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"What Affects the Implementation of Structural Adjustment Programs?

An Examination of the Conditions Needed for Successful Conditionality"

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Abstract

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Conditionality is an integral component of many foreign aid programs. However, the use of conditionality remains controversial, with both sides fiercely weighing in on its appropriateness, efficacy, and necessity. One facet of this debate is focused on the conditions under which conditionality can be useful. My paper examines this particular question and looks at the relationship between business groups, domestic political conditions, domestic monitoring efforts, and reform implementation. I predict that in domestic environments conducive to domestic monitoring efforts, there should be a high likelihood of successful reform implementation. I look specifically at business groups in the government to lead these monitoring efforts. Using the OLS method, a quantitative analysis of these variables is conducted, followed by an examination of a case study, Malawi. My analysis finds that though domestic monitoring efforts do play a significant role in reform implementation, the link between business groups and their influence on domestic monitoring efforts is not very clear. Moreover, regarding the domestic political conditions, my quantitative analysis finds that the only significant political variable affecting reform implementation is the length of executive tenure. Democracy levels, political instability and ethno-linguistic fractionalization are not found to have a significant effect on reform implementation despite the findings of previous literature that supports this. Using the case study of Malawi, I find that a committed executive was the most important factor in successful reform implementation. Ultimately, my findings are suggestive that conditions conducive to domestic monitoring efforts do have an impact on reform implementation, but they are not conclusive regarding the exact conditions under which conditionality is useful.

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Introduction

The history of development aid has been a mixed bag of successes and failures. One example of this has been the dismal record of implementation of World Bank structural adjustment programmes. Nicolas Van de Walle suggested that despite the World Bank-reported 60 percent implementation rate of SAPs during the 1980s, "the effective implementation rate is probably lower, since at least some of these conditions involved policies the government would have undertaken in the absence of a Bank loan, while others did not involve substantial difficulties" (Van de Walle 2001). Additionally, researcher Tony Killick, who has carried out the most thorough studies on implementation, found that 75 percent of second-round disbursements of adjustment loans were delayed more than a year due to noncompliance (Killick 1998). In their attempts to find strategies for success, financial institutions, such as the World Bank and USAID, use conditionality, the practice of linking the provision of foreign aid to the implementation of policy reforms. Policy reforms typically aim to remove major economic distortions, focus on macroeconomic adjustment, and support institutional changes. This can include the elimination of quotas and removal of barriers to competition. Together, these policy reform conditions are known as structural adjustment programmes (SAP). The use of conditionality is now approaching its thirty year mark, but the debate over its usefulness in increasing the efficacy of aid continues.

The fact that IMF structural adjustment programmes have implementation rates of 21 to 75 percent has led to numerous polemics and conspiracy theories. However, this has also led to literature examining whether there are certain conditions or certain actions

donors can take to influence SAP implementation. Yet much of this literature ignores domestic factors or treats them as mere controls. Hence, my question is: "Under what domestic political conditions in recipient countries does conditionality lead to the successful implementation of World Bank structural adjustment programmes (SAPs)?" In addressing this question, I seek to contribute to our understanding about what factors influence SAP success, providing an explanation that focuses on the role of domestic political factors.

Literature Review and Theory

The story of conditionality and foreign aid begins at the end of World War II, with developed countries' provision of aid to newly independent and developing countries. Foreign aid was supposed to give recipient countries the push they needed to propel themselves into self-sustained economic growth. It was granted under the assumptions that 1) governments had the capacity to formulate successful macro-level policies and that 2) the Harrod-Domar model could calculate the correct amount of aid needed to achieve a target growth rate. The Harrod-Domar model implied that economic growth was dependent on the quantity of labor and capital rather than technological progress. Thus, to increase economic growth, a country needs to accumulate capital through investment or, in the absence of it, through foreign aid. (Tarp 2000)

The 1960s saw a continuation of these trends. Foreign aid was given to make up the shortages in domestic savings and foreign exchange earnings through sector programme lending. In the 1970s, the "human" element of development came to the forefront of donor focus, and we witnessed a shift away from investment in infrastructure projects to poverty-reducing social welfare and rural development projects. Foreign aid

was provided in the form of sector loans and packages combining capital and technical assistance. (Tarp 2000)

However, after three decades of loans and grants, aid donors and recipients finally realized that despite all they had done, they were not succeeding. Instead, aid recipient countries were increasingly falling victim to heavy aid debt burdens since much of the aid was given in the form of loans. The financial crisis of 1982, during which Latin American countries defaulted on the loans because the foreign debt exceeded their earning power, proved to be the last straw. Donor nations blamed irresponsible policies in recipient countries for aid's failure. Consequently, they redirected their aid policies towards stabilization and structural adjustment. New aid came in the form of programme loans attached with conditions outlining mandatory policy reforms. In order to receive financing, recipient governments accepted the conditions outlined in the structural adjustment programmes, which are geared towards making developing economies more market oriented. Examples of conditions include the removal of state subsidies, lifting import restrictions, and, most currently, policies to improve governance. These conditions were heavily influenced by the Washington Consensus, a set of ten economic policy prescriptions for countries in financial crisis developed by Washington, DC-based financial institutions. Donors insisted that recipient governments comply with these prescriptions under the belief that following these conditions with aid would yield economic growth.

The theory behind conditionality is that it is a way to resolve problems inherent to the donor-borrower/principal-agent relationship. Donors are principles and borrowers are agents in a principal-agent relationship. As in all such relationship, there is a problem of

moral hazard where the party with a "safety net" may elect to take greater risks than they normally would do without it. In this case, borrowers may misuse the aid or not enact the necessary reforms, and lenders would not know whether poor economic outcomes are due to poor performance by agents or by exogenous conditions. Hindered by a problem of asymmetric information, lenders find it difficult to enforce the proper use of aid. Attaching conditions is a way by which principals can motivate agents to enact the policy reforms by setting targets against which they can evaluate borrowers. The core assumption behind this theory is that better policies in recipient countries would lead to a more effective use of aid and to the achieving of the goal of economic growth.

Hence, conditionality is a strategy to improve policy environments by resolving the problems associated with the principal-agent relationship. Using conditionality, the donor designs a contract of policy reforms and targets that need to be met in order to receive aid credits or loans. The recipient government can either accept or reject the contract on the basis of the incentives created by the contract. Without these conditions, donors who also value the outcomes of the recipient country's actions cannot successfully monitor actions chosen by the recipient government. This may lead the recipient government to pursue outcomes other than the ones donors want. With conditions, the donors can try to influence the recipient government to pursue the policies that the donors believe will lead to successful outcomes, such as positive GDP growth. The recipient government will only receive financing if it meets the conditions specified. Donors believed that once this happens and policy reform occurs, aid can then be put to effective used. (Tarp 2000)

However, problems with asymmetric information, time inconsistency and enforcement continued to complicate many of the predicted outcomes of conditional aid programmes. Asymmetric information remains a problem because recipients usually always have more information about their own actions than lenders do. Compounded by the fact that the World Bank often does not carry out the threats or promises they make to recipients, conditional aid programmes only achieve partial success. In his 1997 paper "When is Aid Credible?," Jakob Svensson finds that in a majority of cases, even when recipient governments go back on their promises of policy reform, the World Bank still disbursed their funds. Several strains of literature on the lending motivations of the World Bank and other financing institutions find that many lenders have their own motivations, often strategic, to keep lending despite clear signs of trouble. Common reasons to lend irrationally include defensive lending to prevent embarrassing defaults and international political strategy (World Bank 2008). An office within an international financial institution may have next year's budget based on the amount they lend out this year. In a recent discussion regarding the use of conditionality in slum upgrading programs in Asia, a World Bank representative from the Philippines revealed that the Bank was wary of denying financing to recipient governments because recipient governments can ask for help from another international financial institution (e.g. the Asian Development Bank), thus jeopardizing the Bank's role as a lending institution (Pablo 2010). As a result, aid agencies and donor countries alike were charged by their critics with worsening existing problems. Some recipient governments, not viewing the World Bank's threats as credible, have acted with impunity.

Another major reason for the World Bank's lack of credibility is doubt over the effectiveness of the Washington Consensus recommendations. Do neoliberal policies really lead to growth? During the 1990s, the effectiveness of aid conditionality was fiercely debated in policy and academic circles. A significant part of this debate was over the assumption that policies made a difference in the effectiveness of aid. The line of thought was that if policies did matter, then the use of conditionality was not all in vain because it is through conditionality that donor and recipient countries could make the necessary policy reforms. This debate has led to numerous econometric studies being produced, of which the most influential was "Aid, Policies and Growth" by Craig Burnside and David Dollar (1997, 2000), which finds that 1) aid does have a positive effect on growth in countries with good fiscal, monetary and trade policies, but that 2) aid had no systematic effect on policies themselves. This suggests that aid conditionality does not work.

However, both findings have been challenged by many subsequent studies, such as Hansen and Tarp (2000, 2001), Dalgaard and Hansen (2001), Guillaumont and Chauvet (2001, 2002) and Dalgaard (2004). In their study, Hansen and Tarp (2000) find a positive relationship between aid and growth even in cases where poor policies were being pursued. Meanwhile, in "Aid and Performance: A Reassessment", Guillaumont and Chauvet argue that aid effectiveness is not only determined by policy, but rather also by exogenous environmental factors (e.g. climatic shocks, terms of trade trend and real value of exports instability, etc), which are probably even more significant. The debate over whether the effectiveness of aid is contingent on policies is still unresolved. Consequently, in this paper, I do not explore whether the prescribed policy reforms are

economically viable and ultimately successful in producing growth. Instead, this paper will examine whether policy reforms, prescribed by the World Bank, have been successfully implemented. This brings us to the debate surrounding the effectiveness of conditionality.

Conditionality refers to the use of conditions attached to various forms of aid financing. Tony Killick and many others argue that conditionality does not work because it fails "to create an incentive system sufficient to induce recipient governments to implement policy reforms they otherwise would not undertake, or would undertake more gradually" (Killick 1998). Conditionality might even create the incentives for recipient governments to "game" the system, by promising to reform to receive the aid, but later, reneging on their promises, knowing certainly that donors will still give them the aid.

The empirical evidence for the failure of conditionality is found in many studies. In the 1997 study, Burnside and Dollar do not find any systematic effect of aid on policy. In a 2000 study, Dollar and Svensson examined 220 IMF and World Bank-supported economic reform programmes from 1980 to 1995 in an attempt to answer the question of what explains the success or failure of structural adjustment programmes. Success is full implementation and is measured through the World Bank's IEG (formerly OED) grade, inflation levels, and budget deficits. They find that domestic political variables (e.g. political instability, ethnic fractionalization, democracy, etc) best predicted the outcome of a reform programme supported by adjustment loans 75% of the time. They also found no evidence for any variables under the World Bank's control (e.g. number and type of conditions, size of loan, or administrative resources) in increasing the likelihood of

reform success. From these findings, Dollar and Svensson conclude that conditionality does not really work. Indeed, they aptly choose this quote as a summary of their findings:

> "It seems clear that the lending cum conditionality process works well only when local polities have decided, largely on their own, possibly with outside technical help, to address their reform needs, effect certain policy changes sequentially, and approach the international community for financial help in getting there." (Ranis, 1995)

In terms of conditionality, both this study and many others suggest that the role of donors should be to identify reformers, rather than to create them. But should this be the end of conditionality as an instrument to promote the efficacy of aid? Is all conditionality damaging or irrelevant?

The answer is not necessarily. In 2005, Thaddeus Malesa and Peter Silarszky of the World Bank produced their own study, "Does World Bank Effort Matter for Success of Adjustment Operations?" Using the same framework developed by Dollar and Svensson, Malesa and Silarszky examine 643 World Bank adjustment operations from 1980 to 2003. They find further evidence for domestic political factors having a major impact on the success of supported reform programmes. However, they differ from the first study in concluding that political factors are not the only determinants of success of reform programs. Specifically, they find that there are variables under the World Bank's control that play a role in determining the success or failure of adjustment programmes. These variables include preparation costs, supervision costs, share of macroeconomic and fiscal conditions, and the number of legally binding conditions.

Other studies at the World Bank reveal that World Bank conditionality has been more effective when conditionality was simpler, focusing on a smaller number of measures, and when the government was already committed to the reforms. This last point hints at the importance of domestic political factors in influencing the implementation rate of SAPs. Additionally, if one looks beyond the econometric evidence, case studies from "Aid and Reform in Africa" (Devarajan, Dollar and Holmgrem 2001) suggest that aid can influence policy in a positive way. Cote d'Ivoire, Mali and Ghana are all several instances where reforms have been implemented under the pressure of the donors. In many cases, especially when the initial conditions had hindered reforms and when these conditions were likely to change, aid was a significant factor of improvement in policy.

Indeed, the current debate is now focused on determining the circumstances under which conditionality would be effective as well as on which form of conditionality is best. In "Is Aid Oil?" (2006), Paul Collier finds that conditionality is one aspect of aid that does work through value-adding, though he makes the distinction between certain types of conditionality. He highlights five different types of conditionality: ex ante policy conditionality, ex post policy conditionality, ex ante outcome conditionality, ex post governance conditionality, and mutual conditionality. In particular, he notes that ex ante governance conditionality may be capable of changing the incentives in weak governance countries to increase accountability to citizens. This is a break from past debate by suggesting that conditionality used to build new institutions for channeling money into the weakest and most needy environments is new territory but not inherently risky. This

paper is significant in proposing that conditionality may still have applicability to aid programmes.

In "Aid and Conditionality", Peter Waller (1994) argues that Germany's experience with conditionality shows that conditionality can be implemented successfully in countries which depend heavily on foreign aid, and where economic and foreign policy interests (of donor countries) are minimal. Other studies supporting the use of conditionality include a study by Ivanova et al. (2003), which suggests that conditionality is the reason for the success of 80 percent implementation of macroeconomic conditions in 170 IMF-supported programs in 1992 and 1998, and a study by Djankov et al. (2006), which argues that conditionality works if donors and recipients are private actors.

In short, the literature is starting to recognize the influence of domestic political variables on the outcome of a SAP. In their study, Dollar and Svensson (1998) find substantial empirical support for the influence of these variables, but they do not offer an explanation for how the absence or presence of such variables affects the policy implementation. On the other hand, Malesa and Silarszky (2004) treat the domestic political variables as mere controls, electing instead to focus on the influence of Bank effort on the outcome of a SAP. Two issues arise from this. First, the literature in general has not fully explored the causal mechanisms in the domestic factors and implementation relationship. Second, the literature seemingly attributes SAP implementation to either domestic political variables or to conditionality and policy design. However, I argue that it is not one or the other; rather, there is an interaction between the two that affect SAP outcomes.

Hence, my theory is grounded in the principal-agent relationship. The principal is at a disadvantage because he or she does not have complete information on the agent's actions. It is clear that for conditionality to be effective, the problem of asymmetric information needs to be resolved or, at least, mitigated. As a result, I argue that conditionality has a better chance of leading to successful policy implementation in those environments in which the monitoring problem is addressed. Monitoring can be carried out by external actors such as the World Bank itself. Some studies have focused on this, such as the Dollar and Svensson (1998) and Malesa and Silarszky (2004).

My focus, however, is on domestic monitoring. Domestic political environments that are conducive to monitoring efforts should improve the Bank's access to information on recipient countries' policy reform effort and increase the probability of SAP implementation. Internal monitoring reflects the capacity of parties who stand to benefit from policy reforms and will act to implement these reforms. These parties may include opposition parties or interest groups. I am specifically looking at those groups that represent business interests. Business groups would want policy reform for two reasons. First, they would be more inclined to see the government committed to reform if they believe they can benefit from the improved business operating environment. An example is a group of importers who would benefit from trade liberalization and the lowering of tariffs. Second, business groups may also want to see the government keep the commitments it makes.

The greater the capacity of these groups to monitor reform progress, the more accountable they can hold the recipient government to implementing reform, which can force commitment to the project. For instance, if a government was lagging in complying,

or not complying at all, with the conditions outlined in a SAP, these groups can alert the World Bank of the government's actions. Regardless of the Bank's next step (whether to put pressure on the government and maintain the partnership or to interrupt the programme), the Bank is better informed and in a better position to make a decision. Information from domestic monitoring efforts could also be made public through the press and this is another way of putting pressure on the government to implement policy reforms.

There are two underlying premises on which my theory is based. First, for business groups to successfully monitor the government's reform efforts, they must have access to internal government records and sources so that they can keep tabs on the executive and observe whether he is completing the credit or loan conditions. This means that in addition to having a presence within society, business-oriented groups must also have a presence in the government. Thus, I will examine how well represented business groups are in the legislature. The second premise is that reform implementation is dependent on a country's press and speech freedom. Once business groups can effectively monitor the reform efforts mandated by the World Bank conditions, they need to be able to communicate their findings. The level of press and speech freedom within a country directly impacts business groups' capacity to do this. Thus, my theory regarding the relationship between internal monitoring and probability of reform success is conditional on two other factors: the political influence of the groups themselves and the level of press and speech freedom.

Much of the literature on policy reform assumes that domestic opposition parties and interest groups (SIGs) are opponents of reform while governments sign a contract

with the intention of carrying out the reform conditions. These groups are treated as potential "veto players" to reform, and the more powerful these opposition groups are, the less likely the recipient regime will be able to fully implement a structural adjustment programme. In the presence of many veto players, there is more policy stability but less political cohesion and more political fragmentation, which make passing reforms much harder since it is more difficult to acquire the support that economic policy reforms need. Though this is the prevalent argument, there are other strains of literature that are beginning to question this. For instance, in "The Contribution of Veto Players to Economic Reform", researchers Scott Gehlbach and Edmund Malesky (2009) find "veto players may encourage policy change by weakening the power of special interests that prefer inefficient reform outcomes" (Gehlbach and Malesky 2009). Their study finds that an increase in veto players actually leads to an increase in total economic reforms and a decrease in total reform reversals. More relevant to my focus, they also highlight the significance of domestic political variables by suggesting that a constitutional framework conducive to initial reform may lock in those achievements over time.

My argument also takes an opposing stance. Opposition groups, especially business-oriented ones, are potential "reform winners", and they have an incentive to keep tabs on the government's reform progress and see reforms implemented. Thus, I expect to see more monitoring of the reform process lead to a higher probability of successful reform implementation in a situation where there are many potential reform winners. This assumes that the government signs a contract with the World Bank but has no intention of carrying out any reforms, which is a reasonable assumption given that reforms, especially ones of an economic nature, may be unpopular with the general

population because of the associated adjustment shocks. A government may worry about the loss of approval ratings or political instability. My theory can be disproved if I find that the presence of potential reform winners actually has the opposite effect on monitoring and reform outcome.

Hence, my hypothesis is that the successful implementation of structural adjustment programmes rests on certain domestic political factors that influence internal monitoring efforts. Specifically, I am focusing on the impact of business groups and their monitoring efforts. I predict that if there is a high level of internal monitoring effort, then a country's structural adjustment programme will be successfully implemented.

Empirics

My paper is modeled after the framework set up by Dollar and Svensson (1998) in their original paper, and replicated by Malesa and Silarszky (2005) in their more recent study. The former analyzes a database covering 272 operations, and examines the relationship between political variables, World Bank variables, and programme success. The latter increases the sample to 643 operations and runs the same analysis. My paper builds upon the work of the two papers. I will focus on a more specific group of variables and use a more recent set of projects as my observations.

My paper consists of two parts. In the first part, I conduct a quantitative analysis on a cross-section of World Bank programmes. Much of the literature on this topic has taken a case-study approach, which I have found to be useful in highlighting the causal relationships between variables. Thus, in the second part of my paper, I discuss a case study selected on the basis of the initial quantitative analysis.

The unit of analysis in my study is individual World Bank operations designed to support reform efforts during the 1990-2006 period. Each operation begins with an identification of development objectives, project impact, risks, alternative solutions, and timetable. The borrowing government develops a project proposal that includes all the aforementioned considerations and the terms of the loan and credit to present to the Bank board for approval. Once approved, the funds are disbursed and the next steps are implementation, supervision and completion. Each project lasts the duration of the loan or credit disbursement period, which is anywhere from 1-10 years. When an operation is completed, the Bank's Independent Evaluation Group (IEG) sends staff members to evaluate the success of the project and these primary ratings are my dependent variable. I aim to test my theory, to check the robustness of past findings, and to shed light on the contradictory findings on conditionality.

In securing the data sources used in the previous studies, I have made substitutions in the instances where the data is not readily accessible. For the foundation of my dataset, I made use of Appendix C in the World Bank publication "Public Sector Reform: What works and Why—An IEG Evaluation of World Bank Support". The Appendix contains details on 465 closed and active World Bank operations between 1990 and 2006. Though the inclusion of projects in the report was based on their relevance to the theme of public sector reform, conditionality was a major component of all the projects. These projects were drawn from the Adjustment Lending Conditionality and Implementation Database only after having satisfied the criterion of containing at least three conditions required for funding disbursement. The authors even find a trend of increasing conditionality associated with public sector reform operations (World Bank

2008). Additionally, conditionality has evolved to include administrative reforms in addition to the usual macroeconomic reforms. Hence, there is no reason to suspect selection bias.

My dependent variable is project outcome, which is operationalized as the Independent Evaluation Group's project ratings (formerly known as the Operations Evaluation Department outcome ratings). The source of this indicator is the aforementioned Appendix C. Project outcome is rated on a six-point scale from 1 to 6 with 1 being highly unsatisfactory and 6 being highly satisfactory. Each project is rated on the extent to which its major relevant objectives were achieved efficiently. The advantage of these ratings is that they do not look too narrowly at whether specific conditions were met or not, nor do they look at outcome variables, such as inflation and economic performance. Rather, they focus on whether the larger objective of the reform has taken place, which is an important distinction. The recipient government can meet specific conditions, but if these conditions are superficial auxiliary ones and not the main conditions, the primary goal of policy reform will hardly be met. And since conditionality is used in many different types of operations (e.g. capacity building, economic reform, or governance reform), it would be difficult to select one appropriate outcome variable to measure an operation's success or failure. The use of outcome variables, which are tempting choices for dependent variables, can also be complicated by policy lag and exogenous shocks (e.g. a sudden rise in oil prices). A government may implement policy reforms fully in accordance with World Bank conditionality, but if a shock, such as an earthquake or a rise in fuel prices, occurs, this can detrimentally impact the country's economic sectors for a period of time. In this case, using GDP growth rates or production

rates as measures of programme success will lead to inaccurate ratings. Thus, IEG ratings, though imperfect and possibly subjective, are the next best measure of policy implementation and reform.

For data on my independent variables, I made use of the Quality of Governance (QOG) dataset, which brings together a host of individual indicators from multiple indexes such as the Freedom House indicators, the Fraser Institute indicators, and the World Development Indicators. It is difficult to measure the presence and strength of business groups within society directly because of the paucity of comprehensive data, such as data on organized lobbies. While the Database of Political Institutions does have measures that identify various interest groups in the legislature (e.g. nationalistic, rural, regional and religious), the database does not have a measure for business interests. Instead, I am relying on various partial measures to try to capture the presence and strength of business groups. I use three indicators from the 2009 World Development Indicators: manufacturing as a percentage of GDP (*ManufVAL*), industry as a percentage of GDP (*IndusVAL*), and services as a percentage of GDP (*ServVAL*). The intuition behind these choices is that the each sector's proportion of national GDP reflects their influence within society and within the government. For instance, if industry accounted for 67 percent of national GDP, then I would expect the interests of industry groups to be well represented in government. Another indicator to measure the presence of business groups within a country is the number of establishments (*Establishments*), which comes from the 2009 UNIDO Industrial Statistics Databases for ISIC. This indicator is scaled by a 1000. The same intuition guiding the selection of the sector variables applies here. The greater this number is, the greater the influence of business groups in society and in

government. This will lead to the pursuit of monitoring efforts, which eventually leads to a higher probability of successful reform efforts

The second group of independent variables serves as proxies to measure the strength of the opposition in the legislature. If there are many business interest groups in society, there should be a correspondingly large business presence in the political sphere and especially in the legislative branch, where business groups would be able to monitor government reform efforts. The data for these variables are all drawn from the Database of Political Institutions dataset (Beck et al 2000; 2001; Keefer 2008), which is part of the Quality of Governance dataset. The variables are opposition seat share (*Opp_seat_share*), opposition vote share (*Opp_vote_share*), opposition fractionalization (*Opp_frac*), and number of veto players (*Veto_players*). I predict that higher proportions of opponents in the legislature lead to more monitoring of the executive's reform efforts.

The last set of proxies includes interaction variables. The only non-interaction variable in this group is the freedom of speech (*Speech*), which is drawn from the Ciri Human Rights Project database (Cingranelli and Richards 2008). This measures the extent to which the freedoms of press and speech are affected by government censorship. The scale ranges from 0 to 2 with higher values indicating higher freedom. I include this variable because when business groups have information on the government's reform efforts, they need to be able to share their findings. The more freedom of speech there is, the better able they are to share it with other parties that also have a stake in reform outcome, such as the World Bank and the public.

The three interaction variables are created to measure the impact of an independent variable conditional on the level of another independent variable. These

variables are multiplied together to model interaction: opposition vote share and opposition fractionalization (*Ovsfrac*), opposition seat share and opposition fractionalization (*Oppseatshfrac*), and the number of establishments and freedom of speech (*Estabspeech*). The intuition behind the creation of these variables is to look beyond the size of the opposition in the legislature. These interaction terms take into consideration the nature of the opposition and how this influences the capacity of the groups to monitor the executive. The opposition may fill many legislative seats but if they are fractionalized, then efforts to monitor reform efforts may not be successfully pursued. For the last interaction variable (*Estabspeech*), I aim to examine the relationship between the number of establishments, the freedom of speech and reform outcome. Without a doubt, businesses and firms, sensitive to changes in government policy, would be the first to know whether the government was shirking or not in the implementation of the reforms dictated by the World Bank. A country's level of freedom of speech would be a major factor influencing their decision to share their findings or the views they hold. For instance, a country has a small number of businesses and firms who have noticed that their government is lagging in reform implementation. If the freedom of speech is high, this small group of establishments could still be vocal enough to alert the World Bank of their government's lack of effort in meeting program conditions. Though I use only three interaction variables in my thesis, these are not the only possible combinations that can be generated. Future studies can test different combinations of interaction variables.

In Dollar and Svensson (1998), the researchers examine four major political economy variables: regime type (e.g. democracy versus authoritarian), political instability (e.g. measured by the presence and incidence of government crises), ethnic

fractionalization (e.g. social division), and length of tenure. These variables are drawn from the theoretical literature on policy reform for their impact on the likelihood of successful reform. Dollar and Svensson (1998) find that reform success is associated with governments characterized by political stability and democratically-elected government officials. About 50 percent of successful structural adjustment programmes were implemented by democratically-elected government in contrast to only 32% of failed adjustment programmes. Meanwhile, they find that reform failure is associated with governments characterized by high levels of ethno-linguistic fractionalization and the presence of long-term incumbents. Their model with these four variables correctly predicts about 75 percent of the observations.

Demonstrated to affect the likelihood of successful reforms, I use Dollar and Svensson's variables as controls for my models. The data for these controls is drawn primarily from different sources within the Quality of Governance dataset. Dollar and Svensson (1998) suggest that the main motivations for democratically-elected governments to adopt structural adjustment programmes are reputation building and the desire to implement policies efficiently. This may be true, but there might be another reason why democracies are more likely to implement structural adjustment programmes. The freedom to organize and participate in politics as well as the freedom to speak freely and uncensored allows opposition groups to monitor and hold the government accountable to making policy reforms. I hope to find results that support this view through my quantitative and qualitative analysis. The source for the indicator on a country's level of democracy (*Imp_polity_sc*) is the combined Freedom House and Polity

index. This index rates countries on a scale of 1 to 10 with higher values signifying a more democratic state.

Political instability can negatively affect reform implementation by lowering the returns of reform for the regime. For many reforms, the benefits appear at some point in the future while the costs are incurred immediately. In his work, Mancur Olson suggests that time horizons guide a leader's decision to engage in predatory behavior or to invest in the people's wellbeing. Leaders facing a short time horizon will steal and repress while leaders facing longer time horizons are more likely to invest (Olson 2003). If government officials have a crisis on their hands, they may choose against implementing policy reform for fear that it could make the situation worst or that they will not remain in their offices long enough to reap the fruits of their labors. Data on political stability (*Political_stability*) is drawn from A.S. Banks' Cross-National Time-Series Data Archive (Banks 2001) and is measured as the average number of governmental crises during the implementation of the program. Banks' definition of crisis is any problem with terms-of-trade, inflation, or budget prior to reform. However, this does not necessarily mean that a government enjoying political stability and a long tenure will be more inclined to implement reform.

Olson also argues that stability allows special interests to entrench and institutionalize their influence, thus impeding reform (Olson 2003). His theory on institutional sclerosis predicts that these special interests, if not swept away, will tear the economy apart with their distributional demands (Olson 2003). Although the literature is conflicting at times, the impact of these variables on reform implementation is undeniable and hence, they are included as controls. The data on the length of tenure

(*Time_in_office*) is pulled from the Database of Political Institutions (Beck et al 2000; 2001; Keefer 2008), which is in the Quality of Governance dataset.

The indicator for social division is taken from a combined ethno-linguistic fractionalization index developed by Easterly and Levine (1997) with additional ethno-linguistic fractionalization variables taken from Muller (1964), Roberts (1962) and Atlas Narodov Mira (1964). The index is scaled from 0 to 1 with higher values denoting higher fractionalization. Ethno-linguistic fractionalization can cause tensions in society that are not conducive to reform implementation.

Other variables that may affect the likelihood of successful reform are: initial GDP per capita, loan size and world region. I am controlling for initial GDP per capita (*GDPcapPPL*) because a country's level of wealth could impact its ability to implement policy reform. A wealthier country, more able to withstand adjustment shocks, may be more open to implementing policy reform, while a poorer country, which might not have the resources to cushion its citizens from adjustment shocks, may only elect to reform partially. The data for this indicator is drawn from the 2009 World Development Indicators. This variable is lagged by one year so there will be no confusion as to which way the direction of causality runs when GDP per capita is regressed on reform outcome.

The size of the loan (*Loan_size*) is another potential influence on reform outcome. The size of the loan may influence the amount of resources dedicated to preparation and supervision efforts. The source of loan data is Appendix C from the IEG report "Public Sector Reform: What Works and Why—An IEG Evaluation of World Bank Support".

The last control is a set of 6 regional dummies, and I will use them to check for region-specific effects. The 6 dummies are Sub-Saharan Africa (*AFR*), East Asia and the

Pacific (*EAP*), Europe and Central Asia (*ECA*), Latin American and the Caribbean (*LAC*), South Asia (*SAR*), Middle East and North Africa (*MNA*). To control for country-level effects, I will cluster standard errors by country.

Data

My dataset is composed of 465 projects approved between 1990 and 2006. Sub-Saharan Africa was the location of the most operations– approximately 37 percent of the all the projects occurred here. Latin America and the Caribbean came in second place with approximately 22 percent of projects, and Europe and Central Asia with 19 percent of projects. East Asia and South Asia trailed in fourth and fifth place with each accounting for 9.5 percent and 8.6 percent of the total projects, respectively. The smallest percentage of cases, a mere 3.44 percent, occurred in the Middle East and North Africa region. Table 1 summarizes a set of key descriptive statistics for the total sample. The observations are very diverse.

Of the total 465 projects covered in the dataset, IEG staff members had evaluated 336 of the projects by the report's publication date of 2008. Of these 336, 95 projects were rated highly unsatisfactory, unsatisfactory and moderately unsatisfactory, while 241 projects were rated moderately satisfactory, satisfactory and highly satisfactory. Table 2 provides a set of key descriptive statistics on the characteristics of successful and unsuccessful operations based on their IEG project ratings. The first 6 variables are control variables while the remaining variables are my independent variables.

Successful operations are generally found in countries with less ethno-linguistic fractionalization and less political instability. These countries are also more democratic, with higher polity scores, and wealthier, with higher initial GDP per capita. The average

Table 1 Descriptive statistics

Variable	Observations	Mean	Standard Deviation	Minimum	Maximum
Ethno-linguistic Fractionalization	399	0.454	0.310	0	1
Political Instability	461	0.219	0.557	0	3
Imputed Polity	462	5.829	2.511	.75	10
Time in power	450	6.287	6.082	1	38
Initial GDP per Capita (PP)	453	3354.591	3180.233	244.326	15200.61
Loan Size	465	99.886	194.508	0	2525
Freedom of Speech	449	1.007	0.599	0	2
Veto players	436	2.796	1.683478	1	17
Opposition Fractionalization	347	0.465	0.303	0	1
Opposition Vote Share	457	20.458	21.404	0	70.98
Opposition Seat Share	412	0.308	0.210	0	0.862
Establishments	139	25.618	54.322	0	434.666
Industry/GDP (%)	430	26.756	9.018	7.179	68.186
Manufacturing/GDP (%)	412	14.335	6.487	2.609	36.748
Services/GDP (%)	430	47.989	11.777	12.872	80.811

Sources: Banks 2001, Database of Political Institutions (Beck et al 2000; 2001; Keefer 2008), 2009 UNIDO Industrial Statistics Databases for ISIC (Revision 3), 2009 World Development Indicators, Ciri Human Rights Data Project (Cingranelli and Richards 2008), Freedom House/Polity, Quality of Governance Dataset (2009)

Table 2 Features of Successful and Unsuccessful Adjustment Operations

Characteristics	**Unsuccessful** IEG Outcome= 1-3	**Successful** IEG Outcome= 4-6
Ethno-linguistic Fractionalization	0.570 (85)	0.441 (207)
Political Instability	0.221 (95)	0.205 (239)
Imputed Polity	5.061 (95)	5.909 (239)
Time in Office	9.239 (92)	5.312 (231)
Initial GDP per Capita (PP)	2821.312 (92)	3495.049 (236)
Loan Size	120.484 (95)	107.261 (241)
Freedom of Speech	0.944 (89)	1.090 (233)
Veto Players	2.828 (87)	2.809 (225)
Opposition Fractionalization	0.479 (59)	0.463 (175)
Opposition Vote Share	14.632 (93)	19.793 (237)
Opposition Seat Share	0.298 (81)	0.302 (207)
Establishments	4.893 (17)	22.943 (79)
Industry/GDP (%)	26.590 (85)	26.364 (228)
Manufacturing/GDP (%)	13.107 (82)	14.723 (215)
Services/GDP (%)	46.154 (85)	47.810 (228)

**Number of observations is reported in the parentheses*
Sources: Banks 2001, Database of Political Institutions (Beck et al 2000; 2001; Keefer 2008), 2009 UNIDO Industrial Statistics Databases for ISIC (Revision 3), 2009 World Development Indicators, Ciri Human Rights Data Project (Cingranelli and Richards 2008), Freedom House/Polity, Quality of Governance Dataset (2009)

length of tenure for leaders in countries with successful projects is 5.3 years compared to 9.2 years for leaders in countries with unsuccessful projects. Surprisingly, successful projects received smaller loans than unsuccessful projects. These findings confirm those found previously by Dollar and Svensson (1998) and Malesa and Silarszky (2005).

When it comes to the measures related to business groups, successful operations are associated with significantly more establishments and higher opposition vote share. However, there is no noticeable difference between successful and unsuccessful operations in freedom of speech, the number of veto players, opposition fractionalization, opposition seat share, industry as a part of GDP, manufacturing as a part of GDP, and services as a part of GDP.

Findings

In Tables 3, 4 and 5, I report a series of regression models that are designed to measure the effect of business groups' strength and capacity to monitor their government's reform implementation. The models are organized into pairs. In the first model of each pair, I regress IEG project outcome on just the independent variable. In the second model of each pair, I regress IEG outcome on the independent variable and add in the complete set of control variables. I repeat this on each of my 12 proxies.

In the first set of regression models (Table 3), I look for how the number of business establishments and the proportions of GDP that industry, manufacturing and services make up affect reform implementation. I predict that an increase in these variables will lead to an increase in reform implementation. The only statistically significant relationship that exists in this set is

Table 3 OLS Regression **Dependent Variable** **IEG Project Rating**	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
Establishments	0.00645**	0.0121*						
	(0.003)	(0.030)						
Manufacturing /GDP			0.0200	0.0100				
			(0.085)	(0.504)				
Industry /GDP					-0.000165	-0.00391		
					(0.986)	(0.739)		
Services /GDP							0.00697	-0.00332
							(0.301)	(0.694)
Political Instability		0.243		-0.0739		-0.0793		-0.0701
		(0.124)		(0.271)		(0.231)		(0.276)
Ethno-linguistic Fractionalization		0.722		-0.267		-0.270		-0.294
		(0.459)		(0.602)		(0.607)		(0.569)
Imputed Polity Scores		-0.142		0.00416		0.00503		0.00808
		(0.132)		(0.918)		(0.899)		(0.843)
Time in office		-0.0587		-0.0312*		-0.0303*		-0.0293*
		(0.162)		(0.025)		(0.027)		(0.041)
GDP per Capita (PP)		0.000140		-0.0000456		-0.0000382		-0.0000391
		(0.051)		(0.268)		(0.349)		(0.311)
Loan size		-0.000516		-0.0000534		-0.0000391		-0.0000264
		(0.484)		(0.886)		(0.915)		(0.944)
AFR		0.635		0.190		0.159		0.134
		(0.429)		(0.578)		(0.660)		(0.712)
EAP		0.807		0.0131		0.105		0.0213
		(0.320)		(0.971)		(0.776)		(0.957)
ECA		1.013		1.009**		1.036**		1.010**
		(0.352)		(0.002)		(0.002)		(0.002)
LAC		0.113		0.551		0.588		0.566
		(0.868)		(0.111)		(0.092)		(0.100)
o.MNA		0.293		0		0		0
		(0.731)		(.)		(.)		(.)
o.SAR		0		0.304		0.339		0.327

		(.)		(0.344)		(0.306)		(0.286)
_cons	4.112***	3.717***	3.702***	3.957***	4.008***	4.156***	3.673***	4.227***
	(0.000)	(0.001)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
N	96	71	297	265	313	270	313	270
adj. R-sq	0.045	0.118	0.009	0.056	-0.003	0.062	0.002	0.062

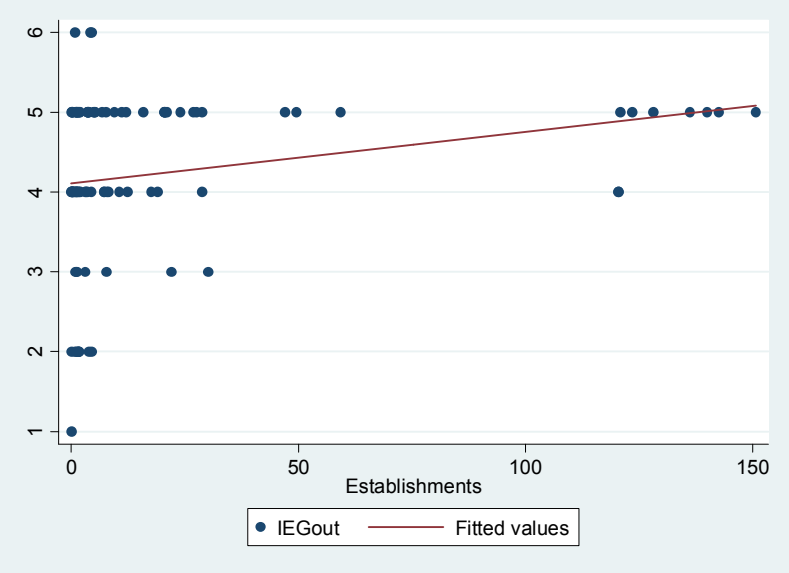
p-values in parentheses
* p<0.05, ** p<0.01, *** p<0.001

Sources: Banks 2001, Database of Political Institutions (Beck et al 2000; 2001; Keefer 2008), 2009 UNIDO Industrial Statistics Databases for ISIC (Revision 3), 2009 World Development Indicators, Ciri Human Rights Data Project (Cingranelli and Richards 2008), Freedom House/Polity, Quality of Governance Dataset (2009)

with the variable *Establishments*. Graph 1 provides a graphical depiction of this relationship. For every additional thousand business establishments in a country, there is a very small increase in project rating (0.0121). In Model 2, this relationship holds even with the addition of the full set of control variables, suggesting that my proxy does have a definite impact on reform implementation. There are no significant relationships between project ratings and the control variables. Of all the models in this set, Model 2 fits the best with an adjusted R-squared of 0.12. However, with the addition of the complete set of control variables, the number of observations drops to 71.

There is a significant trend showing the length of executive tenure affecting reform outcome across 3 of the models. For each additional year the executive is in power, there is a small negative effect on reform implementation, which is expressed through a drop in project ratings. However, tenure length is not significant in Model 2 where there is a significant relationship between the dependent and independent variables. Regional

Graph 1 Scatter Plot of IEG Project Ratings & Number of Establishments



effects are also significant. Omitting the Middle East and North Africa regional dummy, projects based in Europe and Central Asia are more likely to perform better. Omitting the Europe and Central Asia dummy, projects based in East Asia, Latin America, the Middle East and North Africa are more likely to perform worst.

In the second set of regression models (Table 4), I examine the effect of opposition in the legislature on reform implementation. I predict that an increase in opposition will lead to an increase in reform implementation, but that an increase in opposition fractionalization will have the opposite effect. There is only one statistically significant model and this is Model 2 where reform outcome is regressed on opposition seat share and the full set of control variables is included. Graph 2 provides a graphical depiction of this relationship. For every one percent increase in opposition seat share, there is a significant decrease (-1.153) in IEG project ratings. Length of tenure, initial GDP per capita, and regional dummies are also significant in this model. Increases in the

Graph 2 Scatter Plot of IEG Project Ratings & Opposition Seat Share

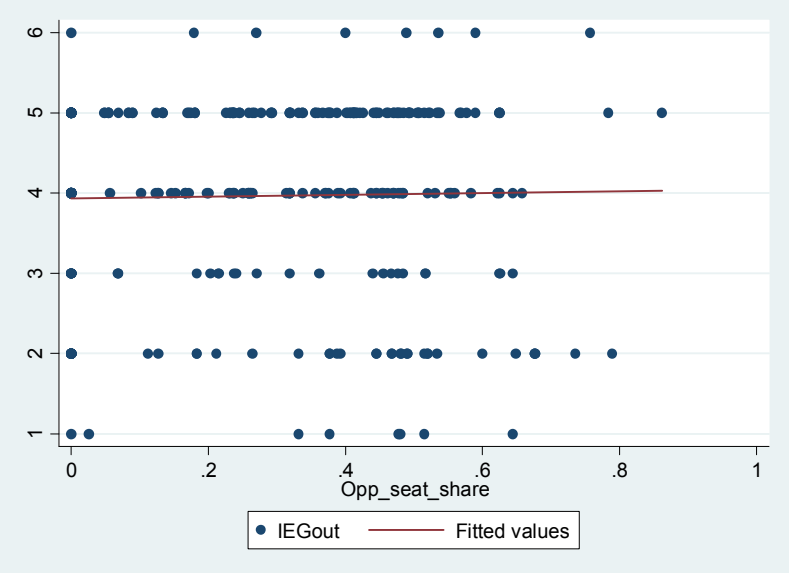


Table 4 OLS Regression Dependent Variable IEG Project Rating	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
Opposition Seat Share	0.110	-1.153*						
	(0.817)	(0.043)						
Opposition Vote Share			0.00733	0.0000854				
			(0.074)	(0.989)				
Opposition Fractionalization					-0.0747	-0.301		
					(0.818)	(0.322)		
Veto players							-0.00571	-0.0647
							(0.911)	(0.270)
Political Instability		-0.0487		-0.0831		-0.138		-0.0791
		(0.530)		(0.233)		(0.137)		(0.254)
Ethno-linguistic Fractionalization		-0.249		-0.441		-0.303		-0.279
		(0.647)		(0.397)		(0.602)		(0.594)
o.Imputed Polity Scores		0.0592		0.00713		0.0102		0
		(0.137)		(0.862)		(0.798)		(.)
Time in office		-0.0315*		-0.0299*		-0.0317		-0.0354*
		(0.038)		(0.028)		(0.079)		(0.013)
GDP per Capita (PP)		-0.0000640*		-0.0000441		0.00000131		-0.0000356
		(0.050)		(0.160)		(0.977)		(0.286)
Loan size		-0.000127		-0.0000338		0.000399		-0.0000273
		(0.735)		(0.926)		(0.273)		(0.941)
AFR		-1.031*		0.0988		0.319		0.0128
		(0.039)		(0.776)		(0.329)		(0.973)
o.EAP		-1.092*		-0.0314		0		0.0143
		(0.019)		(0.927)		(.)		(0.969)
o.ECA		0		0.887**		0.809		0.892***
		(.)		(0.004)		(0.120)		(0.000)
LAC		-0.557*		0.378		0.539		0.401
		(0.012)		(0.257)		(0.291)		(0.125)
o.MNA		-1.266*		0		0.154		0
		(0.015)		(.)		(0.705)		(.)
SAR		-0.766		0.254		0.404		0.265

		(0.080)		(0.423)		(0.330)		(0.419)
_cons	3.939***	5.303***	3.847***	4.235***	4.082***	3.990***	4.003***	4.433***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
N	288	253	330	281	234	199	312	273
adj. R-sq	-0.003	0.092	0.013	0.059	-0.004	0.076	-0.003	0.067

p-values in parentheses
* p<0.05, ** p<0.01, *** p<0.001

Sources: Banks 2001, Database of Political Institutions (Beck et al 2000; 2001; Keefer 2008), 2009 UNIDO Industrial Statistics Databases for ISIC (Revision 3), 2009 World Development Indicators, Ciri Human Rights Data Project (Cingranelli and Richards 2008), Freedom House/Polity, Quality of Governance Dataset (2009)

length of tenure and in initial GDP (per capita) lead to small, but significant, decreases in project ratings. Omitting the Europe and Central Asia dummy, projects based in Sub-Saharan Africa, East Asia, Latin America, the Caribbean, the Middle East and North Africa perform worst.

The trends depicted by length of tenure and certain regional dummies in the first set of models continue to be significant in the remaining models. An increase in length of executive

tenure has a significant negative effect on reform implementation as does being in East Asia, Latin America, the Caribbean, the Middle East and North Africa (i.e. after the Europe and Central Asia dummy is omitted). In contrast, projects in Europe and Central Asia enjoy a greater likelihood in achieving successful reform implementation (i.e. after the Middle East and North Africa dummy is omitted).

In the last set of regression models, (Appendix C: Table 5), I focus on the effect of speech and various interaction variables on reform implementation. Speech has an initial statistically significant and positive effect on project ratings, but once the control variables are included in the model, this significance drops out. The three interaction variables do not have a significant effect on project ratings, but two of their component variables do. These variables are opposition seat share and the number of establishments, which comes as no surprise based on the findings from the first two sets of regression models.

The persistent trends depicted by the length of tenure and certain regional dummies are also present in this set of regression models. A one year increase in the executive's length of tenure has a negative effect on project ratings while operations in

certain regions, such as Latin America, the Caribbean, the Middle East and North Africa, are less likely to achieve reform implementation.

Surprisingly, in all three sets of regression models, the three control variables of political instability, level of democracy and ethno-linguistic fractionalization (i.e. the original variables examined by Dollar and Svensson (1998) and Malesa and Silarszky (2005)) do not show any statistically significant effect on reform implementation. However, length of executive tenure does and its negative effect on reform implementation is present in at least 2 out of 4 models in each set. Lastly, the only World Bank variable I included, *Loan_size*, does not have any significant effect on reform implementation.

Discussion

My theory is that the implementation of structural adjustment programmes rests on certain domestic political factors related to internal monitoring efforts. Business groups, who want to see the government remain committed to reform implementation, will engage in internal monitoring efforts. If they find that the government is shirking in reform implementation, they will use the information they find to pressure the government into complying with World Bank conditionality. Thus, I predict that with higher internal monitoring, there should be higher reform implementation.

I find very little support for my hypothesis and even my findings are conflicting in the context of my theory. I use the number of establishments to measure the presence and strength of business in a country. I find that an increase in the number of establishments has a small positive effect on reform implementation, which does partly support my hypothesis. However, when I attempt to measure the monitoring capacity of business

groups by using the indicator of opposition seat share, I find that an increase in opposition seat share actually has a negative effect on reform implementation, which is opposite of what I predicted. I also examine a country's level of freedom of press and speech because if business groups come into possession of vital information pertaining to the government's reform efforts, they will need to share their findings with other parties who are interested in reform implementation. On its own, freedom of press and speech has a positive effect on reform implementation, but once other key factors are controlled for, speech does not have a significant effect anymore.

The little effect that Dollar and Svensson's variables have on project ratings is another surprising finding. In their study, Dollar and Svensson (1998) focus on political instability, ethno-linguistic fractionalization, level of democracy, and length of tenure. They find that these four variables together could predict the correct reform outcome 75 percent of the time. Thus, I expected these variables to have a statistically significant effect on project ratings when I included them into my regressions, but only length of executive tenure did. This variable has a negative effect on project ratings in almost all the regression models in which it is included. Moreover, the inclusion of these control variables did not improve my regression models' adjusted R-squared by much.

I ran a separate set of regressions with just the original four variables and project ratings (Appendix D: Table 6). Individually, ethno-linguistic fractionalization, polity scores, and length of tenure all show statistically significant effects on IEG project ratings. Increases in ethno-linguistic fractionalization and tenure length hurt reform implementation while increases in polity scores help reform implementation. In Model 5, all the variables are included in the regression and only length of executive tenure

remains significant. Political instability is not significant in any of the models. Although this basic analysis shows that some of the variables do have an impact on project ratings, with the inclusion of my variables, the significance of the original variables' effects on project ratings goes away. This is suggestive that Dollar and Svensson's results are not robust and need to undergo further testing.

Ultimately, my findings are suggestive, but not very conclusive. It is possible that I was not able to find more conclusive results for two reasons. First, my empirical analysis faces a number of limitations. Second, my theory may be missing something important.

My empirical analysis is complicated by various limitations. In their paper, Malesa and Silarszky (2005) suggest that the reason for the prevalent use of case studies to understand structural adjustment programme implementation is the lack of consistent data, which inhibits systematic, quantitative analysis. This is a fitting description of the problems I encountered in gathering data and undertaking the quantitative analysis portion of my paper. Another problem hindering my empirical analysis is related to the explanatory variables I have selected. The explanatory variables I have selected are not exact proxies for the concepts they are supposed to represent. For instance, the variables opposition vote share and number of veto players do not solely measure the groups that represent business interests in the legislature. Opposition vote share can also be made up of opposition groups representing religious or ethnic interests. Veto players can also represent interests other than business, such as the rural vote. Moreover, IEG project ratings are an imperfect measure of reform implementation.

Another significant problem is if my theory is missing something important. I will use the cast study of Malawi to illustrate the potential gaps in my theory. I am choosing Malawi because it has had a relatively high opposition seat share (52%) for the past 14 years, but its project ratings for three projects between 2001 and 2004 have fluctuated between highly unsatisfactory, unsatisfactory and satisfactory. According to my theory, projects in countries where business groups are able to successfully monitor the government's reform efforts and pressure the government into implementing the reforms should enjoy a higher likelihood of successful reform implementation. The capacity to do this is measured by opposition seat share, and because Malawi has such a high opposition seat share, Malawi should have performed well in all three projects. However, my findings from the quantitative analysis suggest that the opposite effect occurs. Despite this contradiction, the puzzle is that opposition seat share has held constant during the period in which the projects have occurred so what else could have caused the variation in IEG project ratings?

Case Study

1. *Historical Overview and Background*

Malawi is a landlocked African country that secured its independence from the British Empire in 1964. After independence, Malawi endured 30 years of one-party rule led by President Hasting Kamuzu Banda and his Malawi Congress Party (MCP). This lasted until 1994, when the country held its first multiparty elections and Bakili Muluzi was elected. Muluzi's presidency came to an abrupt end in 2004 when Dr. Bingu wa Mutharika, the current president of Malawi's multi-party system, took power. After winning the presidency, Mutharika formed his own party, the Democratic Progressive

Party (DPP) in 2005. Under his leadership and a determined anti-corruption campaign, Malawi has experienced development, but Mutharika and his minority party have been hindered by severe political deadlock in the legislature. Another detail of interest is that Malawi's economy, both historically and currently, is very agriculturally oriented. The agricultural sector accounts for a big portion of the country's exports and employs the majority of the labor force. (CIA World Factbook 2010)

2. *Project Overviews*

Between 2000 and 2005, the World Bank approved four projects in Malawi. Two were approved for the fiscal year 2001. One was approved for the fiscal year 2003, and the fourth was approved for the fiscal year 2004. The 2003 project was still active at the time the World Bank report on public sector reform went to print so there is no project rating available, and I have excluded this operation from my analysis. For the two projects approved in 2001, I choose to focus on the second operation, the Fiscal Restructuring and Deregulation Program Project 3 (FRDP III; Project ID: P050294). It is most similar to the project approved in 2004, the Fiscal Management and Accelerating Growth Program Project (FIMAG; Project ID: P072395), which will facilitate comparison.

a. *Project Overview: Fiscal Restructuring and Deregulation Program Project 3*

FRDP III was a structural adjustment loan of $55.1 million dollars (USD). There were three goals of this single-tranche operation. The first goal was to promote the development of the private sector by restructuring and privatizing state enterprises and banks. The second goal was to improve public sector governance by implementing reforms in the areas of financial management, audit and procurement. The third goal was

to improve the social safety net through implementing a national strategy that ensures the availability of affordable food for the poor and increases the incentives to private production and trade. (Chitale 2003)

At the point of follow-up (i.e. two years later), the Bank concludes that though there were some successes in privatization, there were very limited reform efforts in improving public sector management and the social safety net. Due to this mixed record of reform implementation and a lack of follow-up once the money was disbursed, the operation was given a rating of unsatisfactory. The evaluation report names the lack of government commitment as the key determinant of the operation's failure. For instance, regarding reform in public sector management, IEG staff note there was little commitment from sector ministries to monitor public expenditures, which then led to serious problems with overspending and reallocations of the budget without the legislature's approval. Efforts within the government to publish data on expenditures were initially positive, but these efforts did not last and transparency remained an elusive goal. (Chitale 2003)

An interesting observation is that the Bank admitted no formal supervision of the operation and regretfully notes their error in not carrying out such supervision with periodic reporting. They find that such actions would have helped provide a clearer picture of which reforms the government was lagging behind in implementing, which in turn, could have provided "a basis for internal decisions and actions". (Chitale 2003)

b. *Project Overview: Fiscal Management and Accelerating Growth Program Project*

FIMAG was a structural adjustment loan of $50 million dollars (USD) approved in 2004 and completed in 2006. The goals of this two- tranche operation were to reform the area of fiscal management (e.g. fiscal decentralization), continue privatization efforts (e.g. power and water enterprises), reform land and agriculture policy (e.g. improving the efficiency in tobacco marketing arrangements), and continue the fight against the growing HIV/AIDS epidemic. (Feda 2007)

The report rates the operation's outcome as highly satisfactory for its achievement of many of its outlined objectives and for the implementation of structural reforms. Such reforms included the creation of a civil service wage policy, the deepening of fiscal decentralization, the sale of state enterprises in the utility sector (e.g. Malawi Telecommunications), and the finalization of land policy. (Feda 2007)

The evaluation report highlights the difference in commitment between the newly elected government and the former government as the major factor determining the success and sustainability of the operation. IEG staff note that "there was a strong support for reform from the highest levels in the Government aided by a dedicated team in the Ministry of Finance" which "helped increased ownership of the program and a full understanding on the policy contents of the FIMAG" (Feda 2007). Two manifestations of this support were the establishment of a steering committee, which was part of the counterpart team, and the appointment of a senior Ministry of Finance official to serve as a full-time FIMAG coordinator. The function of both the committee and the official was to monitor the implementation of FIMAG reforms and this proved to be instrumental in pushing the agenda forward and overcoming reform obstacles. (Feda 2007)

For this project, there was formal Bank supervision. The World Bank had an office in Malawi that kept tabs on reform progress, which was supplemented by regular visits from the team leader. Bank supervision efforts were rated satisfactory for having provided a major contribution to the operation's success. (Feda 2007)

3. *Predictions and Realities*

Can the project outcomes in Malawi be explained by my theory and indicators? I believe the answer is both yes and no. As noted by both evaluation teams, the key determinant of project outcome was the government's commitment to reform. This in turn determined the level of monitoring efforts, which were significant influences on both operations' outcomes. When the government was weak in its commitment to reform, there were no efforts to improve domestic monitoring and there were problems with transparency (e.g. expenditure data was not publicly available). This, of course, made it extremely difficult for any group, including the World Bank team, to monitor reform progress. Not having a clear picture of what was happening prevented both parties from making the right choices, and the operation failed as a result. However, when the government was committed to reform, there were significant resources and manpower set aside to support domestic monitoring efforts, and the Bank determined this was instrumental in allowing the reforms to be implemented.

In Malawi's case, my theory and hypothesis are correct in suggesting that domestic monitoring efforts are important in reform implementation, but incorrect in suggesting that the push for monitoring efforts would come from business groups or opposition parties. Instead, the push for monitoring efforts came from the government.

The findings from my quantitative analysis do seem to help partially explain the differences in Malawi's project outcomes. Between 2000 and 2005, there was a change in the executive in 2004 when the new president, Mutharika, was elected into office. The previous president, Muluzi, had been in office for 10 years by the time the new president was voted in. This is significant because the findings from my quantitative analysis suggest that for every additional year of tenure, there is a decrease in IEG project ratings which means a decrease in the likelihood of successful reform implementation. This seems to be the case. While the first two projects, completed under former president Muluzi, were rated highly unsatisfactory and unsatisfactory, the last operation, completed under the new president Mutharika in 2006, was rated highly satisfactory. Drops in Malawi's polity scores from 7.33 to 6 and GDP per capita (PPP) from 714.26 to 606.68-628.70 million dollars (USD) during Muluzi's presidency also seem to be suggestive of the detrimental effect of increasing length of tenure.

The other significant variables from my quantitative analysis are number of establishments and opposition seat share. However, there is limited data availability on the number of establishments so no conclusion regarding the trend of establishments can be made. In regards to opposition seat share, this variable holds constant between 2000 and 2005, which suggests that opposition seat share could not have been the reason for the difference in project ratings. A further examination of the political context of that period reveals that when Mutharika was elected into office and when he formed his own political party, he faced a legislature filled with MCP representatives who saw him as the enemy. To carry out his work, he limited the legislature's power by "cutting back legislative sessions and using cabinet appointments as an instrument of survival" (Rakner

and Van de Walle 2009). Hence, in Malawi's case, the success of the 2004 structural adjustment programme was due not to the efforts of a committed government; rather, more specifically, it was due to the efforts of a committed executive. This case study illustrates that there are parties other than business groups that could lead monitoring efforts, and these parties need to be accounted for.

Concluding remarks

In conclusion, though there is much research highlighting the ineffectiveness of conditionality and though there are many vocal opponents calling for the end of its use as a lending instrument, conditionality will most likely continue to remain an integral component in the giving of foreign aid for years to come. There is now a focus on how to make conditionality "work" and researchers are seeking to understand the conditions under which conditionality can be successful and effective.

My paper aims to contribute to this growing discussion and debate by examining specific domestic political variables related to monitoring efforts. In particular, I am interested in the relationship between implementation of structural adjustment programmes, business groups and domestic monitoring efforts. Though I find that domestic monitoring efforts are necessary for the successful implementation of structural adjustment programmes, the link between business groups and their influence on domestic monitoring efforts is not so clear. My findings are suggestive, but not conclusive. There is certainly room for further research as my own empirical analysis faced limitations that future studies may be able to overcome.

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Appendix A: Description of variables

Variables	Measure Name	Description and Scale	Source	Misc. Information
Dependent-				
Reform Outcome	IEGout	Operation's outcome is rated on a six-point scale: 1- Highly Unsatisfactory 2-Unsatisfactory 3- Moderately Unsatisfactory 4- Moderately Satisfactory 5- Satisfactory 6- Highly Satisfactory	Appendix C of "Public Sector Reform: What Works and Why –An IEG Evaluation of World Bank Support" Independent Evaluation Group	
Independent-				
Opposition Seat Share	Opp_seat_share	Number of seats in the legislature of all the parties in opposition /Total number of seats in the legislature	Database of Political Institutions (Beck et al 2000; 2001; Keefer 2008) The Quality of Governance Dataset, June 2009	
Opposition Vote Share	Opp_vote_share	Total vote share of all the parties in opposition, in percent.	Database of Political Institutions (Beck et al 2000; 2001; Keefer 2008) The Quality of Governance Dataset, June 2009	
Opposition Fractionalization	Opp_frac	Opposition fractionalization measures the probability that two randomly chosen deputies belonging to the parties in the opposition will be of different parties.	Database of Political Institutions (Beck et al 2000; 2001; Keefer 2008) The Quality of Governance Dataset, June 2009	
No. of Veto Players	Veto_players	Equals one if the Legislative Index of Pol. Competitiveness/ the Executive Index of Pol. Competitiveness is less than 6. In countries where both are greater than or	Database of Political Institutions (Beck et al 2000; 2001; Keefer 2008) The Quality of	

		equal to 6, this number increases by one every time: there is a chief executive, the chief executive is competitively elected, the opposition controls the legislature, for each chamber of the legislature, for each party coded as allied with the president's party and which has an ideological (left-right) orientation closer to that of the main opposition party than to that of the president's party, for every party in the government coalition as long as the parties are needed to maintain a majority, and for every party in the government coalition that has a position on economic issues closer to the largest opposition party than to the party of the executive.	Governance Dataset, June 2009	
Number of Establishments	Establishments	Includes a unit that engages, under a single ownership, in one, or predominantly one, kind of activity at a single location, and a legal entity possessing the right to conduct business in its own name; for example, to enter into contracts, own property, incur liability for debts, and establish bank accounts.	2009 UNIDO Industrial Statistics Databases for ISIC Revision 3, By Statistics Unit, Research and Statistics Branch of UNIDO	Scaled-Divided by 1000
Manufacturing/ GDP Value Added (%) Lagged	ManufVAL	Refers to industries belonging to ISIC divisions 15-37.	2009 World Development Indicators CD-ROM	Value added is the net output of a sector after adding up all outputs and subtracting intermediat e inputs. Lagged by 1 year.
Industry/GDP Value	IndusVAL	Corresponds to ISIC divisions 10-45 and	2009 World Development	Value added is the

Added (%) Lagged		includes manufacturing (ISIC divisions 15-37). It comprises value added in mining, manufacturing, construction, electricity, water, and gas.	Indicators CD-ROM	net output of a sector after adding up all outputs and subtracting intermediate inputs. Lagged by 1 year.
Services/GDP Value Added (%) Lagged	ServVAL	Correspond to ISIC divisions 50-99 and they include value added in wholesale and retail trade (including hotels and restaurants), transport, and government, financial, professional, and personal services such as education, health care, and real estate services.	2009 World Development Indicators CD-ROM	Value added is the net output of a sector after adding up all outputs and subtracting intermediate inputs. Lagged by 1 year.
Freedom of Speech	Speech	Indicates the extent to which freedoms of speech and press are affected by gov't censorship. Scores: 0 indicates complete gov't censorship of the media; 1 indicates there was some gov't censorship; and 2 indicates there was no gov't censorship.	Ciri Human Rights Data Project by David Cingranelli and David Richards (2008)	
Interaction-				
Opp. Vote Share *Opp. Fractionalization	Ovsfrac	Opp. Vote Share*Opp. Fractionalization	Self	
Opp. Seat Share *Opp. Fractionalization	Oppseatshfrac	Opp. Seat Share*Opp. Fractionalization	Self	
No. of Establishments* Freedom of speech	Estabspeech	No. of Establishments*Freedom of speech	Self	
Control-				
Political Instability	Political_instability	The average number of governmental crises during the implementation of the program; original variable- *domestic4*	A.S. Banks' Cross-National Time-Series Data Archive (Banks 2001)	
Social Division	Ethno_ling_frac	Average of: % of Population not Speaking the Official Language, % of Population not	Easterly and Levine (1997), Muller (1964), Roberts (1962)	

		Speaking the Most Widely Used Language and three other ethno-linguistic fractionalization variables taken from Muller (1964), Roberts (1962) and Atlas Narodov Mira (1964). Values range from 0 to 1 with higher values denoting higher fractionalization.	and Atlas Narodov Mira (1964). The Quality of Governance Dataset, June 2009	
Regime Type	Imp_polity_sc	Scale ranges from 0-10 where 0 is least democratic and 10 most democratic. Average of Freedom House is transformed to a scale 0-10 and Polity is transformed to a scale 0-10. These variables are averaged. The imputed version has imputed values for countries where data on Polity is missing by regressing Polity on the average Freedom House measure.	Freedom House/Polity, The Quality of Governance Dataset, June 2009	
Time in Office	Time_in_office	The number of years in office of the chief executive.	Database of Political Institutions (Beck et al 2000; 2001; Keefer 2008) The Quality of Governance Dataset, June 2009	
GDP per capita (PPP) Lagged	GDPcapPPL	GDP per capita, purchasing power parity (in USD)	2009 World Development Indicators CD-ROM	Lagged by 1 year.
Loan Size	Loan_size	In millions USD	Appendix C of "Public Sector Reform: What Works and Why –An IEG Evaluation of World Bank Support" Independent Evaluation Group	
Region	AFR	Sub-Saharan Africa	World Bank	
	EAP	East Asia and Pacific	World Bank	

	ECA	Europe and Central Asia	World Bank	
	LAC	Latin America and the Caribbean	World Bank	
	SAR	South Asia	World Bank	
	MNA	Middle East and North Africa	World Bank	

Appendix B: Table 5 OLS Regression

Dependent Variable IEG Project Rating	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
Speech	0.281*	0.167						
	(0.034)	(0.248)						
Opposition Vote Share*Frac			0.000	0.026				
			(0.984)	(0.233)				
Opposition Vote Share			0.007	-0.019				
			(0.493)	(0.213)				
Opposition Fractionalization			-0.042	-0.955				
			(0.938)	(0.117)				
Opposition Seat Share*Frac					0.637	0.197		
					(0.734)	(0.926)		
Opposition Seat Share					-1.133	-2.577*		
					(0.341)	(0.034)		
Opposition Fractionalization					-0.162	-0.021		
					(0.792)	(0.970)		
Establishments* Speech							-0.006	-0.013
							(0.111)	(0.444)
Establishments							0.014*	0.034
							(0.034)	(0.264)
Speech							0.460	0.130
							(0.081)	(0.726)
Political Instability		-0.0785		-0.165		-0.110		0.239
		(0.237)		(0.055)		(0.243)		(0.149)
Ethno-linguistic Fractionalization		-0.291		-0.464		-0.030		0.089
		(0.606)		(0.445)		(0.958)		(0.927)
Time in office		-0.031*		-0.032		-0.036*		-0.048
		(0.027)		(0.085)		(0.030)		(0.298)
GDP per Cap (PP)		0.000		0.000		0.000		0.000
		(0.136)		(0.889)		(0.995)		(0.407)
o.Imputed Polity Scores		0		0.0288		0.0771		0
		(.)		(0.548)		(0.057)		(.)

Loan size		0.000		0.000		0.000		0.000
		(0.932)		(0.225)		(0.422)		(0.977)
AFR		-0.895		-0.486		-0.132		0.006
		(0.069)		(0.383)		(0.789)		(0.996)
EAP		-0.825		-0.908		-0.234		-0.172
		(0.054)		(0.080)		(0.615)		(0.766)
o.ECA		0		0		0.528		0
		(.)		(.)		(0.258)		(.)
LAC		-0.569**		-0.205		0.356		-0.793
		(0.004)		(0.348)		(0.471)		(0.252)
o.MNA		-0.823***		-0.825*		0		-0.504
		(0.001)		(0.039)		(.)		(0.306)
SAR		-0.698		-0.350		0.127		-2.208
		(0.090)		(0.460)		(0.795)		(0.256)
_cons	3.699***	5.007***	3.879***	5.253***	4.431***	4.587***	3.646***	3.925***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
N	322	273	234	199	230	197	96	71
adj. R-sq	0.015	0.065	0.004	0.082	-0.001	0.150	0.070	0.072

p-values in parentheses
* p<0.05, ** p<0.01, *** p<0.001

Sources: Banks 2001, Database of Political Institutions (Beck et al 2000; 2001; Keefer 2008), 2009 UNIDO Industrial Statistics Databases for ISIC (Revision 3), 2009 World Development Indicators, Ciri Human Rights Data Project (Cingranelli and Richards 2008), Freedom House/Polity, Quality of Governance Dataset (2009)

Appendix C: Table 6 OLS Regression

Dependent Variable IEG Project Rating	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**
Political Instability	-0.0370				-0.089
	(0.710)				(0.266)
Ethno-linguistic Fractionalization		-0.777**			-0.540
		(0.009)			(0.079)
Imputed Polity			0.0796*		0.0220
			(0.014)		(0.513)
Time in office				-0.048***	-0.034*
				(0.000)	(0.011)
_cons	3.981***	4.300***	3.522***	4.276***	4.309***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
N	334	292	334	323	284
adj. R-sq	-0.003	0.035	0.025	0.058	0.066

p-values in parentheses
* p<0.05, ** p<0.01, *** p<0.001

Sources: Banks 2001, Database of Political Institutions (Beck et al 2000; 2001; Keefer 2008), 2009 World Development Indicators, Freedom House/Polity, Quality of Governance Dataset (2009)