

Has Recovery Begun? "Africa's Adjustment in the 1980s" Revisited

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Summary. — This article reviews the 1989 debate between the World Bank and the Economic Commission for Africa over Africa's adjustment, and on the basis of most recent statistics concludes that there is little evidence that the region is in throes of a recovery. Some countries, however, did relatively better than others in the 1980s, and an attempt is made to account for differences in performance. It is concluded that success in adjustment results not from World Bank/International Monetary Fund programs as such, but rather from "policy coherence," accompanied by "healthy" movement in key variables, namely the real exchange rate and public development expenditure.

"Recovery has begun."

— Edward V. K. Jaycox, Vice President
Africa Region
The World Bank (1989a)

1. INTRODUCTION

During the 1980s the World Bank staked its institutional reputation on the proposition that the application of a standard package of measures, designed to remove policy-created obstacles ("distortions") to the expansion of output, would reconcile macroeconomic adjustment with growth in developing countries. The purpose of the policy packages was to remove economically damaging government interventions in markets, especially those for foreign exchange, credit, agricultural commodities, and labor (World Bank, 1983, chapter 4; Serageldin, 1988). These packages, under the name of "structural adjustment" were applied in many countries of the world: by early 1992 78 countries had accepted World Bank adjustment programs, and many others had introduced essentially the same policy frameworks without formal agreements with the Bank (Mosley, 1991, Table 11.1).

By the early 1990s it was generally agreed that this widespread adjustment effort produced mixed outcomes, and, in particular, that success was greater in middle-income than in low-income developing countries. For example, a 1992 World Bank report on

adjustment lending showed that for investment and exports the performance of adjusting low-income countries, especially those of sub-Saharan Africa (SSA), performance was actually worse than for the countries that the World Bank labeled as "nonadjusting" (World Bank, 1992, Table 7a). Below, we devote considerable attention to the debate over the comparative experience of "adjusters" and "nonadjusters." Before going into detail, one can identify the central issue to be whether, in face of the extremely disappointing performance in low-income countries, the structural adjustment experiment should persist in orthodox form, be amended significantly, or jettisoned as a failure. We examine this issue for the region which the World Bank itself concedes as showing the most serious problems for adjustment lending, Africa South of the Sahara.

To place this issue in context, we review the debate between the World Bank and the UN Economic Commission for Africa (ECA), who in 1989 presented radically different assessments of the experience of adjustment in an exchange of policy reports (AAG80¹ and UNECA, 1989b). It would seem appropriate, as a first step in evaluating adjustment outcomes in Africa to determine which agency was closer to the truth.²

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Then, we go beyond providing report cards for the World Bank and the ECA to advance the proposition that structural adjustment programs in Africa have varied in their effectiveness depending upon the policy instruments used and the compatibility among instruments.

We can summarize our general analytical conclusions with regard to structural adjustment program in Africa as follows:

- (a) that net damage was incurred by African economies when the burden of adjustment fell upon public investment;
- (b) that trade liberalizations have done more harm than good if unaccompanied by real devaluation;³ and
- (c) that policy instability proved especially destructive and had more impact on economic performance than liberalization in any form; and this policy instability can reasonably be attributed to the inappropriate design of structural adjustment programs.

In section 2 we review the 1989 exchange between the World Bank and the ECA, with three purposes: to summarize the assessment of each agency with regard to African economic performance in the 1980s, to recall the forecasts for the medium term (especially those of the Bank), and identify the claims and counterclaims made for adjustment packages. In section 3 we use the most recent data to evaluate post-1989 performance, to answer two specific questions: did sub-Saharan Africa recover, as in 1989 the Bank alleged was occurring; and what the evidence suggests about the impact of adjustment programs in Africa. Having reviewed the debate and the evidence, in section 4 we present our analysis of why adjustment outcomes differ in sub-Saharan Africa.

2. TERMS OF DISAGREEMENT

In 1981, the World Bank issued its now-famous "Berg Report" (World Bank, 1981), which endorsed with enthusiasm liberalization and restriction of state intervention as the route to economic success. Throughout the 1980s, however, the disastrous economic performance of the sub-Saharan countries kindled a debate over the appropriateness of orthodox adjustment programs as the policy vehicle for the region's recovery. At the end of the decade, amid this context of controversy and even recrimination, the Bank, jointly with the UNDP, brought forth an assessment of the decade, entitled, blandly enough, "Africa's Adjustment and Growth in the 1980s." To say that AAG80 provoked further controversy would be the grossest of understatements; it could be described as pouring petrol onto a smouldering fire as a result of what critics interpreted as extraordinary and unsubstantiated optimism. Subsequently, in reply to

the ECA, its most aggressive critic, the Bank would defend itself by maintaining:

... [T]he Bank/UNDP report is hardly definitive. It notes that the signs of optimism are merely emerging and still tentative . . . Although recovery may be beginning, it remains fragile, inadequate, and far from generalized . . . [AAG80] does not say all is well but rather that a bad situation may be getting better, instead of worse (World Bank 1989b, p. 2).

While there may be a postmodern deconstruction of AAG80 that permits the World Bank's retrospective assessment, a literal reading of the report does not. In the foreword, the World Bank vice president for the African Region stated what he considered the message of the report, in a simple declarative sentence: "Recovery has begun" (AAG80, p. iii), which is difficult to misconstrue. It was perhaps this bold assertion by the Bank's leading official for Africa that obscured the somewhat more cautious statements in the report itself. Nuanced or bold, AAG80 set out several clear assertions with regard to the economic performance of sub-Saharan countries in the 1980s and prospects for the 1990s:

- (a) that economic recovery had begun⁴ and could be dated from 1985;⁵
- (b) that on balance the sub-Saharan region suffered less from external "shocks" than other regions during the 1970s and 1980s;⁶
- (c) the familiar Bank tenet that domestic policies had been and would be more important in determining performance than external factors;⁷
- (d) that structural adjustment programs, and especially those fostered by the Bank itself, had been instrumental in bringing on the putative recovery; with the corollary that countries which adopted Bank programs performed better than those which did not;⁸
- (e) that the poor gained absolutely and relatively to the rest of the population as a result of adjustment programs;⁹ and

(f) that foreign donors provided strong support for sub-Saharan countries during the 1970s and 1980s.

The ECA in its criticism denied that the evidence presented in AAG80 supported any of these assertions; indeed, that an objective inspection of the data refuted or cast them into serious doubt. Notwithstanding these objections, the Bank reiterated all of these assertions in its rejoinder to the ECA attack,¹⁰ and defended AAG80 on the grounds that it was both consistent with United Nations reports on the region and provided a "fresh perspective" (World Bank, 1989b, pp. 1-2).

The ECA critique focused on two issues, the allegation that SSA countries had suffered less from external shocks than other developing areas, and that World Bank programs could be judged a success in the region. In attempting to establish these propositions, the ECA argued that the Bank was guilty of arbi-

trary generation, use, and reporting of statistics. Certainly, the use of statistics in AAG80 did in some cases invite criticism.¹¹ For example, the ECA had little difficulty demonstrating that it took an imaginative use of base years for the Bank authors to conclude that the SSA region had not suffered terms of trade losses relatively to Asia and Latin America (AAG80, pp. 8–10; UNECA, 1989b, pp. 6–7). The ECA was particularly annoyed that:

... [T]he Report did not include a data set . . . to show the numerical basis for its conclusions . . . Independent evaluation of stated trends are therefore in most cases not possible (UNECA, 1989b, p. 4).

The Bank quickly corrected this oversight by making available the data set in question, inspection of which suggests that the empirical arguments in AAG80 were not robust with respect to minor statistical adjustments. To a great extent, however, the Bank's assertion about the impact of external shocks represented a secondary issue, even a red herring. No doubt it drew the wrath of the ECA in that it appeared to add gratuitous insult to injury: not only did SSA governments stand accused of gross policy mismanagement, this mismanagement had made a mess of their economies in the face of relatively favorable external conditions.¹² Given the weak empirical evidence, it is surprising that the authors of AAG80 (and the higher management that approved it) chose to produce such a provocative argument, which in any case was incidental to the central messages of the report.

Much more substantive and damaging to the analytical integrity of AAG80 were two arguments of the ECA that challenged the credibility of adjustment programs. The first of these took issue with the dating of the African recovery. As shown above, the Bank argued that the "positive economic trends" should be dated from 1985 (AAG80, pp. 1–2). It also argued that the general introduction of structural adjustment programs should be dated from the same year. That is, the argument that the recovery was produced in part by Bank-supported reform programs, as presented in the AAG80, depended upon the simultaneity of reforms and recovery.

It is somewhat of a mystery why AAG80 made this argument. Among other failings, the argument was easily refuted empirically and unnecessary. As we see below, by the Bank's own criteria it could be shown that a strong wave of reform swept sub-Saharan Africa several years before 1985. This fact, and a fact it was, need not have been a difficulty for the reform-promotes-recovery argument. If one thinks that adjustment policies bring a supply-side growth response, there is no need to argue that the response is immediate;¹³ indeed, it was not credible to do so. AAG80 with equal (or greater) force could have argued that adjustment began in the early 1980s (even the late 1970s) and at last in the mid-1980s began to bear fruit.

Presented with this own-goal by its adversary, the ECA then proceeded to offer a *non sequitur* of its own:

Given that SAPS were in place well before 1985–87, one should therefore compare the performance in 1980–87 as against the pre-1980 period in order to arrive at sound conclusions on the success or failure of SAPS . . . (UNECA, 1989b, p. 5).

This also assumed the naive simultaneity argument, but the ECA had the defense that it was following the lead of the Bank down the *non sequitur* path. In any case, when an opponent presents his/her argument ineptly, it would be a charitable critic indeed who failed to exploit the opportunity.

There can be no reasonable doubt that adjustment began on an extensive scale well before 1985, even by the Bank's criterion. Let us define the beginning of a country's adjustment process from the date it received its first structural adjustment loan from the World Bank.¹⁴ By this definition, 14 SSA countries initiated adjustment during 1980–84, and 13 during 1985–87.¹⁵ Table 1 provides by year the number of countries receiving World Bank adjustment loans. On the basis of this information, it would seem arbitrary, if not wrong, to date the generalization of adjustment from 1985. Of the eight years in only one (1982) did fewer countries initiate Bank programs than in 1985. Thus, 1985 would seem either too early or too late to be a serious candidate for the year of policy "watershed" proposed by the Bank. The table suggests that from the beginning of the 1980s orthodox adjustment policies swept sub-Saharan Africa, for better or worse. Why the authors of the AAG80 sought to establish the contrary remains another minor mystery of multilateral reports.

If this issue of debate, when adjustment began, was a red herring, the second, which countries were the adjusters, was the heart of the controversy. One might think that the relevant distinction would be easily and

Table 1. *World Bank adjustment loans, number of SSA countries by year, 1980–87*

Year	First loan	Subsequent loans
1980	2	0
1981	4	0
1982	0	1
1983	5	4
1984	3	0
1985	2	3
1986	6	6
1987	5	7
Total	27	21

Sources: FAO (1989); FAO (1991); Gulhati (1990); World Bank (1988).

objectively established. The principal issue in the debate was whether Bank-fostered policies improved, worsened, or had little impact on the economic performance of SSA countries. The obvious division of countries would be between those that were involved in Bank programs and those which were not.¹⁶ For a number of reasons, the Bank rejected some countries from the reforming category even though they had entered into structural adjustment arrangements with the Bank itself. It is not surprising that the ECA criticized this practice as "arbitrary." The method of comparison found in AAG80 seemed all the more arbitrary since it was apparently inconsistent with classifications of countries in other, roughly contemporary, Bank studies of adjustment lending. The ECA made much of the absence of a consistent definition of who was and was not adjusting (UNECA, 1989b, p. 5), and the Bank's defense of itself in the rejoinder in effect conceded the point to ECA, if not in so many words (World Bank, 1989b, p. 5).

The controversy over who adjusted, when, and by how much reflects the complexity of the debate over Africa's crisis. It is at the same time a debate over the orthodox neoliberal adjustment package and the role of the World Bank in fostering (or not fostering) development in the region. Since the World Bank programs for Africa consistently followed a neoliberal orthodoxy, the two issues to a great extent overlap. They are not identical, because some SSA countries pursued neoliberal policies without the financial support of the World Bank or the International Monetary Fund (IMF). In practice, both the Bank and its critics have treated the two issues as one. This is shown in the invariant practice of the Bank in its empirical comparisons to make involvement in a Bank program a necessary (though not sufficient) condition to be defined as an "adjusting" country.

If the essence of the controversy was (and remains) the impact of World Bank programs on sub-Saharan Africa, the controversy took the form of a debate over the criteria by which any given set of countries would be divided in order empirically to assess the impact of Bank programs. The simple rule of any such empirical test, no matter how sophisticated or simple, is that the criterion for the division of a sample into two parts must be prior to and independent of the outcome of the empirical calculations. In other words, there must be a definition of "adjusting" countries which is independent of the measure of success of adjustment (i.e., one must have an *ex ante* division of the sample).

Central to the ECA critique was the allegation that the Bank failed to produce such a definition in AAG80, indeed, even contradicted other World Bank reports, both with regard to criteria for definition and the measured impact of structural adjustment programs. The credibility of the empirical evidence in AAG80 could not help but be undermined by the great variety (confusion one might say) across Bank reports

in definitions and terminology. The analytical divisions used in the 1988 reports and studies tended to be quite straightforward, dividing countries between those involved in World Bank SAPs and those not. The former were called, quite simply, "adjusting countries" or "adjustment lending recipients." With some minor exceptions, in these first studies no country receiving Bank lending was excluded from the adjusting category. These reports and studies, employing the straightforward definition, concluded that there was no evidence that recipients of Bank loans in the SSA region performed better than nonrecipients, and perhaps performed worse.¹⁷ AAG80 broke with previous Bank practice, abandoning SAP/non-SAP dichotomy in favor of a three-fold division: "strong adjusting," "weak adjusting," and "no reform programs." If the "strong-weak" distinction suggested a possible degree of subjectivity, the definitions found in AAG80 did little to dispel such analytical anxieties:

Countries are classified as having strong reform programs on the basis of adjustment programs agreed with the World Bank and the IMF during 1985-87. In a few countries there have been subsequent changes that could modify the classification in 1988-89. (AAG80, p. 33)

As Table 1 demonstrated, virtually the same number of countries initiated SAPs during 1980-84 as during 1985-87, so selection of the latter period as pivotal remains dubious. Numbers of adjusters and years aside, the reader is not told why initiating adjustment during 1985-87 made one's reforms stronger than those of countries who had begun their Bank programs in previous years. Nor is the reader told that such a definition directly contradicts a World Bank report from the year before.¹⁸

The cynic might conclude that the 1985-87 definition of adjusters was chosen by the authors of the AAG80 because it produced the desired empirical results. Such an accusation would be wrong, for in practice the authors of AAG80 did not follow their own definition. Included among 19 "strong adjusting" countries were at least six that had received World Bank SALs before 1985: Côte d'Ivoire, Kenya, Malawi, Mauritius, Senegal, and Togo.¹⁹ Further, at least three of the 12 "weak adjusters" received their first SAPs loans during 1985-87 (Mali, Sierra Leone, and Somalia). When one included all policy-conditional loans from the World Bank and the IMF, during 1980-88, the list of "strong adjusters" averaged 7.3 adjustment loans per country, the "weak adjusters" 4.1, with each mean within its own standard deviation of the other (i.e., the means were not significantly different).

The *prima facie* evidence that the division of countries between "strong" and "weak" was arbitrary is reinforced by the definition of the latter in AAG80: "the countries with weak or no reform programs have

never had a program (but are considered to need one because of existing domestic distortions) or have not been able to sustain one" (AAG80, p. 33). With this AAG80 largely abandons any attempt at objectivity. By this definition, a country could have a structural adjustment program in place and be a "weak adjuster"; could not have a structural adjustment program in place and be a "weak adjuster"; could not have a structural adjustment program and be neither a "strong" nor "weak" adjuster; and could have had several structural adjustment programs, but not be a "strong adjuster." In other words, whether a country fell into the "strong," "weak," or "other" category could not be determined from the country's adopting a SAP, but depended upon a judgement as to existence and degree of domestic distortions and the sustainability of adjustment.

This method for dividing countries must be judged as unsatisfactory on several grounds. First, it would obviously be more in the interest of the World Bank to demonstrate the success of structural adjustment than its failure. Given this institutional bias with respect to outcome, the integrity of the test of success of adjustment required that the method involve as little subjectivity on the part of the Bank professionals as possible; or, alternatively, that the testing be contracted to a independent and disinterested party. In AAG80, the Bank chose to provide its own empirical evidence, based upon a method highly sensitive to institutional bias. Second, even if applied by an independent and disinterested party (if such existed), the definitions employed were intrinsically flawed and incapable of producing scientifically meaningful results. The purpose of the empirical evaluation is to test the hypothesis that, other things equal, introducing a World Bank-funded adjustment program improves a country's economic performance. There is general agreement that programs are more easily implemented and executed if an economy is doing well than if it is doing poorly.²⁰ Therefore, it follows that the "ability of a country to sustain a Bank adjustment program" is inseparable from the success of that program in improving a country's economic performance; indeed, whether countries "have been able to sustain" adjustment is what the empirical test of success seeks to establish. The creation of a hierarchy of adjusting countries and the identification of "sustainers" as evidence of adjustment success, but "nonsustainers" not as evidence of failure, is, in effect, for the Bank to pick only the "winners" in Africa as empirical support for its policies.

As tempting as it might be for the critic to accuse the Bank of having loaded the "winners" into a biased "adjusters" group to achieve favorable empirical results, such an allegation cannot be sustained. On the basis of the "strong"/"weak" distinction, the calculations in AAG80 show virtually no difference in economic performance for 1985–87, which the report

defined as the crucial period for assessing adjustment performance.²¹ A better growth record for "strong reformers" is only obtained by eliminating from both groups of countries those which suffered "strong shocks," either as a result of world market instability or acts of nature such as drought (pp. 29–31). Culling out those countries rocked by factors beyond the influence of economic policy is not an unreasonable idea. For example, to assess the impact of adjustment one might wish to eliminate those countries in the SSA region affected by war and severe civil strife (not mentioned in AAG80, but done here in section 3). But none of the three associated 1989 Bank documents, AAG80 itself, the rejoinder to the ECA or the sub-sequently issued data tables, provides definitions, specification or calculation of "strong shocks," nor the names of the countries excluded on this basis.²² It would seem prudent to conclude that the evidence presented in AAG80 that "strong adjusters" showed better economic performance was less than convincing.

After AAG80, the Bank's differentiation among adjustment lending recipients became increasingly varied, with perhaps the most convoluted term being the "early intensive adjustment lending countries" of the Corbo and Fischer World Bank's (1991) report. The impression left by the numerous Bank documents on Africa's adjustment issued over the years 1988–91 is that the Bank, like its critics, had yet to decide the appropriate framework in which to assess the impact of structural adjustment programs. This in itself should not be taken as a criticism, since, as a World Bank commissioned study pointed out, "... the corpus of social theory that underpins the design of reforms contains many gaps, especially in the context of Sub-Saharan Africa" (Gulhati, 1990, p. 97). Where the Bank invited attack was in succumbing to subjectivity in method, and venturing conclusions unjustified even if one accepted the validity of that method.

The purpose of this section has been to demonstrate that at the end of the 1980s the debate over the African development crisis became hopelessly bogged down in analytical inconsistencies and dubious calculations, such that it was impossible on the basis of the existing literature to draw conclusions about the impact of structural adjustment policies. The central questions, however, remained: had sub-Saharan Africa begun to recover in the mid-1980s, as AAG80 claimed? In addition, what was the effect of World Bank-funded programs on economic performance in the region? These questions are addressed in the following sections.

3. THE EVIDENCE FOR RECOVERY

Subject to queries and objections over the reliability of data, the first question, has Africa recovered, can

be resolved in a straightforward way. In Table 2 we provide calculations of GDP growth rates for 44 countries, divided into the now-familiar AAG80 categories of "strong adjusters," "weak adjusters," and "non-adjusters" or others. Following the World Bank assertion that 1985 was a watershed, the period rates are calculated for 1980-85 and 1985-91 (the last year for which data were available), with the figures averages of the annual rates.²³

Inspection of the first four lines of the table, for all 44 countries, suggests that the answer to the question, has Africa recovered (after 1985), is "maybe, but not much." The first line is quite encouraging for the Bank prediction, showing that regional GDP grew at less than 1% during the first period and at 3.5% during the second. If Nigeria is excluded, however, the growth rates for the two periods are virtually the same (and both below the rate of population growth). At best one can say, Nigeria recovered, but the rest of the region did not.²⁴ If instead of aggregating regional GDP for calculation one calculates the growth rate of each country and averages across countries (line three), again there is little difference between the two periods. Indeed, if one goes on to calculate the standard deviation of growth rates, the small increase for the second period's average growth is nonsignificant.²⁵ It would seem justified to conclude that on the basis of the obvious measures of growth, sub-Saharan Africa did not recover.

While the SSA countries did not recover, is there evidence that "strong adjusters" did better than "weak adjusters," as the Bank also predicted? Again, Nigeria is the key to the answer. If Nigeria is included, the improvement in the growth performance of "strong adjusters" is impressive, from virtually zero, to close to 4%; but without Nigeria there is hardly improvement at all for the aggregated SSA GDP. For the cross-country average, improvement is slight with or without Nigeria. As before, the standard deviation of growth rates implies that the measured increase in growth rates is nonsignificant. Further, the standard deviations are such that one cannot reject the null hypothesis that there was no difference in the growth rates between "strong" and "weak" adjusters. The average (crosscountry) growth performance of the "other" group is considerably better for both periods than for either the "strong" or the "weak" adjusters. It is not clear what conclusion should be drawn from this, since the "other" category lacks analytical definition.

In this context, it should be noted that the adjustment debate has given insufficient attention to the influence on growth performance in sub-Saharan Africa of civil strife and wars, which affected about a fifth of the countries in the SSA region.²⁶ Measuring the influence of armed conflict represents a formidable analytical and empirical task, but one can begin with a naive treatment in which the countries

Table 2. *Growth rates of constant price GDP, sub-Saharan Africa, 1980-85, 1985-91**

Country Groups	1980-85	1985-91
All countries (44)		
Weighted average	0.7	3.5
[without Nigeria]	2.3	2.2
Simple average	2.5	2.8
Standard deviation	3.1	2.4
"Strong adjusters" (19)†		
Weighted average	-0.1	3.9
[without Nigeria]	1.7	2.1]
Simple average	2.0	2.9
[without Nigeria]	2.2	2.8]
Standard deviation	2.9	2.1
"Weak adjusters" (12)‡		
Weighted average	1.7	2.5
Simple average	2.0	2.0
Standard deviation	2.1	2.0
Others (13)§		
Weighted average	3.9	2.3
Simple average	3.5	3.4
Standard deviation	4.0	3.1

*The level of GDP is used to construct the weights of the weighted average. The three categories we use are those used in AAG80 (p. 31). The GDP figures are from ADB (1992), p. A-4.

†"Strong adjusters" are Burundi, Central African Republic, Congo, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea Bissau, Kenya, Madagascar, Malawi, Mauritania, Mauritius, Niger, Nigeria, Senegal, Tanzania, Togo and Zaire.

‡"Weak adjusters" are Benin, Burkina Faso, Comoros, Equatorial Guinea, Ethiopia, Liberia, Mali, Sierra Leone, Somalia, Sudan, Zambia, and Zimbabwe.

§Others are Angola, Botswana, Cameroon, Cape Verde, Chad, Djibouti, Gabon, Lesotho, Mozambique, Rwanda, Seychelles, Swaziland, and Uganda.

so affected are separated from the rest. The "strong" adjusting category includes one of these countries (Burundi), but its growth was close to the mean for the 19 countries of the group, so its exclusion does not affect the crosscountry average. On the other hand, the "weak" adjusting group includes four war-affected countries (Ethiopia, Liberia, Somalia, and Sudan), and their performance was substantially worse than the crosscountry average, as Table 3 shows. The eight "weak" adjusters not affected by war grew at an average rate of 2.8% in the first half of the 1980s and at 2.9% during the second half, while for the war-affected countries growth rates were virtually zero for both periods. A more detailed analysis of the impact of military conflict is required, in which, for example, the possibility of mutual causality between armed conflict and economic performance is entertained. Table 3, however, offers further *prima facie* evidence that in

Table 3. *Growth rates of constant price GDP, sub-Saharan Africa, 1980–85, 1985–91, “strong” and “weak” adjusters**

Country groups	1980–85	1985–91
“Strong adjusters” (19) [†]		
Simple average	2.0	2.9
Standard deviation	2.9	2.1
“Weak adjusters” (12)		
Unaffected by war (8) [‡]		
Simple average	2.8	2.9
Standard deviation	1.8	1.9
War-affected (4) [§]		
Simple average	0.4	0.3
Standard deviation	1.8	1.9

*The level of GDP is used to construct the weights of the weighted average. The three categories we use are those used in AAG80 (p. 31). The GDP figures are from ADB (1992), p. A–4.

[†]“Strong adjusters” are Burundi, Central African Republic, Congo, Côte d’Ivoire, Gambia, Ghana, Guinea, Guinea Bissau, Kenya, Madagascar, Malawi, Mauritania, Mauritius, Niger, Nigeria, Senegal, Tanzania, Togo, and Zaire.

[‡]“Weak adjusters unaffected by war” are Benin, Burkina Faso, Comoros, Equatorial Guinea, Mali, Sierra Leone, Zambia, and Zimbabwe.

[§]War-affected “weak adjusters” are Ethiopia, Liberia, Somalia, and Sudan.

the 1980s there may have been no significant difference between the economic performances of “strong” and “weak” adjusters that can be attributed to structural adjustment packages; indeed, that this division of countries is not the relevant one for assessing economic performance.

In summary assessment, we can say that with regard to “recovery,” events proved the ECA to be closer to the truth than the Bank: Africa did not re-cover from 1985 onward. On the issue of the role of Bank adjustment programs, the ECA again seems to have been vindicated: one finds no compelling evidence that countries with Bank programs did better than other SSA countries. In two recent papers one of the World Bank’s economists conceded this point (Elbadawi 1992a, Elbadawi, *et al.* 1992, 1992b).

4. GROWTH, INVESTMENT, AND TRADE IN ANALYTICAL CONTEXT

With the evidence indicating that recovery did not begin in the mid-1980s and that there was no significant difference between “adjusters” and “nonadjusters” (or among adjusters, “strong,” “weak,” “early-intensive,” etc.), one is left in somewhat of a

quandary: a substantial amount of multilateral money went to Africa in the 1980s, and surely it must have made some difference. Part of the analytical problem is the commonly encountered assertion that the adjustment programs adopted by developing countries during the 1980s followed a standard package. As we showed above, this alleged uniformity of policy programs was the basis of the division of countries in the World Bank’s reviews of adjustment lending (1988, 1990, 1992, and Corbo and Fischer, 1991). Indeed, the comparisons would have had no analytical significance had programs not been similar across countries.²⁷

This allegation of basic similarity is quite untrue. In the first place, the policy packages recommended by the World Bank, although sharing a common liberalizing ethos, differed with respect to the type and sequence of the Bank-requested policy reforms. To take only the most obvious example, contrary to folklore, all Bank programs do not incorporate devaluations, most obviously in the cases of the CFA franc zone countries and Liberia (which lacks its own currency). Indeed, under the agreed division of labor between Bank and IMF, management of the nominal exchange rate is explicitly the role of Fund. Second, and perhaps more important, not all of what the Bank recommended was implemented by governments receiving adjustment loans (Mosley, Harrigan and Toye, 1991, Chapter 5). Thus, on paper Bank programs showed significant variation, and in practice they often bore limited resemblance to what one found on paper. These two points alone cast profound doubt upon the “adjusting”/“nonadjusting” dichotomy in as far as it corresponds to with/without multilateral adjustment funding. A much more fruitful way of assessing the impact of adjustment, is to focus upon policies as such, and then examine whether policy differences in programs proved significant for economic performance. This approach might seem obvious, but it is not trivial; ironically, the debate over the virtue of Bank programs deflected discussion from debate over policy.

Our first step must be to review in detail the policies recommended by the Bank. This detail is found in Appendix A, for programs of 23 countries implemented from 1980 onward. The summary picture is as set out in Table 4 below. Of the countries which accepted World Bank adjustment finance in the 1980s, only six attempted a program which was comprehensive across all major markets. The others pursued programs of a more limited scope, focused either on the reform of trade policy, agricultural markets, or public enterprises. Even at the level of program objectives, there was diversity; for example, between the countries which attempted to adjust through nominal devaluation and those which did not or could not (the latter including most in the franc zone). One also finds differences between countries which attempted major

reforms of agricultural marketing and those which did not, as well as between those that opted for a "big bang" and those whose programs were more gradual restricted.

It is, however, at the level of implementation that the dangers of making simple distinctions between the adjusters and the nonadjusters become most apparent. Firstly, the nonadjusting countries include, on the one hand, four countries burdened by civil war, whose economic failure is due fundamentally to this, rather than to policy design (i.e., Ethiopia, Liberia, Somalia and Sudan). On the other hand, the group also includes the world's fastest growing economy (Botswana, 8.4% per year during 1965-90), which did indeed implement a highly successful adjustment policy, but without multilateral funding (Harvey and Lewis, 1990). In consequence, the region's most successful "adjuster" was defined by the Bank as a "nonadjuster" (AAG80, p. 32), because it did not require or receive Bank or Fund loans!

Secondly, many of the the adjusting countries adjusted in name only. They openly flouted the Bank in several ways: (a) by implementing less than half of the recommended conditionality (e.g. Côte d'Ivoire, Malawi, Kenya); (b) by implementing recommended policies and then reversing them (e.g., fertilizer pricing in Nigeria); (c) or implementing the formal conditionality, but undoing its effects through countervailing measures (e.g., the creation of new parastatals in Kenya). Such are the multitude of slips possible between conditionality and implementation. Thirdly, the "adjusting" economies differed not only in what they did within the confines of conditionality, but also in what they did outside the frame of reference of Bank/Fund recommendations. Examples of what one might call extracurricular policy included measures affecting the pattern of public expenditure, the real exchange rate, and the mutual compatibility of adjustment measures.

In face of these complications it would not be sufficient to judge implementation purely in terms of recommended measures, even those measures actually carried out.²⁸ Rather, we are looking for the determinants of program success in a broader sense. We hypothesize that these determinants are as follows. First, there is the real exchange rate, which is the fundamental price determinant of the incentive to shift from the production of nontradables to the production of tradables, especially exportables. For a country suffering from a structural balance-of-payments deficit this relative price is typically the primary policy instrument of concern to the World Bank, even though it does not necessarily figure in formal Bank conditionality.²⁹ The second determinant of success is the level of government development expenditure, a variable much less emphasized by the Bank than in the ECA's "Structural Transformation" document (UNECA, 1989a). The logic behind its inclusion is that produc-

ers can only respond to an incentive to switch production into the tradable sectors (for example, a cut in real exchange rates) if infrastructure, marketing facilities, and labor skills are such as to allow them to do so. Government development expenditure is an imperfect³⁰ indicator of the efforts made to overcome the structural bottlenecks which, in African economies, inhibit supply response. Third, Rodrik (1990, 1991) has pertinently argued that the level of uncertainty attached to future policy actions has major impact on investment within any developing country. If businesses, as Rodrik maintains, "would rather wait for greater policy stability than commit resources to sectors which, though presently profitable, may receive a hit later on," the effects of liberalization on real variables are likely to depend on the beliefs of investors concerning whether such reforms are sustainable (1990, p. 934; and also Gulhati 1990, p. 98). Such judgements by agents are, of course, subjective and not directly observable. It is quite common in empirical work, however, to seek proxies for such variables. By making the assumption that subjective uncertainty regarding the future is inferred from past policy instability, it is possible to construct an index of "policy instability" which can be used to test the hypothesis that policy uncertainty acts in effect as a tax upon investment and growth. The construction of such an index is discussed in Appendix C.

In Table 5 the growth, investment and export performance of African economies since 1980 (columns)

Table 4. *Sub-Saharan Africa: Classification of Countries by Type of Adjustment Program Recommended by the World Bank*

-
1. Countries with no World Bank-financed reform program
Botswana, Ethiopia, Liberia, Somalia, Zimbabwe (until 1990), Rwanda, Sudan
 2. Countries with World Bank-financed reform program
 - (a) "Comprehensive" programs, liberalization in most markets*
Burundi, Cameroon, Ghana, Senegal, Malawi, Kenya
 - (b) Emphasis upon trade liberalization†
Zambia, Mauritius
 - (c) Emphasis upon agricultural markets†
Benin, Burkina Faso, Côte d'Ivoire, Gambia, Sierra Leone, Tanzania
 - (d) Emphasis upon public enterprise reform†
Togo, Mali, Zaire, Nigeria, Madagascar, Mauritania
 - (e) Other
Uganda, Mozambique, Niger
-

Source: Appendix A.

*"Comprehensive" programs were those involving recommendations in at least seven of the eight policy areas listed in Appendix A.

†Programs contained at least two recommendations in the area identified, plus recommendations in not more than two other areas.

are presented by dividing the countries into categories defined by the emphasis of the respective adjustment programs (rows).³¹ In Table 6 these same performance indicators (again, across the columns) are correlated with indicators of policy implementation and effectiveness, the real exchange rate, public investment, and policy stability (down the rows). The statistics in Table 5 suggest that World Bank programs in Africa had a positive effect on exports, a negative effect on investment for two subcategories of adjustment (2c and 2d), and a neutral effect on output (compared to "no-program" countries). These numbers are consistent with the findings of the more broadly based surveys of adjustment (World Bank, 1988, 1990a, 1992a; Mosley, Harrigan and Toye, 1991, Table 8.8). The table also suggests, albeit tentatively, that countries which attempted comprehensive programs of reform were somewhat more successful than countries which attempted partial reforms focused on agricultural markets or public enterprise reform.

The differences involved, however, are minor, and overlook, as we argued above, both relative implementation performance and determinants of adjustment success which are extraneous to formal Bank conditionality. For these, we look to Table 7. We note that both the real exchange rate (the World Bank's key indicator of implementation) and public investment (the ECA's key indicator, UNECA, 1989a and 1989b) are both positively correlated with growth in output, investment and exports. It should be noted that the correlations are more significant in the case of public investment, suggesting that the public sector must play a significant role in recovery in sub-Saharan Africa. The index of policy instability is closely correlated with "good" economic performance on the indicators we have selected. This should be regarded as an invitation to further investigation rather than a positive conclusion, as there are some odd cases amongst the set of countries with unstable policy. For example,

Ghana, a successful "adjuster" by most criteria, was a high inflation country which experienced large variations in both exchange rates and interest rates during the 1980s. On the other hand, it could be argued that some of the countries with stable policy³² used that stability as an alternative to, rather than a vehicle for, policy reform, at cost to the real economy. What has to be kept stable, it may be argued, is not the policy instrument itself, but the manner in which it is managed in response to economic crisis, and for this we do not yet have a satisfactory proxy. In other words, it may be the manner of implementation that can provide results roughly predictable by private agents, though the results themselves may vary.

Our basic argument, indeed, is not that the complementary policy indicators of Table 6 are more important for performance than the type of adjustment program identified in Table 5, but rather that the two need to be compatible. In Table 7 we confine ourselves to three illustrations of this point, rather than a comprehensive investigation of it. We discover in part (i) of the table that liberalization unaccompanied by a real exchange rate depreciation appeared to be worse than useless, in that it led to results inferior to the sample average. The explanation for this is clear: liberalization unaccompanied by real devaluation will immediately increase imports without necessarily assisting export performance (see Collier and Gunning, 1992). Part (ii) of the table shows that liberalization of agricultural markets unaccompanied by a real increase in public capital expenditure again leads to results worse than the sample average. When this expenditure increases the effect appears to be beneficial. This again is what one would expect: if roads, ports and marketing systems are not maintained, the desire of farmers to respond to a price stimulus cannot translate itself into an effective supply outcome.

The final part of the table indicates that "nonadjusting countries" (on the World Bank's criteria) fol-

Table 5. *Sub-Saharan Africa: Analysis of economic performance by type of adjustment program recommended*

Type of adjustment program initiated:*	Measures of economic performance:		
	Real GDP growth† 1980-90	Investment growth† 1980-90	Export growth‡ 1980-90
1. No World Bank adjustment program	3.2	0.3	-1.2
2. Countries accepting Bank adjustment programs:			
(a) Comprehensive programs	3.7	1.4	1.9
(b) Trade liberalization only	3.4	3.2	9.6‡
(c) Focus on agricultural markets	2.5	-0.5	1.0
(d) Focus on public enterprise reform	2.0	-0.8	0.3
(e) Overall average	2.8	0.2	1.9

*For type of adjustment program initiated, see Table 4.

†World Bank, *World Development Report* (1992), Tables 2, 8, 14, respectively.

‡One observation only.

Table 6. Analysis of economic performance by indicators of effectiveness of implementation in sub-Saharan Africa

Measures of implementation	Measures of economic performance:		
	Real GDP growth 1980-90	Investment growth 1980-90	Export growth 1980-90
(i) Real exchange* rate			
Declining 1980-90† (n = 11)	3.4	0.9	2.4
Increasing 1980-90 (n = 17)	2.2	0.3	0.8‡
(ii) Public investment			
Increasing 1980-90§ (n = 10)	4.0‡	3.2¶	4.6¶
Declining 1980-90 (n = 18)	1.8	-0.6	-0.2
(iii) Policy stability			
Instability index < 10 1980-90 (n = 7)	4.3‡	2.1‡	6.3¶
Instability index > 10 1980-90 (n = 9)	1.8	-0.9	-1.8

Sources: Government real capital spending (Appendix B), real exchange rate (Appendix C). "Policy instability index" (Appendix D); and growth of GDP, investment and exports, World Bank, *World Development Report* (1992), Tables 2, 8, 14 respectively.

*The real exchange rate is defined such that a decline in the real effective exchange rate connotes an improvement in competitiveness.

†Countries with real exchange rate declining 1980-90 are: Botswana, Burkina, Ghana, Kenya, Malawi, Zambia, Uganda, Zaire, Zimbabwe, Togo, Nigeria.

‡Denotes significance at 5% level.

§Countries with government real capital spending increasing 1980-90 are: Botswana, Cameroon, Kenya, Mauritius, Zambia, Zimbabwe, Uganda, Ghana, Ethiopia, Burkina..

¶Denotes difference between sample means significant at 1% level.

Countries with policy instability index less than 10 are: Botswana, Côte d'Ivoire, Malawi, Mauritius, Zimbabwe, Burkina, Faso, and Mali.

lowing what our analysis defines as complementary policies performed better than "adjusting countries" with noncomplementary policies. This takes us back to our central point: what appeared crucial in economic recovery was not whether recipient countries took the World Bank's shilling and adjusted in strict adherence to conditionality, but rather whether countries had a mutually consistent set of development policies.

5. FOOD SECURITY AND SOCIAL INDICATORS

A major criterion for assessing the extent of recovery and the role of adjustment policies therein is the trend in broader social indicators of development: health, literacy and the welfare of vulnerable groups such as children and the poor. A rapidly growing literature (e.g., Bourguignon, de Melo and Morrisson, 1991; Morrisson, 1992; Sahn, 1991; Cornia, 1991) has

emphasized that the impact of adjustment on human welfare, like the response of the real economy, is highly sensitive to the type of adjustment chosen. True though this is, it begs the question of what instruments have what effect in the sub-Saharan context, which has been little explored. As a first step toward filling this gap we now repeat the analysis of the previous section with social indicators replacing growth indicators as dependent variables.

The database, of course, is poor; in particular, there are few usable data on the extent of poverty in most African countries, let alone on the manner in which it has changed in the 1980s. We do, however, have diachronic data on the following indicators: infant and child mortality (from UNICEF), food production (from FAO),³³ and in some countries state expenditure on the health and education sectors. These expenditures at best measure input rather than output, but provide some indication of the extent of conflict between adjustment and longer term development. In Table 8 these available social indicators are crosstabulated

Table 7. *Interactions between initial policy emphasis and indicators of policy effectiveness for selected sub-Saharan African countries*

Initial policy stance (see Table 3)	Nature of complementary policy implementation (see Table 4)	Indicators of economic performance:		
		Growth of GDP 1980–90	Growth of Investment 1980–90	Growth of exports 1980–90
1. Trade liberalization (alone or in combination with other liberalization measures)	Real exchange rate depreciation 1980–90 (Kenya, Malawi, Senegal, Mauritius, Ghana)	3.8	3.5	4.2
	No real exchange rate depreciation 1980–90 (Cameroon, Zambia)	1.6	–3.6	–1.3
2. Liberalization focused on agricultural sector	Real public capital expenditure increasing 1980–90 (Burkina, Gambia)	4.3	10.3	10.1
	Real public capital expenditure declining 1980–90 (Benin, Côte d'Ivoire, Sierra Leone, Tanzania)	2.2	–4.2	0.2
3. “Adjusting countries” (on World Bank criteria) <u>but</u>	Real exchange rate increasing, public capital expenditure declining (Côte d'Ivoire, Sierra Leone)	1.6	–6.3	0.6
“Nonadjusting countries” <u>but</u>	Real exchange rate declining, public capital expenditure increasing (Botswana, Zimbabwe)	7.1	–0.2	(8.4)

Sources: See Tables 4–6.

against both the measures of policy considered in Table 5 and the complementary variables found in Tables 6 and 7.

The results reveal a rather mixed picture. Countries which have accepted World Bank policy packages have higher indices of per capita food production than those which have not, but in both groups the average value of the index is falling. Further, “adjusting” countries in the World Bank’s sense appear to have diverted public expenditure away from the health and education sectors. The “indicators of complementary policy” which were correlated with recovery in the real economy, that is, declining real exchange rates, increasing levels of public sector capital expenditure and stability of policy, are also correlated, in the same direction, with each of the social indicators considered in Table 8. The most significant correlations, once again, are with public sector development expenditure, and agricultural

liberalization appears only to assist food production if this complementary variable supports it.³⁴

Those countries which have managed to avoid a diversion of public expenditure away from education and health appear to have achieved a more rapid decline in infant mortality; and “nonadjusting countries” whose complementary policy indicators are favorable also have a faster decline in infant mortality, though they have a slower growth of food production than “adjusting countries” whose complementary policy indicators are unfavorable.

In recent years there has been a lively literature on poverty in Africa and the impact of stabilization and adjustment policies on poverty (Sahn, 1991; Bourguignon, de Melo and Morrisson, 1991; and Cornia, 1991). Table 8’s contribution to this literature is to suggest that the stability with which macroeconomic policy instruments are deployed and the maintenance of public investment levels may have a crucial

Table 8. Policy stance and social indicators, Selected sub-Saharan African countries, 1980-90

Countries by policy stance	Indicators of complementary policies	Per capita food production*	Annual rate of change of under 5 mortality†	Health & education share in government expenditure‡
1. "Adjusting countries" "nonadjusting countries"		94\$ 83	-1.9 -1.7	-1.1¶ +0.8
2. Entire sample	Real exchange rate depreciation Real exchange rate appreciating	96¶ 91	-1.9 -1.5	-0.2 -0.5
3. Entire sample	Real public capital expenditure increasing Real public capital expenditure decreasing	96\$ 90	-2.1\$ -1.6	+0.9¶ -2.3
4. Entire sample	Policy instability index < 10 Policy instability index > 10	96 90	-2.2¶ -1.7	+2.1\$ -2.3
5. Liberalization stressing agricultural sector	Real public capital expenditure increasing Real public capital expenditure decreasing	114\$ 97	-1.6 -1.6	-3.2 —
6. "Adjusting countries"	Health & education expenditures rising share of total expenditure Health & education expenditures falling share of total expenditure	96 97	-2.2¶ -1.5	NA NA
7. "Adjusting countries" "Nonadjusting countries"	Real exchange rate increasing, public capital expenditure declining Real exchange rate decreasing, public capital expenditure increasing	94 84	-1.8 -2.7	-9.6\$ +1.2

Sources: Average index of per capita food production: World Bank, *World Development Report* (1992), Table 4. Under 5 mortality rate: UNICEF (1992), Table 9. Health and education expenditures: Sahn (1991), Table 10, p. 45. For division of countries into groups, see Table 4.

*Per capita food production" is the ratio of the averages for 1988-90 and 1979-81.

†Annual rate of change of under 5 mortality" is for 1980-90.

‡Health & Education share in government expenditure" refers to current expenditures, 1987-89 compared to 1980-83.

\$Difference between sample means significant at 0.01 level of probability.

¶Difference between sample means significant at 0.05 level of probability.

role in relieving poverty as well as promoting growth. It would seem appropriate for a coherent adjustment package to combine real exchange rate devaluation with unavoidable reductions in public service wages³⁵ and also a sustained increase in real government development expenditure. The emphasis needs to be not only on directly productive investment, but also on measures such as feeder roads, rural credit, and electrification, which will help to improve the operation of markets whose imperfections are slanted against the rural poor (for example, distortions of private credit markets that make it impossible for the poor to borrow for productive improvements). By such measures the currently low elasticity of supply of the rural sector should be increased (Sahn, 1991, p. 24), and to the extent that this can be done by taking on labor from rural low income groups it will be possible to reduce rural poverty further. A policy mix of this type has played a major role in enabling Asian countries, in particular Indonesia (Booth, 1989, World Bank, 1990b), to combine successful adjustment with a very high rate of poverty reduction.

In summary, it seems reasonably clear that World Bank structural adjustment programs do not automatically help the poor, as AAG80 alleged. As studies commissioned by the Bank itself have pointed out, it is at best a fractional truth to say that market liberalization, by raising agricultural prices, necessarily aids the poor.³⁶ Indeed, the faith that "adjustment helps raise living standards overall and especially for the poor" (AAG80, p. iii) would seem one of those piously ideological wishes derived from the view that little, if anything, can ever go wrong if markets are left to work their magic. In addition, we have suggested that if the magic should work at all, it must be supported by a healthy and vigorous public sector.

6. CONCLUSION

At the risk of repetition, we conclude by highlighting our major findings, which were developed in more detail above:

- (1) based on statistics through 1991, the SSA region as a whole had not recovered from its devel-

opment disaster, though there was improvement for some countries;

- (2) whether a country did better or worse than the average for the region shows little correlation with the category of "adjusting countries" as variously defined by the World Bank; and

- (3) success in adjustment, and therefore recovery, depends upon policy coherence, and should be accompanied by "healthy" movement in certain variables, among which some of the most important appear to be the real exchange rate and public expenditure.

There are several important and controversial implications derivative from these conclusions. Our finding that policy coordination and complementarity are key to adjustment success casts in doubt the stress that both the Bank and the ECA, as well as various independent authors (e.g., Helleiner, 1992a and 1992b),³⁷ have placed on the importance of increased finance for the SSA region. Certainly, more funding of adjustment, other things equal, may be desirable, but it has been our major objective to demonstrate that other things are not equal, and if the catalysts of success are not present, additional adjustment finance may do more harm than good. The level of funding is only tangentially related to success (Killick, 1992; Mosley, Harrigan and Toye, 1991, chapter 7). Failure with generous finance leaves a country worse off than before, liberalized and vulnerable to external shocks, a depressed economy, and deeper in debt. In addition, it leads to policy instability, as the cycle of liberalization, political protest, reimposition of controls, financial austerity, renewed appeals to Washington, and reliberalization works itself out. As we have shown, the instability of policy may itself be a major determinant of future failures.

If African governments are to translate that experience into policy, which is vital if they are to avoid a second lost development decade, it is important that they have the support of research which goes beyond that presented in this paper. Studies are required that break down the impact of adjustment measures into their component parts, thereby demonstrating which ones work and which do not. This paper should be seen merely as a necessary preliminary to analysis of this type.

NOTES

1. Throughout this paper the World Bank-UNDP (1989) report, *Africa's Adjustment and Growth in the 1980s*, will be cited in references and the text as "AAG80", in order to immediately identify it.

2. These two documents represent a tiny fraction of the number of official reports on economic policy in sub-Saharan

Africa issued during the 1980s. It is not the purpose of this paper to review the entire policy debate, but rather to focus upon the issue of economic recovery and comparative performance of the sub-Saharan countries. The positions taken by the World Bank in AAG80 were elaborated in more detail in earlier documents, namely World Bank (1986 and 1989c) and ECA (UNECA, 1989a).

3. It is to be recalled that many of the countries of the region were involved in bilateral and/or multilateral arrangements that ruled out devaluation as a policy measure, with membership in the CFA Franc Zone the most important of these. Thus, real appreciation of a currency did not necessarily represent policy "mismanagement," but the constraints of long-term institutional arrangements.

4. In a subsection entitled "Encouraging Signs", the report reads (AAG80, pp. 1, 2): "When recent trends are put in the longer perspective . . . the crisis [in Sub-Saharan countries] seems less precipitous, and the road to recovery more obvious and more manageable . . . GDP grew more than 2.3 percent a year on average in the three years 1985 through 1987, a clear improvement . . ."

5. When the putative recovery began and the relation of that date to the generalized adoption of adjustment programs became an issue of debate between the World Bank and the ECA. This issue also arises in our empirical work, so it is worth noting the Bank's argument: "This report focuses on the period 1985-1987 . . . [T]he period 1985-87 may turn out to have been a watershed between the difficulties of the early 1980s and the adjustments in the second half of the decade, with the prospect of steadier growth later on. (p. 5)"

6. The report asserts: ". . . Sub-Saharan Africa has not faced more adverse global conditions than other developing regions. In fact, the region has in many respects been more favoured than other parts of the developing world." (AAG80, p. 1)

7. For example, "This report makes clear that while external forces will continue to influence the region's opportunities, the ways that Africans use their resources and adjust to changing circumstances will determine their future. . . . Africa's crisis cannot be satisfactorily explained as the result of an adverse international economic climate, low commodity prices, or dwindling foreign assistance. . . . The loss of competitiveness coincided with the growth of government controls and restrictions." (AAG80, pp. iii, 1, and 2)

8. In the foreword one reads, "The report suggests that programs of economic reform and adjustment have helped African countries begin to improve their economic performance." And, more explicitly, in the executive summary it is asserted: ". . . [W]hen the performance of reforming countries is compared with that of nonreforming countries, there is evidence that the combination of reforms and added assistance has led to higher agricultural growth, faster export growth, stronger GDP growth, and larger investment . . ." (p. 3). From the section of the report called "Impact of Reforms": "Despite these empirical and analytical problems, evidence suggests that reforms and adjustment generally have led to better economic performance in the region" (p. 27) ". . . [G]overnments where economic reform programmes have been sufficiently strong and sustained to be supported by the World Bank and other international donors have clearly demonstrated better policy performance in numerous areas." (p. 28)

9. This assertion was based on the argument frequently used by the Bank that the poorest in sub-Saharan Africa are agricultural households, and since structural adjustment

reforms increase agricultural prices relatively to other prices, they increase the incomes of the poor (AAG80, p. iii). The argument is a *non sequitur* because: (a) it is not possible *a priori* to predict relative price movements in response to liberalization except at the most general level (e.g., tradables and nontradables), and (b) whether the poor benefit from agricultural price increases depends on factors which vary across countries (e.g., whether the rural poor are net food producers or consumers). The dangers of facile allusions to the gains of the poor from adjustment programs have been pointed out in World Bank studies (Lele and Agarwal, 1989, p. 5).

10. In the rejoinder there is reference to "five main messages," which are those listed here, with the exception of number five. Elsewhere in the rejoinder, however, the assertion that the poor gain relatively from adjustment is repeated (World Bank, 1989b).

11. See discussion below of the Bank's treatment of countries suffering "shocks."

12. In an especially flagrant case of waving a red flag at a bull, the report maintained, "Sub-Saharan Africa has had more favourable access to industrial countries' markets than most other developing regions" (AAG80, p. 2). Certainly this could not be argued for Central America, the Caribbean, or some of the South American countries, which leaves the various subregions of Asia. In any case, the very vagueness of the term used, "favourable access" suggests a degree of subjectivity of judgement perhaps inappropriate for a multilateral organization on such a sensitive issue. It is also surprising that after arguing that the SSA region was relatively favored by world market conditions, AAG80 states at a later point, "the reform programs [in Sub Saharan Africa] have been implemented in a difficult external economic climate." (p. 27)

13. This is pointed out in the carefully detailed study by Gulhati of 12 Eastern, Central, and Southern African countries, done for the Economic Development Institute of the World Bank, ". . . [T]he transitional period between the initiation of reforms and the point at which their impact is fully registered on the economy is likely to be a long one, given the stage of underdevelopment [of Sub Saharan Africa] . . . The effects of the new policies on the economy remain very uncertain." (Gulhati, 1990, p. 97)

14. "Structural adjustment loans" are defined as loans, credits, or sectoral programs with policy conditionality. This conforms to the Bank's definition. (AAG80, p. 32)

15. This definition is also used in an FAO report that lists each African country with details of World Bank and IMF lending (FAO, 1989). Those countries with programs in place before 1985 were (in chronological order): Kenya, Sudan, Côte d'Ivoire, Malawi, Senegal, Mauritius, Nigeria, Togo, Zimbabwe, Guinea-Bissau, Zambia, and Sierra Leone. Some of these programs were suspended or cancelled by the Bank, a point treated below. Countries beginning programs during 1985-87 were: Burkina Faso, Madagascar, Burundi, Central African Republic, Gambia, Guinea, Somalia, Zaire, Congo, Niger, São Tome, Tanzania, Uganda.

16. This was the definition used in what was perhaps the most technically sophisticated Bank-sponsored study of the impact of adjustment lending (Balassa, 1988). The study concluded that adjustment loan recipients in Sub-Saharan Africa had slower growth rates than nonrecipient countries. (p. 17)
17. The ECA noted that AAG80's conclusion that "adjusting countries" in sub-Saharan Africa did better on balance than nonadjusting countries contradicted two 1988 Bank reports, *Beyond Crisis Management* (Serageldin, 1988) and *Report on Adjustment Lending* (World Bank, 1988), as well as the more technical study by Balassa in the same year (Balassa, 1988). All three of these concluded that "adjusters" in sub-Saharan Africa had done no better or even worse than "non-adjusters."
18. In *Beyond Crisis Management* (Serageldin, 1988), a footnote to the table on page 10, one reads: "Countries with sustained and substantial adjustment programs commencing before FY1985: Côte d'Ivoire, Ghana, Kenya, Malawi, Mauritius, Senegal, Togo, and Zambia" [emphasis added]. In AAG80 Zambia is listed as a "weak adjuster."
19. The details by country are:
 (a) Côte d'Ivoire, structural adjustment loan (SAL) of US\$150 million in 1981; and SAL of \$250.7 million in 1983;
 (b) Kenya, structural adjustment credit (SAC) of \$70 million in 1980; and SAL/SAC of \$130.9 million in 1982;
 (c) Malawi, SAL \$45 million in 1981; sector adjustment credit of \$5 million in 1983; and SAC of \$55 million in 1983.
 (d) Mauritius, SALs in 1981, 1983, 1984;
 (e) Senegal, SAC of \$56.8 million in 1981; and
 (f) Togo, SAC of \$40 million in 1983.
 For Mauritius the source is FAO (1991, p. 22), where amounts are not given. For the others, the source is FAO (1989).
20. An economy may do well for reasons other than the policies adopted by a government: favorable world market conditions, adequate rainfall, negative "shocks" that affect it less than other countries etc.
21. For 1985-87, AAG80 calculates that countries with "strong reform programs" grew at 2.8% per annum and "weak or no reform" countries at 2.7%.
22. There would seem to be validity in the ECA's view that "the criteria spelled out for categorizing countries into those having experienced strong shocks and no strong shocks are hazy at best" (UNECA, 1989b, p. 5).
23. For current purposes it makes little difference whether one uses average, compound, or regression-estimated growth rates, for all give virtually the same relative growth rates. Only the first is used in the table.
24. Even this modest conclusion is highly sensitive to the choice of statistical series used for Nigeria. In Mosley (1992) it is demonstrated that the measured impact of structural adjustment policies on agriculture output during 1985-91 varies from strongly positive to slightly negative, depending on whether the Central Bank or the FAO series on agricultural production are used.
25. In none of its published studies of adjustment by the Bank does one find standard deviations calculated. This is somewhat surprising given the general use of tests of significance in the economic literature and the simplicity of their calculation and interpretation.
26. The following countries suffered from serious civil and military conflicts in the 1980s and/or early 1990s: Angola, Burundi, Chad, Ethiopia, Liberia, Mozambique, Somalia, Sudan, and Uganda.
27. Cornia, among many others, took this view, and maintained that "the adjustment policies adopted by African countries in collaboration with the IMF and World Bank are little differentiated by country" (Cornia, 1991, p. 2).
28. This was attempted by one of us, with inconclusive results, in Mosley, Harrigan and Toye (1991, Chapter 7).
29. The reasons for this are partly that the exchange rate is, by agreed division of labor primarily a Fund responsibility, and partly that the real exchange rate is affected by the domestic inflation rate which is not directly under the government's control. If one looks at Appendix A, one sees that several of the countries had no Bank exchange rate conditionality. They may well have had such conditionality presented to them by the Fund.
30. Many components of government current expenditure should properly be classed as developmental (in particular expenditures on education and health service). In addition, the value of aggregate development expenditure gives no indication as to how effectively the money was spent. In particular, investment in capital which then remains underutilized (Ndulu, 1992) will be unproductive. An ideal index could be corrected for the level of both the "appropriateness" and utilization of capital.
31. The statistical analysis which follows (Tables 7, 8 and 9) relies on a method which implicitly or explicitly compares performance to before and after adoption of adjustment programs, or countries with and without programs or particular policies. In adopting this approach, we follow the method of the Bank studies reviewed in the previous section. While it is beyond the scope and purpose of this study to critique this method, the problems associated with it have been partially (but only partially) avoided by clustering countries into groups for which policy combinations were similar, though certainly not identical. For an analytical treatment of the methodological difficulties, see Goldstein (1986) and Woodward (1992).
32. Examples are Ethiopia and Liberia, which pegged their currencies to the nominal anchor of the US dollar.
33. The reliability of the FAO data varies considerably by country, so conclusions based on food data must be made cautiously.
34. In their Bank-sponsored study of smallholder and large-

scale farming in Africa, Lele and Agarwal support our conclusion, "Given current [1989] macroeconomic circumstances . . . it is difficult for governments to provide recurrent funds to sustain smallholder efforts. Therefore, donors urgently need to review their willingness to support the recurrent budgetary needs of smallholder programs to ensure that they are adequately funded. Finally, a land policy is needed to increase the access of household to land . . ." (Lele and Agarwal 1989, p. 5).

35. This is what Bourguignon, de Melo and Morrisson recommend as the "minimum social cost" approach to stabilization (1991, p. 97).

36. Some of the more obvious reasons that this argument is dubious are: if world markets for primary product are depressed, liberalization may reduce, not increase, domestic agricultural incomes (Weeks, 1992, Chapter 7, for empirical evidence); a substantial proportion of the agricultural poor may be net food buyers, so food price increases reduce their real incomes (Weeks, 1992, Chapter 6, and FAO, 1992); and the general equilibrium deflationary effects of adjustment packages may reduce the effective demand for nontraded agricultural products (Weeks, 1990).

37. It should be noted that Helleiner has also placed stress on the real exchange rate and policy stability as central to the effectiveness of external finance (Helleiner, 1992a, p. 785).

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APPENDIX A: WORLD BANK ADJUSTMENT PROGRAMMES IN SUB-SAHARAN AFRICAN COUNTRIES, 1981-91

Country	Exchange rate	Public expend	External trade	Agriculture	Public enterp	Taxation	Financial sector
1. Benin	(CFA zone)	civil service reduction	eliminate quotas	remove fertilizer subsidies	rationalize public enterprises	none	none
2. Burkina Faso	(CFA zone)	none	none	reduce fertilizer subsidies	none	none	extend credit to agricultural cooperatives
3. Burundi*	devaluation with IMF approval	reduce deficit	eliminate most import licences	raise export prices; liberalize agric marketing; remove fertilizer subsidies	close nonviable enterprises	none	deregulate interest rates; auction of treasury bills to financial institutions
4. Cameroon†	(CFA zone)	none	eliminate export taxes	privatize fertilizer distribution; establish agric extension service	prepare performance contracts	introduce VAT tax	restructure state-owned banks
5. Côte d'Ivoire	(CFA zone)	reduce deficit; reduce education budget	replace quotas by surcharges; eliminate export taxes (other than cocoa & coffee)	reduce coffee & cocoa producer prices; introduce quality premia on these	higher electricity & water prices	none	none
6. Gambia	none	reduce civil service	none	eliminate subsidies to groundnut marketing	none	none	reduce Central Bank net credit to government and parastatals
7. Ghana	foreign exchange auction	civil service reform; increase user charges for health & education	replace quotas by increase user charges tariffs; duty drawbacks for exporters	cocoa producer price increases; reduce fertilizer subsidies	cocoa board privatization; state enterprise rationalisation	unify corporate tax rates	allow banks to set own interest rates
8. Kenya	devaluation with IMF approval	user charges for health, education, & other public services	remove import bans; rationalize tariff schedules	new pricing for fertilizers; reduce role of maize marketing board	none	none	'market-determined' interest rates, to raise rates

Continued

APPENDIX A: Continued

Country	Exchange rate	Public expend	External trade	Agriculture	Public Enterp	Taxation	Financial Sector
9. Madagascar†	devaluation with IMF approval	none	reduce import bans; eliminate export taxes; reduce tariffs	reduce import subsidies on foods	liquidate 14 public enterprises	none	none
10. Malawi§	none	ceiling on growth of recurrent expenditure; reduction of deficit;	introduce 10% tax on tobacco & tea exports; reduce import & export licensing	raise producer prices for cotton, tobacco; eliminate fertilizer subsidies	enterprise reform	expand excise tax base & move to <i>ad valorem</i> system	deregulate interest rates on deposits
11. Mali	(CFA zone)	none	none	eliminate export tax on cotton & coarse grains	liquidate five public enterprises	none	none
12. Mauritania¶	(CFA zone)	none	none	none	privatize, liquidate, reduce role of certain public enterprises; increase electricity & petrol prices	none	restructure state-owned banks
13. Mauritius	devaluation with IMF approval	none	replace quotas with tariffs	none	none	introduce sales tax	none
14. Mozambique	devaluation, additional adjustments agreed with IMF	reduce deficit	convert tariffs to <i>ad valorem</i> basis; establish duty drawback scheme for exporters	none	industrial pricing to reflect exchange rate movements	none	raise interest rates
15. Niger	(CFA zone)	none	none	reduce agric input subsidies	liquidate enterprises; remove price controls	none	none
16. Nigeria	none	none	remove import bans & import surcharges (some exceptions)	reduce fertilizer subsidies	none	none	none
17. Senegal**	(CFA zone)	none	increase customs duty; eliminate quotas; eliminate export taxes (except for groundnuts & phosphates)	increase groundnut producer prices; privatize rice marketing	reduce subsidy to public enterprises	reform corporate & personal income taxes	increase interest rates

Continued

APPENDIX A: *Continued*

Country	Exchange rate	Public expend	External trade	Agriculture	Public Enterp	Taxation	Financial Sector
18. Sierra Leone	float exchange rate (1985)	reduce wage expenditures	tariff reduction; elimination of quotas	remove fertilizer subsidies; raise producer prices; privatize rice marketing	none	none	none
19. Tanzania	devaluation; prioritize foreign exchange allocations	none	eliminate export taxes on sisal, coffee, tobacco; reduce tariffs; implement duty drawbacks for exporters	eliminate restrictions on internal grain markets; reduce fertilizer subsidies	none	none	raise interest rates
20. Togo	(CFA zone)	none	eliminate most quotas	increase producer prices of coffee, cotton, tobacco	close a number of enterprises; establish plan for full privatization	none	raise interest rates
21. Uganda	devalue, then float	none	none	increase producer prices of coffee, cotton, tea, tobacco	sell five parastatals	none	raise interest rates
22. Zaire	none	reduce civil service wage expenditure	reduce tariffs; eliminate taxes on non-traditional exports	none	improve efficiency of certain parastatals	none	none
23. Zambia		none	levy tariff on all intermediate goods; reduce tariff levels	none	none	none	decontrol interest rates

Source: World Bank Adjustment Loan Conditionality Index.

The following footnotes give conditionalities not falling into the seven categories.

*Develop a poverty alleviation program.

†Implement strategies to increase the role of women in development.

‡Carry out environmental impact study for titanium plant.

§Strengthen capacity to monitor and analyze impact of adjustment program on the poor; and undertake an integrated household survey on poverty issues.

||Define target groups to receive food distribution, based on Social Dimensions of Adjustment survey.

|||Improve safety net for providing goods to the poor.

**Formulation of population policy.

APPENDIX B: CAPITAL SPENDING OF SELECTED SUB-SAHARAN AFRICAN GOVERNMENTS IN REAL TERMS, 1980-1991

Country	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Botswana	100	103	113	89	101	108	121	120	116	237	—	—
Burkina	100	99	76	42	34	52	49	—	—	—	—	—
Cameroon	100	192	210	199	—	270	—	—	—	166	—	—
Ethiopia	100	106	130	181	168	161	207	221	—	—	—	—
Ghana	100	165	79	49	83	153	142	229	295	—	—	—
Kenya	100	111	78	71	58	84	62	108	144	150	164	—
Liberia	100	94	58	53	41	35	52	—	—	—	—	—
Malawi	100	67	49	52	57	63	62	42	53	42	—	—
Mauritius	—	—	100	73	68	107	99	148	155	149	177	203
Nigeria	—	—	100	—	70	81	106	109	—	—	—	—
Sierra Leone	100	103	90	97	69	58	49	130	68	—	—	—
Swaziland	—	—	100	91	76	104	74	59	79	—	—	—
Togo	100	44	44	38	34	49	71	51	—	—	—	—
Uganda	100	140	310	289	263	305	438	—	—	—	—	—
Zambia	—	100	130	100	91	222	242	265	201	221	—	—
Zimbabwe	—	—	100	86	87	97	99	115	114	134	132	152

Source: IMF (1992b).

APPENDIX C: REAL EFFECTIVE EXCHANGE RATES SELECTED SUB-SAHARAN AFRICAN COUNTRIES, 1980-1991

Country	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Botswana	100	88	78	71	67	64	73	89	115	—	—	—
Burkina	100	84	74	69	57	61	72	75	—	—	—	—
Cameroon	100	92	78	74	71	71	78	94	108	107	—	—
Côte d'Ivoire	100	86	78	75	72	72	72	84	92	—	—	—
Ethiopia	100	107	106	102	107	115	114	106	—	—	—	—
Ghana	100	222	278	187	72	52	30	23	19	—	—	—
Kenya	100	97	101	95	102	101	88	79	77	70	—	—
Liberia	100	103	113	113	110	113	110	—	—	—	—	—
Malawi	100	100	96	98	97	97	87	80	89	97	—	—
Mauritius	—	—	100	94	85	76	88	108	104	108	112	121
Sierra Leone	100	94	87	87	59	87	155	81	166	155	—	—
Swaziland	—	—	100	101	78	62	75	89	94	—	—	—
Togo	100	83	83	70	67	66	72	85	—	—	—	—
Uganda	100	92	26	25	15	20	28	—	—	—	—	—
Zambia	100	102	114	106	91	84	40	43	—	—	—	—
Zaire	100	64	55	74	45	46	51	43	31	43	—	—
Zimbabwe	100	88	73	63	61	67	96	115	94	81	—	—

Source: IMF (1992b). Real effective exchange rates are calculated as the nominal exchange rate deflated by the difference between inflation in the country in question and the United States (GDP deflators where available).

APPENDIX D: THE CONSTRUCTION OF A "POLICY INSTABILITY INDEX"

The hypothesis we wish to investigate is that uncertainty regarding the future course of economic policy in a specific country discourages investment in that country and, hence, reduces future growth. The hypothesis cannot be directly tested from observable data, except perhaps via interview/surveys, since the degree of uncertainty concerning the course of policy is a subjective interpretation of events. There are, however, two approaches which can be based on observed and collected data. One is to use the past instability of policy instruments as a proxy variable for future uncertainty. The other, and cruder, approach is to measure the past frequency of IMF programs as a generalized proxy

for policy uncertainty, on the grounds that every IMF package, if implemented, provokes a policy reversal. We use a hybrid of the two methods, and estimate a "policy instability index" as a simple average of the number of IMF programs and standard deviation of three specified policy instruments or two indicators in the cases of Côte d'Ivoire, Mali, Mauritius, and Zaire, which have no entries for public expenditure. Data on each of these indicators are provided in Table A1. It should be noted that both of these measures presume that expectations are static, though the adaptive expectations hypothesis could be incorporated.

Table A1. *Measures of policy instability, sub-Saharan African countries, 1980-91*

Country	(1) Number of IMF programs	(2) Exchange rate	Standard deviation of policy instruments		(4) CB discount rate	Policy instability index ($\sum(1-4)/4$)
			(3) Price deflated Pub cap expend	(4) CB discount rate		
Botswana	0	15.8	10.2	1.72	6.9	
Benin	1	—	—	1.06	—	
Burkina Faso	0	12.5	24.1	1.29	9.4	
Burundi	2	—	—	0.86	—	
Cameroon	1	13.8	50.9	0.67	16.5	
Central African Republic	7	—	—	0.67	—	
Chad	1	—	—	0.67	—	
Côte d'Ivoire	6	9.4	—	1.06	5.4	
Ethiopia	1	4.6	36.8	1.41	10.9	
Gambia	3	—	—	2.37	—	
Ghana	6	90.5	74.1	5.09	43.9	
Guinea	4	—	—	—	—	
Kenya	8	9.1	34.9	3.23	13.8	
Lesotho	1	—	—	3.36	—	
Liberia	5	5.2	36.8	1.36	12.1	
Madagascar	9	—	—	0.00	—	
Malawi	5	6.2	15.9	1.35	7.1	
Mali	5	12.5	—	1.16	6.2	
Mauritania	7	—	—	0.00	—	
Mauritius	5	13.0	—	0.76	6.2	
Mozambique	2	—	—	—	—	
Niger	6	—	—	1.29	—	
Nigeria	2	—	—	—	—	
Senegal	9	—	—	1.16	—	
Sierra Leone	5	35.3	24.2	17.80	20.5	
Somali	6	—	—	16.16	—	
Sudan	3	—	—	—	—	
Tanania	3	—	—	5.89	—	
togo	9	—	—	0.94	—	
Uganda	6	33.3	104.8	1.35	36.0	
Zaire	8	19.3	—	10.73	12.6	
Zambia	4	26.5	66.6	7.50	26.1	
Zimbabwe	2	13.3	20.8	3.80	9.9	