 2003

As for the non-technical explanation, it should above all be stressed that, "at the heart of conditionality lies a process of negotiation", which is determined in essence by power relations between the parties. (Buira, 2003: 4-5) In this context, as Volckner states, "When the Fund consults with a poor and weak country, the country gets in line. When it consults with a big and strong country, the Fund gets in line. When the big countries are in conflict, the Fund gets out of the line of fire". (Volckner quoted in Buira, 2003: 5 and James, 1998: 8) Therefore, if we take into consideration the fact that since late 1970s, no developed country has consulted to IMF, yet solely the developing ones, it was much more easier for them to "get in line" with the IMF on the negotiation table. That could be an appropriate argument to justify the accelerating number of Fund conditionalities in the last two decades.

2.4. Critics on Expanding Structural Conditionality and the New Guidelines

Within this process of increasing structural conditionalities, many criticisms have centered on their loss of focus; implementation of excessive amount of structural conditions; and attempt to achieve many initiatives at the same time and thereby getting out the scope of its competence. (Buira, 2003: 1)

These criticisms have been backed by the global experience since 1970s that program compliance and hence success of programs have been negatively affected from the increase in the number of conditionalities. The reason for that was as the number of conditionalities were expanded, the lesser the chance of compliance of the program objectives by the program countries. (Buira, 2003: 9-10)

Therefore, it was inevitable for the Fund to re-configure its approach on the issue of conditionality. Buira argues that the rationale of formulating new guidelines of conditionality resulted from the fact that former programs have led to an over-burdening of conditionalities that have been eventually dysfunctional and thus contributed to frequent failures of these programs. (Buira, 2003: 15)

Similarly Khan and Sharma assert that the above-mentioned over-burdening was particularly evident with respect to the structural conditions, which have reduced country ownership of programs and thus their effectiveness, and undermined the

confidence in the programs as a whole. (Khan and Sharma, 2001: 21-22),
Within that context, the new guidelines were put forward as an initiative to "reform the Fund's operating procedures, an attempt to establish a new attitude among the staff with a view to attaining a higher rate of program success". (Buira, 2003: 15) The essence of these new guidelines is that, they try to streamline conditionalities, in particular the structural ones, in Fund-supported programs as a reply to the above-mentioned criticisms.
IMF approved these new guidelines in 2002. They consist several prominent and interrelated principles for the design and implementation of Fund-supported programs.
These principles as well as the scope of conditions under these new guidelines are outlined in the tables below. (IMF, 2002: 8)

Table 2.2: New Guidelines of IMF Conditionality

National Ownership of reform programs	Willing assumption of responsibility for a program of policies, by country officials who have the responsibility to formulate and carry out those policies, based on an understanding that the program is achievable and is in the the country's best interests
Parsimony in the application of program-related conditions	Program related conditions should be limited to the minimum necessary to achieve the goals of the Fund-supported program or to monitor its implementation and that the choice of conditions should be clearly focused on those goals
Tailoring of programs to the member's circumstances	A recognition that the causes of balance of payments difficulties and the emphasis to be given to various program goals may differ among members. The specification and timing of policy adjustments and the appropriate mix of financing and adjustment will reflect the member's circumstances and the provisions of the facility under which the Fund's financing is best provided.
Effective coordination with other multilateral institutions	Coordination with other multilateral institutions is necessary in order for the Fund to provide consistent and effective assistance to members. The primary relationship in this context is between the IMF and the World Bank
Clarity in the specification of conditions	Program-related conditions should be transparently distinguished from other elements of the authorities' program both in staff reports and in the member's program documents.

Source: IMF, 2002

Table 2.3: Scope of Conditions Under the New Guidelines of IMF Conditionality

a) Conditions will be established only on the basis of those variables or measures that are reasonably within the member's direct or indirect control and that are, generally, either (i) of critical importance for achieving the goals of the member's program or for monitoring the implementation of the program, or (ii) necessary for the implementation of specific provision of the Articles or policies adopted under them. In general, all variables or measures that meet these criteria will be established as conditions
b) Conditions will normally consist of macroeconomic variables and structural measures that are within the Fund's core areas of responsibility. Variables and measures that outside the Fund's core areas of responsibility may also be established as conditions but may require more detailed explanation of their critical importance. The Fund's core areas of responsibility in this context comprise: Macroeconomic stabilization; monetary, fiscal and exchange rate policies, including the underlying institutional arrangements and closely related structural measures; and financial system issues related to the functioning of both domestic and international financial merkets.
c) Program-related conditions may contemplate the member meeting particular targets or objectives (outcomes-based conditionality), or taking (or refraining from taking) particular actions (actions-based conditionality). The formulation of individual conditions will be based, in particular, upon the circumstances of the member.

Source: IMF, 2002

SECTION 3
TURKISH EXPERIENCE WITH STRUCTURAL CONDITIONALITIES IN 2001

3.1. Financial Crises in the Turkish Economy

In late 1990s, Turkish economy was hit by two adverse shocks, namely the Russian moratorium and the earthquake catastrophes. The crisis in Russia resulted in capital outflows in late 1998 and a sizable loss of export market in the region; whereas the earthquakes devastated the industrial heartland of Türkiye and resulted in further downturn in economic activity in 1999. These two events influenced the economy in a negative manner which had already an inherent unhealthy structure.

In order to eradicate the above-mentioned conditions and ensure macroeconomic stability, at the end of 1999, the "Dis-inflation and Structural Adjustment Program", supported by IMF, was initiated. The program basicly aimed at breaking the inflationary inertia and solving the long-lasting chronic inflation problem in the country; removing the enduring macroeconomic imbalances; and implementing structural reforms. In that context, the economic program rested on three pillars: The non-discretionary monetary policy based on exchange rate anchor and "quasi-currency board" rules to support the disinflation process; structural reforms; and significant fiscal disciplining to aid in the course of the disinflation process and to reverse

unsustainable debt dynamics.
Although the program initially took a brilliant start by yielding a strong drive from all stakeholders and generated positive outcomes beyond expectations, meanwhile, difficulties with the program have gradually become more evident. The problems with the pegged exchange rate regime, increase in oil prices and buoyant demand for imports negatively affected the current account balance; the realizations with respect to inflation and interest rates remained short of their targets; sustainability and healthiness of the banking sector came to be questioned. Besides, certain slippages on policy implementation and structural reform agenda raised concerns on the willingness and ownership of the program by the government.
As a result of these factors, Türkiye was hit by the November 2000 and February 2001 economic crises. These crises have led to an uncertain financial environment and subsequent adverse impact on the real economy.
The crises resulted in a significant rundown in international reserves and forced authorities to switch to free floating exchange rate regime combined with a sharp devaluation of the domestic currency. The worsening circumstances paved the way for rising inflationary pressures, increasing real interest rates, shrinkage of investment and consumption demand, further aggravation of the fragility in the banking sector and in sum contributed to the emergence of an unstable and vulnerable economic environment.

Table 3.1: Basic Macroeconomic Indicators

	2000	2001	2002	2003	2004	2005
Real GDP Growth	7.3	-7.5	7.9	5.8	9.0	5.5[1]
CPI (Annual, % change)	39.0	68.5	29.7	18.3	9.3	7.7
PPI (Annual, % change)	32.6	88.5	30.8	13.9	13.8	2.6
Current Account Balance (% of GDP)	-4.9	2.3	-0.8	-3.4	-5.2	6.0[4]
Public Net Debt Stock (% of GNP)[2]	57.1	90.5	78.5	70.4	63.5	59.9[4]
Public Sector Primary Surplus (% of GNP)	3.0	5.5	4.0	6.3	6.9	6.5[3]
Unemployment Rate	6.6	8.5	10.3	10.5	10.3	10.3

(1) As of third quarter, 2005
(2) Provisional
(3) Program
(4) Projection of the World Bank (Country Economic Memorandum, 2006)
Source: Treasury, State Planning Organization, IMF, World Bank, EU

3.2. Strengthening the Turkish Economy: Türkiye's Transition Program

In order to overcome the problems stemming from these crises, Turkish authorities with the support of IMF have put forward a revised and redefined economic program. This economic program, named as the Strengthening the Turkish Economy: Türkiye's Transition Program, basicly aimed at cushioning the short-term macroeconomic impact of the turmoil, while laying the foundation for the resumption of growth. To achieve these goals, a three-pronged strategy has been pursued in the program: Fiscal and monetary policies to restore financial stability and facilitate disinflation; structural policies and regulatory reforms to prevent the repetition of distortions and weaknesses underlying the crises; and a strengthened social dialogue to promote wage moderation and social protection.

As for the first pillar, the program aimed at implementing a considerable extent of fiscal retrenchment to finance the additional burden arising from the increase in the debt stock following the crises. Fiscal measures were designed to strengthen the primary balance of the public sector, reduce the government's immediate borrowing requirement and to ensure the long-term sustainability of public debt. As for the monetary policy, the program projected a gradual shift from the exchange rate nominal anchor system to the one that the ultimate objective of the Central Bank would be price stability. In that context, the long-term policy implementation of Central Bank would be inflation-targeting regime.

The second pillar of the program was an ambitious structural reform agenda reinforced with a tighter schedule and deeper coverage. The structural reforms encompassed almost all areas of the economy and also spilled over to the sphere of regulatory functions of the state. The latter involved measures such as the establishment of a more accountable public administration; decentralization of some public service provisions to local administrations; banking sector rehabilitation and restructuring; privatization of state owned enterprises; enhancement of transparency in economic management and improvement of governance in both public and corporate sectors; incomes policy in accordance with the targeted inflation; concluding legislative amendments to eliminate obstacles before foreign investment; a comprehensive tax reform, etc.

As for the last pillar, to cushion the destructive effects of the crises on the most vulnerable segments of the society, the program aimed to develop tools of social safety nets and social protection, and tried to promote wage moderation and enhance social collaboration among different segments of the society. Initiatives such as the World Bank supported Social Risk Mitigation Project and Privatization Social Support Project as well as the enactment of Economic and Social Council Law are important in that respect.

3.3. Evaluation of IMF Structural Conditionality within the Context of Strengthening the Turkish Economy: Türkiye's Transition Program

3.3.1. General

Strengthening the Turkish Economy: Türkiye's Transition Program, and the subsequent Letter of Intent dated May 3rd, 2001 could be characterized as typical cases of the implementation of enhanced IMF conditionality towards structural content. Besides various quantitative performance criteria and indicative targets, this Letter of Intent contains twenty seven structural policy conditionalities for 2001.

Moreover almost all of these structural commitments were intended to be concluded until end-May 2001; in other words, within the same month that the Letter of Intent was prepared. When we take into consideration that a great extent of these conditionalities have been accomplished on time, it should be noted that real effort has been given towards achieving the latter.

Besides, when we examine other developing country experiences implementing IMF-supported economic programs, we figure out that the number of structural conditionalities in the Turkish program is one of the highest. As the last column of the below table illustrates, the number of structural benchmarks is highest in the Latin America countries, and with 27 such conditionalities in the mentioned Letter of Intent, the Turkish case is very similar.

Table 3.2: IMF Conditionality

Country	Total	Prior Actions	Quantitative Targets	Structural Benchmarks
East Asia				
Cambodia	30	11	8	11
Indonesia	18	-	8	10
Rep. Of Korea	10	-	4	6
Thailand	9	-	9	-
Central Asia				
Kazakhstan	27	4	10	13
Kyrgyz	37	10	14	13
East Europe				
Albania	43	12	7	24
Latvia	28	-	8	20
Romania	43	11	12	20
Latin America				
Brazil	38	-	7	31
Bolivia	32	-	5	28
Nicaragua	29	-	7	22

Source: IMF: Letters of Intent: Indonesia, 10/31/97; Republic of Korea, 12/03/97; Thailand, 08/14/97; Albania, 12/21/99; Latvia, 11/10/99; Romania, 07/26/99. Policy Framework Papers: Cambodia, 10/06/99; Kazakhstan, 11/22/99; Kyrgyz, 12/27/99; Bolivia, 08/25/99; Nicaragua, 08/23/99. Memorandum on Economic Policies: Brazil, 11/12/99 in Kapur and Webb, 2000: 6

3.3.2. The Content of Structural Conditionalities

When we analyze the contents of these structural conditionalities in the Turkish program, we see that they are cited under four different headings. These are the banking sector reform; fiscal transparency and management; increasing the role of private domestic and foreign capital in the Turkish economy; and fiscal policy and public debt management. (LOI, 2001)

We see that the program attaches considerable importance to the first topic, banking sector reform. Structural conditionalities listed under this heading are basicly concerned with the financial restructuring of state banks, re-capitalization, rehabilitation and resolution of Saving and Deposit Insurance Fund (SDIF) banks, and strengthening of the private banking system. Besides, these conditionalities, in overall, deal with the initiative to establish a healthy financial system in which management and governance of state and private banks as well as other financial institutions are improved and enhanced.

When we examine the structural conditionalities under the second section, that of fiscal transparency and management, we see that there are five conditionalities all of which are put as benchmarks as the type of action. Dealing with core areas of fiscal policy, this section sets forth comprehensive amendments. For instance it is committed that the remaining fifteen budgetary and two extra-budgetary funds would be closed, the number of revolving funds would at least be halved, laws on Public Finance and Debt Management and Public Procurement would be submitted to the Parliament. As argued above, these conditionalities, in essence, aim at adopting of a more transparent budget process, establishing a more flexible and accountable public administration and enhancing the governance of the public sector in Türkiye.

The third section is concerned with increasing the role of private domestic and foreign capital in the Turkish economy. Here, the main concern is on the issue of privatization, and in particular with Turk Telekom. Extensive emphasis on the privatization drive is fully discerned in the Program as well as in the Letter of Intent. The main philosophy here is that privatization of state owned enterprises is assumed to enhance the drive for competition and pave the way to guarantee sustainable growth in the economy. Therefore, although the conditions in the Letter of Intent are concerned with solely Turk Telekom and the parliamentary approval of Tobacco Law, in accordance with the above-mentioned philosophy, in time, additional privatization initiatives would be taken with respect to the areas of electricity, natural gas, sugar, etc.

The last section of structural conditionalities in the Letter of Intent is concerned with fiscal policy and public debt management. In this section, various issues with respect to the approval of tax measures, approval of supplementary budget, enactment of tax regulation to extend the use of tax identification numbers and reduction of the stock of private sector tax arrears are put forward.

3.3.3. Implementation Phase and Outcomes

When we examine the implementations of the government afterwards, we see that many steps have been taken in complying with the requirements of the conditionalities attached to the Letter of Intent. As for the financial sector reform, many initiatives have been taken to eliminate the inherent problems in the sector. Insolvent banks have been taken over by the SDIF for reconstruction and rehabilitation. Banking Regulation and Supervision Agency (BRSA) was fully authorized in the latter as well as recapitalizing other remaining private banks in need. The banking law has been amended to facilitate the restructuring process and support the upgrading of the regulatory framework in the financial sector. Besides, the Treasury has securitized the duty losses of state banks in order to reduce the systemic vulnerability of these banks and their threat to monetary policy effectiveness. Moreover, unproductive branches of state banks were closed down together with corresponding staff reductions. Besides, further progress has been made in terms of preparing some state-owned banks for privatization.

As for the implementations with respect to fiscal transparency and management, we witness that a great number of budgetary and extra-budgetary funds were closed down and the number of revolving funds was sharply reduced in 2001. Moreover, certain amendments were carried out with respect to improving budget documentation and classification that have contributed to attaining budget discipline and improving fiscal transparency and accountability. We see that, one year after the Program, in 2002, two important laws in this context, Public Procurement Law and Public Debt Management Law were enacted.

As for increasing the role of private domestic and foreign capital in Turkish economy, we see that the relevant conditionalities were accomplished as well. For instance, with respect to Turk Telekom, a law was enacted to accelerate the privatization process of the enterprise. The law dealt with various arrangements of the company shares, constitution of the Telekom Board and management, sale of shares to foreign investors, limits to government intervention and foreign ownership, etc. Similarly, the Tobacco, Tobacco Products and Alcoholic Beverages Market Law was enacted in January 2002, regulating the production and pricing of tobacco and alcoholic beverages industry and forming the Tobacco, Tobacco Products and Alcoholic Beverages Market Board to enforce the implementation of the law.

Last of all, we see that conditionalities with respect to fiscal policy and public debt management have been carried out as well. Various tax measures such as increasing petroleum consumption and value added taxes, and increasing the minimum contribution bases relevant for social security payments have been approved. Besides, the approval of supplementary budget in line with program expenditure figures was concluded. Moreover, a tax regulation extending the use of tax identification numbers was enacted and the stock of private sector tax arrears reduced.

In that context, the matrix illustrating major structural reforms that have been carried out during 1999-2002 is presented below. The matrix covers the reforms beginning with the Disinflation and Structural Adjustment Program in 1999, which is assumed to constitute the background and precedent of the Strengthening the Turkish Economy: Türkiye’s Transition Program. The matrix also covers some of the crucial reforms under the new stand-by arrangement prepared in 2002 covering the 2002-2004 period, which is considered as the continuation of the latter program.

We see in the matrix that many comprehensive and vital structural reforms have been implemented concerning various sectors in the Turkish economy. Therefore the Turkish case could be cited as a good illustration of IMF’s evolving and expanding structural conditionality approach towards countries implementing its programs. The next section tries to make brief comments on this issue as well as generate some other concluding remarks.

Table 3.3: Major Structural Laws in Turkey since June 1999

	Law/Year	Sector/Issue-Area	Task/Objective
Banking Law	Law 4389/ June 1999	Banking	Enhancing efficiency, confidence and transparency of the banking sector and ensuring efficient functioning of the credit system; establishment of Banking Regulation and Supervision Agency (BRSA), which is authorized to prevent any actions which could jeopardize rights of depositors and a regular and secure operation of banks
Unemployment Insurance Law	Law 4447/ September 1999	Labor market	Unemployment insurance stipend implementation has been initiated; Unemployment Insurance Fund has been established; Social Security Institution has been established; various measures have been taken within the framework of social security reform
Telecommunications Law	Law 4502/ January 2000	Telecommunications	The Telecommunications Authority has been established to fulfill administrative, financial and technical regulations pertaining to telecommunication; perform follow-up function for these regulations; issue technical standards and test equipment in accordance with these standards; implement administrative and financial measures to those who break the rules and regulations
Electricity and Natural Gas Laws	Law 4628/ March 2001 and Law 4646/ June 2001	Electricity and natural gas	Ensuring the formation of electric energy and natural gas markets which are financially robust, transparent and operate in accordance with provisions of private law in a competitive market environment; achieving a stable supply of adequate, good quality, cheap and environment-friendly electric and natural gas energy and assuring autonomous regulation and supervision of these markets
Sugar Law	Law 4634/ April 2001	Sugar starch sweeteners	Regulation of the production and pricing of sugar industry; establishment of Sugar Board to enforce the implementation of the law
Economic and Social Council Law	Law 4641/ April 2001		Developing consensus and collaboration among social partners in formulating economic and social policies; harmonization of employers and employees of public and private sectors and other civil society organizations with respect to decision-making processes
Civil Aviation Law	Law 4647/ April 2001	Civil aviation	Determining of free pricing of fares on domestic routes; enhancing the capacity of existing fleet; increasing competition that will in turn lead to more employment in the sector in the medium and long term
Expropriation Law	Law 4650	Public sector	Restricting the commencement of expropriation operations until the conclusion of necessary allocations and carrying out these operations using outright purchase and exchanging
Central Bank Law	Law 4651/ May 2001	Central banking	Operational independence in the pursuit of price stability; prohibiting the Central Bank from extending loans to Treasury and other public institutions; prohibition to purchase debt instruments issued by the Treasury and public institutions in the primary market
The Tobacco, Tobacco Products and Alcoholic Beverages Market Law	Law 4733/ January 2002	Tobacco, tobacco products and alcoholic beverages	Regulation of the production and pricing of tobacco and alcoholic beverages industry; establishment of Tobacco, Tobacco Products and Alcoholic Beverages Market Board to enforce the implementation of the law
Public Procurement Law	Law 4734/ January 2002	All public sector	Public Procurement Authority has been established to examine the complaint about all public procurements; prepare all regulations related with public procurements and coordinate them
Public Finance and Debt Management Law	Law 4749/ March 2002	All public sector	Bringing a unified and permanent legal framework to the subject; defining clear and transparent limits to state debt; ensuring coordination between domestic and external borrowing; strengthening risk management; favoring the minimization of operational, financial and fiscal risks.

Source: OECD, Turkish Treasury, CBRT, Strengthening the Turkish Economy: Turkey's Transition Program

CONCLUSION

The basic theme of this paper is that IMF conditionality has evolved in the course of time towards encompassing structural elements and the design of Strengthening the Turkish Economy: Türkiye's Transition Program, initiated in 2001 following the recent crises in Turkish economy is a good illustration of the latter. The structural conditionality dimension of IMF programs are consisted of issues going beyond traditional aggregate demand management and deal with regulatory and institutional features of the market economy. Among the latter could be cited liberalization of trade and financial system; privatisation; and policies of labor market, revenue and expenditure, pricing and marketing, social security, transparency and disclosure, etc.

When the Turkish program and the subsequent Letter of Intent in 2001 are examined, it is figured out that many of these elements are present. Moreover, when the implementation phase since 2001 is evaluated, it is witnessed that almost all of these conditionalities have been satisfied. Therefore, the Turkish program of 2001 coincides with the expanding trend of IMF structural conditionality in Fund supported programs.

From this point of view, the initiative of streamlining structural conditionalities, put forward in the new conditionality guidelines of IMF in 2002, is lacking in the Turkish case. Despite the fact that these new guidelines were approved one year after the Turkish program, once we acknowledge that the preparatory work conducted by IMF is going back long before, we could argue that streamlining effort has not been valid in the Turkish case. Moreover, even if we examine subsequent Letters of Intention written following the approval of these guidelines, for instance in 2003, it would be discerned that the number of structural conditionalities are still considerably high.

In that context, one issue that needs to be briefly dwelled on is ownership. As argued before, one of the main factors in the success of IMF programs is the issue of ownership by the program country. The interrelationship between the latter is much more evident if we take ownership in a broad sense, meaning that beyond solely complying with the Letter of Intentions, having the commitment to the spirit of the program. (Khan and Sharma, 2001: 14) The superiority of ownership stems from the fact that it symbolizes the belief of national policy-makers that program compliance will generate positive results in accordance with their own economic objectives. (Buira, 2003: 26)

Obviously, for the latter to be realized, the programs should be designed satisfying the demands of the program countries. In other words, IMF should not be in a position of dictating the features of the programs by benefiting from its leverage of lender position. In such a way, the classical analogy of principal/agent and IMF/program country could be avoided and the way for a vital alliance between the issues of conditionality and ownership could be opened, which are assumed to be inherently contradictory. The new guidelines should be interpreted and executed in such a direction.

REFERENCES

1. AKYÜZ, Y./BORATAV, K. (2002), “The Making of the Turkish Financial Crisis”, UNCTAD, Geneva
2. BRSA, Internet site, www.bddk.org.tr
3. BOUGHTON J.M. (2003), “Who’s in Charge? Ownership and Conditionality in IMF-Supported Programs”, IMF Working Paper, WP/03/191
4. BUIRA A. (2003), “An Analysis of IMF Conditionality”, paper prepared for the XVI Technical Group Meeting of the Intergovernmental Group of 24, Port of Spain, Trinidad and Tobago, February 13-14
5. CAPITAL MARKETS BOARD (CMB), Internet site, www.cmb.gov.tr
6. COMPETITION AUTHORITY (CA), Internet site, www.rekabet.gov.tr
7. DREHER A. (2002), “The Development and Implementation of IMF and World Bank Conditionality”, Hamburgisches Welt-Wirtschafts-Archiv (HWWA) Discussion Paper
8. ENERGY MARKET REGULATION AGENCY (EMRA), Internet site, www.epdk.gov.tr
9. GOLDSTEIN M. (2000), “IMF Structural Conditionality: How Much is too Much?”, Revision of paper presented at NBER Conference on “Economic and Financial Crisis in Emerging Market Economies”, Woodstock, Vermont, 19-21 October
10. HIRST, P./THOMPSON, G. (1996), Globalization in Question: The International Economy and the Possibilities of Governance, (Polity Press, Cambridge)
11. IMF (2001a), “Conditionality in Fund-Supported Programs-Policy Issues”, prepared by the Policy Development and Review Department
12. IMF (2001b), “Structural Conditionality in Fund-Supported Programs”, prepared by the Policy Development and Review Department
13. IMF (2002), “Guidelines on Conditionality”, prepared by the Legal and Policy Development and Review Departments
14. IMF, “Articles of Agreement of the International Monetary Fund”, www.imf.org
15. IMF (2003), World Economic Outlook: Growth and Institutions, (Washington, April)
16. JAMES H. (1998), “From Grandmotherliness to Governance: The Evolution of IMF Conditionality”, Finance and Development, Volume 35, Number 4, December
17. KAPUR D. And WEBB R. (2000), “Governance-related Conditionalities of the International Financial Institutions”, G-24 Discussion Paper Series, No. 6, August
18. KAUFMANN, D/KRAAY, A./LOBATÒN, P. (1999), “Governance Matters”, Policy Research Working Paper, World Bank, Washington
19. KAUFMANN, D/KRAAY, A./LOBATÒN, P. (2002), “Governance Matters II: Updated Indicators for 2000-2001”, Policy Research Working Paper, World Bank, Washington

20. KEPENEK, Y./YENTÜRK, N. (2000), Türkiye Ekonomisi, (Remzi, İstanbul)
21. KHAN M.S. and SHARMA S. (2001), "IMF Conditionality and Country Ownership of Programs", IMF Working Paper, WP/01/142
22. KÖSE, A.H./YELDAN, E. (1998), "Turkish Economy in the 1990s: An Assessment of Fiscal Policies, Labor Markets and Foreign Trade", New Perspectives on Türkiye, 18, 51-78
23. KRUEGER, A.O./AKTAN, O.H. (1992), Swimming Against the Tide: Turkish Trade Reforms in the 1980s, (Institute for Contemporary Studies, San Francisco)
24. NAIM, M. (1999), "Fads and Fashions in Economic Reforms: Washington Consensus or Washington Confusion", Working Draft of a Paper Prepared for the IMF Conference on Second Generation Reforms, Washington
25. OECD (2002) Regulatory Reform in Türkiye: Crucial Support for Economic Recovery, (Paris)
26. ÖNİŞ, Z., "Domestic Politics versus Global Dynamics: Towards a Political Economy of the 2000 and 2001 Financial Crises in Türkiye, Turkish Studies, 4-2, 2003
27. PUBLIC PROCUREMENT AUTHORITY (PPA), Internet site, www.kik.gov.tr
28. QUINTYN, M./TAYLOR, M.W. (2002) "Regulatory and Supervisory Independence and Financial Stability", IMF Working Paper, IMF, Washington
29. RADIO AND TELEVISION SUPREME COUNCIL (RTSC), Internet site, www.rtuk.gov.tr
30. RODRIK, D. (1990), "Premature Liberalization, Incomplete Stabilization: The Özal Decade in Türkiye", NBER Working Paper Series, No. 3300
31. RODRIK, D. (2000), "Institutions for High-Quality Growth: What They are and How to Acquire Them", NBER Working Paper Series, No. 7540
32. RODRIK, D. (2002), "Institutions, Integration and Geography: In Search of the Deep Determinants of Growth, (http://ksghome.harvard.edu/~.drodrik.academic.ksg/growthintro.pdf)
33. TELECOMMUNICATIONS AUTHORITY, Internet site, www.tk.gov.tr
34. THE WORLD BANK (1992), World Development Report, (Washington)
35. THE WORLD BANK (1994), World Development Report, (Washington)
36. THE WORLD BANK (1997), World Development Report, (Washington)
37. THE WORLD BANK (2000), Reforming Public Institutions and Strengthening Governance: A World Bank Strategy, (Public Sector Board, Poverty Reduction and Economic Management Network, Washington, September)
38. THE WORLD BANK (2002), World Development Report, (Washington)
39. TÜSİAD (2002), Bağımsız Düzenleyici Kurumlar ve Türkiye Uygulaması, (TÜSİAD, İstanbul)
40. ULUSOY, A. (2003), Bağımsız İdari Otoriteler, (Turhan, Ankara)
41. UNDERSECRETARIAT OF TREASURY, Türkiye (2001), "IMF Letter of Intent", www.treasury.gov.tr
42. UNDERSECRETARIAT OF TREASURY, Türkiye (2001), "Strengthening the Turkish Economy: Türkiye's Transition Program", www.treasury.gov.tr
43. UYGUR, E. (1993), "An Overview of Recent Developments and the Adjustment

Program", Central Bank of the Republic of Türkiye (eds.) "Financial Liberalization and Economic Performance in Türkiye", Ankara: 7-21

44. WILLIAMSON J. (1990), "Latin American Adjustment: How Much has Happened?", (eds.), Institute for International Economics, Washington
45. YENTÜRK, N. (1999), "Short-Term Capital Inflows and Their Impact on the Macroeconomic Structure: Türkiye in the 1990s", The Developing Economies, Vol. 37, March