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48

**COUNTRY EXPERIENCES
WITH IMF PROGRAMMES
IN THE 1980s**

Tony Killick with Moazzam Malik

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IN THE 1980s**

Tony Killick with Moazzam Malik

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Preface and Acknowledgements

ODI Working Papers present in preliminary form work resulting from research under the auspices of the Institute. Views expressed are those of the authors and do not necessarily reflect the views of ODI. Comments are welcomed, and should be addressed directly to the authors.

This paper is one of a series of drafts for a study currently under preparation at ODI by Graham Bird and Tony Killick with the provisional title of *The IMF and Developing Countries: Its Role in the 1990s*. The completed report will review developments in the 1980s; examine the Fund as a source of finance and issues in its lending policies; review the theory and practice of IMF policy conditionality and of heterodox alternatives to it; and explore the future role of the Fund. The following titles are published contemporaneously with this paper and others will follow later:

- 46 The IMF in the 1990s: Forward to the Past or Back to the Future?
Graham Bird
- 47 What Can We Know about the Effects of IMF Programmes?
Tony Killick, Moazzam Malik and Marcus Manuel

Tony Killick is Senior Research Fellow at the Overseas Development Institute. At the time of preparing this paper Moazzam Malik was a Research Assistant at ODI. The project under which this Working Paper has been prepared is funded by the Overseas Development Administration, whose support is gratefully acknowledged. Neither they nor our respective employers necessarily agree with the contents of this Working Paper, which is our responsibility alone.

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I. INTRODUCTION

The Working Paper which serves as the companion of this one¹ presented the results of various quantitative cross-country assessments of the effects of IMF programmes. It shows that there are various methodological barriers in the way of forming an assessment and that the results are far from clear cut. It also suggests that a well-conducted country study has considerable advantages over multi-country approaches in almost all respects save one: the ability to arrive at generalised conclusions. The purpose of the present essay is to complement the quantitative multi-country results with more qualitative case-study information and, in order to overcome this limitation of individual case studies, the information presented below is based on a survey of studies relating to the experiences of seventeen developing countries which adopted IMF programmes in the 1980s.

After a brief explanation of the approach used and the nature of the country sample in Part I, Part II discusses the light which the country studies throw upon the circumstances leading to adoption of a programme. Part III presents evidence relating to the cost-effectiveness of the programmes adopted and Part IV takes further the discussion in Working Paper 47 of the determinants of programme effectiveness. Part V offers an overall summing-up on the two Working Papers taken together. It would be preferable to have read Working Paper 47 first, for that provides much of the framework within which this paper is composed.

I.1 The sample

The first step in this project was to design a standard format-cum-checklist within which country materials should be organised. A copy of this is set out in the appendix. Next, this framework was tried out on a small number of countries, chosen because they were fairly familiar and known to have reasonably extensive literatures. This showed the framework to provide satisfactory guidance and the next phase was to conduct a literature survey to establish a list of developing countries for which there was a published or 'grey' literature studying their experiences with IMF programmes.

The names of these countries were then selected at random and the order in which they were drawn was noted. We then worked down this list up to the limit of the research time available. The resulting coverage could not be described as a random sample since it was biased towards those countries for which there was an (English-language) literature. However, it can be seen that procedures were incorporated to safeguard against researcher bias.

Including those covered by the pilot studies, there was a total of 36 countries on the list, of which it was possible to complete surveys of seventeen, which between them

¹ Tony Killick, Moazzam Malik and Marcus Manuel, 'What Can We Know about the Effects of IMF Programmes?', *ODI Working Paper No. 47*, September 1991.

commenced and either completed or abandoned 48 programmes in 1979-89. However, the available literature only covered a proportion of the total of 48 programmes. The countries were:

Bangladesh	Brazil	Costa Rica
Côte d'Ivoire	Dominica	Dominican Republic
Gambia	Ghana	Jamaica
Malawi	Mexico	Morocco
Pakistan	Philippines	Somalia
Sudan	Tanzania	

Approximately 60 sources were consulted, as set out in the bibliography. In terms of regional coverage, type of economy and other characteristics, this group seemed reasonably representative, although Latin America was somewhat over-represented. However, two substantial biases were discovered. Comparing the experiences of the 17 countries with all those which adopted IMF programmes in the 1980s, reported on in Part II of Working Paper 47, our sample included too high a proportion of EFF programmes - 33% as against only 11% for the total population of programme countries. Partly as a result of this, our sample also contained a disproportionately high share of programmes which broke down before the end of their intended life - 63% as against 50%. This bias may perhaps result from the special interest of researchers in the EFF experiment; and for a tendency for programmes which failed, in the sense of having been abandoned, to provoke more of a research response than programmes that went more smoothly. However, we believe that the uses to which the country information is put in what follows minimise the possible distorting effects of these biases.

II. SOURCES OF DESTABILISATION

Much of the controversy about the role of the IMF in developing countries has centred around the question whether their balance of payments (BoP) and other macroeconomic problems are typically the result of domestic mismanagement or 'exogenous shocks' emanating from the world economy or other sources beyond the control of national policy-makers.² Critics of present arrangements argue that Fund-type programmes are most appropriate for countries whose macro problems are largely the result of policy mismanagement leading to excess aggregate domestic demand, but that in the turbulent conditions of the world economy since the early-1970s developing countries' problems have more typically been the result of external shocks. Where that is the case, it is argued, an enlarged flow of international assistance is the more appropriate policy response, *i.e.* finance rather than adjustment.

Those associated with the Fund position more frequently blame macro problems on domestic mismanagement and argue that, in any case, countries have to adjust to exogenous shocks since the industrial countries show little willingness to provide the additional financing that would be necessary if adjustment were to be avoided. To this it can be responded that even though adjustment may be unavoidable even to such shocks, it is important to diagnose the sources of BoP difficulty in order to design the most appropriate type of policy response.³

What light do our country studies throw in this set of issues?

II.1 The country evidence

Judgements on how the balance should be struck are unavoidably subjective, but in a majority (10 out of 16 for which the literature permitted a judgement) of our countries the circumstances leading to the adoption of Fund programmes appeared an admixture of exogenous shocks and poor domestic macroeconomic management, although the exact nature of the shocks and policy weaknesses naturally varied.

The Gambia provides a well-documented illustration of this type of situation. In the decade to the mid-1970s an impressive rate of economic progress had been achieved while maintaining approximate BoP equilibrium. Then a number of adverse external developments intervened: the first two oil shocks; deteriorating terms of trade (which fell 25% in 1976/77-1984/85); the Sahelian drought of 1981-85. These, however, interacted with a weak policy framework. Government expenditures were allowed to grow faster than revenues so that by 1981 the budget deficit equalled 11% of GDP. This and

² These issues are surveyed, mainly with reference to the 1970s, by Killick and Sharpley in Killick *et al.*, 1984A, chapter 2.

³ This latter argument is developed further in Killick *et al.*, 1984A, chapter 8.

growing BoP difficulties led to extensive borrowing from abroad and a rising debt burden. Currency over-valuation led to the emergence of a parallel foreign exchange market. Such factors led to a further 'external shock' in the form of declining aid receipts. Private investment collapsed; export volumes fell steeply (much worsened by smuggling of groundnuts into Senegal); foreign exchange reserves fell to the equivalent of two weeks' supply of imports. There was a further exogenous factor peculiar to the country's position: a coup attempt in 1981 which the government could only put down with military help from Senegal, which then led to considerable uncertainty about Gambia's future existence as a sovereign state. This helped to convince the Gambian government that radical policy changes were needed.

Other cases illustrate a similar mix of domestic and external causes. Costa Rica suffered from the oil shocks, a related deterioration in its terms of trade (which fell by a third in 1977-81), and - having borrowed substantially from the international banking system on variable-rate terms - from the rise in world interest rates in the early-1980s. However, the harmful effects of these developments were aggravated by expansionist fiscal policies and consequentially large pressures of excess demand, leading to an inflation rate which approached triple-digit levels in 1982, and by a seriously over-valued currency (necessitating a devaluation from 10.9 colones per SDR in 1980 to 42.0 in 1981).

Jamaica is another example that can be cited, although there is much controversy about where the balance should be struck between exogenous shocks and domestic weaknesses. Here the relative disinterest of the People's National Party government in the precepts of macro management in a highly vulnerable economy, and its excessive faith in an import substitution strategy, magnified the effects of the oil shocks and the weakness of the world aluminium market and led not only to a major economic crisis but also to an 'IMF election' which unseated the PNP.

The Philippines provides an Asian example. The rather well known inefficiencies and excesses of the Marcos administration, and the resulting economic mismanagement, have tended to mask the seriousness of the external shocks which the Philippines economy experienced in the early-1980s, where the effects of rising oil prices and interest rates were compounded by declining demand for some of the country's manufactured exports.⁴

We can also mention Somalia, a country with an extremely fragile economy where domestic policy makers already struggling with large budget deficits, losses of international reserves and rapid inflation were quite unable to cope with a situation in which the oil and interest rate shocks were aggravated by drought and then, in 1983, by a decision of the Saudi Arabian health authorities to ban imports of cattle from Somalia, which previously had contributed 75% of the country's total export earnings.⁵

⁴ On this see UNICEF, 1988, especially Table 7.2.

⁵ Other countries where we judge their decision to request a Fund programme was the result of a combination of exogenous shocks and domestic policy weaknesses are: Côte d'Ivoire, the Dominican Republic, Malawi, Morocco and Tanzania.

The second-most numerous group in our sample - four in number - are countries where it seems most appropriate to attribute their BoP and other macro problems essentially to domestic policy weaknesses. Of course, these economies were not immune to adverse external shocks but the essence of their problems seems domestic in the sense that the shocks merely hastened an economic crisis that seemed inevitable anyway.

This group includes the two largest economies in our sample: Brazil and Mexico. In the former case, access to international bank credit was used in the 1970s and into the 1980s as an alternative to policies that would adjust the economy to the oil shocks. Expansionary fiscal and monetary policies were pursued in the face of already substantial macro imbalances. Large-scale external borrowing could not prevent a rapid haemorrhage of foreign exchange reserves. Although the currency was allowed to depreciate, this was not on a sufficient scale to compensate for the very rapid inflation (averaging around 100% *p.a.* in 1979-82) and the real exchange rate appreciated. The rise in world interest rates and weakening world demand for the country's exports merely executed the *coup de grâce*, precipitating in 1982-83 a crisis of macroeconomic management which seemed only a matter of time in any case.

A not dissimilar story could be told in the case of Mexico, with the major exception that this country was a net beneficiary of the two oil shocks. The diagnosis here is that the government failed to appreciate the Dutch Disease problems created for the rest of the tradeable-goods sector by the rapid growth of the oil industry and mis-judged what proved to be temporary rises in real oil prices to be a permanent shift (although they were in plentiful company in making this mistake). Here too there were major current account BoP deficits, a large-scale recourse to short-term bank borrowing and an appreciating real exchange rate. The problems were aggravated by a flight of capital from a private sector which did not share its government's confidence. Here again, rising world interest rates, coupled with falling real oil prices, tipped an unbalanced economy into crisis.

Africa provides our other two examples. In Ghana two decades of generally low-quality economic policies had brought the economy to the point where living standards were falling drastically, there was a retreat from the modern economy back to subsistence production, the black market rate for foreign exchange was 10-40 times the official exchange rate, the tax base had been seriously eroded and the government's budget was largely out of control, there was rapid inflation and acute shortages of imported goods. Here the *coup de grâce* was administered by a serious drought and a huge influx of returnees deported by Nigeria, forcing the government to the realisation that it had no alternative but to turn to the IMF and World Bank.

In the Sudan too the weakness of past policies had left the economy extremely vulnerable to the slightest ill wind blowing from abroad. An ambitious and indiscriminating policy of infrastructure creation had led to many low-productivity public sector investments and this combined with a declining revenue base to create a rapidly widening budget deficit. There was substantial inflation, an over-valued currency and large BoP strains leading to import shortages. Above all, there was a government which, at best, displayed no more than spasmodic interest in macroeconomic management.

Finally, we come to two countries where the origins of the BoP difficulties appear essentially exogenous, in the sense that there is no reason to believe that a macro crisis would otherwise have occurred because of policy weaknesses: Bangladesh and Dominica. In the former case Martin (1986) argues that prior to 1979 the economy was in apparently good shape, with fairly rapid economic growth, low inflation, rising aid receipts and a reasonably comfortable BoP situation (although there were fiscal strains). What then forced the government to ask for IMF support in 1979 was a serious drought and, therefore, abnormal food import requirements. In Dominica, the key events leading to the 1980 EFF programme were devastating hurricanes in 1979 and 1980, and a phasing-out of U.K. budgetary support following Independence in 1978, superimposed on a tiny and extremely fragile economy.

For these two cases it would be interesting to examine the extent to which the policy conditions attached to the IMF programmes in question differed from those applied in situations where domestic mismanagement was a major contributory reason for BoP difficulties. Unfortunately, however, we do not have enough information to be able to do this. Earlier evidence in Killick *et al.* (1984A, chapter 6, especially pp.203-04) suggested that the Fund was rather severely constrained in the degree of flexibility it could impart to its programmes but that there were circumstances in which considerable departures from its 'standard' model had been introduced.

II.2 Points arising

Our country evidence draws attention to the importance of a number of considerations which have tended in the past to be rather neglected and which the case-sketches presented above do not fully bring out.

First, we have been struck by the frequency with which natural disasters are an important, perhaps dominant, factor in decisions to adopt an IMF programme. The drought in Bangladesh has just been mentioned; droughts also played major roles in the Gambia, in Tanzania and in Ghana, where they led to forest fires and extensive agricultural damage. Severe hurricanes were important causes of the crises in both Dominica and the Dominican Republic.

Stabilisation programmes have to be an inefficient response to such events. It contradicts the precepts of both domestic and international economic management that the levels of demand and economic activity in the affected countries should have to be cut back as a result of such shocks. Countries - like Bangladesh, in Africa's Sahelian zone and in many small island economies - which are particularly vulnerable to disasters require policies which will minimise the risks (*e.g.* through early-warning systems) and which cushion the economy from the adverse effects of these events when they do strike (such as the maintenance of stabilisation and contingency reserves). However, the economies in question are often so poor and hard-pressed that they are limited in what they can do along these lines. This points to a requirement for international arrangements to help the sufferers cope with these events - not merely on humanitarian grounds but also to avoid

contributing to an unwanted deflationary bias in the world economy. Although some such assistance is provided, our evidence suggests that this is neither large nor rapid enough to prevent an inherently inefficient policy response from becoming inescapable.

Secondly, we are impressed by the extent to which dependence on one or a few primary product exports added to the management problems of our sample of countries. We are particularly struck by the frequency with which commodity booms are mismanaged, so that what ought to be a windfall gain leads the economy directly into a macroeconomic crisis. The recent history of the Côte d'Ivoire provides a case in point, leading to its adoption of an EFF programme in 1981. Here the 1976-77 boom in world beverage prices (largely the result of severe frosts in Brazil, and therefore obviously temporary) led to the accrual of large windfall gains into a government 'stabilisation' fund which, instead of being set aside for later periods of price weakness, were used to finance a major public investment programme. State expenditure levels rose and were not scaled back again when the boom duly ended in 1978, leaving a budget deficit equivalent to about 10% of GDP in 1979-80, substantial inflationary pressures and large losses of reserves.

This is by no means an isolated phenomenon. It has been well documented elsewhere for other countries.⁶ Among our sample there were comparable instances in the Dominican Republic, where a 1979-81 surge in world sugar prices was allowed to mask the underlying weaknesses of its economic situation; in Mexico where we have already referred to the way in which the 1972-73 and 1979-80 oil price rises contributed to the macro imbalances which came to the fore in 1982-83; and in Morocco, where a short-lived quadrupling of the world price of its major export, phosphate, left a legacy of unsustainable public expenditure levels.

Quite apart from any tendency to mismanage, or misread, temporary commodity booms, it is evident from our cases that those heavily dependent on one or a small number of primary products are especially vulnerable to BoP crises, to which recourse to the IMF becomes the only perceived solution. Apart from those just mentioned, we could add Dominica, Gambia, Ghana, Jamaica, Malawi, Somalia, Sudan and Tanzania to those in our sample (*i.e.* a substantial majority of the total sample) who were adversely affected by such dependency during the 1980s.

Such experiences have important policy implications. One, obviously, is to warn governments against a myopic and ultimately destabilising mis-use of temporary export booms as devices for raising investment or consumption to levels which cannot thereafter be sustained - and for the IMF to be vigorous in offering advice along these lines. The adverse effects of commodity dependence, *per se*, points additionally to the desirability of export diversification policies, widening the range of exports both within the primary product category and, especially, beyond it, *i.e.* into manufactures and services. This is not merely a policy indication for national governments. It affects the Fund too. Where commodity dependence is an important source of BoP weakness, policies of export

⁶ See Garcia and Llamas, 1988; World Bank, 1988, pp.71-74; and Bevan *et al.*, 1986.

diversification should also be incorporated in IMF programme design. While the Fund can point out that it does frequently incorporate currency devaluations in its programme designs and that such actions are likely to be a necessary condition of success in export diversification, it much less frequently goes beyond the exchange rate to other pro-diversification measures.

Finally under this heading we must note the frequency with which slowness in policy response was an important element leading up to the necessity for an IMF programme. Thus, for Tanzania Ndulu (1987) draws attention to a long lag before domestic policies began to try to grapple with the problems created in the latter-1970s and early-1980s by deteriorating terms of trade, the heavy costs of that country's war against the forces of Idi Amin in Uganda, and adverse weather in 1979-81, exacerbated by disastrously bad storage of surpluses grown in 1976-78. We referred earlier to a similar tardiness of policy response to a deteriorating economic situation in the Gambia, where matters had to come to crisis point before there was a serious policy response. Precisely the same complaint could be made about Ghana up to 1982. A related point could be made about the Brazil, Costa Rica and Mexico: that they preferred running up large external bank debts to more timely policy actions to restore a better balance to their economies. Morocco was another country which bought time by borrowing and which was slow to react to the deterioration of its economy and the impact of external shocks. Much the same goes for the Philippines and Sudan.

The policy implications of this take us beyond trite exhortations of the importance of sound macroeconomic policies to draw attention to the importance of rapid response - and the value, therefore, of informational and policy-making processes that will facilitate a close monitoring of economic indicators and flexible policy responses in the face of changing conditions.

III. EVIDENCE ON PROGRAMME COST-EFFECTIVENESS

Our country survey throws additional light on various factors bearing upon the cost-effectiveness of Fund programmes, including consequences for the distribution of income and political stability, and possible tensions between short-run IMF-style stabilisation and longer-term programmes of 'structural adjustment'. We commence, however, by examining what the effects are of frequent, as against occasional, recourse of Fund credits, for our sample includes several countries which had a succession of programmes covering most of the 1980s.

III.1 The effects of a long-run Fund presence

The countries analysed here are as follows, with the figures in parentheses indicating respectively the number of programmes and the total number of years in which these were in force (*i.e.* not suspended or abandoned) during 1979-89.⁷

Bangladesh (5, 7½)	Costa Rica (6, 7½)
Côte d'Ivoire (5, 8)	Gambia (6, 6½)
Ghana (6, 5½)	Jamaica (6, 9½)
Malawi (4, 6½)	Morocco (7, 8)

The question we ask here is, what was the state of these countries' economies, and particularly of their BoP, at the end of the 1980s, during which decade they had made such extensive use of Fund credits and programmes? We approach this question by briefly surveying the records of these countries, beginning with the worst case and moving in roughly ascending order of achievement. The reader is cautioned, however, that the analysis is largely based on scrutiny of a range of statistical indicators which, however, sometimes differ widely in alternative official sources and appear sometimes to be subject to large error margins. It is therefore difficult to be as confident as we would like to be about the judgements we offer below.

The only unambiguous failure is the Côte d'Ivoire. Despite having programmes in operation during eight of the eleven years under examination, it ended the decade in economic crisis. There was a huge deterioration in the current and overall BoP in 1985-89; there was a marked adverse trend on long-term capital account; export volumes were static; the real exchange rate was appreciating, being by 1989 nearly 30% above the 1985 level; the country needed recourse to repeated debt reschedulings. There was a serious worsening in other aspects of economic performance: the domestic savings ratio displayed

⁷ Note that it is possible for more than one programme to be in operation at any one time, *e.g.* when a stand-by and a SAF programme run concurrently. This explains the surprisingly high ratio of programmes to years-in-operation. In addition to these eight countries, the Philippines, Somalia and Sudan were others from our sample which had frequent recourse to the Fund. However, they are not included in the following analysis because of the early break-down of many of the programmes in these countries, and poor information.

a steep decline and fixed investment was also on a falling trend, ending the decade at only 10%; the government's budgetary situation also showed a deterioration in the later years (despite the discipline that is supposedly enforced by membership of the currency union); *per capita* incomes were declining rapidly by the end of the period. Indeed, by then the economy was deeply in crisis.

This is the worst of the eight outcomes surveyed here and there is one other feature which distinguishes this country: a fixed nominal exchange rate, determined by membership of the Franc Zone arrangements which have maintained an unchanged exchange rate between the CFA and French francs since 1948. While the Côte d'Ivoire, along with other member countries, has in the past doubtless benefited from the convertibility and financial stability afforded by the Franc Zone, the fact is that it has led to an appreciation in the country's real exchange rate in recent years. It is tempting to see the government's - and the Fund's - inability to use the exchange rate instrument as a major reason why this country has run into such large macroeconomic difficulties. The problem is probably more deep-seated than this, however. The country was, in fact, able to sustain a trade surplus throughout the period, with the chief BoP difficulties arising from the claims of debt servicing and an important outflow under the heading of 'private unrequited transfers'. As we have already suggested, fiscal discipline left much to be desired and, more pervasively, it is widely held that, as President Houphuet Boigny's command diminished during the 1980s, economic policies became more erratic, less compatible with macroeconomic stability.

The position of Malawi was also unsatisfactory at the end of the period, although less uniformly adverse than in the Côte d'Ivoire. After a considerable period of stagnation, export volumes were tending to increase; the ratio of the current account deficit to GDP started the period at a full 25% of GDP and was down to around 4% by 1988. The net long-term capital account showed some improvement and the overall balance was in surplus in 1987-88, with sizeable replenishments of reserves. To a substantial extent, however, the BoP improvements were achieved by cutting imports. There was also a worrisome tendency for the real exchange rate to appreciate towards the end of the period.

Malawi's domestic performance indicators are hard to read, because highly unstable. Thus, the inflation rate rose consistently from 10½% in 1985 to nearly 34% in 1988, but then fell abruptly to 12%. Similarly with economic growth: this fell from 4½% in 1985 to about 1% a year later and then gradually climbed back to over 4% by 1989. Abstracting from these fluctuations, *per capita* incomes remained at best static. This was not surprising since the economy was subjected to considerable international difficulties and gross fixed investment had been on a declining trend. Domestic saving was declining steeply. Fiscal trends were erratic, although the public finances ended the decade better than they began it.

This, then, is a difficult record to evaluate. There were improvements in some BoP and other indicators, despite adverse circumstances, but deteriorations in other aspects. Overall, the position was unsatisfactory and fragile.

Bangladesh also had a mixed record. Export earnings grew well, if erratically; the current account deficit in most of the later years of the period was smaller relative to GDP than at the beginning of the period but jumped up in 1989 (following floods and consequent falls in exports and increased import needs); the overall BoP was generally in surplus. Inflation was roughly stable at about 10% throughout.

More seriously, estimated gross saving was down to a paltry 1% of GDP by 1989 and fixed investment was under 12%. *Per capita* incomes were generally static, with GDP growing at only about 2% *p.a.* in 1987-89. Fiscal data are poor but suggest that the public finances had weakened during the decade. Overall, it is difficult to assert that the always weak Bangladeshi economy strengthened during these ten years.

There is also ambiguity in Jamaica's record. BoP indicators fluctuated rather widely during the latter part of the period and it was difficult to discern clear trends. Presumably in response to a large exchange rate depreciation in the mid-1980s, export volumes had reversed their previously declining trend, and there were also indications of export diversification. The current account deficit first diminished and was then turned into a surplus in 1988, although there was a large deterioration in 1989, as a result of disruptions caused by Hurricane Gilbert. With long-term capital flows, international reserves and the overall BoP fluctuating sharply year-to-year, and with a continuing need for frequent recourse to debt reschedulings, it is difficult to assess the underlying state of the BoP, although it could hardly be described as secure.

At home, the inflation rate fluctuated, lower at the end than at the beginning but tending to accelerate. Gross fixed investment remained fairly steady at around 20% but the data cease with 1987. Fiscal data are also poor but indicate an improving trend. Although there have been large short-term fluctuations and some recovery from the recession of the earlier part of the decade, the economy remains sluggish, with population growth still exceeding GDP expansion in most of the later years.

The effects of Hurricane Gilbert and the general instability of economic indicators make it more than normally difficult to assess to condition of the Jamaican economy at the end of the decade. There is neither an obvious strengthening nor a clear deterioration. The economy remained highly fragile, and the BoP could easily deteriorate again. Also fragile were its relations with the IMF, with successive governments being highly critical of the Fund from time to time, with substantial slippage in the policy provisions of most programmes, and with three of its six programmes in the period cancelled because of non-compliance.

A rather firmer favourable judgement can be made about Costa Rica, with improving indicators on both BoP and domestic indicators. There were deficits on the BoP current account throughout the period but, relative to GDP, by the final years these were only about half of the levels experienced at the beginning. Despite fluctuations on capital account, the reserves were re-built. Export volumes increased, aided by a substantial depreciation in the real exchange rate. Debt ratios were tending to decline but frequent reschedulings were still necessary.

The domestic economy was, moreover, fairly buoyant, with GDP growth of around 5% in the last years of the period. The investment rate was fairly high, approaching 20% of GDP in the later years. Having been brought down from a high of 90% in 1982, the inflation rate showed some tendency to rise again, being in the 15-20% range for the final three years. Fiscal data indicate only small overall deficits in recent years - a major improvement on the large deficits at the beginning of the decade. All in all, the economy appeared stronger by the end of the period.

This judgement also applies to the Gambia. Although this country's data base is weak, the statistics show improvements in the overall BoP, from large deficits in the earlier years to substantial surpluses in the concluding years, permitting reserves to be re-built.⁸ This improvement was, moreover, achieved in the face of worsening terms of trade, although it was greatly facilitated by enlarged aid receipts. The real exchange rate was depreciated until 1986 but then tended to drift up again. The export sector remained completely dominated by groundnuts (making up 90% of earnings, on average) and its performance was therefore strongly influenced by changes in weather conditions.

After a decade of declining *per capita* incomes to the mid-1980s, economic growth averaged about 6% *p.a.* in 1986-89, and inflation was down, although still well above 10%. Fiscal trends were also positive, with substantial improvements on current and overall balances, reflecting improved expenditure control and larger revenue ratios. The investment was stable at around 25% of GDP over the decade while the domestic saving ratio was much improved - from a very low base. Overall it is clear that the Gambian economy has been on an improving trend, although much of this was on the basis of considerably enlarged receipts of external support and a mono-crop export base.

This brings us to Ghana, whose experiences with its adjustment programmes since 1983 has attracted much international attention as a success story. Does our evidence bear this out? Yes but with qualifications. Although the BoP current account has remained substantially in deficit, this has partly been due to badly needed increases in the imports and has been financed by major increases in capital receipts. The overall balance was in surplus for most of the later years and there was a much-needed re-building of reserves. Moreover, this record was achieved in the face of strongly adverse movements in the terms of trade throughout most of the period. Underlying this record was a very large depreciation of the real exchange rate from an initially grossly over-valued level (with the index falling from 278 in 1982 to 22 in 1988) and large increases in the volumes of some exports.

At home too the Ghanaian economy has been recovering from the nadir to which it had sunk by 1982, with the economy growing at around 5% since the mid-1980s (aided in the early programme years by a return to more normal rainfall levels). The budgetary

⁸ The statistics also show an improvement on the current account, but the figures here are strongly influenced by increased levels of official transfer payments (*i.e.* grant aid), which are probably best regarded as capital transactions. If official transfers are excluded, the current account improves from deficit levels equal to nearly half of GDP in 1980-81 to 10% in 1988, although there was a sharp increase again in 1989.

situation has also seen improvement, with increases in revenues relative to GDP permitting both higher expenditures and a move from large, inflationary budget deficits to small surpluses in the final years of the period.

The qualifications? Inflation remains persistently high, averaging 30% *p.a.* in 1986-89, even though well down from the triple-digit levels of pre-programme years. Second, Ghana's recovery, like that of the Gambia, has been based on abnormally high levels of assistance from the IMF, the World Bank and bilateral donors, so that it is specially difficult to disentangle the effects of the aid from the effects of the programme *per se* - and to forecast what the effects would be of a scaling-down in international support. Finally, capital formation, especially in the private sector, remains depressed, with a total investment ratio estimated in the range of 6-12% in 1988. By common consent Ghana's impressive turnaround remains fragile.

Of all the countries surveyed here, Morocco's record is arguably the most impressive. Most of its BoP indicators show a strengthening, although aided by a favourable terms of trade trend in the second half of the period and substantial external assistance. After a succession of large deficits the current account moved into surplus in 1987-88 (although it slipped back rather severely in 1989); there were surpluses on the overall BoP, despite reduced inflows of long-term capital. A gradual real depreciation of the exchange rate presumably increased the competitiveness and/or profitability of exporting and export volumes rose steadily in 1982-88. There was, however, a deterioration in most of these indicators in 1989. There have been frequent debt reschedulings and debt servicing burdens remain large, although they declined appreciably towards the end of the period.

In the domestic economy, the inflation record was also satisfactory, with a reduction from 8-10% *p.a.* in 1982-86 to around 3% in 1987-89. In the face of flat tax revenues relative to GDP, government expenditure ratios were gradually scaled back leaving an overall budget deficit under 5% of GDP in 1988 (latest), against 10% in the early 1980s. Although there were considerable year-to-year fluctuations, economic growth was generally well in excess of increases in population in the later years. Fixed investment was sustained at over 20% of GDP throughout, although the ratio tended to drift down a little; the savings ratio improved, on the other hand. Overall, this was an economy which clearly turned around during the decade, an achievement all the most impressive because it did not rest upon abnormal inflows of aid monies.

An attempt to summarise the foregoing is set out in Table 1. What it suggests is that a majority of these eight frequent adopters of IMF programmes in varying degrees experienced a strengthened BoP situation, although the record on domestic economic performance was more variable, with unambiguous improvements in only a few cases.

Of course, causality cannot be automatically inferred from association between frequency of Fund use and economic performance because the economy is subject to many influences besides the effects of Fund conditionality and its credits. In particular, an improving outcome might be regarded as predictable because governments which most frequently enter into, and complete, Fund programmes are liable to be among those most

Table 1:

End-of-period position of IMF frequent users

	<i>Bangladesh</i>	<i>Costa Rica</i>	<i>Côte d'Ivoire</i>	<i>Gambia</i>	<i>Ghana</i>	<i>Jamaica</i>	<i>Malawi</i>	<i>Morocco</i>
Balance of payments	Export earnings growing. Also long-term capital inflows. RXR depreciated. Current a/c deficit growing but overall balance generally sound.	Export & import volumes on rising trend. Long-term capital inflows reviving but still small. Current a/c deficit/GDP down. Reserves re-built.	Import volumes down, exports flat. Reduced capital inflows. Appreciating RXR. Large, growing current a/c deficits. Overall balance worsening. Debt difficulties.	Improvements in current & overall balances but much of it on basis of increased aid. RXR depreciated.	Overall BoP improved despite worsening terms of trade but dependent on large aid receipts. RXR depreciated.	RXR depreciated & exports reviving. But BoP indicators fluctuate; trend uncertain. Substantial debt, frequent reschedulings.	Export volumes rising. Current a/c deficit/GDP lower than at beginning but rising despite import squeeze. RXR depreciated but rising.	Export performance & BoP balances generally improving. Also ToT. RXR depreciating.
Inflation	Stable at <i>ca</i> 10%.	Reduced but still 16% in '89.	Moderate throughout. No trend.	Down in final years.	Down but still <i>ca</i> 30% in final years.	Fluctuating.	Fluctuating. No clear trend.	Reduced to <i>ca</i> 3%.
Resource use and growth	Saving ratio in steep decline. Investment ratio also falling, down to 12% in '89. <i>Per capita</i> incomes static.	Investment ratio <i>ca</i> 20%. Saving record improved & also high. <i>Per capita</i> incomes growing moderately.	Absorption/GDP declining; investment down to 10% in '89. <i>Per capita</i> incomes declining.	Domestic saving increased and investment ratio stable. Some increase in <i>per capita</i> incomes.	Fixed investment & saving remain depressed. Growth revived with <i>per capita</i> incomes rising at 2-3%.	Investment fluctuating around <i>ca</i> 20%. Growth remains slow & <i>per capita</i> incomes lower than early '80s.	Saving & investment both down. Growth fluctuating; <i>per capita</i> incomes static.	Savings ratio improved; growth rate up & <i>per capita</i> incomes rising.
Government budget	Poor data. Current surplus & capital spending both declining.	Improved. Surpluses on current a/c, small overall deficit, but modest capital spending.	Revenue ratio falling, expenditure ratio rising. Deficits increasing.	Expenditure ratios cut in final years & also overall deficit.	Revenues revived & current a/c strengthened. But overall deficit remains substantial.	Budget balance improving slightly.	Some reduction in deficits, based on expenditure cuts.	Revenue ratio raised & budget balances improved.
Overall appraisal	Mixed record. No clear improvement.	An overall improvement.	Unambiguous deterioration. End-of-period economic crisis.	Clear overall improvement but fragile & data unreliable.	Clear overall improvement but mixed record & aid-dependent.	Difficult to read. Overall position still fragile.	A mixed, generally unsatisfactory record.	Impressive all-round improvement.

concerned with the general quality of their economic policies and most likely, therefore, to achieve improved economic outcomes. Consistent with this, most of the countries surveyed here also undertook programmes of 'structural adjustment' with the support of the World Bank during this period, which creates the additional complication that it is both difficult and artificial to try to separate out the economic effects of the IMF's stabilisation programmes from those of the structural adjustment measures.

Notwithstanding these qualifications, however, the Fund could reasonably derive some satisfaction from the story told here, while admitting that the evidence remains inconclusive.

Our discussion has so far pertained mainly to the benefits that may be derived from IMF programmes. We turn now to some of the costs that may be incurred in adopting such programmes.

III.2 The social and political effects of stabilisation

□ *Distributional consequences:*

Working Paper 47 makes the claim that the case-study approach is better suited than cross-sectional analyses to the evaluation of programme impact on poverty and inequality. But while this is true in principle, it has to be admitted that the literature surveyed here does not offer rich pickings in this area, so there is a limited amount we can say.

One of the few reasonably firm things Working Paper 47 could say concerning distributional effects was to report Pastor's (1987) finding for Latin America countries that Fund programmes were strongly associated with declines in labour's share in the functional distribution of income. Some of our country studies bear this out (and none contradicts it).

In the Gambia, for example, a wage freeze combined with rather rapid inflation (partly the result of currency devaluations) substantially to reduce the real value of public sector earnings; at the same time the numbers employed by the state were also reduced. The wage labour force suffered in the Philippines too, where programme adoption was associated with 40-50% falls in real wages and declines in employment in all sectors except services. There were also employment losses in Ghana's public sector, although there the evidence on real wages is more mixed.

Ghana, in fact, illustrates the difficulty of arriving at firm judgements about distributional effects even in detailed country studies, for the indications are that the effects were quite complex and there is little hard data to bring to bear on the subject. It is also a fine judgement, particularly in this case, as to whether adverse trends should be attributed to the programmes or to

the long period of mismanagement which preceded them. Two groups of Ghanaian losers can be identified with some confidence: those who lost their jobs through retrenchments, and those privileged persons who previously were able to enjoy the scarcity rents bestowed by access to import licenses which the programme largely eliminated by drastic devaluations and other liberalising measures.

One major group of gainers is also clear: those whose incomes are derived from exporting, including large numbers of smallholder cocoa farmers, for the profitability of exporting has been greatly increased by the programmes. The position of other important groups is less clear. In particular, it is uncertain whether the food farmers and their dependents (who probably comprise the largest number of the poor in Ghana) have experienced net gains or losses since 1983. The position of the large numbers working in private sector service activities is similarly obscure. Of course, the resumption of economic growth, reported earlier, was essential for the capability of the economy to reduce poverty but, against this, there is widespread concern that education, health and other social services, which were near collapse in the early-1980s, remain in weak condition.

Deteriorating social conditions were also a complaint about the record of Jamaica in the first half of the 1980s. Devaluations raised food prices in a country heavily dependent on food imports and the purchasing power of low-income households declined. There were real cuts in social service expenditures, particularly in health, large reductions in food subsidies, and evidence of growing under-nourishment among schoolchildren. The government sought to reduce the social impact of its subsidy cuts with a targeted Food Aid Programme which included provisions for the feeding of schoolchildren, food supplementation through health clinics, and the distribution of food stamps targeted on the elderly and the very poor, although some of the poor slipped through the net.

The Costa Rican government was another which sought to protect the poor from the adverse effects of its stabilisation programmes. Wage adjustment favoured low-paid workers; a programme was introduced which distributed food parcels to about 40,000 needy households; and (against some IMF opposition) subsidised credit was provided to smaller farmers and cattle ranchers. The Ghana government also introduced a 'programme to mitigate the social costs of adjustment', although it was not part of the original programme planning and has been slow to have much impact.

What can we learn from these scraps of information? The most that they do is to confirm (a) that stabilisation programmes are liable to have appreciable effects on the distribution of income but that these are apt to be rather complex and to vary from one situation to another; (b) that groups of the poor can indeed be among the losers, with the urban working class

particularly at risk; (c) that governments adopting Fund programmes are nonetheless free to adopt measures to protect vulnerable groups, although there may be hard negotiations with the Fund over measures which are liable to create large claims on public revenues. The priorities of the government in power, rather than those of the IMF, are probably the principal determinant of the ways in which programmes impinge upon the poor.

□ *Political effects:*

What about the political consequences of IMF stabilisation programmes? There are more instances in our sample where the Fund's support has helped maintain governments in office (and in that sense to promote political stability) than of it having a destabilising effect. Thus, we have already alluded to the indirectly political role of the Fund's in the Gambia, where its support helped to strengthen the government's position and reduce the perceived threat of incorporation into Senegal.

The Fund's relations with the Sudan during the Nimeiry period (*i.e.* until 1985) provide another, more dubious, example of the Fund in a stabilising role, where there was a well-documented (Brown, 1990, chapter 4) policy of approving new programmes despite persistent delinquency in the execution of past programmes and the government's evident lack of serious commitment to macroeconomic management. Brown sees the Fund's role as pivotal, with its 'seal of approval' legitimising additional foreign assistance in the forms of debt relief, commodity aid and direct BoP support, without which it is doubtful whether the Nimeiry regime would have been able to survive. Whether such a policy of political 'stabilisation' was desirable is a different matter, however. Brown suggests that the financial support it received may actually have permitted the Nimeiry government to postpone economic reforms and that by the time it was overthrown the country 'was not only in substantial debt to the IMF and donor community but, above all, less resilient to external shocks.'

The Philippines during the Marcos period provides a scarcely less notorious example. Here too there was a succession of poorly-executed programmes which may have had similar effects to those just described for Sudan. This story has a twist to its tail, however, for by the time of the negotiations for a December 1984 stand-by it has been suggested that the IMF had had enough and that it 'changed its posture from that of a doting parent to that of a vengeful god' (Montes, 1987, p.15). Montes goes on to suggest that the toughness of that programme and the desperation of the Marcos administration by then to adhere to it, even though it required unpopular measures, increased the government's growing isolation from the business community and urban population and thus contributed to its downfall early in 1986. We will be returning to this and the Sudanese cases later.

There are only two countries in our sample where relationships with the Fund impinged importantly on political stability. One of these was an EFF programme negotiated with the government of the Dominican Republic in 1983, which was abandoned in the following year after the Fund pushed the government to take more stringent measures following weak initial implementation, against a background of arrests, riots and deaths. There were IMF-related strikes and protests during 1985 also, when a stand-by programme was negotiated, but this time the government was more skilful in its political management and the credit was fully drawn down.

Jamaica is our second candidate for the destabilisation tag. Here the IMF has occasionally interacted with the island's political processes in a rather intimate way. This story begins in the 1970s, when it seems likely that in first adopting a relatively 'soft' negotiating stance and then hardening it the IMF played a role initially of supporting and then undermining the PNP government of Michael Manley (Sharpley, 1984). This led in 1980 to an 'IMF election' which saw the defeat of the PNP and the election to power of the Jamaica Labour Party under Edward Seaga. There followed a honeymoon of about three years when the Fund showed considerable (some say surprising) flexibility in the face of considerable slippages in programme implementation. Following an (uncontested) election in 1983 and in the face of a considerable economic crisis, the Fund's stance hardened, however, and relations with the Seaga administration became more strained. Further slippage in programme implementation did not, however, prevent a first-ever national strike in June 1985 that was overtly linked to programme negotiations and extensive unrest in the following year. It appears, however, that relations with the Fund did not feature in a major way in the 1989 election campaign and when Mr. Manley's PNP was re-elected his government 'reconfirmed its commitment to the medium-term adjustment strategy and announced policies to rejoin the adjustment path' (Robinson, 1989, p.33) - a commitment which, however, did not prevent the existing stand-by programme from breaking down in March 1990.

It is difficult to derive much from these cases that is not obvious. The Fund's role is inevitably political, for it is seeking to determine or influence policies which directly affect the well-being of virtually the entire population, including highly-organised special-interest groups. The extent of its public profile in the country, the attitudes of the people towards it, the negotiating stances it takes up, the degree of 'flexibility' it is willing to display, and its decisions whether or not to approve a programme can make a large difference to a government's ability to move the economy forward and to its perceived legitimacy. Sometimes these factors will work so that the Fund has a stabilising effect, sometimes it will cut the other way. In line with Sidell's (1988) findings on 1970s data reported in Working Paper 47, there is little evidence here that the net effects are systematically

destabilising. It could well be the other way round - the Fund is, after all, helping governments cope with economic crises and providing financial support. However, there is a more disquieting side to this, as we will see shortly, when the Fund is used by major industrial countries to promote their own foreign policy objectives.

III.3 Stabilisation versus structural adjustment?

It is sometimes suggested that the Fund's short time horizon and its concentration on demand management are not merely inappropriate for those developing countries whose BoP difficulties stem more from structural, or supply-side, weaknesses but actually get in the way of structural adjustment. Our country evidence does not support this as a general proposition but it does point to areas of tension.

We should note first the broadly positive outcome of the above comparison of the start and end situations of our 'frequent user' group of countries - an analysis which takes a longer-term horizon - and point out that a high proportion of the countries analysed also had World Bank-supported structural adjustment programmes (SAPs) in operation during at least some of the period.⁹ This is at least suggestive of an absence of any large conflict between the two programme types.

Two of our country studies provide documented examples of strong degrees of complementarity between stabilisation and adjustment programmes. In the Gambia negotiation and implementation of both types of programme went in tandem and there was close collaboration between the IMF and World Bank. In consequence, the two thrusts have been mutually reinforcing, with necessary action in the fiscal and monetary areas providing a more stable framework within which to improve and rationalise pricing incentives and in other ways strengthen the 'real' economy.

Ghana provides a similar example, and another case where the two lending institutions, despite hiccups, are evaluated as having worked well together and with the Ghanaian authorities. Indeed, Ghana's situation in 1982 was clearly one where it was impossible to contemplate any adequate action to restore the crumbling infrastructure and productive system unless the macroeconomy was also brought into better balance. Having achieved a fair degree of such stabilisation, it has subsequently been possible to make progress, albeit limited, with strengthening the productive structure.

Several of the other studies also attest to complementarity between stabilisation and structural adaptation, and to reasonable - and generally improving - co-operation between the Fund and Bank. This is true, for example, of the literature on Jamaica, where the Bank's own assessment of the reasons for the failure of its first two SAPs identified the breakdown of the IMF stabilisation efforts as the most important single explanation. It

⁹ We might also mention that the World Bank regards weak macro management policies as an important cause of failure in those of its SAPs which break down or are unsuccessful (World Bank, 1989).

also speaks of intensifying co-operation between the two institutions during the second half of the decade. Thus Harrigan on Jamaica (1991, pp.356-57):

The post-1985 period . . . indicates that stabilisation and adjustment with growth are compatible provided the burden of the contractionary demand policies falls upon consumption and on selective areas of public expenditure. The clear implication is that although liberalisation, incentive structures and international competitiveness, which receive the focus of the Bank's policy reform thrust, are necessary to the generation of export-led growth, they are not sufficient. Equally important are the areas of fiscal, monetary and exchange rate policies, generally characterised as the province of the Fund's short-term demand management programmes.

Fund-Bank co-operation is also recorded as having being close in Côte d'Ivoire and Pakistan.

There do remain areas of difficulty in achieving consistency between the demand-management and supply-side tasks, however. The largest of these is with investment, particularly public-sector investment, for Harrigan's stipulation that the main burden should fall upon consumption is only exceptionally observed. We have earlier shown investment to be low in a large proportion of our countries and that IMF (and also World Bank) programmes are generally associated with reduced investment levels. The central point here, of course, is that successful adjustment of productive and institutional structures necessitates large new investments so approaches to the control of demand which reduce investment to low levels are likely to frustrate such adaptation.

Of course, large reductions in investment are not normally an intended result of Fund programmes. We showed in Working Paper 47 that its targeted investment levels were well above realised results and that this was an area in which it was least successful in achieving intended outcomes. Within the public sector, at least, the problem arises from the political and other difficulties of cutting back sufficiently on the recurrent ('consumption') budget and the temptation, therefore, to come down first and heaviest on capital spending (as in the 'shock' phase of Mexico's 1983-85 EFF programme, when there was a 35% cut in real public investment in a single year). Whether the Fund could have done more to safeguard against this is an important question. What is clear, however, is that it could only have done so at the risk of prompting more allegations of interfering with the home government's priorities and of reducing public sector employment yet further.

Another potentially important source of stress between stabilisation and adjustment has to do with the supply of imports. One reason why demand management is seen by the IMF as so central to improving the BoP is in order to reduce the import bill. These goods, however, represent important, often indispensable, sources of capital and intermediate goods, without which it is impossible to raise the efficiency of resource utilisation and to restructure the productive system. There were symptoms of such an import strangulation in only a few of our cases, however.

This has already been mentioned in the case of Malawi, where there was a 35% fall in import volumes in 1980-88, implying even larger falls relative to GDP and to population. Much of the improvement in Jamaica's current account in 1983-85 is similarly attributed to reductions in imports, resulting from a demand squeeze. The Philippines under Marcos underwent a severe squeeze in the first half of the 1980s, with import volumes declining by around a third in 1980-85. To what extent either of these experiences could correctly be attributed to the Fund's programmes is unclear, however.

Moreover, we should set against these at least one programme which incorporated provisions for increased quantities of imports - in Ghana. The remaining countries, rather to our surprise, provide little evidence of major import cuts of the type that could undermine structural measures, and Bangladesh (in 1981-82) provides an example of a country which had to cut back on imports consequent upon the abandonment of a Fund programme. Nor does the literature under review record major difficulties between the Fund and Bank on this matter. We can further recall that, while Working Paper 47 (Table 4) does show IMF programmes to be associated with import reductions, these were only modest and with generally modest levels of significance.

Finally, we should recall from the same source the evidence of a strong association between adoption of Fund programmes and sustained real depreciation of the exchange rate - a result borne out for most, although not all, of the countries surveyed here. The relevance of this is that the exchange rate is a policy instrument influencing the structure of the economy, particularly the allocation of resources between tradeables and non-tradeables. As such, IMF conditionality which acts effectively on the exchange rate must be regarded as strongly supportive - often to the point of being a necessary condition - of supply-side programmes.

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All in all, then, our survey has not uncovered much evidence that large distributional, political or supply-side costs have been incurred as a result of adopting Fund programmes. The association of such programmes with low and declining investment levels is, however, a serious matter that threatens the long-term success of adjustment in several of our countries.

#### IV. INFLUENCES ON PROGRAMME EFFECTIVENESS

Our next task is to explore what light the country literature can throw on the determinants of programme effectiveness. There was some treatment of this in Working Paper 47 but this did not take us far and it was suggested there that the case-study approach was better suited to this task. Following that paper, we commence by looking at the influence of exogenous shocks.

##### IV.1 Exogenous shocks

Our starting point here is to recall the result from Working Paper 47 which showed that our sample of 17 countries experienced deteriorating terms of trade in the 1980s - but that the extent of this was greater amongst those countries whose programmes were concluded prematurely than for those whose programmes lasted the intended course. This suggests the hypothesis that deteriorating trading conditions are an important influence on programme effectiveness.

Somalia is a country whose recent history is consistent with this, for it is noticeable there that programme breakdowns in 1981 and 1986 were both accompanied by substantial declines in the terms of trade index, whereas that index was stable during the successfully-completed programmes of 1981-82 and 1982-84. Of course, there were other important influences on the outcomes of these programmes; this is also true of Tanzania's short-lived 1980 programme, but to which an unexpected collapse of tobacco and tea prices, plus poor weather affecting cotton and maize output, also made a contribution. Exogenous shocks also affected outcomes in the Côte d'Ivoire, where a drought in 1983 was a second-order contributor to the breakdown of the EFF programme then in operation.

Malawi provides perhaps the strongest example of a country where external factors have undermined programme effectiveness. The problem there has not been confined to adverse movements in world prices but has also been much aggravated by the costs imposed on Malawi by the destabilisation which marked Southern Africa in the 1980s. In Malawi's case the most serious aspect of this was the civil war in neighbouring Mozambique which severed rail links to the coast, greatly increasing transport costs, causing a substantial influx of refugees and necessitating levels of military expenditure the country could ill afford.

A number of examples in our sample suggest a link between external shocks and fiscal targets, and consequent success or failure in meeting performance criteria. The 1980/81 EFF agreement in Morocco is an example of a programme undone by an adverse shock. The EFF was suspended following a drought and an increase in food imports, with a higher food subsidy burden contributing to a larger-than-expected fiscal deficit and the breach of domestic credit ceilings. Similarly, credit ceilings under the 1979 Stand-by in Malawi were breached following harvest failure and the need to import food on commercial terms. Another example is provided by the 1981 EFF in Côte d'Ivoire which

was (partly) disrupted by the failure of the international coffee and cocoa commodity agreements to prevent declines in international prices, leading to tax revenue shortfalls with the government already committed to domestic procurement prices.

On the other hand, favourable conditions do not necessarily ease the attainment of performance criteria. In Malawi, maize prices were raised in a bid to improve food self-sufficiency. The subsequent supply response and favourable weather conditions increased the budgetary cost of procurement so as to breach the 1983 EFF credit ceilings. Similarly, in Pakistan and Bangladesh their respective 1980 EFFs were suspended following bumper harvests, commodity operations to build buffer stocks and the subsequent breach of credit ceilings. In Bangladesh's case, the agreement was suspended despite strong compliance on other performance criteria.

By contrast, the increase in international prices for Ivorian coffee and cocoa exports, during the 1984 Stand-by agreement, facilitated the attainment of fiscal targets. Similarly in Gambia, falling international oil prices which were not passed on to domestic consumers boosted government revenues and facilitated compliance with the 1986 Stand-by agreement.

On the other hand, none of the programmes studied by our country literature provides an example where exogenous forces palpably dominated outcomes, making it impossible for objectives to be realised. In at least two cases - the Gambia and Morocco - programmes were actually assisted by favourable turns in the terms of trade. And the Ghanaian case shows that major progress can be made even in the face of initial problems of the greatest severity and strongly adverse international price movements, although this country's programmes admittedly received abnormally large amounts of supporting finance.

Against this, we must recall the fragility of many of the achievements of the 1980s and the extreme vulnerability to external forces of a high proportion of our seventeen countries. Thus even in the relatively prosperous economy of Jamaica authors emphasise the limitations of what can be achieved by domestic policy actions given the strength of the outside forces working upon it. Much the same could be written of the majority of our sample.

## **IV.2 Financial flows and catalytic effects**

Working Paper 47 showed that, while the IMF's own credits were substantial relative to BoP needs, there was little sign that, even on a net basis, it was generally able to achieve the hoped-for catalytic effect on capital inflows from other sources (including the return of flight capital). This posed the possibility that programmes were impeded by insufficient resources to finance imports and investment.

Turning to our country sample, it is certainly easier to point to examples consistent with this than to cases where there was a demonstrable catalytic effect. In fact, only two countries fall clearly into the latter category. We have just mentioned Ghana's favourable

experiences, where from the mid-1980s it was able to attract large receipts of public capital from the World Bank and other aid donors. However, we have also mentioned that even there overall investment levels remain drastically low and there is little sign of any revival in private capital inflows.

The Gambia is the second of the countries which was able to reverse a pre-programme donor disillusionment, so that donor BoP support went up from the equivalent of 5% of GDP in 1985/86 to 44% in 1986/87! Much of this, moreover, was in grant form, permitting large improvements in both BoP and budgetary current account out-turns, with a corresponding easing of monetary and inflationary pressures. Of course, in attracting such large levels of support Gambia is a classic beneficiary of the small-country effect,<sup>10</sup> leaving doubts about the viability of progress under the Fund's programmes should aid fall back to more 'normal' levels. And here too it does not appear that there has yet been any major revival of private investment.

The absence of any measurable net catalytic effect is evident in a much larger number of our countries: Bangladesh, Costa Rica, Côte d'Ivoire, Malawi, Mexico, Pakistan and Somalia. This is particularly noteworthy since for many of our countries agreement with the IMF was frequently linked not only with World Bank SAPs but also with debt reschedulings (which, however, were in this period typically short-term and of a distinctly ungenerous nature). It seems clear that often the Fund credits were, in effect, permitting financial outflows to commercial banks and others - and, in some cases, capital flight. Hence, in Jamaica increased inflows of public supporting finance have tended to be offset by declining private inflows, although we should bear in mind the generally weak record of programme implementation by this country.

It is, of course, difficult to draw a close connection between the weak response of the BoP capital account and programme effectiveness, and we have already noted the absence of strong evidence of failures resulting from import strangulation. However, we have also dwelt upon the strongly adverse longer-term implications of the depressed investment levels found in most of our countries - levels that would have been higher had a catalytic effect been more in evidence. At least as regards private investment, the Fund is probably unrealistic to expect any strong response in normal conditions, for our evidence suggests that the economic results obtained from Fund programmes are neither substantial nor dependable enough to provide a firm basis upon which the confidence of private investors is likely to be restored. We are thus left with a conundrum: do programmes fail because foreign investment does not respond, or does foreign investment stay away because programmes fail?

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<sup>10</sup> This refers to the commonly-observed tendency for *per capita* levels of aid to be inversely and strongly correlated with country size, as measured by population.

### **IV.3 Government-Fund relations**

There have been a number of well-publicised instances in which relationships between the home government and the IMF have been distinctly adversarial. In many more both the Fund and outside observers have nominated 'inadequate political will' as a key explanation of failed programmes. What light does our sample throw on Fund-government relations?

First, it contains more examples of fairly easy relationships, with substantial consensus on what measures should be taken to achieve stabilisation, than it does of the opposite situation, although it is in the nature of things that negotiations which fail to result in agreement may well be neglected in our survey. In Malawi, for example, there has been substantial congruence of outlook between the Fund's missions and the government, and there is evidence of good levels of co-operation (also encompassing the World Bank). The same is recorded for Costa Rica in the early-1980s, when the 1982-83 stand-by programme was evidently based largely on the Monge administration's own assessment of what needed to be done. There was a similar lack of tension in the Gambia, once the government had decided on the necessity for a major change of tack, although we may surmise that in this country programme design was dominated by Fund staff members and other foreign advisers. Other country episodes marked by IMF-government congruence include Pakistan in 1980, Jamaica in 1980-81 (although things were to turn sour later), Mexico in 1983, and Ghana in the later-1980s.

However, our sample also throws up conflict cases. The negotiations leading to Tanzania's abortive 1980-82 stand-by provide an almost pure form of this (although things improved later in the decade). President Nyerere's team brought to the negotiations a broadly socialistic set of priorities which emphasised distributional over efficiency concerns, showed little faith in the efficacy of markets and price incentives, and was inclined to see the IMF as a hostile agency of international capitalism. With the Fund mission apparently under instructions to take a tough line, negotiations were protracted and sometimes acrimonious, centring around the extent of devaluation that should be undertaken. It is of little surprise that the programme that was eventually signed broke down within three months.

We referred earlier to a stiffening in IMF attitudes towards the Marcos administration in the Philippines in 1984. The negotiations for the stand-by that was eventually approved late that year were long and difficult, complicated by National Assembly elections in May that year, in the run up to which the government ignored the economic situation. However, this was scarcely the result of a clash of competing political philosophies. Negotiations for Mexico's 1986 stand-by are also reported to have been difficult, even though the government had already demonstrated a rather conservative approach to macroeconomic management.

Jamaica is a country in which, as already described, the ease of the Fund's relationships, even with the same administration, has gone through marked cycles and where the Fund and the country's leaders have generally found it difficult to reconcile the political and

institutional imperatives under which they respectively act. The case of Ghana, by contrast, appears to be one of a developing relationship. It was apparent that the Rawlings government only accepted the *volte face* in economic policies implicit in the 1983 programme because it could see no alternative, and Fund (together with World Bank) staff dominated the preparation of that programme. By the end of the decade there was much more of a genuine consensus (notwithstanding large gaps between the government's rhetoric and the reality of its economic policies) and the relationship was a less reluctant, more equal one.

What our case materials demonstrate, however, is that congruence provides no guarantee of implementation. There are several documented cases of apparently consensual programmes which were then poorly implemented. Thus, Brazil's 1983 EFF followed an orthodox stabilisation programme initiated by the government in late-1980, with the terms of the programme quickly agreed. But, while some of its provisions were undertaken, political and bureaucratic resistances were allowed to override provisions for securing the improved fiscal discipline which stabilisation demanded. The Côte d'Ivoire provides another illustration. In its general conservatism the government of Houphuet Boigny was close in its attitudes to macroeconomic management to that of the IMF. Nonetheless, its record in programme implementation has been indifferent, particularly in the area of price incentives. We have already covered the case of Jamaica's 1981-84 EFF, weakly implemented despite the coming to power of a government apparently committed to macroeconomic rectitude and considerable softness on the part of the IMF in negotiating the package.

It is, then, easy to exaggerate the frequency with which programmes are dictated by the Fund to a reluctant or recalcitrant but desperate government. That is not the typical situation. But even though those programmes which are dictated are probably among the least likely to be executed or sustained, genuine mutual agreement between the two parties provides no assurance of good implementation. In many cases, programmes are inaugurated in crisis conditions and to implement them requires skills in political management which are sometimes beyond the competence of the government, however well-meaning it may be. This line of explanation implies that we need to go behind the notion of 'political will' if we are to analyse the politics of programme effectiveness.

#### **IV.4 IMF rigidity**

One of the commonest complaints about the Fund, particularly where governments are seeking to stabilise against the background of economic and/or political turbulence, is that it is too rigid in its negotiating stances, too uniform in its approach to programme design. Our case materials provide only limited information on this but what is remarkable about them is the relative absence of complaints about inflexibility.

Matin's (1986, 1990) writings on Bangladesh's programmes are an exception, arguing the need for a more judgemental approach to IMF decisions about continuing access to a credit, rather than the somewhat mechanistic approach based on observance of quantified

performance criteria. Our earlier discussion of the fiscal effects of exogenous shocks also suggested that the Fund was on occasion too rigid to adjust performance criteria in the light of changed circumstances, leading to programme breakdowns. Our materials also include many cases in which programmes were suspended or abandoned and some of these breakdowns may have been the result of Fund rigidity. However, if we confine ourselves to the analyses in the literature under review, there are rather more examples of apparent flexibility than of the opposite.

We should, however, make a distinction between that type of flexibility which leads the Fund to take up a 'soft' position during programme negotiations and flexibility in their execution. There are quite a lot of examples of the former; only one or two of the latter. The Fund could be described as having taken up relatively soft positions - the reasons for which we will return to shortly - in the Dominican Republic (1983); Jamaica (1981); Philippines (1979-83); Sudan (1979-84); and Mexico (1986, 1989). The latter country is of special interest because IMF flexibility was, as it were, formalised in two programmes that contained unique features of flexibility. Thus, the 1986 stand-by contained provisions that varied the terms of the programme depending on external trading and other conditions, with both automatic modification of performance criteria and of the size of the credit according to the value of petroleum export earnings and the growth of the economy. The terms of this programme caused much excitement among other developing countries at the time as possibly signalling a more universal IMF move towards programme flexibility, although it was subsequently made clear that Mexico was to be treated as a 'special case'. Similarly, its 1989 EFF was regarded as a landmark in explicitly recognising the effects of the debt overhang and adopting a medium-term growth framework. Again, however, this was not allowed to be the precursor of a general shift in policy.

The one documented example we have on Fund flexibility in programme implementation relates to the Gambia (although there were almost certainly other instances which our literature does no more than hint at). In this example, credit to government exceeded the programme ceiling 'for technical reasons associated with the premature distribution by government of STABEX [aid] receipts' (McPherson, 1988, p.40). The Fund staff apparently agreed that the transfer made good economic sense and access to the credit was not jeopardised.

#### **IV.5 Fund over-optimism**

Working Paper 47 refers to an apparently chronic tendency for Fund missions to be over-optimistic in their programme negotiations. This over-optimism can relate to diagnosis of the initial situation, to the ease with which policy changes are envisaged to be introduced, and to the size and speed of expected economic responses to these changes. Our cases contain a number of illustrations. The most strongly argued one relates to Jamaica, where Harrigan (1991) points to overly-sanguine forecasts in 1983 by Fund staff of prospects for the local bauxite industry and for private capital inflows as a basis for performance tests which then proved beyond the reach of government. In line with the

discussion in Working Paper 47, she suggests, however, that these errors may not have been so much a matter of poor judgement as of 'institutionalised, self-serving optimism', a necessary artifice to enable a programme to be cobbled together.

Similar over-optimism about external developments was noted for the Côte d'Ivoire in respect of conditions of world demand, and also about prospects for the development of its domestic petroleum industry. Mexico's 1983 programme was influenced, possibly undone, by mission optimism about the possibilities of combining renewed economic growth with import restraint. The Dominican Republic's 1985-86 stand-by is recorded as not having achieved expected results because the Fund was unrealistic about the speed and extent to which imports and exports would respond to a devaluation. Overall, our sample underscores both the existence of a bias towards over-optimism and the potentially serious consequences of this for the feasibility of some programmes.

#### **IV.6 Geopolitical interference**

The Fund's official position is that it seeks to apply uniformity of treatment in its country programmes, which it has defined to mean that, 'for any given degree of need the effort of economic adjustment sought in programs be broadly equivalent among members'. It is also well known, however, that it is in practice often prevented from adhering to this principle by the lobbying of major shareholder (*i.e.* industrial-country) governments to secure easy terms for favoured developing countries, in pursuit of foreign policy or security goals. Our sample provides plentiful examples of such favouritism, several of which have already been mentioned. Moreover, it is this phenomenon which explains virtually all the examples of IMF flexibility or 'softness' in negotiating programmes mentioned a few pages ago.

Thus, we have already cited Brown's (1990) study of the Sudan documenting a US-inspired policy of Fund support to a Nimeiry regime which in practice had little interest in macro stabilisation (see p. 17 above). We have already described (see p. 17) the similar position of the Marcos government in the Philippines prior to 1984; and of the Seaga administration in Jamaica after its election in 1979 (p. 18). To these we could add, although slightly more speculatively, the Côte d'Ivoire, which enjoyed a succession of programmes notwithstanding considerable slippages in implementation, we suspect aided by lobbying by the French government. Although it scarcely commands great geopolitical importance, even the Gambia appears to have benefited, in its case from international concerns about the threat of annexation by Senegal. It is also highly probable that pressures from the US and other creditor governments explain the uniquely favourable programmes Mexico was able to negotiate. (Another notorious beneficiary of major-country protection leading to special treatment by the IMF is President Mobutu's government in Zaire, although it is not in our sample.)

Thus, of our 17 countries, at least a third have most probably been strongly affected in their ability to negotiate favourable programmes because of special relationships with countries which number among the Fund's major shareholders. Indeed, the figure of a

third is probably an understatement because our sample almost certainly includes other examples which were not documented in our studies but which are widely regarded as having been the beneficiaries of this type of influence. Brazil is a case in point and so is Pakistan. Other possible candidates for which we are unable to offer concrete evidence include the Dominican Republic, Malawi and Morocco.<sup>11</sup>

Among those who know the Fund well there are disagreements about the extent and effects of political interference in country programme decisions. Because a major shareholder government takes an active interest in the terms of a programme under negotiation this does not necessarily mean that the Fund staff are overruled. Sometimes they are successful in resisting such pressures. Also, we suspect that the incidence of serious levels of interference is less overall than that revealed by our sample. Nonetheless, it is undoubtedly a real problem and, for our sample at least, it provides among the strongest explanations we have encountered for ineffective programmes: in the Sudan, the Philippines, Côte d'Ivoire, Jamaica and possibly elsewhere. In its more extreme forms it amounts to an unconditional provision of finance for governments with proven records of macroeconomic mismanagement. As such, it contradicts all that the IMF is supposed to stand for - and undermines its legitimacy in other countries, whose governments resent the more lenient treatment received by others and are tempted to try to secure by stealth an equality of treatment they were unable to negotiate formally. In this, the Fund itself is largely a powerless victim, except to the extent that its Managing Director and senior staff could be more resolute in resisting the political pressures they come under. It is the major-country governments who are chiefly at fault, seeking simultaneously to promote contradictory financial and foreign policy objectives.

#### **IV.7 The difficulties of controlling the budget**

While the statistical tests reported in Working Paper 47 showed a modest but statistically significant tendency for Fund programmes to improve the fiscal balance, the cases surveyed here had varied and often negative fiscal experiences. Thus, in Bangladesh's 1980-83 EFF it was in the fiscal area that the only major slippages in programme execution occurred, with an increase in current expenditures more than twice as fast as that written into the programme, necessitating a large cut-back on planned capital expenditures. In the Côte d'Ivoire too it was found impossible to contain recurrent expenditures as planned in the 1981-84 EFF, due largely to unplanned increases in the civil service wage bill and in international interest payments. In Morocco's 1986 stand-by it was similarly only in the fiscal area that there was a substantial slippage.

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<sup>11</sup> Some would add as a negative example Tanzania in the early-1980s, as a left-leaning government faced with an IMF mission instructed to take a tough line.

In Mexico there were also large slippages, as is shown by the following comparisons of programme and actual values for the public sector borrowing requirement (expressed as percentages of GDP):<sup>12</sup>

|      | <u>Target</u> | <u>Actual</u> |
|------|---------------|---------------|
| 1984 | 5.5           | 8.7           |
| 1985 | 3.5           | 9.9           |

We also have target-actual figures for rates of increase of the wages of public sector employees in the Philippines in 1984 and 1985, when the targeted rates were 18% and 22% respectively, against actuals of 20% and 34%.

There was a smaller number of other cases where Fund programmes were associated with major improvements in the fiscal situation. We have already mentioned the example of Ghana, where it was possible simultaneously to shift the current budget from a large deficit to a modest surplus while also raising expenditure ratios, due to the positive impact of stabilisation and adjustment on the revenue base (particularly in response to currency devaluations). Dominica provides another strong example, where tax measures under the 1981-84 EFF substantially raised the revenue base and this combined with an effective restraint of expenditures to bring a much-strengthened budgetary outcome. In the Gambia too there was a combination of strengthened expenditure controls (including reduction in the size of the civil service) and revenue-increasing measures, although these appear to have brought a rather modest overall improvement in the budgetary balance.

Encouraging though they are, these positive examples are the exception rather than the rule and we were left with the impression that the frequently limited impact of programmes on the public finances (other than capital expenditures, which in at least some of the countries is arguably the least desirable area for cuts) is an important reason why they are often unable to achieve their objectives. In turn, some of the other sources of difficulty discussed in this section tend to aggravate the fiscal problem. Trade shocks can reduce revenues from import and export duties and make forward planning more difficult. Increases in international interest rates can increase the demands of interest payments on the exchequer. Bad weather can both reduce revenues and create additional spending needs. Shortages of supporting capital can tighten the budgetary situation and add to the temptations of large-scale deficit financing. Geopolitical pressures in favour of a developing country government can weaken its resolve to confront hard political choices in order to strengthen the budget. Our case materials include examples under each of these headings.

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<sup>12</sup> From Ros and Lustig, 1987, Table 3. 'Target' figures are the original IMF projections.

## V. A SUMMING-UP

We commenced by asking how much it is possible to know about the effects of IMF programmes. Taking this and the companion papers together, it is evident that we can know - or anyway be reasonably confident about - quite a lot. It remains now to attempt a brief synthesis of the materials presented above and in the companion paper and to offer a conclusion.

### V.1 Synthesis of findings

#### Sources of disequilibrium:

- ( 1 ) It appears that in a high proportion of cases both exogenous shocks and domestic policy weaknesses are important in the circumstances leading up to adoption of a Fund programme. It is rare for either category of explanation to be materially absent. A frequent sequence is when exogenous shocks lay bare the inadequacies of policy, hastening the need for changes.
- ( 2 ) Our country studies suggest that natural disasters are a more frequent reason for programme adoption than is generally appreciated. They also emphasise the singular vulnerability of countries heavily dependent on primary product exports, not only because of adverse terms of trade movements but also due to their mismanagement of short-term commodity booms. Slowness of policy response to an emerging problem also emerged as a common ingredient of pre-programme crises.

#### Impact on target variables:

- ( 3 ) There is conflicting evidence from before-after tests on the IMF's ability to improve upon the BoP situations existing immediately prior to adoption of its programmes. Our tests for the 1980s suggest moderate short-term improvements in export and current account and overall BoP performances but strong and substantial improvements thereafter (despite deteriorating terms of trade); earlier studies obtained weaker results. However, there is apparently little association between Fund programmes and the inflation rate, except that successful completers tend to show some reduction.
- ( 4 ) Questions about programme potency are raised by evidence that BoP outcomes are not systematically poorer in countries whose programmes are uncompleted (mainly because of non-compliance with programme provisions).
- ( 5 ) On the other hand, the results of with-without tests suggest that governments which adopt IMF programmes do achieve better stabilisation records than governments with similar initial problems which do not adopt programmes. The apparent

contradiction between these before-after and with-without results has a plausible explanation, however. This is that the governments which are most reluctant to utilise the IMF are apt as a group to give lower priority to macroeconomic management or simply to be not very competent in that area. If so, the governments that do use the Fund would tend to get better macro results even if the institution did not exist.

- ( 6) Other approaches, which seek to estimate the counterfactual situation, are encouraging to the Fund. The amount of such evidence is restricted and the results mixed but they indicate that BoP performance is stronger as a result of the programmes than it would otherwise have been.
- ( 7) A substantial proportion of countries (including 11 of our sample of 17) have frequent recourse to Fund credits, contrary to its original objectives. This suggests that programmes are often unable to achieve sustained stabilisation. However, our study of the late-1980s situation of a group of frequent-user countries suggests that a majority of them had a somewhat stronger BoP and lower inflation than ten years earlier, although the record on other performance variables was variable. This finding was reinforced by our statistical analysis of differences between the outcomes in cases where a Fund programme had previously been successfully completed and those where there had been no immediately prior programme, which found that the former group obtained superior export, current account and overall BoP results. It also found that countries without a previous programme incurred the largest cuts in total absorption and investment, and the sharpest short-term squeeze on credit and import volumes.
- ( 8) Evidence which tests for effects beyond the first programme year does not support the general proposition that programme effects are short-lived. Indeed, they are at their smallest in the twelve months immediately following adoption of a programme but larger in the following two years. It may be that the tendency in the past has been to evaluate Fund programmes over too brief a time span, resulting in under-statement of their effectiveness. On the other hand, governments which turn to the IMF for speedy improvements are apt to be disappointed.
- ( 9) There is evidence of a sharp and significant increase in programme non-completions in the most recent years, although other information on trends in programme effectiveness shows no clear trend. At a minimum, it seems that programme implementation is not on an improving trend.

Programme costs:

- (10) Most tests indicate that adoption of an IMF programme is not associated with any significant loss of output, or fall in economic growth, although a minority suggest there to be a significant negative correlation.

- (11) Any slow-down in growth may be the result of the substantial and sustained declines in investment rates which our tests and others rather firmly link with the adoption of Fund programmes. Simulations suggest that growth would be more favourable with programmes which incorporated investment-raising supply-side measures. There is also evidence that Fund programmes are linked to reductions in import volumes. This is also liable to worsen economic performance, although our country studies uncovered little evidence of severe 'import strangulation'.
- (12) Programme association with reduced investment is a serious source of difficulty in reconciling short-term BoP stabilisation with longer-term structural adjustment. This may also be true in specific cases of programme-related import cuts. In other respects, however, stabilisation via the IMF is complementary to structural adjustment; and Fund-Bank co-operation in this area seems to function quite well.
- (13) Available information on programme consequences for the distribution of income suggests (a) that stabilisation programmes are liable to have appreciable effects on the distribution of income but that these are apt to be rather complex and to vary from one situation to another; (b) that groups of the poor can indeed be among the losers, with the urban working class particularly at risk; (c) that some governments adopting Fund programmes have been able to adopt measures to protect vulnerable groups, although there may be hard negotiations with the Fund over measures which are liable to create large claims on public revenues. The priorities of the government in power, rather than those of the IMF, are probably the principal determinant of the ways in which programmes impinge upon the poor.
- (14) There is similarly no evidence that adoption of Fund programmes results in systematic political destabilisation. IMF support may have the contrary tendency - but whether enhanced political continuity is actually desirable depends on regime and country circumstances.
- (15) All in all, our survey did not uncover evidence of large distributional, political or supply-side programme costs. The association of such programmes with low and declining investment levels is, however, serious, threatening the long-term success of adjustment in a number of countries. For the 1980s as a whole, there was only limited evidence that programmes were associated with significant import cuts but this tendency was a good deal stronger for the latter part of the decade.

Determinants of programme effectiveness:

□ *Exogenous determinants*

- (16) There is evidence that both the gravity of the initial situation and the intrusion of external and other unforeseen shocks are major reasons for programme failure, partly because of the great vulnerability of many of the economies in question. Programme break-down is associated with particularly adverse terms of trade

experiences. On the other hand, our country survey found no example where exogenous factors dominated outcomes.

- (17) Although it is rather widely believed that the least developed (or commodity exporting) countries of Africa and elsewhere experience particular difficulties with the implementation of Fund programmes and there is some evidence of this, the information on stand-by breakdowns does not support this proposition.
- (18) Programmes may fail because of inadequate supporting finance and it is sometimes argued that Fund credits are too small to provide adequate support. The view that its credits are generally small is disputed for our country sample, which shows that the average credit, net of return flows, had a value equivalent to about 9% of imports. However, the view that under-funding is a source of programme failure receives support (although of modest statistical significance) from evidence that credit size is only about half the average for programmes which are prematurely discontinued.
- (19) Relatedly, although the Fund intends that its programmes should have a catalytic effect on the inflow of foreign capital (including debt relief and repatriation of flight capital), and such a result is widely claimed for it, revealed effects on the BoP capital account are complex. Although catalytic effects can be observed in specific cases, there is no evidence of any systematic net additional inflow and some evidence to the contrary. Without doubt, some Fund credits are, in effect, used to repay other creditors. Some programmes probably fail because of inadequate finance, although it is difficult to demonstrate this connection.

□ *Influences relating to the IMF and its programmes*

- (20) Programmes have only a limited impact on several key macroeconomic policy variables. The evidence is no better than mixed even on the core programme components of domestic credit, for which there is little statistically significant evidence of effective credit restraint. Information on fiscal impact is scrappy but suggests that, while there is a tendency for budget deficits to be reduced, this effect is not strong and there is much slippage in the implementation of programmes' fiscal provisions.
- (21) Apparent programme influence on the real exchange rate is an important exception to the Fund's overall muffled influence on policy. Our findings suggest that programmes are associated not only with a substantial and significant real depreciation but that this is sustained and deepened in post-programme years, *i.e.* is not neutralised by inflation. Overall, however, it is probably true that the Fund is unable to change policies as much as it would like to - and needs to for programme success.
- (22) This is no doubt partly because there is much foot-dragging by governments in the execution of programme provisions. Nearly half of stand-by programmes break

down during their intended lives, usually as a result of non-compliance, and there is substantial other evidence of incomplete programme execution. As already noted, the economic consequences of this do not appear large, however, and comparisons for the results of those that did, and did not, complete their programmes found no significant differences, except for the terms of trade.

- (23) Where they exist, adversarial relationships between governments and the Fund are likely to contribute to non-implementation of policy conditions, resulting in ineffectual programmes. However, such relationships appear exceptional. In most of our country studies the relationship was a workmanlike one, no doubt with negotiating disagreements on specifics but with little apparent clash in general approach.
- (24) Good working relations provide no guarantee of programme execution, however. Our studies found several documented cases of apparently consensual programmes which were poorly implemented, with governments unwilling or unable to override local political opposition to programme provisions. Programmes are often inaugurated in crisis conditions and require for their enforcement political resources which the governments in question may not possess.
- (25) The type of programme appears to influence effectiveness. Specifically, the past record of EFF programmes appears to have been exceptionally poor, although it is too early to form a view on the not dissimilar ESAF programmes.
- (26) IMF programmes have a consistent revealed tendency towards over-optimism in their BoP and inflation targets, with several studies showing only about a 50% success rate. In addition to technical and data problems, reasons for this include limited leverage over government policies and pressures, sometimes linked to debt negotiations, on Fund missions to agree programmes which they privately regard as unrealistic. Even greater unrealism is consistently experienced in programme targets for GDP growth and investment. Such over-optimism has serious consequences for programme feasibility.
- (27) Other deficiencies in the IMF's approach to programme design may be a further contributory factor but the literature surveyed cannot throw much light on this possibility, which will be taken up elsewhere in this study.
- (28) Although allegations of IMF rigidity in programme negotiation are common in public discussions of the role of the Fund, our country survey found limited documentation of rigidity and substantial evidence of flexibility in negotiations, although not in programme implementation. On implementation, on the other hand, there were a number of cases where the Fund had apparently insisted on maintaining unchanged performance criteria in the face of substantial alterations in the fiscal situation as a result of external shocks beyond the control of government.

- (29) Much of the flexibility in negotiation was apparently the result of political lobbying on the part of major-shareholder governments for favourable treatment of 'friendly' developing country governments. We found this to affect a major proportion of the seventeen countries studied above. The Fund is hence prevented from observing its principle of uniformity of treatment. In its worst forms, such political interference forces the Fund to provide essentially unconditional finance to governments with proven records of economic mismanagement. This undermines the legitimacy and credibility of the Fund, and was among the most important reasons for programme ineffectiveness among the countries studied.

## V.2 Conclusion

On the basis of the evidence in these papers, it is difficult to understand the considerable controversy which has surrounded IMF programmes in developing countries, and the dramatically opposed positions that have sometimes been taken up. Although it suits both its critics and proponents to work on the basis that its programmes have large effects, for good or ill, the evidence presented in these two papers suggests a less dramatic outcome. Programmes do move the BoP some distance in the desired direction, not least the substantial and significant improvements in export performance which our results indicate. Moreover, programmes may have a more sustained influence than is often assumed. The effect on inflation is more doubtful, however. On the other hand and with the important exception of lowered investment (and, to a lesser extent, import) levels, it does not appear that programmes result in large distributional, political or supply-side costs. In favourable circumstances the impact is doubtless larger and the benefits more clear-cut. In particular cases the costs may out-weigh the benefits.

Overall, however, the message is that the Fund has limited ability to achieve its objectives and to assist deficit member governments. On this we must agree with Khan (1990, p.222), a senior member of the Fund's staff:

*... one would be hard-pressed to extract from existing studies strong inferences about the effects of Fund programs on the principal macroeconomic targets.*

That this should be the case is regrettable. Many developing countries badly need to strengthen their macroeconomic situations, so the IMF is seeking to meet a real need. Moreover, considerable significance is attached by the official and financial worlds as to whether or not a country with BoP difficulties has agreed a programme with the IMF, and substantial resources are devoted to programme negotiations.

The world, it seems, overrates what the Fund can realistically hope to achieve. In particular, it exaggerates the amount of leverage which the Fund exerts over policies. With the important exception of the exchange rate, the evidence suggests rather limited impact upon the fiscal and monetary instruments which are central to its programme

designs. Relatedly, we have shown there to be extensive slippages in programme execution and suggested that this has worsened in recent years.

At the same time, we have suggested that countries which adopt Fund programmes are not only having to cope with severe initial difficulties, including natural disasters, which are only partly the result of past policy weaknesses, but that they typically have to contend with adverse shocks during the course of the programmes. To make matters worse, we have shown that the Fund is only exceptionally able to have the decisive catalytic effect on capital flows which is so widely claimed for it, and that programmes are more often associated with diminished net capital inflows. We have indicated further that, although the average Fund credit is substantial relative to indicators of need, it is a good deal less so in the case of programmes which subsequently break down.

The point is this: in the face of such adverse circumstances programmes cannot expect to bring substantial, lasting improvements unless they can change key policies in a decisive way. Even if they could do so, it would remain an open question whether the power of the policy instruments is commensurate with the size of the problems addressed. True, our evidence does suggest that the IMF is able to exert a considerable influence over the real exchange rate but this is not matched by commensurate influence over fiscal, monetary and supply-side instruments. Given the Fund's limited revealed leverage over these other policy variables, it is scarcely surprising if the macroeconomic results of its programmes fall well short not only of intentions but of the degree of sustained improvement necessary to ensure credibility for government policies and to revive investor confidence.

Conditionality - the policy leverage bought by the provision of financial support - emerges as something of a toothless tiger. Such has also been the experience of the World Bank in connection with its structural adjustment programmes. The question arises whether conditionality is an effective way of seeking to change policies. It is a question which points a dagger at the heart of the IMF's *modus operandi* in developing countries.

No less a threat is posed by the political lobbying of major shareholders in favour of (or against) particular borrowing countries, in promotion of their own foreign policy objectives. For our sample of countries this was both common and subversive of what the IMF was trying to do. The frequency with which it occurs, and also the reluctance of major shareholders to expend the Fund's resources in line with developing country needs, raise questions about the seriousness of industrial-country commitment to the IMF's stabilisation mandate.

At the same time, we understate the impact of the Fund by concentrating solely on the effects of its programmes. Over the last decade or more there has without doubt been a major change in government attitudes towards the benefits of macroeconomic stability and of fiscal-monetary policies that will bring this about. The basic thrust of what the Fund seeks to achieve in the area of economic management is less contentious today than it was, say, in the 1970s. Managing Director Camdessus likes to talk of the 'silent revolution' that has occurred in the attitudes of developing country governments towards

macro policies. For this conversion the IMF surely deserves a considerable portion of the credit.

Nonetheless, we are led by the record revealed in these papers to wonder whether present arrangements constitute an efficient response to the difficulties of international BoP management and whether it would not be possible to envisage a superior set of arrangements.

## APPENDIX

### Framework for survey of country studies

The following is designed as a check-list of things to look out for in a country study which tries to provide a comprehensive treatment of experiences with an IMF programme. In practice, many studies will be taken up with more partial aspects, or with a more historical approach.

#### A. Basic information

Full publication details; affiliation of author

Country

Type of programme[s]; period of loan agreement

Nature and purpose of study

#### B. The programme

Political and economic background

continuing a series of programmes? an economic crisis? a result of some political change? how willing was the government? was the programme linked with debt negotiations and/or negotiations with World Bank for adjustment loan?

The negotiation process

difficult/easy? who made the running and did the government have a clearly defined independent position of its own? any geo-politics in it?

Information about conditionality: (a) performance criteria and (b) other.

is it possible to identify major policy changes that would probably not otherwise have been undertaken by the government?

how ambitious was it: an endorsement of existing government policies, supportive of the thrust of past policies, or a radical attempt

to turn policies around? was it linked with liberalisation of (a) trade and payments, (b) financial sector, (c) other?

Any information about tranching of credit?

### C. Programme implementation

Did the government adhere to performance criteria and draw down the credit as planned? Were other policy provisions in the programme executed? Were there waivers and/or modifications?

In the case of partial implementation, what was/was not implemented? What can be said about the sources of difficulty (including possible political and/or bureaucratic resistances; external or domestic 'shocks' - unfavourable and favourable)? Can anything be said about the sustainability of the policy changes beyond the immediate period of the programme?

### D. Consequences

(*N.b.*: We are interested in the effectiveness of programmes that were implemented and in the consequences of non-implementation. *Mutatis mutandis*, the following questions can be applied to both cases. In the case of programme breakdown, the issue becomes, what did the government do instead and what were the consequences of that? Also, if you can distinguish between short-run and longer-lasting effects of programmes or breakdowns - were their effects largely temporary?)

Any information about extent to which programme targets (for BoP, inflation, growth, *etc.*) were achieved? What happened to the instrument variables?

BoP effects, including: what happened to the volume of imports and export performance? If there was a currency depreciation, was this sustained in real terms or undermined by inflation? What happened to capital a/c, including debt situation - did Fund have a catalytic effect?

Domestic macro effects: What happened to inflation and to the rate of monetary expansion? Was fiscal deficit reduced and on what did the burden chiefly fall (*e.g.* social, other recurrent, capital expend.; higher taxation)? What happened to absorption: to what extent were Cg, Cp, Ig and Ip reduced.

What happened to economic growth and *per capita* consumption? Is it possible to say anything about 'social' effects, *e.g.* on unemployment, inequality, poverty?

Was any liberalisation achieved that could be linked to the programme?

Were there any significant political consequences (riots, changes of government, changes of Finance Minister, shifts towards more/less authoritarian regime)?

E. Other points of note

Anything on Fund-Bank relations/consistency of programmes?

Any other significant points not covered above?

Briefly, what was the chief argument/conclusion of the study?

Give an evaluation of its quality and objectivity.

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