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In Defense of World Bank and IMF Conditionality in Structural Adjustment Programs

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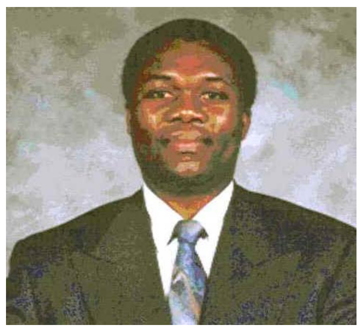

ABSTRACT

It is an open secret that the two Bretton Woods Institutions (BWIs)—the World Bank and the IMF—are the main architects of structural adjustment programs (SAPs) that are prevalent in much of the developing world. The very nature of "conditionality"—the policy strings that the BWIs attach to SAP loans to developing nations—does affect the operations of companies, whether these are publicly-owned or private. Conditionality imposes on the program-country (one with a BWI-inspired SAP in place) such measures as: the adjustment/devaluation of local currencies and/or floating of hitherto fixed exchange rates; the decontrol of internal price systems as well as external and internal trade flows (trade liberalization); removal of legal restrictions on private entrepreneurship; abolition of state enterprises and monopolies in both production and marketing; reforming of banking policy, including interest rate decontrol; cutting the state budget, including the removal of all consumer subsidies and other social expenditures; and reduction in money supply accompanied by a general public sector wage and salary freeze to control inflation. These measures, invariably, affect the operations of companies, as well as the socio-economic welfare of the nation involved. It is not surprising, therefore, that some of the negative impacts of SAPs have led to heavy criticism of both the IMF and the World Bank. Based in part on the author's attendance and presentations at conferences in Africa, Europe and North America (on structural adjustment programs in Africa), this paper explores some of the major arguments for and against "conditionality". It argues that whichever way one looks at it, some form of conditionality in structural adjustment programs is unavoidable. It concludes that there are some sound arguments to be found on both sides of the conditionality debate, most of which—in and of themselves—will be of interest to managers.

INTRODUCTION

Countries as diverse as Poland, Ghana, Jamaica and Kenya have had to borrow money from the World Bank (hereafter called the Bank) and the International Monetary Fund (hereafter called the Fund) as part of what is now commonly known as structural adjustment programs (SAPs). The overall objectives of these economic reforms include the need to increase an economy's outward orientation (or exports), to reduce both rural and urban poverty, and ultimately to induce, in the economy in question, a high and sustainable rate of economic growth.

Africa has the highest concentration of countries with Bank and Fund-inspired SAPs of any region in the world, with over 40 countries implementing economic reforms as of July 1996. This does not (and should not) come as a surprise.

Table 1: Basic Data on Selected Countries in Africa

					Percentage of Pop. with Access to			
Country	**Pop.**	**GNP per cap. 1995**	**Poverty 1981-95**	**Life Expect. 1995**	**Health Care 1993**	**Safe Water 1994-95**	**Sanitation 1994-95**	**Ext. Debt % GNP 1995**
Mozambique	16.2	80	-	47	-	28	23	443.6
Ethiopia	56.4	100	33.8	49	55	27	10	99.9
Tanzania	29.6	120	16.4	51	93	49	86	207.4
Burundi	6.3	160	-	49	80	58	48	110.1
Malawi	9.8	170	-	43	-	54	63	166.8
Chad	6.4	180	-	48	26	29	32	81.4
Rwanda	6.4	180	45.7	46	-	-	-	89.1
Sierra Leone	4.2	180	-	40	-	-	-	159.7
Niger	9.0	220	61.5	47	30	57	15	91.2
Burkina Faso	10.4	230	-	49	-	-	14	55.0
Madagascar	13.7	230	72.3	52	-	32	17	141.7
Uganda	19.2	240	50.0	42	-	42	60	63.7
Guinea-Bissau	1.1	250	87.0	38	-	24	20	353.7
Mali	9.8	250	-	50	-	44	44	131.9
Nigeria	111.3	260	28.9	53	67	43	63	140.5
Kenya	26.7	280	50.2	58	-	-	43	97.7
Togo	4.1	310	-	56	-	67	20	121.2
Gambia,The	1.1	320	-	46	-	61	34	-

Cent. African Rep	3.3	340	-	48	-	-	-	-
Benin	5.5	370	-	50	42	70	22	81.8
Ghana	17.1	390	-	59	25	56	29	95.1
Zambia	9.0	400	84.6	46	-	47	42	191.3
Angola	10.8	410	-	47	24	32	16	274.9
Mauritania	2.3	460	31.4	51	-	41	64	243.3
Zimbabwe	11.0	540	41.0	57	-	74	58	78.9
Cameroon	13.3	650	-	57	-	41	40	124.4
Cote d'Ivorie	14.0	660	17.7	55	-	82	54	251.7
Congo	2.6	680	-	51	-	60	9	365.8
Lesotho	2.0	770	50.4	61	-	57	35	44.6
Egypt	57.8	790	7.6	63	99	84	-	73.3
Morocco	26.6	1,110	1.1	65	62	59	63	71.0
Algeria	28.0	1,600	1.6	70	-	-	-	83.1
Tunisia	9.0	1,820	3.9	69	90	86	72	57.3
Namibia	1.5	2,000	-	59	-	57	36	-
Botswana	1.5	3,020	34.7	68	-	70	55	16.3
South Africa	41.5	3,160	23.7	64	-	-	46	-
Mauritius	1.1	3,380	-	71	99	100	100	45.9
Gabon	1.1	3,490	-	55	-	67	76	121.6

Source: constructed from various Tables in World Development Report 1997.

The continent has the highest poverty levels of any developing region in the world. According to the World Bank (1994), the share of people living in poverty is larger in Africa, and the poor are poorer, than in any other region in the world. Of all the continents, Africa has the most disappointing development record; the fastest de-industrialization; the highest per capita debt; the poorest health standards and statistics; among the most savage civil wars; the lowest life expectancy and the poorest standards of death.

To illustrate some of the assertions we have made in this introduction, Table 1 contains some basic data on 38 selected countries in Africa. Among other things, the table provides a glimpse of poverty levels in Africa (as high as 87% and 84.6% in Guinnea-Bissau and Zambia respectively); life expectancy (averaging 53 years for the 38 countries—ranging from a high of 71 years in Mauritius to a rather disturbing 38 years in Guinea-Bissau); as well as percentages of their populations with access to health care, safe water, and sanitation. Column 9 in Table 1 shows external debt in 1995 as a percentage of individual countrys' GNP. Of the 34 reporting nations in the table, 18 of them have 100 percent or more debt as a percentage of GNP, with the 18-country average at a very high (poor) 203% of GNP. The average external debt for all 34 reporting nations is 140.4% of GNP: ranging from a low (good percentage) of 16.3% for Botswana (one of the richest nations in Africa) to 444% for Mozambique, perhaps the poorest nation in Africa based on the statistics in Table 1. With these types of statistics it makes sense, in discussing SAPs, to have Africa as the main reference point.

The major vehicle through which developing countries can seek aid and loans from the Bank and the Fund in contemporary structural adjustment programs (or the policy strings attached to loans they seek)—called conditionality—has been a matter of intense debate and controversy in the literature, at seminars, and at conferences and workshops in and involving the developing world.

Conditionality has traditionally included the adjustment/devaluation of local currencies and/or floating of hitherto fixed exchange rates; the decontrol of internal price systems as well as external and internal trade flows (trade liberalization); removal of legal restrictions on private entrepreneurship; abolition of state enterprises and monopolies in both production and marketing; reforming of banking policy, including interest rate decontrol; cutting the state budget, including the removal of all consumer subsidies and other social expenditures; and reduction in money supply accompanied by a general public sector wage and salary freeze to control inflation.

PURPOSE OF THE PAPER

Although this paper will be of interest to many audiences (including students and academics, donor and lender agencies, governments and policy makers/implementers), it is targeted at those individuals and corporate heads who either wish to consult for the World Bank and IMF, or who wish to do business in (and for) Africa but have little or no first hand knowledge about the feelings in Africa toward both the IMF and the World Bank (called the Bretton Woods Institutions, BWIs). The paper has two specific objectives in this connection, namely:

(a) To present and discuss some of the major arguments against "conditionality"— the policy strings that the BWIs attach to SAP loans to developing nations.

(b) To present and discuss some of the major defences against the criticisms of conditionality in (a).

METHODOLOGY

The reader will be interested to know how information for this paper was gathered. Three different methods inform the paper, namely:

(a) The author's involvement in seminars and conferences: over the past 10 years, the author has had the privilege: (i) to present papers on SAPs at conferences in such places as Zambia (mostly), Scotland (Edinburgh University, November 1992), South Africa (Rand Afrikaans University in Johannesburg, 13 March 1994), and the U.S.A (Kentucky, October and November 1994). (ii) to be a participant and moderator at numerous conferences on SAPs, such as the April 8th and 9th 1994 World Bank organized and funded "Poverty Assessment" seminar at Lilayi Lodge in the Zambian capital of Lusaka.

(b) In 1992 the author organized and directed Zambia's first international conference on the SAP, held on the Copperbelt (city of Kitwe) from 21-23 March. The total attendance of 90 included the Zambian Vice President (at the time Honorable Levy P. Mwanawasa), two government ministers, four Professors, eight Ph.D holders, two Ph.D students, 40 Managing Directors, and representatives from the World Bank, WHO, UNDP/UNIDO, and UNICEF. International resource persons included Professor Anthony (Tonny) Killick from the Overseas Development Institute

(ODI) in London, whose conference presentation is referred to in this paper.

(c) And finally, of course, available literature has been reviewed.

In looking at both sides of the "controversial coin" called conditionality, it is hoped (among many other things) that the paper will provide those economists and academics in America, Europe and elsewhere who have never consulted for the Bank and the Fund in Africa (and hope to do so in future) with a preparatory tool box before they travel to Africa. We begin, first, by looking at some of the major criticisms of conditionality.

CRITICISMS OF CONDITIONALITY

At different fora across Africa (at seminars, conferences, university classrooms , in publications and at beer drinking places), the World Bank and the IMF—the main architects of structural adjustment programs—have been criticized by government officials, university academics and students, professionals, the common man and African sympathizers for what they say is the economic and social "misery" that SAPs, through conditionality, have caused them.

Let's look at some of their specific criticisms, before we come back later on to question their legitimacy. From the author's experience, most of the criticisms seem to center around the areas of: recolonization, social costs, the "democratic wave" or political conditionality, the timing and speed of adjustment, attitude changes implicit in SAPs, contradictions between the World Bank and the IMF, "economic fat cows", and the similarity of structural adjustment programs pursued by otherwise different countries in Africa. We discuss each of these, next.

The "recolonization" controversy

Some critics seem to believe that the Bank and Fund so dominate program countries that their officials have become de facto finance ministers in certain countries, a view that reconstructs the name and reconstitutes the role of the IMF to that of the **"International Ministry of Finance"** (Clark and Allison, 1989, p. 22). By "program country" we mean those countries with World Bank and IMF-backed structural adjustment programs (SAPs).

They assert, for instance, that the bringing of financial and economic pressures to bear on most African economies closely resembles the period before formal colonial rule, in which the colonizing powers where such pressures were, used to allow the colonial powers to take over the running of indigenous economies. They further argue—as Lawrence and Seddon (1990) do— that this time the major world economic powers (notably the G-7) are coordinating the restructuring of the world economy through the media of the Bank and the Fund and under the uncontested tutelage of the United States.

Onimode (1988), on the other hand argues that the strings attached to SAPs most clearly represent the extent of the stifling control of African countries exercised by the Fund and Bank, as well as the greatest threat of "imperialism's recolonization of Africa."

A more aggressive criticism of conditionality is provided by Zeleza (1989, p.35), who laments that "it has been a raw deal for Africa. In exchange for puny loans, which are subsequently over-repaid, the IMF and World Bank, on behalf of their godfathers in the developed capitalist countries, have accorded themselves the right not only to supervise individual projects, but to manage whole economies entirely: approving their annual national budgets, foreign exchange budgets and fiscal and tariff policies; issuing clearance certificates before these countries can negotiate with other foreign agencies; and even posting representatives to their Central Banks and Ministries of Finance and Trade. As during the colonial era, it is Africa's masses who are paying the price with their sweat, tears and blood."

Social costs of adjustment

A number of the critics of SAPs as implemented in Africa argue that the strings attached to loans have worsened the human condition, defined by Shepherd (1990) as a deterioration of the social conditions involving the basic human rights to food, education, employment, shelter, health, clean environment, and security of person.

The need for assessing social costs of adjustment is perhaps self-evident. Any country-specific adjustment process that is not carefully cognizant of serious social costs cannot in fact, in the end, be considered effective. Indeed the contention here is that treating the social dimensions of adjustment as a side issue— as opposed to a core one— dooms the process to failure. Ultimately as Cornia, Jolly and Stewart (1987, p.3) point out, "the call for a more people-sensitive approach to adjustment is more than a matter of economic good sense and political expediency. It rests on the ethic of human solidarity, of concern for others, of human response to human suffering."

Democracy wave: the hard-state, soft-state argument

Increasingly conspicuous on the Bank and Fund conditionality menu in the 1990s is political conditionality, defined as the tying of official aid disbursements to the quality of government (or governance) that aid recipients provide (see Institute of Development Studies (IDS), 1993). In the view of the World Bank, history suggests that political legitimacy and consensus are a precondition for sustainable development.

Why the current "rush" towards political conditionality? It would seem that the unprecedented wave of political conditionality has one major source: the collapse of the Soviet Block and of Communist rule throughout Eastern Europe and the former Soviet Union, which has put an end to the competition between East and West for influence in the third world (IDS, 1993). The uses of aid need no longer be shaped by geopolitical considerations and compromises. It is no longer necessary or possible to support what the IDS (1993) calls nasty authoritarian regimes on the grounds that they are the only feasible alternative to local Communists and/or Soviet, Cuban or Chinese influence.

But there are grounds for caution— especially with regard to Africa— about the possible economic consequences of democratization. Critics such as Killick (1992a) argue for instance that empirical research does not find any robust connection between democracy and high-quality economic policies any more than dictatorship is systematically associated with poor economic results. In other words the question to ask is whether hard-driven adjustment programs in countries run by dictators are more coherent and successful than those undertaken under democratic conditions. The argument against the soft-state criterion (democracy) is that consultation takes time and increases transaction costs. Some people argue that one reason the adjustment program in Ghana has been more successful is because President Jerry Rawlings is more of a dictator than a democratic leader.

"The ten-year itch": timing and speed of adjustment

Yet another criticism emanates from the timing/duration of SAPs versus the stringency of measures expected to promote adjustment and growth. In a nutshell, most measures are short-term, yet adjustment is a long-term process. In this connection, it is argued that the most important limitation of Fund and Bank analytical approaches to Africa's macroeconomic problems is probably neither their market bias nor their unconcern with the politically crucial distributional questions, but rather their inadequate consideration of Africa's limited capacity to adjust (Helleiner, 1983). The traditional conditionality instruments of money and credit restraint, devaluations, and liberalization— all pursued within a fairly short period— cannot be expected to be as effective in the typical African country as elsewhere.

As Helleiner (1983) points out, in Africa the capacity for short-term adjustment is constrained by four major factors: (a) limited economic flexibility and limited short-term responsiveness to price incentives, (b) low and falling levels of per capita income and urban real wages, (c) limited technical and administrative proficiency within governmental economic policy-making institutions, and (d) fragile political support for many of today's governments.

In other words, SAPs in their current form ignore the fact that the production base of post-colonial African states is narrow, and that the bulk of these states rely on one or two export products whose prices are often unstable in the international market for their foreign exchange earnings. Faced with unpredictable export earnings, most African states find it difficult to service debt and at the same time pay for desirable imports, notably oil, medicines and equipment.

In Table 2 we present statistics that lend credence to the claims we have just made—regarding the reliance by most countries in Africa on only one or two export products. Statistics in the two columns on either side of the names of 26 selected African countries in the table almost speak for themselves. For the 26 countries, primary commodities as a percentage of total export earnings averaged 81% in 1992, ranging from 46.2% for Lesotho in Southern Africa to 99.9% for Mauritania in North Africa. The other column shows the countrys' reliance on one or two export products for foreign exchange. For 19 of the 26 countries, the average dependence on one product for export earnings is 56%, ranging individually from 20% for Zimbabwe (on tobacco) to 98% for Zambia (on copper and copper-related exports). Table 2 also shows that except for Zambia, Niger, Namibia, Zaire (now Congo) and Sierra Leone, most of the countries depend on agricultural commodity exports. The other five countries depend mostly on mineral exports.

Severe behavioral and attitudinal changes implicit in SAPs

In addition to the more technical issues of SAPs argued in the literature, there are also the behavioral and attitudinal changes needed for SAP-success but which, in reality, take a long time to come about. The people of Africa are mostly conservative and slow to adjust. It is easy to fly into an African country and tell people to devalue their currency and then fly away. But there is the problem that the people left behind are the ones who have got to stay alive. They have to make all the painful adjustments. And the more marginal the economy is— as most African economies invariably are— the more the downside risk and resistance to the sort of attitudinal and behavioral changes SAPs take for granted but that are critical for success.

Table 2: Commodity Dependency of Selected African Countries, 1992

Primary Commodities as a % of Total Export Earnings	Country	Individual Commodities as a % of Export Earnings			
99.9	Mauritania	Iron ore	45.0	Fish	42.0
99.7	Zambia	Copper	98.0		
97.9	Rwanda	Coffee	73.0		
97.9	Niger	Uranium	85.0		
95.1	Burundi	Coffee	87.0		
95.0	Uganda	Coffee	87.0		
94.7	Somalia	Live Animals	76.0		
93.4	Malawi	Tobacco	55.0	Tea	20.0
90.0	Ethiopia	Coffee	66.0		
88.9	Burkina Faso	Cotton	48.0		
88.5	Sudan	Cotton	42.0		
84.3	Mali	Live Animals	58.0	Cotton	29.0
83.3	Togo	Phosphates	47.0		
82.0	Guinea Bissau	Cashew Nuts	29.0	Ground Nuts	23.0
79.0	Tanzania	Coffee	40.0		
76.3	Mozambique	Fish	27.0	Prawns	16.0
72.0	Chad	Live Animals	58.0	Cotton	29.0
71.6	Senegal	Fish	32.0		
68.7	Zaire	Copper	58.0		
68.5	Ghana	Cocoa	59.0		
63.2	Sierra Leone	Diamonds	32.0		
61.5	Kenya	Coffee	30.0		
56.9	Zimbabwe	Tobacco	20.0		
48.0	Gambia	Ground Nuts	45.0		
46.2	Lesotho	Mohari	24.0		

Source: reconstituted from Table 3 (Oxfam, 1993a, P. 8)

Contradictory effects of SAP measures: conflict between IMF demand-management versus World Bank supply-response measures

The demand-management approach of the Fund (which emphasizes imports-restraint) and the supply-orientation of the Bank (which emphasizes exports) are not always easy to reconcile (Killick, 1992b). There is the danger that Fund-type programs which envisage large reductions in imports will erode export supply responses, to say nothing of the costs imposed by way of foregone output.

Zambia (during much of the 1990s) is a classic example of this contradiction. While market reforms have tended to eliminate price distortions, for example, floatations of the Kwacha (the local currency) have been "popular" not for their success in boosting non-traditional exports as intended, but rather for fueling galloping inflation. It has led to rising input costs in a manufacturing sector still largely (over 60 percent) dependent on imported spares and raw materials. To provide a glimpse of the magnitude of the problem, one has to look at the fact that the Kwacha dropped to K1,350 to a U.S dollar as the first half of 1997 came to a close, quite a decline from the K125 = $1 exchange rate in 1992. Zambian imports of spare parts, oil and intermediate goods are essentials that have not been reduced by devaluations without seriously affecting domestic industrial capacities.

Economic fat cows

In a heated debate on the role and impact of SAPs in Uganda, there is consensus that SAPs have mostly bolstered the fortunes of the *Mafutamingi*. These are people with ill-gotten property and quick-yielding speculative investments, or what Jamal (1991) calls "that motley group of wheeler-dealers in commerce who nowadays control the distribution of consumer goods in this land-locked East African country."

In the case of Jamaica, IMF doctrine in the 1980s can be likened to having "given more to the rich, less to the poor". The nature of income distribution took the form of the rich investing their windfall not in job creation but simply in speculation or even more simply in foreign bank accounts (George, 1988).

There are other SAP-skeptics who argue that neither the Fund nor the Bank have lived up to their advanced billing as possible saviors of Africa. One such skeptic, Zeleza (1989), claims that on the contrary they have participated in what he describes as "the gory feast of milking Africa dry." To back his claims, he quotes the United Nations as reporting net transfers of close to $1 billion from Africa to the IMF in both 1986 and 1987. He concludes that SAPs have not only aggravated Africa's economic problems, but that they have also entailed severe social costs.

Identity/similarity of SAP programs in Africa

A final major criticism is that most of these countries pursue similar reform programs and face the same Bank and Fund conditionalities. As part of SAP they all aim to reduce imports. If one country's imports are another's exports and the former are cut as part of the demand-management approach, this obviously affects exports. In 1991, for example, Zambia's exports to Zimbabwe were reduced because, as part of its own SAP, Zimbabwe had to reduce its imports in line with its own tight foreign exchange situation. This amounted to a loss of export earnings for Zambia.

Suppose you are a would-be Western consultant for the World Bank or the IMF during these, the last three years of the 20th Century. Assume, too, that you are in the Zimbabwean capital of Harare or the new Nigerian federal capital of Abuja, attending a typical conference on SAPs in Africa. As part of your contribution to the conference, what would you say to the above major and typical criticisms against the Bank and the Fund?

"In defense of conditionality", discussed next, should help you participate meaningfully at such a conference.

IN DEFENSE OF CONDITIONALITY

On "recolonization"

The "recolonization" criticism may be totally misplaced. There simply is no evidence to suggest that either the Bank or the Fund has any imperial interests in any African territory, even without considering that the ending of the cold war has recently began to radically change European and American interests in Africa. It would certainly seem, at the moment, that in geopolitical terms Africa is of very minor interest to the West— certainly not for its territory, although it continues to be vital as a source of raw materials for Western factories and a market for Western goods.

Don't ignore the counter-factual argument

A useful starting point in defense of conditionality is the fact that most of the criticisms leveled against the Bank and the Fund ignore the counter-factual: most African nations embarked on Bank and Fund supported SAPs in the early 1980s because of economic distress. What would have happened in the absence of SAPs? Although counter-factuals are hard to prove, in most African nations it is easy to make educated guesses as to what would have happened, and it is most probable that even if economies have continued to perform poorly under SAPs, they would have performed even poorer without them.

Africa needed to Adjust

Not too many people would disagree with the view that Africa's "disarticulated" economies are overdue for fundamental restructuring, and that SAP would probably accelerate the process of rational allocation of productive resources. African countries embarked on SAPs because they found what Edward Jaycox (the long-serving World Bank Vice-President in charge of Africa) calls "their backs to the wall". Jaycox (in The Courier, 1991) says most countries did not introduce SAPs enthusiastically: "They entered into SAPs because they were desperate and when they did so there were no goods on the shelves, no spare parts, no trucks, no batteries and no tires...no drugs in the clinics, no chalk and books in their schools."

Evolution of Policy

According to Avramovic (1989), conditionality has contributed to policy evolution in Africa in at least 4 areas:

(a) Fiscal discipline: many problems facing African nations—in their accounts, domestic inflation, administrative controls, price distortions, and insufficient investment—have their origin in the fiscal imbalance. In countries suffering from hyper-inflation, monetary stabilization may be a precondition for recovery of public revenue and thus for reconstruction of public finances generally. But monetary stabilization will not be possible to sustain unless fiscal discipline is restored. The argument is that conditionality helps to bring about this discipline.

Moreover, both the Bank and the Fund have become more flexible, relying less on simple budgetary aggregates such as total spending or the budget balance and more on the "quality" of fiscal adjustment. Since the economic impact of their fiscal provisions will be much affected by which expenditures are trimmed and what is done with taxes, the Bank and Fund are becoming more insistent on knowing how a government proposes to implement promised reductions in the budget deficit—increasingly urging governments to install social safety-nets and asking what the ODI (1993) calls awkward questions about military spending, a perennial problem in Africa.

(b) Export expansion: export expansion of manufactures now commands universal support. It provides for economies of scale: the larger the market in which one sells, the greater the possibilities of expanding production, perhaps at falling costs, and expanding sales, probably at unchanged prices, thus raising employment, income and profit margins. Further more, rising export earnings will help alleviate the foreign exchange constraint to growth, a critical issue in most African nations. The argument is that conditionality helps to increase the out-ward orientation: devaluation, for instance, aims at making exports more attractive on the world market, thereby providing exporters with some incentive to export more.

(c) Management of public enterprises: public enterprises in infrastructure, goods and services production, and trade represent a large proportion of the total in many developing countries (about 80 percent in Zambia prior to the current, half-way complete privatization program implemented in 1992). Their management and finances have a major effect on public finance and credit in general. Management weaknesses have been frequent in most African state-owned enterprises (SOEs), mostly because of political patronage or insufficient operational autonomy; and finances have frequently been weak because the SOEs have been used as a vehicle for subsidization of consumption, as a source of employment, or as a conduit for irregular transactions. The World Bank, as an investment project lender, has emphasized institutional building at the enterprise and sector levels. African nations have now become increasingly aware of the need to improve and upgrade the operations and management of SOEs, with many now engaging in outright privatization.

(d) Agricultural prices: concerned with the agricultural lag in a number of African nations and their rising food imports, both the Bank and Fund have insisted on improvement of agricultural prices in internal markets. The Bank in particular has normally made its agricultural lending conditional upon price improvements where warranted. The need to provide adequate price incentives in agriculture is now recognized in a very large number, perhaps most, African countries.

Not surprisingly, the World Bank tops the list of Afro-SAP-Optimists. Edward Jaycox— the "Mr. Africa" Vice-President of the World Bank, has the following things to say (see The Courier, 1991):

We take every opportunity to work against what we think are inadequate or inaccurate pictures of reality...in fact I think the situation in Africa looks much better today than it has in a long time. I am not talking here about commodity prices or yet about the results on the ground, but about the fact that the African leadership has taken a grip on its own problems as never before. They are better informed and they use more of their own resources—human resources and knowledge. They have been able to appreciate the problems they face and have managed to get a lot more support externally than they thought feasible a few years ago. So we—meaning the Africans, the donors and everybody working on Africa— have managed to turn a vicious circle of declining performance and declining support into a virtuous one of improving performance and increasing support. That is why Afro-pessimism is wrong.

Jaycox's argument adds a new dimension to the debate about evaluative criteria for the success of adjustment programs: that to the extent conditionality increases and improves Africa's awareness and appreciation of the problems and choices it faces, that in itself is a measure of success. This has some truth in it, as in the shared view of the ODI (1993) several governments have increasingly become persuaded of the importance of financial discipline.

Infrastructural inadequacies

Both the Bank and Fund are aware that the supply response to adjustment in Africa has been slow because of the legacy of deep-seated structural problems. They admit that inadequate infrastructure, poorly developed markets, rudimentary industrial sectors, and severe institutional and managerial weaknesses in the public and private sectors have proved unexpectedly serious as constraints to better performance in Africa. Hence they both are now increasingly aware that technological change, institutional strengthening, infrastructure development, improved education and health standards including reduced population growth, land reform and other major hurdles to economic development have to be addressed if growth and poverty alleviation in Africa are to be achieved.

Conditionality is unavoidable

The Fund and Bank have a right to safeguard the resources transferred to them by member governments. Although conditionality remains controversial and generates resentment from time to time, it is hard to deny that those who provide assistance and loans can legitimately take an active interest in the design of the recipient country's policies. During this author's 1992 meeting in Lusaka (Zambia) with Mr. John Hill (then Resident IMF Representative), he had this to say: "Conditionality is legitimate. You can't expect to borrow and use somebody else's money and not pay back".

Social costs unintentional: the counter-factual argument

Let's once again invoke the counter-factual. Social costs could possibly have been much worse without SAPs, if African economies were allowed to go into what Jaycox loves to call "free fall". One proponent of conditionality, Green (1989, p.31) has this to say:

The extent of human deprivation, social misery, mass poverty, dislocation, violence and death in Africa today is a fact. The failure of adjustment programs— Fund and Bank-backed or otherwise—to achieve a halt to the erosion of the *standards of life (and death) of the poor and vulnerable ...is a fact. (But) poverty, vulnerability, inequality and threats to the social fabric in Africa are not a product of the 1970s or 1980s, much less of Bank and Fund prescriptions for adjustment. The challenge to Bank and Fund adjustment programs is often put in a form that suggests that the programs themselves raise inequality and do so with deliberate intent. The last is not the case.*

Using the counter-factual, one can argue that in Africa (before European colonization) life on average was short and precarious; food security was frequently lost; diseases were frequently uncontrollable; social equity and equality were notable by their absence; women were subordinated; and that poverty and vulnerability were widespread. Although conditionality does indeed involve social costs, Green (1989) is right in observing that malicious aforethought on the part of both the Bank and the Fund is simply not evident.

Whether on balance Fund and Bank programs have made poor people poorer is unclear and will remain so. This is so because the comparison has to be not with pre-crisis years, but to what would have happened with the crises had there been no internationally backed program. Counter-factuals are, of course, always hard to prove, but the record of "go it alone" rehabilitation and recovery efforts—such as Zambia's after abandoning the IMF-program in May 1987—is not particularly satisfactory. In fact it is discouraging.

On political conditionality

In defending political conditionality it can be argued that the insistence on democratic reforms is premised on three essential, interdependent elements (Moore and Scarritt, 1990). One is the presence of institutions and procedures through which citizens can express effective preferences about alternative policies and leaders. Second is the existence of institutionalized constraints on the exercise of power by the executive. Third is the guarantee of civil liberties to all citizens in their daily lives and in acts of political participation.

The scapegoat argument

In the absence of policy conditions accompanying loans to Africa, the danger is that financial assistance can be—and in some cases has been—used to defer needed action, to buy time in the hope that some favorable turn of events will remove the necessity for unpalatable action. Bank-Fund involvement can help through the provision of advice and technical assistance in the preparation of adjustment measures. Killick (1992b) makes the useful point that they also provide African governments with a useful "scapegoat" upon whom the blame for unpopular measures can be deflected — as has indeed happened in the overwhelming majority of program countries.

There can be no escaping the fact that Africa has an urgent need to adapt its economies to changing global and domestic circumstances. The Bank and Fund should be seen as a force trying to assist this process in usually sensible ways.

Bank-Fund remote-control

The Bank and Fund are highly visible because they are the architects of SAPs that create serious hardships for low-income groups in Africa. But, as has been argued by people like George (1988), "they cannot be held responsible for the circumstances that brought indebted countries to their doorsteps in the first place." Nor can they even be credited with an inordinate amount of power in the world financial system— they simply do not have that kind of money at their disposal, and ultimately they take their orders from outside. The role of the Bank and Fund is that of messenger, watchdog, international alibi and gendarme for those (mostly Western governments, central banks and private banks) who do hold financial power. In this sense, the Bank and Fund are a sort of Godfather figure—they make African governments offers they cannot refuse!.

Donor Fatigue and The Doomsday scenario

In what may appropriately be termed the doomsday scenario, we ought to conclude the list of defenses by pointing out that the Bank, Fund and other lenders and donors may, in the second half of the 1990s, be experiencing "donor fatigue" with respect to Africa. There are, at the moment, three potential catalysts for donor fatigue with Africa in general. First, having provided aid to the continent for so long, the region does not have much to show—in the view of the

West—for the millions of dollars so far provided. Second, the break-up of communism in Eastern Europe and the ending of the cold war may lead the West— inspired by kith and kin and geopolitical considerations—to concentrate on Eastern Europe at the expense and possible marginalization of Africa.

One commentator on the cold war (Oxfam, in 1993b) has this to say: "Now that the end of the Cold War has removed (Western) strategic interest in the continent, and the recession has turned economies inward, many in the West would like to abandon it (Africa)."

CONCLUSION

With regard to both the criticisms and defenses of conditionality, we find that there are some sound arguments on both sides. SAPs are criticized, for instance, for worsening the human condition. However, it is not easy to disentangle the impact of policy strings from non-conditionality factors.

The counter-factual argument raises the question of what would have happened to the overall pre-SAP economic and social crises had there been no Bank and Fund programs. We noted that counter-factuals are hard to prove, but the record of third world nations that have attempted "go it alone" recovery efforts is not encouraging.

Despite the wide controversy surrounding conditionality, it can not be denied that the number of countries embarking on Bank-Fund SAPs has risen dramatically in the last 8 years to include, lately, Poland and a host of other former Soviet-block nations— all seeking (and needing) Bank and Fund support towards restructuring their economies.

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