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IMF AND WORLD BANK STILL PUSHING CONTROVERSIAL ECONOMIC POLICIES ON THE SOUTH

The World Bank and International Monetary Fund still claim that their structural adjustment programmes help improve poor countries' economies. But there is growing evidence from Africa that points otherwise. Should the Bank insist on continuing these controversial policies? (First of a two-part analysis of IMF/World Bank policies in Africa)

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Third World Network Features

Penang: The World Bank and the International Monetary Fund (IMF) have repeated their controversial claim that 'those low income countries which sustain adjustment policies over a period of time generally have done better than others — as evident in terms of growth, private investment attraction and poverty reduction'. The economies which have performed best, they said, were those that received 'strong support of the international community' and 'emphasised macro-economic stability, realistic exchange rates and outward orientation'. Therefore donors and the international financial institutions (IFIs) should give priority to the sustained reformers in the allocation of aid.

These statements are in an internal document prepared for the meeting of the Fund/Bank Development Committee in September as well as for the meeting of the Executive Directors at the end of August. In this document, 'Adjustment Experiences in Low-Income Countries and Implication for Financing Needs' (AE-LIC), the Fund and the Bank called for continued insistence on structural adjustment programmes (SAPs) and their extension to those low income countries not yet implementing them.

Contrary to earlier expectations, they argued, adjustment should now be seen as a long-term phenomenon since experience has shown that achieving successful adjustment requires 'time consuming fundamental structural change', than previously envisaged. This latest perception of adjustment as a long-term phenomenon (an infinite process) follows a series of admissions to the effect that earlier expectation that the process would last no more than seven years is unfounded. Some of the schemes are now more than a decade old with no end in sight.

To improve the effectiveness of the support for the adjustment process, the report recommended that further action should concentrate on four areas: sustained but targeted (selective) financial support to 'sustained adjusters', more and well timed technical assistance, debt relief through applying more broadly the 'new Paris Club menu of enhanced concessions', and sustained growth in the industrial countries. Central to the latter is the alleged indispensability of a successful conclusion of the Uruguay Round of world trade talks.

Not long ago, the vice president of the Africa region of the World Bank, Edward V K Jaycox, made the opposite recommendation, in the case of technical assistance. In a speech to the African-American Institute in Washington, he called for a cut in Western technical assistance, calling expatriate technical assistance a 'systematic destructive force undermining the development of local capacity'. He also blamed most donor-funded project failure in Africa on 'scanty attention given to project design' and throwing money at projects whose designs are a 'mismatch to local capacity' and 'cutting civil service which now turns out to be the wrong way to go about things'.

Whether Jaycox was making a personal opinion or engaged in a systematic public relations exercise to save the Bank's IDA replenishment, threatened at that time by non-governmental organisations (NGOs), remains to be seen.

The controversy over whether or not there is incontrovertible proof that so-called sustained adjusters have produced better performing economies than those classified otherwise and whether any such improvements are directly attributable to the policies rather than to favourable external factors, for example 'strong support from the international community' and terms of trade, remains unresolved to date. Which is one reason why the repetition of the claim is significant.

Africa, a Barometer for Assessing Fund/Bank Policies

The controversy dates back to 1989 when the World Bank and the United Nations Development Programme (UNDP) put out a joint report assessing adjustment performance in Africa. This report claimed that African recovery had begun and that this recovery could be traced to 1985, the time when SAPs were widely applied, and that those countries which applied the SAPs were performing better than those which did not.

Strong critiques of these assertions came from several sources, presented most forcefully by the Economic Commission for Africa (ECA), and led to a partial retraction of the claims by the Bank.

Recent independent assessments of this debate between the ECA and the World Bank, by people like Paul Mosley, a leading critic of Fund/Bank policies and Professor of Development Economics at the University of Manchester (England), confirm that the evidence did not support the Bank's claims.

Africa is by all accounts an effective barometer for assessing the effectiveness of SAPs as well as the impacts of Fund/Bank activities on the least developed countries (LDCs) as a whole. African countries make up 52% of the total number of LDCs. According to the London-based magazine, *Africa Confidential*, Africa has the largest budget in the Bank, has more staff and resident missions than any other region, the Africa region of the Bank is twice as big as the second largest region. According to the United Nations Conference on Trade and Development (UNCTAD)'s 1993 Trade and Development Report, 'nowhere else have SAPs been applied more intensely and more frequently than Sub-Sahara Africa (SSA)'.

Since the 1980s, 35 SSA countries have been under IMF/Bank-sponsored SAPs. They have received an aggregate of 162 high conditionality policy-based programmes, excluding sectoral adjustment loans, compared with 126 for the rest of the world. Some countries have had as many as four SAPs since the early 1980s. Between 1983 and 1991, Ghana received 10 IDA-financed adjustment credit, Gambia seven, Kenya six, Uganda, Guinea, Zambia, Senegal, Sao Tome and Principe and Mali, four each. UNCTAD explains that this frequency of adjustment reflects financial distress more than a commitment to the sensibility of the policies.

Unsubstantiated and Contradictory Evidence

What is the evidence to back this most recent claim by the IMF and the Bank? The report points to lower fiscal deficits, slower growth in money supply, liberalised domestic interest rates less over-valued exchange rates, the dismantling of trade barriers, improved agricultural sector pricing and the reduction of the roles of parastatal boards in pricing and marketing. It laments the slow pace of the privatisation programmes, reform of public enterprises and financial sector reforms.

In an earlier report in 1990, the Bank had announced with satisfaction that there was 75% compliance in terms of the implementation of fiscal, monetary and trade liberalisation policies.

The lament now over the slow pace of the financial sector reforms seems to contradict another internal document, initially entitled, 'Why Structural Adjustment has not succeeded in Sub-Sahara Africa' which is now being revised under a different title, 'Adjustment in Sub-Sahara Africa: Progress, Payoffs and Challenges' (ASSA-PPC).

In this document, the Bank, the principal architect of SAPs, admits that its emphasis on deregulating African banks was overplayed and may have contributed to the growth of 'predatory' banks soaking up savings and perhaps facilitating capital flight. Kenya was a case in point.

But even these so-called 'success indicators', many would argue, only show the

degree of compliance to the policy prescriptions (the prescribed means) and at best intermediary macro-economic stabilisation objectives but not actual outcome targets (the ends), that is impact on 'sustained poverty-reducing growth', the key indicator suggested by the report.

Even for these limited performance indicators, independent studies come to somewhat different conclusions. The authors of *Aid and Power* (Paul Mosley, John Toye and Jane Harrigan), a critical investigation of SAPs published in 1991, conclude, as do the Bank and the Fund, that the 'implementation of price-based policy instruments was more complete than those in respect of institutional reforms'.

The explanation is that with price reforms, it requires simply twisting the arms of a few staff in the Ministry of Finance and the Central Bank whereas institutional reforms require in some cases the support of the legislature where such institutions exist or effective inter-ministerial coordination.

Because of this ease at arm twisting, concluded *Aid and Power*, the Bank often 'prescribed policy reforms even in markets where its own analysis had revealed no major policy distortions; yet they rode into battle like Don Quixote with his lance tilted, even in fields where there were no noble deeds to be done'.

Bank's Own Studies Point to Opposite Conclusions

So what evidence of success in terms of the performance of the 'real economy' did the latest report (AE-LIC) present? For gross domestic product (GDP) growth the report divides the LDCs into two groups, A and B. Group A is made up of 25 countries which received support under low-conditionality arrangements from the Bank and the Fund, and have had one adjustment operation over the past decade. Group B comprises the 23 countries, 'many of which had major interruptions in their adjustment programmes, or began to adjust only recently'.

According to the AE-LIC report, whereas Group A increased their average growth rate to 3.1% in 1987-91, in contrast, the growth rate for Group B declined from 2.7% to 1.3% within the same period. This finding supposedly confirms similar conclusions from earlier Bank studies. The report quoted the Bank's third appraisal report on adjustment lending released in 1992 and revised in 1993 to confirm its assertion that adjustment has had a positive effect on export performance.

But there are several snags.

In 1992 another World Bank study conducted by Elbadawi, Ghuran and Uwujaren conceded that in the case of Africa, 'World Bank adjustment lending has not significantly affected growth but has contributed to a statistically significant drop in investment ratio...' The conclusion that there is a negative relationship between adjustment and aggregate investment growth and even savings was also reached by the 'Aid and Development Study' of Toye, Mosley and Harrigan. A 1993 study by Paul Mosley comparing the strong and the weak adjusters in Africa between 1985-91 found no difference between the two sets of countries in terms of growth performance.