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Sub-Saharan African Countries' Development Strategies: The Role of The Bretton Woods Institutions

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1 Introduction

Africa's historical experience of slavery and colonialism left the economies of the region severely deformed, distorted, disarticulated and underdeveloped. This culminated in the marginalisation of the continent in the global capitalist system, with its hostile global market, and was compounded by domestic crises that have over time inhibited growth and development. Despite the significant progress some African states have made in terms of human resource development, industrialisation, global trade, production and institution building, the continent's overall record has been disappointing. Africa is considered the most vulnerable, poverty-stricken, debt-distressed, technically backward and marginalised continent. Among the existing conditions in Africa are wars, poverty, collapsed states and failed economic reforms.

Immediately after gaining independence from the colonialists in the 1960s and early 1970s, African economies showed remarkable economic performance, with an average GDP growth rate of about 5.7 percent. The trend was reversed from the mid-1970s, following several shocks such as the oil crises, droughts and civil wars. Initiatives were soon launched at national, regional and international levels to try to solve the problems. This study seeks to give an overview of such efforts, and mainly addresses the role of the Bretton Woods Institutions in shaping African development strategies. The chapter is organised as follows:

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The next section looks at Africa's economic performance over the period 1965-2002 and highlights the origin of the African crisis and regional attempts to solve the crisis. Section 3 analyses the role of the Bretton Woods Institutions in supporting Africa's development strategies. Notable support has been through project lending, the Trust Fund, Extended Fund Facility, structural adjustment programmes, Poverty Reduction Strategy Papers (PRSPs) and development lending. Section 4 gives an overview of various perspectives on what constitutes national ownership of reform programmes, and also highlights the major ways in which national ownership can be enhanced. The last section gives the conclusions of the chapter.

2 Africa's Economic Performance

Immediately after independence, and until the early 1970s, African economic performance showed considerable promise. Real GDP growth rate averaged 5.7 percent in the early years, and all macroeconomic indicators suggested a positive outlook (Table 1). Most African countries (e.g. Botswana, Congo, Gabon, Kenya, Nigeria, Rwanda, Swaziland, Zimbabwe, etc.) had growth rates of above 7 percent per annum.

The period after the first oil shock witnessed a major deceleration in growth in the world economy, with average growth rate for Africa declining to 3.5 percent over 1974-1979 (AfDB, 1995). Following the second oil shock (1981-1985) there were massive declines in many macroeconomic variables, partly because these economies were not well prepared to absorb the severe external shocks. The combined effects of massive external shocks occasioned by the oil crises and generalised price increases, along with domestic production difficulties, caused large current account deficits for many countries. Although a few countries enjoyed commodity booms in 1976 and 1977, the current account deficits persisted. Also, widespread depression resulted in historically low primary commodity prices, with constant or increasing import prices, which led to large increases in prices after 1979. Many countries saw this problem as temporary and therefore responded by borrowing from the international capital market instead of stabilising the market. This was the origin of Africa's debt problem. The period 1980-1985, characterised by the second oil shock, global economic recession, high international interest rates and abrupt cut-offs in external financing, marked the beginning of the steep economic decline

Table 1 Africa's Economic Performance, 1965-2002
(yearly average growth rates)

	1965-73	1974-79	1980-85	1986-93	1990-94	1995-98	1999-02
GDP	5.7	3.5	1.8	2.5	1.9	3.6	3.2
GDP per capita	3	0.7	-1.1	-0.5	-1.1	0.8	0.8
Investment	9.6	6.9	-4.8	1.2	0.8	19.9	20.0
Exports	8.2	2.6	0.4	3	0.6	6.6	2.1
Imports	7.4	6.2	-2.4	-0.7	0.4	6.6	2.2

Source: African Development Bank (1995, 1999 and 2003).

for Africa. The 1980s have been termed the "lost" development decade for Africa, as reflected by weak growth in the productive sectors, poor export performance, mounting debt, deteriorating social conditions, environmental degradation and the increasing decay of institutional capacity (World Bank, 1989, as quoted by Cheru, 1992).

Most African economies stagnated during the period 1990-1994, a period that was also characterised by very low investment and export growth rates. By the late 1990s the economy started recovering, with the average growth rate increasing to 3.6 percent in 1995-1998 but registering a period average of 3.2 percent for 1999-2002. Income per capita also recorded a positive average during the period 1995-1998 and 1999-2002. This recovery was partly driven by the significant progress made in achieving greater macroeconomic stability, and by improved resource allocation through the implementation of macroeconomic policy and structural reforms in most countries (AfDB, 1999). Other factors were better prices for African exports, increased development aid to Africa after the launch of the New Partnership for Africa's Development (NEPAD), and the restoration of peace in some parts of the continent such as Angola and West Africa. The improved economic growth rate was achieved despite the weak growth in the world economy and despite continued structural and political constraints to improved performance in some sub-Saharan African (SSA) countries. The slight deterioration in growth during 1999-2002, on the other hand, was mainly driven by both external factors and worsening domestic conditions. African export prices remained depressed during the period, and the effects of 11 September 2001 lingered. Deterioration in economic fundamentals as well as drought in Eastern and Southern Africa contributed to the dampening of growth in Africa.

Attempts to analyse causes of the crisis identified domestic policy failures as the main culprit (AfDB, 1995). However, the Berg Report (World Bank, 1981) demonstrated that external factors such as rising interest rates and deteriorating terms of trade contributed considerably to the economic crisis. Other stakeholders found various other reasons for the crisis, among them: the weak and non-hegemonic nature of the state; corrupt, dependent and weak nature of the dominant elites; inefficiency and ineffectiveness of the bureaucracy; weak nature of African markets; technological backwardness; dependence on foreign capital; mismanagement and poor planning; and inability to set up effective regional integration schemes. Policies of africanisation, indigenisation, nationalisation, import substitution, joint ventures, stabilisation and structural adjustment have had a very limited effect on the quality of life, degree of political stability, and the ability of the state to build supremacy, construct national projects or meet the basic needs of the vast majority of the people (Ihonvbere, 1996).

What therefore has been the response of both regional and international communities to the African crisis? In several ways, Africa has been a laboratory for economic or even political experiments, which, as the current situation clearly shows, have not produced the desired results (Ihonvbere, 1996). Several measures were taken at national levels to solve the crisis. Kenya, for example, after a crisis mainly occasioned by the oil shock, commodity booms and the break-up of the East African Community, embraced a change in the policy direction, which was incorporated into the 1979 Development Plan and various working party papers and sessional papers. Structural adjustment programmes were introduced in 1979, with the main objectives of restoring macroeconomic stability after the disruptions of the 1970s (mainly the oil shocks); reviving economic growth through increased resource mobilisation; and using resources more efficiently. Tanzania also initiated efforts to restore balance in the economy after a balance of payments crisis in 1970-71 and another severe balance of payments crisis and food shortage in 1974-75; one notable reform effort was the Economic Recovery Programme of 1986-1989.

Several measures were also carried out at the regional level in an attempt to solve some of the problems. In 1980, for example, the Organization of African Unity (OAU) came up with the first comprehensive response to the deepening economic crisis in the Lagos Plan of Action for the Economic Development of Africa, 1980-2000 (LPA) as a blueprint for the socioeconomic transformation of the continent. This strategy was abandoned in 1986 and Africa's Priority Programme for

Economic Recovery, 1986-1990 (APPER) was adopted under the Berg report (World Bank, 1981) with heavy reliance on foreign assistance. Other responses were the 1987 Abuja International Conference on the Challenge of Economic Recovery and Accelerated Development in Africa; the 1987 Africa's Common Position on External Debt; the 1988 Khartoum International Conference on the Human Dimensions of Africa's Economic Recovery and Development; and the 1989 African Alternative Framework to Structural Adjustment Programmes for Socio-economic Recovery and Transformation (AAF-SAP). The common position on external debt addressed the need for external debt relief, while the AAF-SAP directly responded to World Bank and International Monetary Fund (IMF) policies by emphasising the specifications of the continent, the structural characteristics of African economies and the place of the individual in the development process (Ihonvbere, 1996). This was the first continental challenge to the World Bank and Western donors on their orthodox prescriptions about the African crisis.

In 1990, The United Nations Economic Commission for Africa (UNECA), with support from the UN, non-government organisations and the OAU, came up with the African Charter for Popular Participation in Development and Transformation, which outlined the ways in which the Lagos Plan, the AAF-SAP, and the World Bank position on democratisation, empowerment and the protection of the poor in periods of adjustment and transformation could be put into operation. The charter pointed to the fact that Africa's crisis was more political than economic, and argued that development must revolve around NGOs, the people, and organisations and communities rather than being an affair of donors, the elites and bureaucrats.

In 1991, African leaders prepared and endorsed the Kampala Document, which emphasised the role played by erosion of security and stability in Africa as an impediment to economic growth and regional integration. During the same year, the OAU summit met in Abuja where African leaders ratified the treaty establishing the African Economic Community, which was to culminate in a common monetary union, a common market and the election of a pan-African parliament by 2025.

3 The Role of the Bretton Woods Institutions

What has been the role of the Bretton Woods Institutions (BWIs) in low-income countries? Since establishment, the resources of the Bank

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and the Fund have been made available to member countries mainly for two purposes. First, the funds have been meant to compensate for short-term balance of payments problems, which have mainly arisen from a fall in export earnings, a rise in foreign exchange or a rise in import requirements. Second, they have also been meant to provide interim support for longer-term balance of payments problems while adjustment measures were being implemented to counter the shocks. It is agreed that the role of the IMF and the World Bank in low-income countries has evolved over time, from the inception of project lending by the Bank in the 1950s to the current development policy lending. The following sections present a chronology of the Bank and Fund programmes in low-income countries.

3.1 Project Lending

Project lending was the Bank's lending programme; it was initiated in the 1960s to target specific sectors of economies. The programme marked a deviation from the approach taken in the 1950s that emphasised infrastructure development such as roads and railways, telecommunications, ports, and power facilities. The programme on project lending emphasised direct lending for the productive sectors of industry and agriculture in the 1960s, and for socioeconomic sectors of education and health in the 1970s. The emphasis of the development strategies was therefore changed to focus more on investments that could directly affect the well-being of the masses of poor people in developing countries by making them more productive and by integrating them as active partners in the development process. Host countries initiated projects, but the Bank carried out an assessment of the feasibility of the projects. The Bank's major justification for project lending stemmed from the emphasis on capital investment given in the literature on economic development in the 1940s, 1950s and 1960s, which implied that the rate of economic growth was considered as a function of the rate of growth of the capital stock (Please, 1984). The capital stock, on the other hand, was assumed to be determined by the domestic and foreign savings available for financing of investment. Unlike the Bank, the Fund provided assistance entirely in support of policy change.

The weakness of conventional project lending by the Bank in monitoring and disciplining policy reform was apparent. Most of the projects failed and the Bank blamed the countries for poor project feasibility. It should be noted, however, that most of the time the Bank teams that assessed these projects were not familiar with the local conditions, whether institutional setting, supply chains or political environment. One audit report stated that "on the basis of experience, it would be reasonable to conclude that individual projects in general were inefficient instruments for inducing policy change" (Please, 1984, p. 27).

In the 1970s, the importance of policy and broad institutional issues became obvious. It was therefore recognised that for developing countries to achieve their development objectives more fully, there was an urgent need for external development assistance to be provided within a framework of policies and institutions that would utilise such resources effectively. This was the beginning of a change in the Bank's role in development towards assistance in adjustment of policies and institutional arrangements to ensure rapid growth and poverty reduction in developing countries.

3.2 The Trust Fund and the Extended Fund Facility

The idea of a concessional or "soft loan" window for the IMF originated with the Oil Facility Subsidy Account in 1975, which was followed by the Trust Fund in 1976. The Trust Fund was administered by the IMF from 1976 through 1980. The money was lent to 55 low-income countries at an interest rate of 0.5 percent per year, with the principal to be repaid in instalments beginning after five and one-half years and ending after ten years. Initial loans were made in January 1977, and the last ones in February 1981, with significant reflows of cash into the Trust Fund beginning in July 1982 and expected to conclude in February 1991. Loans from the Trust Fund were subject to only first-tranche conditionality, which implied that an eligible member country was required to prove that it faced a balance of payments problem and to demonstrate that it was making a reasonable effort to correct it. Nearly all countries that were eligible on the basis of having low per capita income borrowed their share of available funds. By the time the Trust Fund was exhausted, the idea of making even concessional loans conditional on specific policy commitments was becoming more widely accepted.

The Extended Fund Facility (EFF) was established at almost the same time as the Trust Fund, and was intended to help countries carry out "comprehensive programmes that included policies of the scope and character required to correct structural imbalances in production, trade and prices". EFF credits were meant to have longer maturities and the interest rate was to be the same as the market related rate that was being charged on ordinary stand-by arrangements. This arrangement was also meant to provide a blend of financing available to low-income countries, including conditional stand-by or extended arrangements at regular rates and low-conditionality loans at concessional rates.

Low-income countries, many of them newly independent and most of them needing to import oil to fuel economic growth, faced a cruel economic environment in the 1970s. By 1980, the funds of the Trust Fund were all committed and the situation was not improving, prompting the realisation that the transition would take much longer, and more sustained commitment was needed from donors and creditors. During the same period, the IMF was grappling with the effects of extraordinary high world interest rates. The Supplementary Financing Facility (SFF; 1979-1981), which was also an oil facility, was financed with money borrowed by the IMF at market interest rates, and the IMF's credit interest rate was matched to the cost of borrowing. In 1979, the rate of interest on SFF funds was over 10 percent, as compared with the standard IMF rate of 5.25 percent. Low-income countries could not afford to borrow at those rates, which led to the need for the IMF to subsidise the SFF interest rates. Given that the Trust Fund's reflows were to peak in 1986, the IMF had basically three options: to renew the Trust Fund and channel payments back into it for new concessional lending; to convert the outstanding loans into grants; or to liquidate the Trust Fund and transfer reflows into the Special Disbursement Account. Conversion of loans into grants was dismissed because of the potential for moral hazard problems in future lending. A plan was developed that included setting up a subsidy account that was to be used to reduce interest charges on IMF credits financed by SFF by up to 3 percentage points only for low-income countries. Once the bulk of the Trust Fund repayments began to flow in, pressure began to mount for a new and more substantial means of helping low-income countries.

In reviewing the limitations of the Trust Fund, IMF staff argued that easy access to loans with low conditionality combined with a general deterioration in the external environment that borrowers faced had enabled financing to prevail over adjustment (IMF, 1985). Consequently, many countries were in worse straits at the end of the availability of the Trust Fund loans than at the beginning. Countries had been asked to develop medium-term strategies, on the assumption

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that the global economy would improve. The review had been too limited to be effective.

3.3 Structural Adjustment Programmes and Stabilisation Policies

The urgency of policy reform and the limited effectiveness of project lending, combined with policy dialogue for supporting and monitoring policy reform, led to the introduction of structural adjustment in the 1980s. The late 1970s and early 1980s were characterised by global recession, rising oil prices, staggering amounts of debt and mounting balance of payments problems, which hindered SSA countries' ability to grow and develop. International agencies like the World Bank and the IMF, along with the United States Agency for International Development (USAID), were instrumental in the initiation of economic reform and privatisation in Africa. The World Bank, through its structural adjustment policies, continued to emphasise growth through allocation efficiency and greater reliance on markets. The IMF, also through its stabilisation programme, put pressure on African countries to reduce the role of the public sector.

The idea of creating a replacement for the defunct Trust Fund had widespread support in 1985, but consensus had to be reached on which countries would be eligible to borrow on concessional terms, the conditions to be imposed and what the role of World Bank would be. The Structural Adjustment Facility (SAF) was formally created on 26 March 1986. The Facility was small compared with the Trust Fund, with the IMF's general resources, and with the financing needs of low-income countries. Conditionality for SAF loans was applied similarly to the IMF's extended (EFF) arrangements, with a few key differences. As with EFF programmes, countries were expected to formulate a medium-term policy framework, but the policy framework paper (PFP) process required the report to be drafted by both the member country and World Bank representatives. Loan approval was to be conditional on the specification of a detailed set of policy commitments, but the country was given a greater benefit of doubt on its willingness and ability to carry out those commitments than it would have with a conventional upper-tranche arrangement.

The Enhanced Structural Adjustment Facility (ESAF) was created in 1987 to support programmes of low-income developing countries that intended to strengthen substantially and in a sustainable manner their balance of payments position and to foster growth. ESAF loans were to be disbursed semi-annually and were to be subject to performance criteria on both structural policies and macroeconomic performance. ESAF lending activity began with a loan to Malawi on 15 July 1988. Although only a handful of loans was to be approved each year, the new ESAF quickly overtook the SAF as the IMF's main window for concessional loans. By this time, the IMF was ready to abandon the practice of providing parallel financing for low-income countries through both its general resources and its concessional lending facilities. ESAF succeeded SAF because it was a much larger injection of IMF support in the 1990s.

In the 1980s and 1990s, almost all SSA countries adopted major policy reforms under the World Bank or the IMF, which set the parameters for policy change in Africa, although the extent to which particular countries consistently followed the reform package differed from country to country. The IMF's stabilisation policies were mainly aimed at reduction of short-term disequilibrium, especially budget deficits, balance of payments deficits and inflation, while the Bank's structural adjustment policies were geared towards orienting the structure of the economy towards greater efficiency in the medium term.

Three categories of policies formed part of almost every IMF programme: demand restraint; switching policies; and policies related to long-term supply or efficiency. The aim of demand restraint policies was to curtail expenditure on imports and release resources for exports. Major policy instruments included: reduction in government expenditure and budget deficit; controls over money supply and credit creation; and policies to cut real wages. Switching policies intended to shifting resources from non-tradables to tradables by changing incentives. Policy instruments included: devaluation and exchange rate unification; changes in domestic prices especially in agriculture; and wage control. On the other hand, long-term supply policies were for raising the long-term efficiency of the economy by securing a more market-oriented economy subject to fewer restrictions and less segmentation. Reforms included trade liberalisation, along with financial and price reforms.

World Bank policies were also strongly market-oriented, and like those of the IMF, stressed monetary and fiscal orthodoxy, appropriate real exchange rates, positive real interest rates, and liberal approaches on the external account (Helleiner, 1988, as quoted by Stewart *et al.*, 1994). Categorisation of Bank policies suggests four major elements:

- Mobilisation of domestic resources through fiscal, monetary and credit policies, and improved financial performance of public enterprises.

- Improvements to the efficiency of resource use throughout the economy. Measures in the public sector included reform and privatisation, while measures in the private sector included price decontrol, reduced subsidies, competition from imports, credit reform and encouragement to foreign direct investment.
- Trade policies, which entailed liberalisation, with reduction and removal of import quotas, improved export incentives, and some institutional reforms to support exports.
- Institutional reforms, which aimed at strengthening the capacity of the public sector and increasing the efficiency of public enterprises and also improved institutions to support the productive sectors.

The World Bank released the report *Accelerated Development in Sub-Saharan Africa: An Agenda for Action*, popularly known as the Berg report (World Bank, 1981), a few months after the OAU issued the Lagos Plan of Action. Among the recommendations of the Berg report (World Bank, 1981) were: a rolling back of the state; the privatisation of parastatals; the imposition of user fees on public services; an export driven trade policy and extensive trade liberalisation; and devaluation of national currencies (Ihonvbere, 1996). The report emphasised an open market, the withdrawal of the state, and the full integration of African economies into a global market where they were powerless and vulnerable. Implementation of these programmes failed to address the structural roots of the African crisis, but concentrated on solving balance of payments problems and generating foreign exchange. African economies could not contest the prescriptions because they were deep in financial crisis and therefore pursued the market programmes to satisfy the donors and other lenders.

After rapidly opening up their economies in the 1980s, African countries laid great emphasis on ensuring the flow of external funds rather than on mobilising domestic resources. The external resources were viewed as an instrument for accelerated growth, and the monetary policies in place were not regarded as hindering domestic resource mobilisation. High interest rates, a stable exchange rate and fiscal restraint were considered sufficient to attract capital inflows. As a result, most countries abandoned their monetary policies, and the exchange rate anchor was used to stabilise the price level through competition from cheap imports. Less government intervention and privatisation were expected to improve the overall efficiency of the market system.

This policy approach led to lower profits and profit expectations of domestic companies, however, and prevented the profit–investment nexus from evolving. The macroeconomic fundamentals did not translate into sound fundamentals capable of producing a conducive environment for investment, technology advancement and expanding exports. The macroeconomic policies in place were successful in controlling hyper-inflation, but failed to consider the fact that world competition lowered domestic prices, which shifted the risks of inflation and excess demand towards deflation and lack of demand.

As a result of criticism from several agencies, among them UNECA and the OAU, the Bank in 1989 published *Sub-Saharan Africa – From Crisis to Sustainable Growth: A Long-Term Perspective Study*, which moved the Bank away from its traditional position towards the realisation that adjustment cannot be carried out at the expense of people. The report considered state participation in the economy and recognised the political dimensions of the crisis, the role of corruption and political competition, the marginalisation of the people from decision making processes, and the need for democratisation in the society. The report emphasised issues of good governance to enable African states to meet their global obligations and to better implement structural adjustment programmes.

The consensus during the 1990s was that there was no alternative to the policies pursued by African economies in the 1980s. It was presumed that interest rates and monetary policy could not be relaxed without a loss of exchange rate stability, price stability and positive capital inflows (UNCTAD, 2004). The combination of low-income growth, overvalued exchange rates and high interest rates inhibited investment incentives and the restructuring of the domestic productive sector, and made it impossible to meet the conditions required to stabilise or reduce the debt burden relative to national income in the medium term. With the great emphasis on fighting inflation, external balance was neglected, being mainly achieved through compressed imports resulting from reduction in overall income growth rather than by raising exports. This is the opposite of the justification for opening the economy to make trade an engine for growth.

In December 1993, the ESAF was enlarged and extended, and in 1996 was made a permanent facility and the centrepiece of the IMF's strategy to help low-income countries. In addition, IMF's participation in the initiative to lower the debt of the highly indebted poor countries (HIPCs) was initially linked to special, more concessional ESAF operations.

Loans under ESAF carried an annual interest rate of 0.5 percent, with repayments made semi-annually, beginning at five and one-half years and ending ten years after the disbursement.

With the realisation that economic recovery in SSA was yet to come, in 1994 the Bank issued the report, *Adjustment in Africa: Reforms, Results, and the Road Ahead*, which was mainly an assessment of the region's progress and prospects. In the report, the Bank abandoned its earlier definition of structural adjustment as supply side reforms in favour of short-run stabilisation. The view that structural adjustment programmes were designed to stimulate growth represented the core justification of the Bank's increasing involvement in policy-based lending during the 1990s.

The stabilisation and adjustment policies advocated by the IMF and the World Bank and widely adopted in Africa have not succeeded in restoring growth in most countries (Stewart *et al.*, 1994). The 1980s and the early 1990s were an exceptionally difficult period for low-income developing countries, particularly in Africa. Many economies were at the point of collapse after years of economic mismanagement and adverse external shocks, culminating in the debt crisis of the 1980s and 1990s. As governments began the task of restructuring and rebuilding their economies, per capita incomes stagnated or declined. Only 7 of the 18 countries with Bank programmes showed improved growth performance, while 14 suffered declines in investment rates and the overall impact of the adjustment operations was rather disappointing. Trade reform has been found to be accompanied by a fall in investment mainly because reform increases the sensitivity of investment to external terms of trade (Fielding, 1997). Although trade reform has been an essential component of government policy mainly as a precondition for aid, there could be a trade-off between the level of aggregate investment and the achievement of trade policy goals.

Africa recorded an average growth rate of about 3.9 percent during 1971-1973 (before the crisis), which peaked at 5.5 percent during 1974-1977. The rate of economic growth continued to decline, however, reaching a minimum of 0.9 percent during 1992-1994. Some regions like Eastern Europe did even worse and recorded an average growth rate of -10.7 percent during that period. The declining trend was reversed during the late 1990s, a development that was mainly attributed to improved macroeconomic stability, increased exports and also restoration of peace in some parts of the African region.

Africa also has a very low per capita income compared with other

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regions. Per capita income for Africa increased from an average of \$339.8 over 1970-1975 to \$709 over 2000-2003, compared with an increase from \$1,207 to \$5,309 for the world during the same period. This marginal increase in per capita income falls short of redressing the substantial income losses and impoverishment of the lost decades. Africa is the only region where the incidence of poverty could worsen by 2015 given that the continent requires a sustained per capita growth rate of at least 4.6 percent per annum to make significant progress towards achieving the Millennium Development Goals (AfDB, 2003). The continent has also continued to receive much lower capital flows than other regions. For example, out of the total of \$82.9 billion that went to developing countries in 2003, Africa only managed to get \$9.5 billion, while Asia attracted about \$84.3 billion (UNCTAD, 2004).

This experience led many observers to question the effectiveness of the remedies embodied in IMF and Bank supported structural adjustment and stabilisation programmes. Debate over the long-term effects of structural adjustment in the Third World in general and Africa in particular is organised along three main lines (Samatar, 1993):

- First, there has been an argument that the economic crisis in the past two decades was caused principally by inappropriate and poorly conceived public policies, which created severe economic imbalances and undermined productive investment.
- Second, UNICEF's critique of Bank policies has been on the negative impact of structural adjustment programmes on the social wage and therefore on vulnerable groups.
- Third, radical critics have been of the opinion that the thrust of structural adjustment strategy is misconceived, inappropriate and detrimental to the long-term development prospects.

A number of policies in the adjustment package have had both positive and negative effects in the medium term – positive because they correct past distortions, but negative because they do not provide essential complementary changes, or because they are too market-oriented and undifferentiated and make it impossible for African economies to build their own capability. The package may have increased short-run efficiency of the resources in use, but it tended to diminish African control and experience, as it reduced the possibility of building up dynamic comparative advantage in non-traditional areas. The problems of structural adjustment programmes of the 1980s in Africa were numerous. They relied too much on reforms in incentive structures while they neglected the provision of crucial public goods. They were naïve about the nature of required changes in the financial system, particularly the efficacy of interest rate changes, and about the efficacy of privatisation, especially in agricultural marketing and input distribution. They neglected human capital and poverty even as they were overly optimistic about the prospects for expansion of earnings from traditional exports. Some programmes were under-funded or forms of external assistance were inappropriate. Finally, there was inadequate appreciation of the fiscal implications of reform packages incorporating sharp devaluations and interest rate changes (Stewart *et al.*, 1994).

Adjustment programmes designed to correct domestic imbalances failed to tackle the systemic factors that stifle production and distribution and instead redirected available financial and productive resources towards export production in order to generate foreign exchange (Cheru, 1992). While donor supported adjustment programmes in pricing, interest rates and devaluation policy may be necessary to correct domestic production shortfalls in the short run, these factors alone do not constitute a fundamental constraint to long-term sustainable development in sub-Saharan Africa. Such adjustment measures need to be implemented in tandem with equitable land tenure systems and the provision of credit, inputs and extension services. Shortcomings of the export-oriented strategy adopted in SSA have been evidenced by declining African agricultural output: African agricultural output grew by 2.7 percent in the 1960s, which shrank to about 1.4 percent during 1970-1985 (Cheru, 1992).

Structural adjustment programmes have also been criticised for lacking adequate emphasis on the role of institutions in promoting development (Stein, 1994). Structural adjustment was derived from neoclassical economic theory, which was found to lack institutional considerations and was therefore ill-equipped to promote the development of market institutions in Africa. Priorities for reformers in the 1980s mainly encompassed price reforms in external trade, in product and labour markets, in finance, in taxation and macroeconomic stability, and in privatisation. By the 1990s, however, it was realised that adequate institutions are a prerequisite for successful reform. Three often cited cases of unsuccessful reform as a result of inadequate institutions are: Russia's unsuccessful price and privatisation reform in the absence of a supportive legal, regulatory and political apparatus; dissatisfaction with Latin America's market-oriented reforms that paid little attention to mechanisms of social insurance and safety nets; and the Asian financial crisis whereby financial liberalisation was carried out without financial regulation. Institutional reform affects not only policy parameters but also behavioural relationships (Rodrik, 2000). A well-defined reform that is consistent with the institutional needs of an economy can spur higher levels of entrepreneurial dynamism and economic growth. Moreover, a high-quality institutional environment has greater economic payoffs than a liberal trade regime or adherence to World Trade Organization (WTO) rules. Growth can also be seen as a function of the size of the external shocks faced by an economy (e.g. terms of trade), arbitrated by its ability to deal with them. Appropriate institutions have two roles: to ease the pain of adjustment and to legitimise decisions that certain parts of the society must bear costs, so that unavoidable costs can be borne without leading to social or political collapse (Winters, 2004).

3.4 The Poverty Reduction Growth Facility and the Poverty Reduction Strategy Papers

At the end of 1999, the World Bank and IMF adopted a new framework for their support to low-income countries. The framework comprised two key elements: country-authored Poverty Reduction Strategy Papers (PRSPs), which were expected to draw on broad-based consultation with key stakeholders, and the Poverty Reduction and Growth Facility (PRGF), which replaced the Enhanced Structural Adjustment Facility (ESAF). The replacement of the ESAF by the PRGF raised expectations about the role of the IMF in the struggle against poverty in the world's poorest countries. The programmes supported by the PRGF were to be derived from the PRSPs to ensure country ownership and a clear orientation towards achieving the joint objectives of poverty reduction and growth.

How different are PRSPs from the ESAF? It was clear that PRSPs were intended to mark a significant change in the IMF's and World Bank's roles and ways of doing business in low-income countries. The core aim of the PRGF was to arrive at policies that were more clearly focused on economic growth and poverty and, as a result, enjoyed better national ownership and were more consistently implemented (IMF, 2001a; OED, 2004b). The PRSP process emphasised that there was need to be realistic about what could be achieved in the near term; that the degree of progress would depend on the initial starting conditions and the nature and content of the PRSPs would vary from country to country; and that the process would be a dynamic one. By March 2004, some 37 countries (out of a total of 77 eligible countries) had completed a full PRSP. The main challenges encountered were in the areas of building capacity; opening up the policy dialogue; aligning external assistance behind national strategies; integrating the PRSP into budgetary priorities; and implementing the strategies outlined in the PRSPs.

The introduction of the PRSPs therefore implied the change from: conditionality to ownership; technical assistance to capacity building; negotiation to participation; and "first among equals" to "one among many" (see in this volume, Martin and Bargawi, p. 109). This called for greater government ownership and participation on the side of member countries, and consultative group meetings on the donors' side so that all parties negotiate with governments simultaneously rather than the IMF taking the lead and all other donors' money being pegged on IMF approval. This also called for more open, broader and permanent participation of stakeholders, rather than the two- to three-week closed door donor meetings with respective government technocrats. The previous approach ended up more like public education rather than participation.

The Poverty Reduction Strategy (PRS) approach consisted of a series of programmes designed to encourage broader-based participation in the development of a country-owned, long-term strategy for poverty reduction and growth. The PRS approach drew on key elements in the Comprehensive Development Framework (CDF) and was also meant to address concerns identified by evaluations of ESAF and the related policy framework papers (PFPs). The reviews concluded that PFPs had largely failed to reach their objectives and highlighted a number of problems with ESAF-supported programmes, including lack of national ownership; weaknesses in the analytical and empirical bases of the social policy content of programmes; and insufficient attention to trade-offs involving policy choices that imply significantly different paths for growth and social welfare (IEO, 2004). The new approach was therefore supposed to strengthen country ownership, enhance the poverty focus of country programmes, and provide for stronger collaboration between the Bretton Woods Institutions and more broadly among development partners in supporting country development efforts. Other objectives included greater accountability and an improved setting of priorities and design of public actions.

The underlying principles of the PRSP process were that it would be country-driven and involving broad-based participation; results oriented and focused on outcomes that are pro-poor; comprehensive in recognising the multi-dimensional nature of poverty and the proposed policy response; partnership oriented and involving coordinated participation of development partners; and grounded in a long-term perspective for poverty reduction (IEO, 2004; OED, 2004b). The major purposes of the PRSP are: for the country to lay out realistic but challenging poverty objectives, along with policies needed to achieve them; for the Bretton Woods Institutions to provide a suitable basis for their concessional lending; and for other development partners to offer a key instrument around which to organise their relationship with low-income countries.

To what extent have PRSPs been country-driven? The answer involves looking at how much control national stakeholders have had over the PRSP. Evidence can be found by considering how the process was organised, stakeholders' own perceptions and the extent to which the process became self-sustained beyond the formulation of the initial strategy document. There is substantial evidence that most of the countries drafted their own PRSPs, but stakeholders' perceptions were that the major driving force behind implementation of the PRSP was that it was a condition for getting access to debt relief under the HIPC Initiative and to concessional lending from both the Bank and the IMF. On the sustainability of the PRS process, the PRSP progress reports, which are submitted once every year, show that many countries have not integrated the preparation of the PRSP reports into their budget processes. However, the progress reports show good progress in the implementation of the relevant structural reforms, often in the areas of public expenditure management, decentralisation and privatisation, and in the setting up of working institutional arrangements to monitor PRS implementation. In general, however, the extent to which the PRSPs are country-driven varies from country to country.

Even though the PRS represents a significant step forward, there has been some criticism on the IMF's and World Bank's role in the process (IEO, 2004). There have also been several criticisms of the PRS process itself, including that there was little broadening of the participatory debate on macroeconomic policy, although this varied by country. Moreover, the policy discussions and decision making processes were often not well embedded in existing political structures (e.g. the role of parliament is too limited). Alternative policy options were rarely explored, while impact analyses of macroeconomic policy variables were rarely undertaken and therefore did not represent a significant *ex ante* input into policy formulation. Finally, the linkage to the HIPC Initiative was partly responsible for rushed procedures that reduced the value

Table 2 Population Living on Less than 1 Dollar per Day
(percentages)

	1990	1999	2001
Northern Africa	2.6	2.0	1.9
Sub-Saharan Africa	46.9	42.7	46.4
Latin America and the Caribbean	10.9	10.6	10.0
Eastern Asia	33.0	17.8	16.6
Southern Asia	39.7	30.5	30.4
South-Eastern Asia	18.4	10.8	10.2
Western Asia	1.6	4.2	3.7
Commonwealth of Independent States	0.5	10.3	5.0
Transition countries of South-Eastern Europe	0.4	1.7	2.1

Source: United Nations, *Millennium Development Goals*, 2003.

added of the new approach. In terms of the PRS content and the design of PRGF-supported programmes, one of the main criticisms is that the PRGF still drove the PRSP on the macroeconomic framework, even though related policy issues and programme design was still oriented towards poverty reduction. Programmes are said to be too targeted on reducing fiscal deficits and inflation to below threshold levels, while the IMF was still seeking to impose conditionality that was not derived from the country-driven PRS. Lastly, the IMF has been accused of aid pessimism, whereby projects were designed around projected reductions in aid flows. As well, the macroeconomic framework in the PRGF did not begin from a "needs-based" approach that takes as its starting point the level of external resources needed to help countries progress towards achievement of the Millennium Development Goals.

What emerges from evaluations of the PRS is that the approach has the potential to encourage the development of a country-owned and credible long-term strategy for growth and poverty reduction. Strategies under the PRS generally constitute an improvement over previous development strategies owing to their greater poverty focus, a longer-term perspective and some results orientation. Actual achievements have fallen considerably short of the potential, however. Despite many countries in SSA being able to complete and implement the PRSP process, poverty rates increased from 42.7 percent in 1999 to 46.4 percent in 2001 (Table 2).

It is worrisome to note that SSA is still the region with the highest poverty rates in the world, and could be the only region with worsening poverty incidence by 2015 as opposed to the objective of halving poverty by 2015 under the Millennium Development Goals. The inability of the PRSPs to yield the expected results has been partly attributed to shortcomings in the design of the initiative and partly to the lack of clarity of the IMF and World Bank roles in the process. Participation was more broadly based than in previous programmes, but the participatory processes were not designed to strengthen existing domestic institutional processes for policy formulation and accountability (e.g. through parliament). The PRS process has also had limited impact in generating alternative policy options with respect to the macroeconomic framework and macro-relevant structural reforms.

The IMF's and Bank's effectiveness also did not match expectations because their specific role in the process was not clear, and there was insufficient recognition of how the changes the PRS approach would affect their way of doing business. The approach implies a process based on a country-driven strategy that sets priorities within a long-term timeframe; emphasises contributions to informing policy rather than the traditional programme negotiations; and operates within a partnership framework whereby the IMF's and Bank's contributions are only part of a broader picture. The Bretton Woods Institutions have not used the PRS approach sufficiently as a mechanism of identifying priorities on deliverables and for coordinating key inputs from other partners.

What lessons emerge from this process? There are several. First, the structure of incentives generated by the PRS was not well aligned with the intermediate objectives of the approach. A focus on improving fundamental domestic policy processes is likely to yield longer-term gains than a traditional focus on particular policy measures. Actual incentives have not focused sufficiently on improvements in domestic policy processes and institutions, but rather have put too much emphasis on documents and Bretton Woods Institutions procedures. There has been insufficient scope for treating countries differently, with little consideration of initial country conditions (e.g. level of experience in planning). There have been insufficient benchmarks to monitor progress towards the intermediate objectives of improved domestic policy processes, which were meant to be developed at country level but were not. And finally, an asymmetry of commitments existed whereby countries were not aware of the gains to be made by treating the PRSP as an effective strategic road map, rather than as a procedural formality.

The main recommendations arising from the evaluations were to:

- Introduce greater flexibility in the implementation of the PRS approach to fit better the needs of countries at different stages of the process and with different capacities and political and administrative systems. Countries should decide for themselves how to conduct policy formulation, implementation and monitoring processes and what output there should be in terms of documents.

- Shift the emphasis of the initiative from the production of documents to the development of sound domestic policy formulation and implementation processes. This involves building greater results orientation and shifting the emphasis of the incentive structure from procedural aspects and production of documents to achieving substantial changes in domestic processes and policies.
- Clarify what the PRS approach implies for the IMF's and World Bank's own operations and strengthen implementation. Expectations for their role should be tailored to country-specific circumstances.
- Streamline IMF and World Bank documentation and Board scrutiny of PRS documents.
- Strengthen prioritisation and accountability on what the IMF and the Bank are supposed to deliver within the broader partnership framework, which should be built around the priorities emerging from the PRS process, and ensure that resources match commitments.
- For the IMF and the Bank specifically, encourage strengthening of the framework for establishing the external resources envelope as part of the PRS approach. Countries should play a central role in elaborating macroeconomic frameworks and catalysing donor support, while the IMF and the Bank should improve aid predictability.

3.5 Development Policy Lending

Development policy lending refers to "rapidly disbursing policy-based financing, which the Bank provides in the form of loans or grants to help a borrower address its actual or anticipated financing requirements that have domestic or external origins" (World Bank, 2004). The objective of development lending is to help a borrower achieve sustainable reductions in poverty through a programme of policy and institutional actions that promote growth and enhance the well-being and increase the incomes of poor people. These policy operations should be supportive of, and consistent with, a country's economic and sectoral policies aimed at accelerated sustainable growth and efficient resource allocation. Development policy lending replaces all the other instruments such as the sectoral adjustment loans/credit, rehabilitation loans, and programmatic structural adjustment loans and credits, but the Poverty Reduction

Support Credits still remain. The policy incorporates the distinct operational features of special structural adjustment loans, the deferred drawdown options, and debt and debt service reduction operations as options for development policy lending under the unified overall operational policy umbrella.

Appropriately designed policy and institutional development programmes are central to poverty reduction because they bring faster and more equitable growth; reduce an economy's vulnerability to external shocks; help integrate disadvantaged regions or groups; and promote the development of effective anticorruption programmes, adequate systems of social protection, and financial and other mechanisms for managing social risk (World Bank, 2001). Experience suggests that such programmes can be effective only when they are "owned" by the country itself, which underlines the importance of designing policy-based lending to reflect the country's development priorities and its implementation capacity. Institutional capacity and country commitment are also keys to successful conditionality (Dollar and Svensson, 2000).

The shift from adjustment lending to development policy lending in 2004 focuses on the "when" and "how" of policy-based lending support for a country's development policy programme rather than on the nature of the programme itself. Areas that are maintained in the updated policy are requirements that policy programmes still need to be adequately funded and that the country must have an appropriate macroeconomic framework. Changes were made in the treatment of poverty, social, environmental and fiduciary issues, and the share of policy-based lending and the size of loans. New issues that have been added include: analytic underpinnings; disclosure; monitoring and evaluation; risk management; participation; Bank procedures for review; and Board presentation and implementation of operations. The new approach reflects the recognition that there is no single blueprint for policy programmes that will work in all countries, and that any country's policy programme must be designed with country ownership to fit that country's specific circumstances. Feedback from experiences with past Bank adjustment lending has demonstrated that broad participation of stakeholders and adequate analysis of development policies and their impact are important factors in developing effective development strategies.

It is for these reasons that the Bank came up with the change to development policy lending whereby emphasis is on country ownership. The approach focuses on the way the Bank advises countries on their programmes and supports them, but does not include prescriptive guidance on the content and nature of the programmes. The Bank's role is to *advise and support* programmes as countries find different ways to formulate and implement their own policies and institutions for development and poverty reduction, but not to *formulate or prescribe* them. The updated policy sets out key parameters for lending decisions, including the criteria and processes for deciding whether development policy lending is appropriate and how much financing to provide.

Decisions to extend development policy lending will be based on consideration of a country's economic policy and institutional environment and its capacity to carry out the programme. The appropriateness of development policy lending is determined in the context of an evaluation of a country's situation and its track record, which not only includes economic circumstances and policies, but also social and governance aspects. The critical elements of an assessment involve a clear articulation of how the country policy programme supported by the operation is expected to help create the conditions for sustained growth and reduced poverty, and the country's governance and institutional capacity, especially if they affect the country economic performance and the country's ability to carry out the programme. Also important are country ownership, with government and stakeholder commitment to the operation-specific programme of policy actions and objectives, and the implications for the likelihood of sustained implementation, taking into account the country's track record. The adequacy of the macroeconomic framework is a key feature that considers the medium-term structural underpinnings of the macroeconomic policy framework and the country's medium-term development potential, as well as its absorptive capacity. A final important element is debt sustainability, with an aim of supporting policies that enhance a country's capacity to service its debt.

4 National Ownership of Reform Programmes

It can be agreed that the developing role of the IMF and the World Bank has mainly been driven by the quest to increase national ownership of reform programmes, given the argument that national ownership can increase the likelihood of implementation and therefore the success of the reforms. The IMF's re-examination of its policies on conditionality in 2000 had a key objective of promoting national ownership of structural reforms. National ownership has been regarded as the missing link in most of the reform initiatives in low-income countries. Therefore the questions arising are: what is ownership, and how can ownership of reform programmes be enhanced?

There exists a wide range of views on the definition of ownership. Some of these are enumerated below:

- Ownership is a willing assumption of responsibility for an agreed programme of policies, by officials in a borrowing country who have the responsibility to formulate and carry out those policies, based on an understanding that the programme is achievable and is in the country's own interest (IMF, 2001b). Country ownership of reforms refers to the idea that country authorities and other stakeholders are primarily responsible for the design and implementation of reforms. The author views ownership as a prerequisite for effective conditionality rather than as an assessment of the level of implementation of reforms (Mourmouras, 2002).
- Ownership from a typical citizen's perspective is about the right of the country representatives to be heard in the process of diagnosis and programme design and the freedom and ability of the country to choose the programme to be implemented without coercion, rather than about who designs the programme. Country ownership therefore exists when there is a general belief that country representatives freely chose the programme to be implemented and there is also general acceptance of full responsibility for the outcome of the chosen programme (Johnson, 2005).
- What constitutes ownership is seldom clear. The term can be applied in a circularity argument whereby ownership will be present if a programme succeeds, but absent if it fails (Johnson and Wasty, 1993, as quoted by Johnson, 2005).
- There are five dimensions of assessing the levels of national ownership: the locus of programme initiation; the intellectual conviction of key policymakers or key ministries; support of the top political leadership; broad support across and beyond government; and institutionalisation of the measures within the policy system (Killick, 1998, as quoted by Booth, 2003). Morrissey (2001), as quoted by Booth (2003), argued on the other hand that attention should be concentrated on the level of commitment rather than the locus of programme initiation.
- Government ownership is at its strongest when the political leadership and its advisers, with broad support among agencies of the state and civil society, decide that policy changes are desirable, choose what these changes should be and when they should be introduced,

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and identify where and how the changes should be built into policy and administration parameters that are generally acceptable (Killick, 1998, as quoted by Johnson, 2005).

- Looking at country experiences, it can be agreed that country ownership in terms of locus of programme initiation is ranked low because all programmes were initiated by the IMF, strong in terms of technocratic commitment, moderate in terms of base support, but critical in terms of institutionalisation. The reports on Kenya, Malawi and Rwanda argue strongly that mainstreaming of poverty reduction, mainly by articulating goals of the strategy within the budget, and then using budgetary incentives to force line ministries and departments to pay attention to them, is the most critical dimension of national ownership (Booth, 2003).

Alongside all these views, however, there is consensus that ownership involves some level of responsibility over not only the initiation of reform programmes but also their implementation. Given the various views on what constitutes ownership, how can ownership be enhanced? There is considerable research evidence suggesting that the most fundamental component in the success of reform programmes has been domestic political economy factors. This implies that the main ways of enhancing ownership are mainly through: genuine participation in designing and implementing macroeconomic and structural reforms; streamlining of structural conditionality; more rigorous programme projections; and encouragement of country-led reform programmes. Improved technical assistance with more of a medium- and longer-term perspective and mainly aimed at capacity building can be an effective tool in promoting ownership since ownership partly depends on implementation capacity. In cases where a country faces long-term structural problems, which implies a longer-term involvement with the IMF, then a country-led process of consensus building is a promising way to strengthen national ownership of effective policies (IMF, 2001b). Identifying outcomes – or "ex post" conditionality – can also be used to embrace ownership, since it sends positive signals to governments that they are in control of policy formulation and implementation, which is an important aspect of national ownership and the success of reforms. The major limitation of outcome conditionality, however, is the basis on which loan tranches should be released. In general, though, ownership is operationally important and should not be undermined by conditionality, implying that consistency between the two aspects should be sought.

5 Conclusion

Development assistance shifted to a large extent in the 1980s from financing investment to promoting policy reform, a reorientation occasioned by the growing awareness that developing countries were held back more by poor policies than by lack of finance for investment (Dollar and Svensson, 2000). Questions have been raised whether the Bretton Woods Institutions' conditionalities undermined country ownership of adjustment programmes. Khan and Sharma (2001) argue that finance considerations alone are justification for conditionality, but country ownership of programmes is fundamental because it aligns the incentives of the borrower and the lender. Policy measures are unlikely to be implemented without firm commitment from the government and other relevant constituencies. The task therefore has been how to reconcile conditionality and country ownership. It has been viewed that donor aid can influence the form of the agreement reached and the agreed timetable for implementation, but whether implementation is carried out depends more on political and economic factors.

Of great importance also is the role of institutions in promoting growth development, since adequate institutions are a prerequisite for successful reform (OED, 2004a). The evolution of the role of the Bank and the IMF in helping countries meet their development strategies clearly indicates that the Bretton Woods Institutions have over time been rethinking the importance of country ownership and the capability of countries to carry out the reform process. There has been a realisation that there is no single blueprint for policy programmes that will work in all countries, and that any country's policy programme must be designed with country ownership to fit that country's specific circumstances.

It can therefore be concluded that government ownership and political will have a greater influence on the timing, extent and sustainability of the reform programme than does the amount of aid flows. The Bank's and the IMF's future role in low-income countries thus involves a great need to adapt their conditionality to the needs of the low-income countries, to improve capacity building through greater empowerment of the borrowing governments and to base lending decisions on longer-term planning. There is also need to move from stabilisation to more pro-poor macroeconomic frameworks.

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