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Let’s lessen conditionality in times of force majeure events. The archaic righteousness of the policy of conditionality of international Institutions amid COVID-19

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ABSTRACT

This article investigates how international decision-making’s conditionality aids countries during strenuous economic conditions imposed by the COVID-19 pandemic. It examines and contrasts the European Union’s conditionality policies, the International Monetary Fund, and the World Bank as the more influential and leading groups of institutions. The article reveals notable policy differences. As opposed to that of the IMF and WB, the EU’s approach is more comprehensive and not confined to economic considerations. Those variations aside, the article draws on the same premise: expectations of compliance with the set conditions. While in-depth, structural requirements could guide ordinary decision-making and build up resilient national institutions and policies, this article questions the merits of large-scale comprehensive terms in the face of a situation created by a force majeure or a humanly uncontrollable event such as the COVID-19 pandemic. With no more initial research addressing the specific question of the application and adequacy of conditionality to force majeure emergencies or pandemic situations of the scale of COVID-19, this article argues in favor of a measured and targeted response limited to the development, design, or determination of policy choices that tackle the intended purpose. Also, for validly practical considerations that search for to ensure the better use of aid and avoid distracting or overburdening the recipient countries to the point of risking losses of devastating proportions, the article proposes to revise and limit conditionality during force majeure events to the essential aspects of transparent management of funds for the sole intended purpose. This in itself is a distinct democratic exercise of efficient and accountable public management decision-making.

1. Introduction

This article observes and appraises international actors’ policy responses to aid countries in significant need of economic assistance to cope with the distinct pressure and socio-economic challenges imposed by the COVID-19 pandemic context. However, the overarching goal is to limit the inquiry to an exceptional segment of the assistance, which is its provision subject to several conditions. Therefore, this article seeks to understand better the policy choices adopted by relevant actors in the international community and get a vision of their validity to counter the magnitude of the challenges posed by a rare pandemic crisis. The fundamental aim is to assess
the adequacy or merits of the policy choice to assist subject to conditionality.

The European Union (EU) recently provided macro-financial assistance to ten enlargement and neighborhood countries in the COVID-19’s context pandemic. In all cases, it responded to the needs of its enlargement and neighborhood partners with a highly welcome move of support, accompanied by formal clauses of conditioning that assistance to a varied set of demands, forming the basis of what is otherwise known as the policy of conditionality. This policy, now an inherent part of the EU’s foreign policy and its financial assistance projects, is typical for other international institutions.

When it comes to other international institutions and policy comparisons, the primary objective here is to focus on such global financial institutions as the World Bank (WB) and International Monetary Fund (IMF). The underlying philosophy is to observe the application of conditionality policy against the special, if not extreme, COVID-19-related circumstances. In this respect, international institutions should understand both the contents of this policy and any variations in application between the EU, the WB, and the IMF and the overall adequacy and effectiveness of this policy.

While conditionality has its values and relatively solid conceptual foundations rooted in trading off assistance and investment with reform and results, the most intriguing dimension in the prevailing human condition is applying this same policy against a global pandemic crisis’s unique characteristic. As recently seen in academic literature, COVID-19 is massive and immediate and yet survival and manageable (Goodell, 2020). The observation of this phenomenon will enable a degree of comprehension of some of the financial market dynamics at play and, more specifically, will inspect any potential change dictated by COVID-19 or departure from the pre-existing policies. There exists a considerable amount of literature on the doctrine of conditionality. Yet, this literature effectively includes no earlier research that deals directly with the question of the application and adequacy of conditionality to pandemic situations or other emergencies of the scale of COVID-19.

This article proceeds in five parts. Following this introduction, the next Part 2 discusses the EU’s decision to provide macro-financial assistance to enlargement and neighborhood partners subject to the formal undertaking and implementation of a series of specific conditions. Part 3 then theorizes about the very notion of the policy of conditionality, its sources, and applications in the past by the EU. Despite its constant presence in the EU policies, conditionality is yet to be understood. Indeed, more effective and accurate mechanisms to measure its effects and identify its defects should be implemented. Part 4 examines the broader academic theory, beyond the EU, relating to conditionality policies by international institutions, primarily the IMF. Part 5 focuses on the IMF and the World Bank policies, as those policies could be evidenced by the current institutional practice related to the COVID-19 response. Part 6 compares, contrasts, and critically appraises these policies and presents the conclusions, arguing in favor of revising and limiting conditionality during the crisis to the essential aspects of effective and transparent management of the funds for the intended purpose.

2. The EU’s conditionality approach to cope with the pandemic crisis

On May 25, 2020, the European Parliament and the Council of the European Union adopted Decision 2020/71 to make macro-financial assistance (MFA) available to five Western Balkans countries (enlargement partners) and five other countries from the neighborhood region for a maximum total amount of EUR 3 billion. The five WB countries include Albania, Bosnia and Herzegovina, Kosovo, Montenegro, and North Macedonia, whereas the neighborhood partners are Georgia, Jordan, Moldova, Tunisia, and Ukraine (European Union, 2020).

The underlying distinction between the two groups of countries is that the Western Balkan countries are EU-aspiring members, thus candidates or potential candidates, hence enlargement partners, whereas the neighborhood partners are part of the EU’s European Neighborhood Policy which seeks to build more effective partnerships in the neighborhood. Putting it differently, with enlargement countries, the EU endeavors to help its partners reach a standard equivalent to, or demanded by, that of the actual member states, with a view of eventual EU membership. In the case of neighborhood partners, the purpose is to foster and support the prosperity, stability, and security in the EU’s neighborhood, however short of enabling these countries’ EU accession. We can make a further distinction within the enlargement partners benefiting from the MFA, in that Albania, Montenegro, and North Macedonia are candidate countries, at a more advanced stage of accession negotiations, whereas Bosnia and Herzegovina and Kosovo are potential candidate countries; both having a clear prospect of joining the EU but have not yet been granted the candidate country status.

The MFA’s fundamental aim is to support the partners’ economic stabilization, given the pandemic’s challenges and a substantive reform agenda (European Union, 2020, art. 1). Thus, it supports economic stabilization by restoring a sustainable external financing situation for the targeted countries, ultimately supporting renewed economic and social development. The EU’s MFA supplements resources are made available under the IMF’s credit arrangement.

The policy justification for the Decision 2020/71 is linked to the COVID-19 pandemic’s highly damaging effects on economic and financial stability in the enlargement and neighborhood regions and considerations that partner countries from these regions are presently facing a fragile and rapidly worsening balance of payments and fiscal situation, with the economy moving into recession. Therefore, the EU considered that it had a compelling case to move quickly and decisively to support those economies.

The EU’s Decision clarifies that its assistance should be subject to economic policy conditions, to be laid down in a separate Memorandum of Understanding (MoU), which is to be individually negotiated and concluded between the European Commission on EU’s behalf and partner countries. More specifically, Article 2 of the Decision lays down the principles that form the contents of the EU’s policy of conditionality in this specific situation. It provides that “A pre-condition for granting the Union’s macro-financial assistance shall be that the partner respects effective democratic mechanisms, including a multi-party parliamentary system, and the rule of law and guarantees respect for human rights.” (European Union, 2020, art. 2). In other words, the decision on granting the financial assistance is guided by a commitment to the EU’s quintessential values of democracy, the rule of law, good governance, respect for human rights, sustainable development, and reduction of poverty, as well as to the broader economic principles of open,
rule-based, and fair trade.

Article 3 details the operationalization of these pre-conditions. It authorizes the European Commission to agree with each partner country’s authorities on clearly defined economic policy and financial conditions, focusing on structural reforms and sound public finances. Those economic policies and financial terms are to be laid down in an MOU (European Union, 2020, art. 3).

On 11 August 2020, the Commission, acting on behalf of the EU, has agreed on MoU on MFA programs with eight partners (see Table 1 below). MoU has already been agreed with Albania, Georgia, Jordan, Kosovo, Moldova, Montenegro, North Macedonia, and Ukraine. For the two remaining countries, namely Bosnia and Herzegovina and Tunisia, negotiations of the MoUs are underway (European Commission, 2020a).

The conditions mentioned above are negotiated individually with each affected country’s authorities and are laid down in the bilateral MoUs. Although these conditions conform to the broader set of EU values, they are adjusted or specific to individual states.

In the context of WB countries, for instance, for Albania, the policy conditions for its €180 million MFA program relate to strengthening public finance and the resilience of the financial sector, improving governance, and fighting corruption, and enhancing social protection. In Kosovo’s case, its €100 million MFA program’s policy conditions relate to strengthening public finance and financial stability, addressing youth unemployment, improving good governance, and fighting corruption. For Montenegro, its €60 million MFA program’s policy conditions relate to strengthening public finance and the fight against corruption, enhancing financial stability, improving the business environment, and reforming social protection. For the fourth and last WB beneficiary country, which is North Macedonia, the policy conditions for its €160 million MFA program relate to strengthening fiscal governance and transparency, the fight against corruption, enhancing financial sector supervision, improving the business environment, and tackling youth unemployment (European Commission, 2020a).

Concerning the neighborhood partners, specific conditions are also laid down. For Georgia, for example, the policy conditions for its €150 million MFA program relate to strengthening public finance management, improving governance, sector reforms, and labor market policies. In Jordan’s case, the policy conditions for its €700 million MFA programs are more comprehensive, as they cover two MFA operations. They include public finance management, utilities, social and labor market policy, and governance. For Moldova, its €100 million MFA program’s policy conditions relate to strengthening public finance management, good governance, fighting against corruption, and improving the business environment. When it comes to Ukraine and the level of assistance provided, its €1.2 billion MFA program’s policy conditions are more significant and comprehensive. They relate to strengthening public finance management, governance, and the rule of law, reforming the judiciary, competition in the gas market, and improving state-owned enterprises’ business climate and governance.

This policy of conditionality articulates what academic literature has elsewhere referred to as ‘the EU factor,’ which is best conceived in terms of an instrument that conditions economic and political reform and alignment with the EU’s acquis communautaire, creating in aspiring EU member countries stable political arenas and attractive markets that are ultimately conducive to EU membership. The EU factor manifests through broader and more diverse economic instruments, more considerable political influence, and overall stabilizing effects exerted in regions that fall under the European umbrella or in its immediate neighborhood (see Qerimi and Sergi, 2017; Sergi and Qerimi, 2006; Qerimi and Sergi, 2005).

Following this background discussion about the contents and contours of the EU’s macroeconomic conditionality, the next section discusses the sources, strengths, and potential limitations of this policy.

3. The meaning and sources of the EU’s policy of conditionality

The EU’s international actorness remains at the heart of the policy of conditionality. Beyond the implications of the EU’s effectiveness in discharging its financial and foreign policy functions, the EU’s conditionality is critical for its prospective members’ quality of institutions and governance. At least two leading factors enlighten the rationale behind the notion of conditionality: first, to incentivize countries to implement the reforms deemed critical for the prevention of cross-border externalities and, second, to ensure the effective implementation of European Structural and Investment Funds with a view of furthering the EU’s economic growth and investment objectives (Huguenot-Noël et al., 2017). The shock of COVID-19 mobilized this EU policy once more, albeit under an

| Country       | Assistance  |
|---------------|-------------|
| Albania       | €180 million|
| Georgia       | €150 million|
| Jordan        | €700 million|
| Kosovo        | €100 million|
| Moldova       | €100 million|
| Montenegro    | €60 million |
| North Macedonia| €160 million|
| Ukraine       | €1.2 billion|

Source: European Commission, Coronavirus: Eight macro-financial assistance programs agreed to support enlargement and neighborhood partners, 2020.
extraordinary health-related crisis. As the pandemic unfolds and countries strive for vaccination and other policies to contain and minimize the effects, one may not provide an ultimate account of the macroeconomic effects on the targeted countries. However, existing data and research show that despite fears that the crisis might reach devastating proportions, given the overall fragile state of the health and socio-economic systems, the targeted states could constrain the first wave of the crisis (Shehaj, 2020). In any event, the recurring waves are expected to result in a significant contraction across the targeted countries, with Western Balkan economies being particularly affected through several channels (OECD, 2020).

In the context of COVID-19, the EU’s financial package has enabled the recipient countries to counter the immediate health impact of COVID-19 and better plan the post-pandemic economic recovery (European Commission, 2020b; Shehaj, 2020). However, this aid’s more significant and long-run impact on the democratic state of beneficiary polities remains dubious. It even risks enabling state capture and jeopardizing post-pandemic democratic processes, as several authors share the view that ‘EU funds have empowered clientelist networks … and inadvertently facilitated state capture by providing governing parties with the resources and authority to strengthen their hold on political power’ (Shehaj, 2020, p. 265; see also Richter and Wunsch, 2020; Innes, 2014). This is not to suggest that the EU conditionality has not induced any improvements in government effectiveness, as it is not the case, however, to indicate that its transformative power has fallen short of both the EU’s democratic goals and expectations and matching its success in the Central and Eastern Europe (CEE) states (Shehaj, 2020; Börzel and Pamuk, 2012). From the experience of the latter group of states, it ought to be observed that the very nature of the policy of conditionality is fluid, defined by incoherent application over time from those imposed, and where its strength and weakness oscillate on a case-by-case basis, depending on the policy area, the actors involved, and the country in question (Hughes et al., 2004).

Standing as a prime example of a unique regional structure of authority, the EU’s policy of conditionality is derived from its legal and political identity and aspirations of broader international influence consonant to its values. This policy is yet to be fully understood, particularly its effects on reform or results in discrete sectors such as human rights protection, the rule of law, or sustainable development. Therefore, further research is needed to fully understand the more precise impact of the EU’s conditionality on these values and its effect on improving the human condition, particularly in the enlargement and neighborhood regions.

When it comes more specifically to Western Balkan states (the enlargement category), they have been in the focus of European foreign policy for almost three decades now, from the Yugoslav wars to the asylum seekers arriving through the Balkan route and to mitigating the socio-economic challenges of COVID-19. Both the last (Croatia) and the upcoming EU accessions concern countries from the region. Some form of external involvement has primarily conditioned their reforms. This has made the EU’s engagement central to this region’s future, and its external leverage has remained strong (Trauner, 2009). All noteworthy events of the recent past, from Kosovo-Serbia dialogue to Bosnia and Herzegovina’s internal functioning, the political crisis in Macedonia, or fundamental justice reforms in Albania, have been defined by active participation and critical role from the EU.

Enlargement is considered the EU’s most efficient foreign policy instrument in its ability to transform existing practices and institutional structures outside of its borders. Less is known about how it works on the ground in specific contexts, which is why additional and targeted research is recommended.

Despite high leverage at the general level and the efforts of monitoring, for example, through the assessment in the Commission’s annual (progress) country reports, a large part of the enlargement literature shares the view that the EU’s record in spreading democratic norms and human rights credibly and effectively during the accession process is mixed at best. Compliance may stop at the level of formal changes, seemingly satisfying both sides, the candidate country’s government and the EU, while falling short of bringing about sustainable reforms that are hard to reverse. Experiences from the Central Eastern European (CEE) Enlargement has also revealed the limits of the EU’s democratic conditionality, as measured by the implementation, sustainability, and post-accession performance. This means that new member states carry their deficiencies of democracy and human rights with them, which calls for new mechanisms to address human rights and the rule of law within the EU. A specific example could be the new mechanisms established for the EU member states of Bulgaria and Romania, the Cooperation and Verification Mechanism (CVM). The European Commission assesses and supports the progress of Bulgaria and Romania in many predefined areas.

Academic research should map the factors that explain pre-accession conditionality’s underperformance and suggest ways to improve conditionality policy about specific sectors and countries (e.g., Bartels, 2005; Fierro, 2003; Nogueras and Martinez, 2001; Nowak, 1999).

Indeed only a few studies have looked into the details of conditionality during the accession process and that with an almost exclusive focus on the already EU members from the CEE region (Sasse, 2008; Epstein and Sedelmeier, 2008; Houghton, 2007; Schimmelfennig and Sedelmeier, 2005; Grabbe, 2001) or focusing either within the (almost) exclusive domain of minority protection (Vermeersch, 2004, 2003; Topidi, 2003; Pentassuglia, 2001), or the broader confines of democracy and the rule of law (see Sadurski, 2004; Schimmelfennig and Sedelmeier, 2004; Schimmelfennig et al., 2003; Dimitrova, 2002).

The abundance that defines the literature on the contents and consequences of EU conditionality in the CEE region or other countries that have already acceded to the EU is missing in the developing context of the EU aspiring Western Balkan countries, namely Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro, and Serbia. The same holds concerning the neighborhood partners.

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1 CEE will be understood to mean the following countries that belong to Central and Eastern Europe: Estonia, Latvia, Lithuania, Czech Republic, Hungary, Poland, Slovakia, and Slovenia. Where relevant, the Southeast European countries of Bulgaria and Rumania could be referenced. As politically conceived by the EU institutions, Western Balkans encompasses Albania, Bosnia and Herzegovina, Kosovo, North Macedonia, Montenegro, and Serbia. Geographically, Croatia (now an EU member state) forms part of the region.
In the conclusion of this section, it can be stated that while conditionality can play a more productive or enabling role in generating sustainable growth and investment in compliance with the EU conditions, so far, the perceived picture is painted by a degree of confusion at both national and regional levels about the ownership, credibility, and effectiveness of existing measures and strategies forming the policy of conditionality. To change this view and approximate the realities on the ground with the intended objectives, the EU should build an evidence-based narrative demonstrating how its policy of conditionality can enable the delivery of structural reforms. One of the many measures to be explored and employed would be introducing stringent impact assessments to show the role of, and effects of, ex-ante and macro-economic conditions (e.g., Huguenot-Noël et al., 2017).

4. Academic theory is related to policies of conditionality by international financial institutions

Conditional lending by international financial institutions dates to the 1950s. It began with several IMF stand-by arrangements and grew to include extensive World Bank structural adjustment programs. By its conceptual spirit, it primarily belongs to the neoliberal tradition of thinking. However, it might be untenable to suggest that all neoliberal proponents approved of conditionality. One of the leading voices of the tradition, Milton Friedman, was among those critical voices that opposed the IMF’s conditional lending. Friedman (1953) viewed conditionality as unacceptably undemocratic, albeit in some instances, he approved the policy prescriptions incorporated in IMF conditional lending agreements.

Friedman’s critique of conditional lending has its roots in the tensions between internal and external economic policy under the Bretton Woods system’s fixed exchange rates. His opposition to international monetary institutions’ interference with democratic decision-makers is articulated as early as 1950 in "The Case for Flexible Exchange Rates," published in 1953. For Friedman, it was unacceptable that ‘such far-reaching powers be surrendered to any authority other than an effective federal government democratically elected’ (Friedman, 1953, p. 199).

The debate over the introduction and application of policy conditions to IMF loans traces its origins to the 1944 Bretton Woods conference itself. John Maynard Keynes advocated for unconditional lending to member states. Calling conditional lending "grandmotherly," he insisted the IMF should remain ‘entirely passive in all normal circumstances, the right of the initiative being reserved to the central banks of the member countries’ (quoted in Frieden, 2019). Although disagreeing with the views of Milton Friedman over the role and fate of the IMF—which Friedman considered as a relic of the Bretton Woods era—an International Financial Institution Advisory Commission, chaired by Allan Meltzer (2000, pp. 28–29), in essence, shared Friedman’s views on conditionality:

transforming the IMF into a source of long-term conditional loans has made poorer nations increasingly dependent on the IMF. It has given the IMF a degree of influence over member countries’ policymaking unprecedented for a multilateral institution. Some agreements between the IMF and its members specify scores of required policies as conditions for continued funding. These programs have not ensured economic progress. They have undermined national sovereignty and often hindered responsible, democratic institutions that correct their own mistakes and respond to external conditions changes.

From the abundance of practice for a lengthy period now, one can see that the IMF’s policy of conditionality is not static but instead continuously evolving (Goldstein, 2000; Guitián, 1981). And beyond the pure theoretical considerations, it often remains subject to context-based practical considerations. Without rejecting the notion of conditionality per se, some works (e.g., Boughton and Mourmouras, 2004) emphasize policy ownership, which is operationally essential and may even be the most critical determinant of lending program success. From an operational point of view, the necessity of engaging a broad and diverse range of officials, market participants, and civil society organizations from the initial stages of the reform process is becoming an essential element of program design that must be developed and consolidated further (Boughton and Mourmouras, 2004).

A degree of flexibility regarding the measures to be adopted and their timing should always be possible or necessary to allow the countries to respond to changing circumstances, as in the COVID-19 pandemic case. This approach can serve members better and safeguard IMF resources more effectively than the onerous conditionality practices of the 1990s, resulting in poor program compliance (Buiura, 2003). Indeed, objectively measuring accordance with conditionality is a problem by itself, given that loan terms and data are confidential and released only voluntarily (Hoover Institution, 1999). Conditionality enforcement has its inherent limitations, as well since there are limited enforcement powers at hand. As Sachs (1988, p. 21) notes, "the alleged superiority of the international institutions in imposing conditionality is probably correct in general but much oversold quantitatively," and that "the conditionality emanating from the international institutions is hobbled by the nature of the relationship of those institutions to the member governments" (Sachs, 1988, pp. 21–22).

Overall, conditionality is undoubtedly an imperfect measure, subject of continuous criticism, and change and adaptation. Given the mixed reactions and results, one can validly question the policy’s application’s prudence or its unqualified extension to rather unprecedented human conditions and strenuous economic situations.

5. Conditionality in the bretton woods institutions

5.1. IMF

The International Monetary Fund is among the international institutions that play a crucial role in the prevailing pandemic-related circumstances and its obtrusive effects on the global economy. Indeed, in its April 2020 World Economic Outlook Report, the Fund noted that this was a crisis like no other. There is a substantial degree of uncertainty about its impact on people’s lives and livelihoods (IMF, 2020a). As a result of the pandemic, the global economy was projected to contract sharply by 3 percent in 2020, which is much worse than during the 2008 global financial crisis (IMF, 2020a). This empirical situation is a testimony that no practical lesson would
appear to have been learned from the 2008 global financial crisis. In turn, it presents a renewed call for a somewhat fundamental refashioning of the policies of the past to be able to deliver on the “build back better” concept, also embraced by the Bretton Woods institutions, namely, to use the disaster as a trigger to create more resilient nations and societies than before it (see, e.g., World Bank, 2018).

The COVID-19 pandemic has been a uniquely significant disruption, infliction high and continuously rising human costs globally. Protecting lives—the most precious of things—and enabling health care systems to cope with the required measures of isolation, lockdowns, and widespread closures to slow and minimize the virus’s spread has produced a severe impact on economic activity (IMF, 2020a). As a result, the IMF has taken steps to supply financial assistance and debt service relief to its member states. From late March 2020 until August 2020, the IMF’s Executive Board—under its various landing facilities—has approved loans in the form of financial assistance to 80 countries (IMF, 2020b). Overall, the IMF (2020b) has decided to make available to its member states a total amount of around $250 billion, a quarter of its trillion-lending capacity.

What is of particular significance for this inquiry is the terms of the agreement or conditions attached to the approved loans. Indeed, IMF lending has always involved policy conditions, though changed continuously. For example, until the early 1980s, IMF conditionality mainly focused on macroeconomic policies. The complexity and scope of structural conditions increased later, reflecting the IMF’s growing involvement in low-income and transitional countries. Multiple structural problems could hamper economic stability and growth. The IMF has recently adopted a more flexible approach to engaging with countries on structural reform issues as the conditionality system continues to evolve. The most recent review of its program’s performance or its conditionality policy is the 2018 Review of Program Design and Conditionality (IMF, 2019). It covered the period from 2011 to 2017. The 2018 Review noted that programs during this period were defined by structural challenges faced by members and hampered by the persistently weak global environment. To improve program success and reduce risks, the Review recommended measures to enhance projections’ realism, sharpen debt sustainability analysis, enhance fiscal consolidation quality, and improve structural conditions’ tailoring (IMF, 2019).

Keep up with its consistent institutional practice, and the IMF also applied the policy of conditionality in the context of COVID-19 lending. These conditions are technically defined as voluntary policy commitments and are described in the country’s letter of intent (IMF, 2020c). This stands for a de facto conditionality. For instance, in June 2020, the IMF approved a 12-month, $5.2 billion loan program for Egypt. The approval enabled an immediate disbursement of about $2 billion. The agreement detailed an FY2020-21 primary budget surplus target of 0.5 percent to allow for Covid-19 related spending but demanded it is restored to the pre-crisis primary surplus of 2 percent in FY 2021-22. It is, however, interesting to observe the slightly soft language used to articulate this demand: “The authorities plan to restore the pre-crisis primary surplus of 2 percent of GDP in FY 2021-22...” (IMF, 2020d).

The IMF also agreed on a new 18-month, $5 billion loan program with Ukraine in June 2020. The agreement sets out fiscal consolidation targeting a primary surplus of about 1–1.5 percent by 2023 (IMF, 2020e). Similar fiscal consolidation measures or targets, among others, were set for several other countries such as Jordan, Pakistan, or Ecuador. One can note the difference in approach between the IMF and the EU, in that both the tone and scope of conditionality in the case of the IMF is comparatively softer and smaller. Yet, both apply conditions to the assistance provided in mitigating the COVID-19 crisis. One can additionally interpret the IMF’s policy of rigid fiscal targets as quintessentially comparable to some of the EU’s expectations, which are also subject to inherent uncertainties of the COVID-19 crisis—could potentially be detrimental to a country’s ability to adapt and recover from the crisis.

5.2. World bank

Same as the IMF and the EU, the World Bank follows a policy of conditionality. Loan conditions are part of the WB’s Development Policy Financing. This policy, aiming to pursue a reform-driven agenda, has not been free of criticism from civil society organizations, academics, and developing countries on accounts of undermining the borrower country ownership and restricting policy space, often with harmful impacts on the lives and livelihoods of the people (e.g., Rodrik, 2006; Eurodad, 2019). Extensive empirical surveys have found evidence that the World Bank’s strategic approach and ideological preferences are reflected in loan conditions. Loan conditions promote the “private finance first” ideology of the WB’s Maximizing Financing for Development (MFD) approach adopted in 2017 (Eurodad, 2019). For instance, in June 2020, the Bank proposed the First Economic Recovery Development Policy Loan (DPL) to address impediments to Ukraine’s economic recovery in the context of the ongoing COVID-19 pandemic for $350 million (World Bank, 2020a). In its program, the Bank incorporated measures relating to public agricultural land sale as conditions in the DPL approved in late June 2020 (World Bank, 2020a). It included a required ‘prior action’ to ‘enable the sale of agricultural land and the use of land as collateral,’ along with measures designed to privatize the gas sector and promote private infrastructure investment in Ukraine (World Bank, 2020a, p. 22).

The WB projected more than 150 countries to have negative growth in 2020, and some 73 million more people were to live in extreme poverty, compared to before the Covid-19 crisis (World Bank, 2020b).

In the context of COVID-19, for a period spanning over 15 months, the World Bank Group is about to provide up to $160 billion in financing. On April 2, 2020, the first group of projects using the resolute COVID-19 Fast-Track Facility, amounting to $1.9 billion and assisting 25 countries, was rolled out (World Bank, 2020c). On May 19, 2020, the Bank Group announced that its emergency operations to fight COVID-19 had reached 100 developing countries. In most cases, these were COVID-19 Emergency Response Projects, with notable exceptions in Nepal’s Strategic Road Connectivity and Trade Improvement Project (World Bank, 2020c). The International Finance Corporation (IFC), the Bank’s private sector institution, plays a leading role in the Bank’s immediate pandemic response. It supplies $8 billion in fast-track financial support to existing clients to sustain economies during the COVID-19 crisis.

As part of its COVID-19 emergency funds, the WB signed a fast-track $1 billion agreement with India to help India prevent, detect,
and respond to the COVID-19 pandemic and strengthen its public health preparedness (World Bank, 2020d). This makes the largest ever health sector support from the WB to India. Among the many administrative and implementation arrangements, the Agreement between the World and India also had a particular clause that seeks compliance with environmental and social standards (Loan Agreement, 2020). It reads in relevant parts: ‘The Borrower shall ensure that the Project is carried out per the Environmental and Social Standards, in a manner acceptable to the Bank,’ and ‘the Borrower shall ensure that the Project is implemented by the Environmental and Social Commitment Plan (Loan Agreement, 2020, Schedule 2, section B, paragraphs 1 and 2).

It can be observed from the preceding that the World Bank has designed and deployed a relatively considerable number of straightforward financing dedicated to the health sector and other specific needs emerging from the COVID-19 pandemic. The list also includes other unrelated programs, mainly associated with an investment in road and other infrastructure. The Bank’s approach to conditionality in the cases examined is non-linear, ranging from such conditions as the sale of agricultural land and privatization of the gas sector to conditions relating to the broader environmental and social standards. This way, the WB’s approach is contextual and shaped after the specific local circumstances, yet also present in supporting countries to cope with the COVID-19 pandemic. As there is no certainty about the depth and length of the crisis period, the Bank could review its conditionality policy, including debt arrangements, to ensure that the applied conditions do not run counter to crisis response.

6. Appraisal and conclusions

This article’s discussion reveals that the policy of conditionality is now well rooted in the EU’s foreign policy decision-making and equally present, albeit with changes and variations in the IMF and WB programs. The COVID-19 crisis has not disrupted the policy’s continued application. Indeed, the relevant institutional practice so far shows that the procedure is present and that COVID-19 does not appear to have influenced the existing policy or its potential modification.

The article further reveals notable policy differences among the institutions observed. The EU’s policy of conditionality is more comprehensive, not limited to economic conditions only. It is more directly and explicitly articulated; because it is usually prescribed in formal arrangements or legally binding instruments. By contrast, the IMF and WB follow a softer approach, expressing the expectation to follow the requisite conditions in terms of individual commitments rather than in express, complex legal terms. Yet, the expected result is still quintessentially the same, meaning compliance with the undertaken obligations in exchange for the required assistance’s pursuance.

The most debatable moral dimension concerns the unusual circumstances, with severe effects on individuals or groups of individuals, imposed on them not by other human beings—including here political leadership, economic policies, or governance more broadly—but a rare pandemic that has challenged even stronger economies and stable democracies. These circumstances could undoubtedly serve as a convenient, if not ideal, moment to pressure governments to deliver on specific reforms. One could theorize that if the demanded reforms have not been materialized in ordinary circumstances, can states, especially the weaker ones or those in need of foreign assistance simultaneously deliver on both their peoples’ pressing demands dictated by the pandemic and the demanded substantial reforms.

The article posits that in-depth, structural conditions should guide ordinary decision-making and build up resilient national institutions and policies to expect and face such challenges as COVID-19. It questions the merits of large-scale comprehensive conditions in the face of a situation created by a force majeure or a humanly uncontrollable event such as the COVID-19 pandemic. It ultimately argues in favor of a measured and targeted response limited to the development, design, or determination of policy choices that promote effective use of the assistance to tackle the intended purpose rather than to use this extreme and unfortunate circumstance for broader purposes, be it well-intended reforms. The reason is also practical. The nations’ capacities in need to cope with the intense pressures of an unprecedented pandemic (at least unknown for an exceptionally long time) might not realistically survive the expectation to undertake substantial reforms simultaneously.

While this article does not rule out entirely the plausibility—even with some reluctance—of conditioning assistance in force majeure situations, it nonetheless calls for smaller and more targeted conditions, mostly—if not exclusively—linked to the way the money forming the assistance is spent or administered. It ultimately proposes and argues in favor of revising and limiting conditionality during force majeure events or extraordinary crisis of the kind of COVID-19 to the essential aspects of effective and transparent management of funds for the sole intended purpose. This in itself can be considered as a distinct democratic exercise aiming at the desired goal of efficient and accountable public management decision-making.

CRediT authorship contribution statement

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