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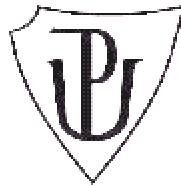

Radoslav KULLA

STRUCTURAL REFORMS OF THE INTERNATIONAL MONETARY FUND AND THE WORLD BANK AND THEIR IMPACT ON SOCIO-ECONOMIC DEVELOPMENT OF THE COUNTRIES OF SUB-SAHARAN AFRICA

Bachelor Thesis

Supervisor: Mgr. Miroslav Syrovátka

Olomouc 2010

I declare in lieu of oath that I wrote this thesis myself. All information derived from the work of others has been acknowledged in the text and a list of references is given.

Olomouc, 2010 ……………………….

Signature

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I would like to thank my supervisor, Mgr. Miroslav Syrovátka, for the valuable advice and support he has given me during the course of writing the thesis.

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The aim of the bachelor thesis is to analyse the Structural Adjustment Programs of the International Monetary Fund and the World Bank. It will cover the analysis of socio economic impacts in the region of Sub-Saharan Africa. Finally it will introduce some case studies from West-African countries. Structure: 1 Introduction 2 The Structural Adjustment Programs, historical background and principles 3 Impacts of the Structural Adjustment Programs in Sub-Saharan Africa 4 Case studies from West-African Countries 5 Conclusion

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Katedra rozvojových studií

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L.S.

Prof. RNDr. Juraj Ševčík, Ph.D.
děkan

Doc. RNDr. Pavel Nováček, CSc.
vedoucí katedry

V Olomouci dne 15. února 2010

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List of Abbreviations

ADB	African Development Bank
ESAF	Enhanced Structural Adjustment Facility
GDP	Gross Domestic Product
GNP	Gross National Product
HIPC	Heavily Indebted Poor Countries
IFIs	International Financial Institutions
IMF	International Monetary Fund
ISI	Import Substitution Industrialisation
OECD	Organisation for Economic Cooperation and Development
OPEC	Organisation of the Petroleum Exporting Countries
PRSP	Poverty Reduction Strategy Papers
SAF	Structural Adjustment Facility
SALs	Structural Adjustment Loans
SAPs	Structural Adjustment Programs
SECALs	Sectoral Adjustment Loans
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNICEF	United Nations Children's Fund

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Abstract

During the 1980s and 1990s the majority of countries in Sub-Saharan Africa gradually abandoned their statist economic models implemented a package of market oriented reform policies collectively called as the Structural Adjustment Programs. The policies, devised and implemented by the International Financial Institutions, were aimed at restoring economic growth in the region facing serious economic and debt crisis.

This paper deals with the historical circumstances under which the programs were created. Further it gives an insight into the process of their implementation and financing and critically analyses its positive as well as negative socio-economic impacts in the countries of Sub-Saharan Africa. Finally it suggests possible solutions of some of the problems.

Key words: Structural Adjustment Programs, Sub-Saharan Africa, International Monetary Fund, World Bank

Abstrakt

Většina zemí subsaharské Afriky v průběhu osmdesátých a devadesátých let minulého století postupně upustila od ekonomického modelu, který byl charakteristický státními zásahy a implementovaly sérii reforem v rámci Programů strukturálního přizpůsobení. Tyto reformy, navrhnuté Mezinárodním měnovým fondem a Světovou bankou, byly zaměřené zejména na obnovení ekonomického růstu v tomto regionu, výrazně zasaženém ekonomickou a dluhovou krizí.

Práce se zabývá historickými okolnostmi vzniku Programů strukturálního přizpůsobení. Dále objasňuje proces implementace programů a jejich financovaní, kriticky analyzuje jejich pozitivní a negativní socioekonomické dopady a navrhuje řešení některých problémů s nimi spojených.

Klíčová slova: Programy strukturálního přizpůsobení, subsaharská Afrika, Mezinárodní měnový fond, Světová banka

1 Introduction

The region of Sub-Saharan Africa has been throughout the recent decades haunted by many problems ranging from poverty to low economic performance. The time since the countries of the region become independent from their colonial powers has been marked by several efforts to change the unfavourable situation. Despite these attempts and large volumes of foreign aid, the states of Sub-Saharan Africa still occupy the bottom ranks on the scale of human development with more than half of the population living with less than 1.25 dollar a day.

The Structural Adjustment Programs designed and implemented by the International Monetary Fund and the World Bank were one of the chapters in the history of African development. This reform strategy was created to substitute the state led policies which were believed to be the obstacle for socio-economic development of African countries. From the early 1980s to the late 1990s great expectations were placed on the program that influenced almost all aspects of life in most of the African states. And even after it was abandoned it still evokes numerous controversies about its impacts on the socio-economic development in African countries.

The aim of the thesis is to analyse the Structural Adjustment Programs of the International Monetary Fund and the World Bank. The thesis is subdivided into two parts.

In the first part it covers the historical background of the programs, the origins and the circumstances of their formation and implementation. Further it explains the main ideas of the approach as well as its contents. It provides the theoretical basis for further analysis. The second part is the main part of the thesis and presents the critical analysis of the economic and social impacts of the programs on the African countries, examines the failures and successes, contrasts different perspectives on the issue and suggests possible solutions of some of the problems associated with the programs. Finally it introduces current attitudes and the development strategies of the International Monetary Fund and the World Bank for the region of Sub- Saharan Africa. Originally the chapter covering case studies from Western African countries was to be included as well. However some case studies are already used to illustrate some findings in other chapters. Therefore separate chapter on case studies is not included.

The thesis was formed in two stages. The first stage included the research of available literature. In the second stage the collected data were analysed. Various sources of information and data were used during the research. Articles in scientific journals together with scientific books were the main source of information used in the thesis. Publications of international institutions such as the World Bank and the Organisation for Economic Co-operation and Development were also used during the course of research. Furthermore online databases and web pages of international institutions were additionally used to collect the data. The articles used to collect information were in English and French.

The thesis covers the region of Sub-Saharan Africa. The word “Africa” and “Sub-Saharan Africa” referring to the region are used interchangeably.

2 The Structural Adjustment Programs, historical background and principles

2.1 The early post-independence period

The end of the 1950s and the beginning of 1960s in Sub-Sahara Africa was the time when countries one after another become formally independent from colonial powers. As colonial rule withdrew the countries became much more responsible for their own economic development.

The structure of independent economies was very alike in the years following the gain of independence. Manufacturing sector which in developed countries already provided major source of income was generally very weak in Africa (Mkandawire and Soludo, 2003). For illustration it created only 2% of gross domestic product (GDP) of newly independent Ghana in 1957 (Adepoju, 1993). To foster the growth of local industry governments of these countries decided to follow the path of import substitution industrialization (ISI) model. This mode, which was very common in developing countries at that time, meant that protectionist measures such as tariffs, quotas, overvalued exchange rate and price controls were used to protect mostly state owned infant industry[1] enterprises from their foreign competitors. ISI strategy however did not bring satisfactory results, since it often struggled with low efficiency resulting especially from low labour productivity. In addition, countries were dependent on capital imports due to their technological underdevelopment (Mkandawire and Soludo, 2003).

On the other hand the primary production–mostly agricultural–was the driver of the African economies. In most of the countries primary production, based on only one or few commodities, represented the major share of countries GDP. In the case of Nigeria for instance it amounted up to 64% in 1960. Not only it accounted for a significant portion of GDP but it also represented the most important export sector. Since the prices of the commodities in international market were favourable at that time countries–as figure 1 illustrates–enjoyed significant economic growth (Adepoju, 1993).

[1] Infant industry is a term used to describe new industry which has to be temporarily protected from foreign competition until it develops and becomes competitive.

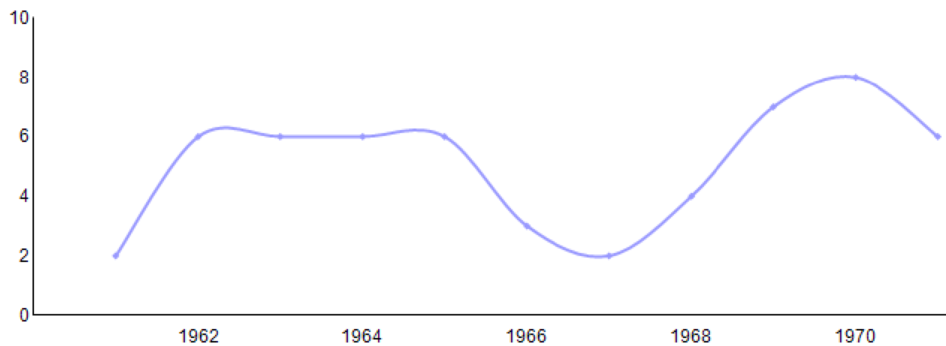

Figure 1: Average annual GDP growth rate in Sub-Saharan Africa (%)

Note: Average GDP growth ratio from 1961 to 1971 was 5.1% per year.

Source: World Bank (2010a)

However the beginning of the 1970s was marked with several economic disruptions. The first came in 1971 when dollar was released from the golden standard, what led to the increase of its value. Although the existing debt of developing countries was relatively small, in most cases it had to be repaid in US dollars. This meant that the debt repayment costs for the African countries increased. This was followed by the oil embargo of OPEC countries in 1973 and the first oil shock. As a result, prices of oil soared and the terms of trade for developing countries worsened (Ferreira and Keely, 2000).

There were basically two alternatives for developing countries to cope with the consequences of the oil shock. Either they could cut their expenditures or, conversely, they could finance the increased expenditures by borrowing. With commodity prices still high countries saw the opportunity of future export revenues and hence they were eager to borrow large amounts of money. Availability of funds at favourable and often negative real interest rates was given by large current account surpluses of oil exporting countries (Rimmer, 1990). The money generated by oil was channelled mainly through western banking system to developing countries. Extensive borrowing temporarily helped the developing countries avoid rapid decrease in their annual GDP growth which many industrial countries had already experienced (table 1). This was–as table 1 further illustrates–accomplished at the expense of rapidly growing current account deficits (Ferreira and Keely, 2000). Although high deficits haunted a majority of countries in developing regions–as seen in figure 2–the region of Sub-Saharan Africa deserves further attention since it was most of the time experiencing the worst performance in this domain (Elbadawi et al., 1992).

In 1979 the second oil shock came followed by rising interest rates, strengthening dollar and rapid fall in commodity prices. Subsequently the debt repayment conditions for developing countries further worsened (Thirlwall, 2006). In order to be able to service existing loans developing countries were again forced to borrow additional funds. This vicious cycle of borrowing subsequently resulted into further increase of the total debt which by the end of 1970s ceased to be feasible and finally contributed to the worsening economic situation in the region.

Table 1: Responses of developing and developed countries to the oil shocks

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Oil prices[1]	2.70	9.76	10.72	11.51	12.40	12.70	16.97	28.67	32.57	33.49
Industrial countries										
– Growth rate[2]	5.59	0.02	-1.07	4.40	3.42	5.52	2.51	0.97	1.49	-1.19
– Current account surplus[3]	20	-11	20	1	-2	33	-6	-40	1	-1
Oil exporting developing countries										
– Growth rate[2]	6.39	5.34	-1.27	5.93	1.50	-3.56	3.96	-4.66	-4.59	1.63
– Current account surplus[3]	7	68	35	40	30	2	69	114	65	-2
Other developing countries										
– Growth rate	4.43	3.75	2.85	3.22	4.02	3.09	2.16	3.31	1.54	-2.11
– Current account surplus	-11	-37	-46	-31	-29	-41	-61	-89	-108	-87

Notes:
Oil prices given in US dollar/barrel
Growth rates represent average growth rate of real GDP per capita
Current account surpluses given in billions US dollars
Source: Ferreira and Keely (2000)

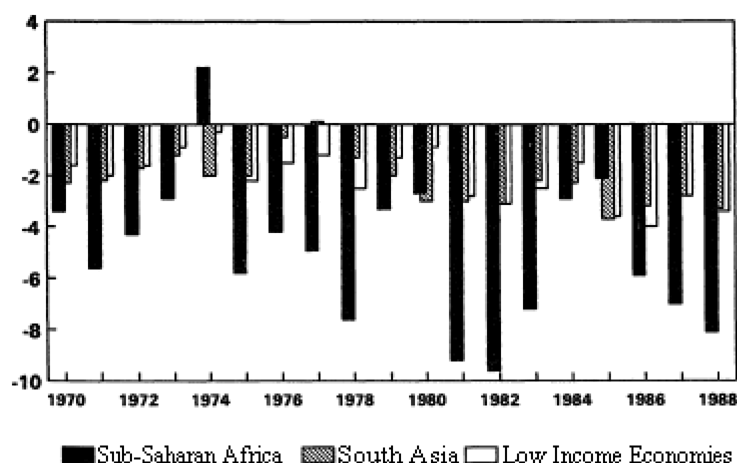

Figure 2: Current Account Balance of Sub-Saharan Africa (% of GDP), 1970–1988, comparison with other low income countries
Source: Elbadawi et al. (1992)

2.2 Wake of the structural adjustment

Although there is a general agreement that the debt is closely associated with the economic underperformance, there were different views on whether the debt was a cause or an outcome of economic problems. The former blamed debt and high interest rates for causing decline in economic performance. The latter suggested that the internal factors such as political unrest and corruption, poor economic policies and low productivity forced the countries to excessive borrowing and consequently led to the debt crisis. However it is important to mention that besides the debt burden itself there were many other external problems that contributed to the declining economic performance in Sub-Saharan Africa. These include volatility of prices on commodity market, worsening international terms of trade, decreasing food production with increasing prices for food imports not to mention inadequate infrastructure (Logan and Mengisteab, 1993).

African governments and country leaders understood that measures had to be taken collectively in order to deal with external shocks. They were also well aware of the fact that relying excessively–and often exclusively–on export of raw materials and primary agricultural commodities was not always the best development strategy and had to be changed. For one thing it made their economies vulnerable to the volatility of commodity prices on the world market. For another they were in *exceedingly* dependent on the developed countries and their ability and willingness to buy their products. Moreover African leaders were also aware of other weaknesses in primary sector including low productivity and lack of technology (UNECA, 1980). Therefore in order to help their countries face the ongoing economic crisis they composed a set of proposals which was summarized in so called *the Lagos Plan for Action* (subsequently referred to as the Lagos Plan). Reform policies contained in the Lagos Plan covered virtually all sectors in African economy ranging from agriculture to science and technology. It emphasized the importance of self sufficiency and self reliance and encouraged cooperation among African countries through regional integration as an important prerequisite for mitigating the external shocks (UNECA, 1980).

Woods (2006) describes several limitations which prevented this approach to be successfully realised. First of all, realization of the plan that the African leaders drew up required investments and thus additional resources. Given the 1970s economic

circumstances it was clear that African countries would not be able to finance the reform program themselves. Thus further borrowing from developed countries seemed to be an option. However, potential donors were not keen on this idea since they also struggled with economic downturns in the midst of global economic crisis. Furthermore there was a disagreement between the groups of donor countries and the countries of Africa on how to promote development. While the Lagos Plan expected the development be state driven, the ideology in donor countries as Woods (2006, p. 142) further describes advocated the opposite:

> The ideological climate in donor countries changed dramatically in the early 1980s. In the United States, the United Kingdom, and Germany, President Reagan, Prime Minister Thatcher, and Chancellor Kohl espoused a new antistate antigovernment, free-market rhetoric. Their hostility to government spending, industrial policy, and the welfare state soon spread into their view of aid. Suddenly the focus was on the failures of development policy in the 1970s.

This presented another excuse for aid giving countries not to support the indigenous plan of African states. Hence the Lagos Plan did not succeed as the rescue program.

Against the unrealised African development plans the International Financial Institutions (IFIs) namely the International Monetary Fund (IMF) and the World Bank presented their own concept with an ambition to solve the crises in developing countries including Africa. They came out with a set of reform policies (conditionalities) which countries had to implement in order to become eligible to receiving additional loans. The conditionalities addressed various issues and later they became collectively known as the Structural Adjustment Programs (SAPs).

The strategy was based on an assumption that African economic problems were predominantly caused by inappropriate policies of the states rather than by external shocks. Because of that, they turned away from mitigating the impact of the external shock (contrary to the Lagos Plan) and focused on “adjusting” existing policies (Woods, 2006).

Even though the Fund’s and the Bank’s engagement in Africa were not new the conditionalities represented a major shift in the policy instruments that had been used by the IFIs until the late 1970s. Until then the World Bank used its funds to finance large scale development projects such as infrastructure building (Dollar and Svensson, 2000). The move from project lending towards the structural adjustment

lending was based on an assumption that projects were inefficient in “unsound” policy environment. This was rationalized by the World Bank publication called *the Berg Report*. Named after its author Elliot Berg the report further examined the causes of the crisis. Even though it mentions both external factors as well as weak internal policies as the causes of the crisis, the report emphasizes the latter as being the crucial (World Bank, 1981). Further the report recommended that the countries in order to improve their economic situation follow macroeconomic and structural reforms prescribed by the World Bank. His findings and recommendations however were very controversial. On one hand they were widely accepted throughout the western world since they were in line with their neo-liberal ideology (Kapur et al., 1997). On the other hand they raised a wave of criticism in the African countries. African opposition against the report was also supported by the institutions that were involved in Africa at that time namely OECD Development Assistance Committee, United Nations Children’s Fund, European Economic Community and the United Nations Development Programme (Woods, 2006).

As for the IMF, its original role not only in developing countries was to provide loans to those countries that encountered balance of payment difficulties. The first herald of the move towards conditional lending began in 1973 when the Fund’s loan agreement to Zambia demanded that the government took stabilisation measures that aimed to cut budget deficit and stop inflation. This was also the case in 1976 and 1978 loans to the same country. Although Zambia managed to meet the IMF criteria (from 1976 to 1979 Zambia cut its budget deficit by one half) by the 1980 it ceased to be able to repay its loans on time. This fact persuaded the Fund that simple stabilisation measures only worked in short time and further structural adjustment was needed. On the contrary the critics considered these measures inappropriate and pointed out again at the external factors as the major cause of Zambian problems (Woods, 2006).

Nevertheless at that time loans from the IMF and the World Bank seemed to be the only possibility for African countries to obtain foreign exchange in a short term. Pushed by the need to repay their debts and finance imports countries had no choice but to agree on the adjustment conditions (Weaver, 1995). And so beginning in the 1980s the process of structural adjustment continuously influenced the development process in Sub-Saharan Africa.

2.3 Principles of the structural adjustment

Prior to the analysis of specific Structural Adjustment Programs it is important to clarify the roles of the International Financial Institutions in the process of their implementation since the process itself had several implications for the countries concerned.

One of the IMF roles was to coordinate the relations of African countries with all creditors providing loans to the region. This meant in practice that if debt of any African country was to be rescheduled the country had to first seek approval at the IMF and only then it could ask at the Paris Club[2] to reschedule its debts owed to bilateral donors. However unless they implemented policies designed by the IMF they were not eligible to such rescheduling. This gave the IMF very strong bargaining position in the implementation of SAPs since all the loans both multilateral and bilateral were now conditioned upon their implementation (Woods, 2006). Meanwhile the task of the World Bank in Africa was to coordinate the donor assistance in order to "ensure that adequate balance of payment finance is available for reform programs" (World Bank, 1994a, p.1). Later on these activities were operated under the auspices of the *Special Program of Assistance for Africa* which was created in 1988 (World Bank and UNDP, 1989).

Second role of the IFIs in the process of SAP implementation was as creditors. In the late 1970s and early 1980s IMF lending was operated through the IMF *Trust Fund*. Later the Funds *Structural Adjustment Facility (SAF)* founded in 1986 became its adjustment lending instrument to developing countries associated with strict conditionalities aimed at restoring fiscal balance and macroeconomic stability. However insufficient funding from the donor countries–especially from the United States that refused to contribute–resulted in the fact that SAF lending was financed predominantly from the repayments of the developing countries. A year later in order to increase the lending capacity the IMF founded *Enhanced Structural Adjustment Facility (ESAF)* accompanied with even stricter conditionalities (Woods, 2006).

In fact the amount of resources provided by the IMF facility represented only a small portion of the total concessional lending to Africa (figure 3).

[2] Paris Club - is an informal group of creditor countries whose role is to help indebted poor countries by agreeing on rescheduling or cancelling their debt.

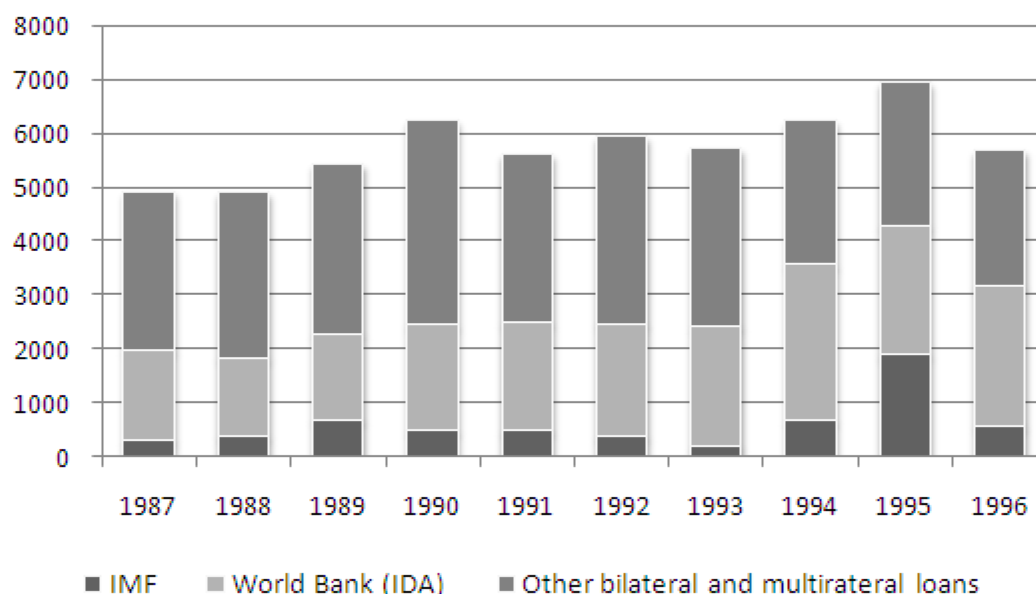

Figure 3: Share of IMF and World Bank loans in total concessional loans disbursed to Sub-Saharan Africa, 1987–1996
Note: Values given in millions (current US dollars)
Source: OECD (2009)

Despite this, ESAF represented an important factor in increasing the Fund's bargaining power in Africa since the acceptance of it conditionalities was an important precondition for receiving loans from other donors both multilateral and bilateral (Woods 2006).

The World Bank started to provide adjustment loans in early 1980s. Initially the loans were provided through the International Development Association.[3] The World Bank gradually increased its adjustment lending throughout the 1980s becoming the largest individual lender to Sub-Saharan Africa (figure 3).[4] In 1985 the attempt to further increase its lending led to the creation of *Special Facility for Africa* which became another instrument in the World Bank's adjustment lending (Woods, 2006; OECD, 2009). The rationale for the adjustment lending–as it was in the case of the IMF–was to induce particular economic reforms proposed by the World Bank (Weaver, 1995). The types of loans differed based on what kind of policy reforms they targeted. Together with the *Structural Adjustment Loans (SALs)* which were large loans designed to change macroeconomic reforms there were so called *Sector Adjustment Loans*

[3] International Development Association is one of the lending arms of the World Bank providing concessional loans for low income countries (World Bank, 2010b).
[4] The World Bank lending increased from 15% of total concessional lending to Africa in 1980 to 36% in 1986 (after the formation of Special Facility for Africa). From 1987 to 1998 the World Bank adjustment lending represented on average 41% of all concessional lending to Africa (OECD, 2010).

(SECALs) which were aimed at reforms in particular sectors. The third type of loans which was introduced later in 1980s was a mixture of adjustment and project lending (Weaver, 1995; Kapur et al., 1997).

The third role of the IMF and World Bank and the one with the greatest impact on the populations in the developing countries involved was the implementation of SAPs that intended to act as a remedy for the “wrecked” economies in developing countries. These programs can be classified into two broad categories. The first included short term *stabilisation* policies and were originally under the aegis of the IMF. The second category comprised *structural adjustment policies* managed by the World Bank (Kapur et al. 1997). However as later came out the tasks of the IMF and the World Bank were not mutually exclusive since some of the World Bank policies were eventually aimed at stabilisation as well (Mosley et al., 1995).

Since stabilisation policies were considered as an important prerequisite of further structural reforms, they were implemented in the first phase of adjustment. It was aimed at eliminating high balance of payments deficit as well as fiscal deficit and reducing inflation that were common features in African countries in the midst of economic crisis. This was to be accomplished in two ways, firstly, by reduction of expenditures and secondly by expenditure switching (Elbadawi et al., 1992; Weaver, 1995; Oyejide, 2003).

Expenditure reduction measures sought to decelerate overall domestic demand for both local and imported goods (Logan and Mengisteab, 1993). Being called as austerity measures they reduced government spending which resulted in radical import compression and decline in public investments. Moreover expenditure reduction also included credit and money supply restrictions for both private and public sectors. Accordingly, unavailability of credit in effect led to the decrease of private spending as well (Weaver, 1995; Logan and Mengisteab, 1993; Oyejide, 2003). However as soon came out, the reduction in expenditures itself was insufficient to restore overall macroeconomic stability. To achieve the desired goal of balanced external accounts, countries had to increase their exports and further cut their imports. Therefore expenditure switching measures were introduced, which reallocated resources from the production of non-tradable goods to the production of tradable goods for export and goods that would compete with imports (Weaver, 1995). One of the means to achieve this goal is currency devaluation. Since devaluation decreases the relative value of domestic currency to the foreign it makes imports more expensive and thereby

decreases their volume. On the other hand exporters get more for their products so they are motivated to export more (Weaver, 1995). Besides devaluation Logan and Mengisteab (1993) refer to another measure namely the increase in producer prices in order to stimulate agricultural production through elimination of price controls.[5]

Applying expenditure switching measures, especially the export promotion, was the first step towards greater involvement of developing countries in the global economy (Williamson 1990). Increasing the integration of African countries into the global market was also one of the key issues of the structural adjustment policies funded predominantly by the World Bank. While stabilisation focused on restoring macroeconomic equilibrium, the structural adjustment policies encompassed several macroeconomic, microeconomic and sectoral reforms focusing on increasing economic efficiency and fostering economic growth (Mosley et al., 1995; Ferreira and Keely, 2000). Being in line with the neo-liberal philosophy they centred round trade liberalisation and removal of state from economy assuming that free market, private sector and the aforementioned greater integration into the global economy would bring about development (Logan and Mengisteab, 1993; Mosley et al. 1995). Specific reforms then included several elements.

The reforms on the macro-economic level financed by SALs included a requirement to keep exchange rates as close to their market value as possible. Next it encouraged opening economy to foreign competition by replacing quotas, which often produced unwanted corruption and bureaucracy, with tariffs. The government involvement in the economy was to be reduced by elimination of subsidies and liberalisation of prices (Ferreira and Keely, 2000; Kapur et al. 1997).

Other reforms, funded by SECALs, targeted sectoral policies. In the name of these reforms most of the state firms were to be privatised and the remaining public enterprises underwent financial and management restructuring. Reforms in financial sectors included liberalisation of interest rates so that they would be in line with the higher, market determined rates. It also included the liberalisation of foreign direct investments as well as privatisation of some financial institutions (Ferreira and Keely, 2000).

Although in general SAPs were not accepted with enthusiasm, there were no other options of getting additional loans but to subordinate to the conditionalities driven

[5]The IMF and the World Bank assumed that by deregulation of prices the prices will increase to the market level providing an incentive for producers to increase production.

by the IFIs. Moreover considering the socio-economic situation of African countries at the beginning of the 1980s there was no doubt about the need for a reform. However the positive impacts of the reforms are questionable and in the time since their implementation they have become a subject of numerous discussions.

3 Impacts of the Structural Adjustment Programs in Sub-Saharan Africa

In the time since the early 1980s thirty-four African countries conformed to the reforms introduced by the World Bank and IMF (Elbadawi et al., 1992). However there were many doubts among the critics at the beginning of the adjustment about its ability to solve African problems. At the same time the IMF and World Bank placed great expectations upon these reforms seeing them as a panacea for wide range of development problems (Logan and Mengisteab, 1993).

In last decades the widespread discussion about whether or not the SAPs contain the appropriate mixture of policies continued. On one side the IMF and World Bank and other proponents of adjustment published several evaluation reports on the SAPs (for example Elbadawi et al. 1992; World Bank and UNDP, 1989; World Bank 1994) supporting the notion that SAPs are the only suitable set of policies for Africa and encouraged African countries to continue their implementation. On the other hand the existing criticism escalated as the first impacts of the programs began to manifest (Logan and Mengisteab, 1993). Many of the authors (for example Mkandawire and Soludo, 1999; Rodrik, 2006) criticised the way in which the adjustment programs were "imported" by Washington policymakers without considering the realities of individual African states. Similarly Mallaby (2004, p. 91) compared IFIs to "shadow governments" of African countries while Adreasson (2003, cited in Davis, 2006 p. 154) termed the excessive engagement of IFIs policymakers as "virtual democracy".

Besides the very often criticised the dichotomy between the goals of adjustment and the African needs it was also the ideological bias and lack of sensitivity in the reforms that were condemned. Rodrik (2006, p. 1) presented his attitude towards the reforms introduced by the IMF and World Bank as follows:

> Observing the endless list of policy follies to which poor nations had succumbed, any welltrained and well-intentioned economist could feel justified in uttering the obvious truths of the profession: get your macro balances in order, take the state out of business, give markets free rein. "Stabilize, privatize, and liberalize" became the mantra of a generation of technocrats who cut their teeth in the developing world and of the political leaders they counseled.

Moreover Woods (2006, p. 145) states that considering the unfavourable international economic situation and the number of factors beyond their control which influenced the economic performance in Africa, the implementation of SAPs was like:

> [...] exhorting passengers in a lifeboat to paddle faster when their raft is in the middle of the Atlantic Ocean in a hurricane. No matter how impressive the effort of the passengers, it is unlikely that their paddling will bring them to safety.

As clear as it may seem, to assess the impacts of adjustment is a rather uneasy task. It would be unjust to attribute the African economic problems solely to the SAPs, provided that there were many other circumstances and external effect that might have influenced the results and could hardly be expected. These include political transition in several African countries, worldwide economic recession, declining prices of primary commodities as well as insufficient rainfall. Unreliability of available data is also considered to be an obstacle for objective evaluation (Mkandawire and Soludo, 1999).

It is also important to realize that not all the countries implemented the stabilisation and adjustment policies with the same intensity. Some were more consistent and they implemented the policies throughout several years while other started the implementation later or did not implement the reforms at all (Mkandawire and Soludo, 1999).

Despite the fact that the evaluation of the effects of SAPs is a complicated issue many authors increasingly in the last decades tried to link the effects of SAPs to the economic and social development of African continent.

3.1 Economic Impacts

Economic growth in terms of GDP per capita growth is generally considered as one of the key indicators of countries economic performance. Since adjustment was aimed at boosting economic performance it is needed to be assessed in the evaluation of economic impacts. Furthermore SAPs considerably affected also other areas in states economy namely the debt issue and agriculture together with industry. Given that the performance in these areas influenced the overall economic performance it is relevant to include them in the evaluation as well. And since the adjustment process is accompanied by large lending and foreign aid, that was an important source of income

in adjusting countries, it should not be neglected either. Indeed other areas in economy such as trade, prices or exports were also significantly influenced by the policies contained in the SAPs. However all of them are very much interconnected with either of the analyzed sectors and therefore they do not have to be analyzed separately.

3.1.1 Economic growth

Despite initial optimism of the IMF and World Bank the evidence after a decade of adjustment process in Africa suggested that SAPs failed to deliver promised overall economic recovery and growth and several weaknesses were found in the reform programs (Mkandawire and Soludo, 1999). The World Bank attempted to disprove these undesirable findings in several evaluation reports (for example World Bank and UNDP, 1989; Elbadawi et al., 1992; World Bank, 1994b). The World Bank generally argued that after years of inadequate policies it would take time for the reforms to generate positive outcomes. The World Bank however admitted that stabilisation measures that included considerable import cuts resulted in decline in capacity utilisation could also contribute to the situation (Elbadawi et al. 1992).

Nevertheless the World Bank maintained that SAPs bring positive results and emphasized that the more intensive the implementation is the more positive results in economic growth it brings. If there were any countries in which SAPs failed to bring about economic growth it was not because the SAPs were wrong but because of inconsistencies in policy implementation (World Bank, 1994b). To support its claims the World Bank (1994b) divided 26 African countries into three groups according to the level of improvement of their macroeconomic policies.[6] After comparing their economic growth in the period of 1981–86 and 1987–91[7] they prove that group of countries with the largest improvements in macroeconomic policies had the largest median improvement in GDP per capita growth. On the other hand the countries with deterioration in macroeconomic policies experienced the most significant median decline of per capita GDP growth between compared periods with countries with small improvements reaching middle values (table 2). By showing this correlation the World Bank suggests convincing evidence that adjustment is appropriate and states that if the

[6] Countries were rated according to their improvement in exchange rate policy, monetary policy and monetary policy.
[7] These years were chosen in order to compare the pre-adjustment performance with the performance after the implementation of SAPs.

less “diligent” countries follow the example of the more “persistent” ones the results in terms of higher GDP per capita growth will manifest.

Table 2: Change in GDP per Capita Growth between 1981–86 and 1987–91[8]

Country	*Average annual growth rate (%)* *1981–86*	*1987–91*	*Difference in the two periods (percentage points)*
Large improvements in macroeconomic policies			
Ghana	-2.4	1.3	3.7
Tanzania	-1.7	1.3	2.9
The Gambia	1.2	0.3	-0.8
Burkina Faso	2.2	0.4	-1.7
Nigeria	-4.6	2.4	7.0
Zimbabwe	0.3	1.0	0.7
Mean	**-0.8**	**1.1**	**2.0**
Median	**-0.7**	**1.1**	**1.8**
Small improvements in macroeconomic policies			
Madagascar	-3.7	-2.1	1.6
Malawi	-1.4	0.7	2.2
Burundi	2.1	1.2	-0.9
Kenya	-0.5	0.9	1.5
Mali	0.4	-1.2	-1.6
Mauritania	-0.9	-1.0	-0.1
Senegal	0.4	-0.2	-0.6
Niger	-4.9	-2.4	2.5
Uganda	-1.5	2.8	4.3
Mean	**-1.1**	**-0.1**	**1.0**
Median	**-0.9**	**-0.2**	**1.5**
Deterioration in macroeconomic policies			
Benin	1.1	-2.0	-3.1
Central African R.	-0.1	-2.8	-2.6
Rwanda	0.4	-5.0	-5.5
Sierra Leone	-2.1	0.8	2.9
Togo	-2.8	-1.4	1.4
Zambia	-3.2	-2.3	0.9
Mozambique	-5.9	1.7	7.6
Congo	4.1	-0.7	-4.9
Côte d'Ivoire	-4.2	-6.8	-2.6
Cameroon	4.6	-7.9	-12.5
Gabon	-2.7	-1.9	-0.9
Mean	**-1.0**	**-2.6**	**-1.6**
Median	**-2.1**	**-2.0**	**-2.6**

Notes: Classifications according to the World Bank (1994b).
Source: World Bank (1994b).

[8] These two periods represent the first decade of SAP implementation. Both changes in policies and changes in GDP growth rate between these two periods are compared.

However the presented correlation is not as clear as it may seem to be at the first sight. Schatz (1994) questions statistical relevancy of the World Bank assessment arguing that when the data is properly examined they fail to support the World Bank claims and moreover they even indicate the opposite**.** Schatz indicates two major weaknesses of the evaluation. First, the division of countries into performance groups is uneven[9], given the different number of countries in each of them. Furthermore the analysis groups all the countries that experienced deterioration in macroeconomic policies together without considering the degree of deterioration. By neglecting the country groupings Schatz finds out that of the nine countries ranked 14–22 in the change in reform performance (excluding the four countries with the highest deterioration in policies) five experienced better than average change in GDP per capita growth (table 3). Therefore averaging the group performance when such differences within the groups are present is not relevant.

Second, Schatz (1994) goes even further in disproving the links between the reforms and growth performance. He groups countries into four groups (A–D) according to the change in GDP growth (table 4). At the same time he compares the groups according to their performance in several macroeconomic policies including overall monetary policy[10], fiscal policy, exchange rate policy and overall macroeconomic policy.

When examining the scores in seigniorage Schatz finds that group C had the best reform implementation. This meant that countries with the best reform performance in this area experienced worse growth than countries in groups A and B. Surprisingly, in the case of reform policies tackling inflation the group A with the highest increase in GDP growth had the poorest implementations score among all the groups. Similarly group A achieved the worst performance while maintaining the highest GDP growth. These findings suggest that the reforms targeting monetary policy had contrary effects on economic growth.

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[9] According to Schatz (1994), the groups should contain approximately the same number of countries while maintaining the policy improvement ranking

[10] Overall monetary policy includes seigniorage (money creation) and inflation.

Table 3: Country ranking according to GDP per capita growth

	Country	Policy improvement (rank)	Difference in GDP growth (1981–86 and 1987–1991)
1	**Mozambique**	**22**	**7,6**
2	Nigeria	5	7,0
3	**Uganda**	**15**	**4,3**
4	Ghana	1	3,7
5	Tanzania	2	2,9
5	**Sierra Leone**	**19**	**2,9**
7	**Niger**	**14**	**2,5**
8	Malawi	8	2,2
9	Madagascar	7	1,6
10	Kenya	10	1,5
11	**Togo**	**20**	**1,4**
12	Zambia	21	0,9
13	Zimbabwe	6	0,7
14	Mauritania	12	-0,1
15	Senegal	13	-0,6
16	The Gambia	3	-0,8
17	Burundi	9	-0,9
18	Mali	11	-1,6
19	Burkina Faso	4	-1,7
20	Central African R.	17	-2,6
21	Benin	16	-3,1
22	Rwanda	18	-5,5

Source: Modified using World Bank (1994b) data.

Notes: Countries ranked 14-22 in reform performance which experienced above average change in GDP growth per capita are in bold.
Average change in GDP growth is 1.0 percentage points (indicated by the line).

As for the fiscal policy the IMF and World Bank generally claimed that budget deficits in African countries is undesirable and that the lower the deficit was the more it contributes to economic growth. Schatz (1994) however doubts this arguing that it is not low deficit that stimulates growth but conversely it is rather higher growth that usually brings lower budget deficit. The evidence in table 4 again does not show any direct correlation between fiscal policy and economic growth.

The only exception seems to be the improvement in exchange rate policy. The larger the improvement in exchange rate policies countries achieved the higher the GDP

growth they had.[11] There were 19 out of 22 countries that experienced positive effect of exchange rate policy reforms on economic growth (Schatz, 1994).

Table 4: Median change in economic growth and macroeconomic policy by growth groups of countries

Growth Groups	Economic Growth (%)	Seigniorage Score	Inflation Score	Overall Monetary Policy Score	Fiscal Policy Score	Exchange Rate Policy Score	Overall Macro-economic Policy Score
A. Countries with growth change of + 2.5 % >							
Ghana, Mozambique, Niger, Nigeria, Sierra Leone, Tanzania, Uganda							
Median change:	+3.7	0	-1	-1.0	+1.0	+3.0	+0.3
B. Countries with growth change of + 0.1 to +2.4 %							
Gabon, Kenya, Madagascar, Malawi, Togo, Zambia, Zimbabwe							
Median change:	+1.15	0	0	0.0	0.0	+1.0	+0.5
C. Countries with growth change of -0.1 to -2.4 %							
Burkina Faso, Burundi, The Gambia, Mali, Mauritania, Senegal							
Median change:	-0.85	+1	+1	+0.75	+1.5	-0.5	+0.5
D. Countries with growth change of -2.5 % <							
Benin, Cameroon, Central African Republic, Congo, Côte d'Ivoire, Rwanda							
Median change:	-4.0	0	+1	+0.5	-2.0	-1.0	-0.5

Notes: Classifications according to World Bank (1994b).
Countries are listed in descending order according to the annual growth rate of GDP per capita.
Source: Schatz (1994)

Provided evidence shows that besides the exchange rate policy reform the correlation between the intensity of macroeconomic reform implementation and the increase in GDP per capita growth is either very unclear or contrary to what has been expected by the IMF and the World Bank. In other words SAPs seem to have failed to deliver economic recovery and growth in some countries despite considerable fulfilment of conditionalities and external transfers[12] flowing to reforming countries (Schatz, 1994). This may be regarded as a justification of the fact, that "universal" policies designed by the IFIs may not be appropriate for all.

Since the evidence revealed that adjusting macroeconomic policies did not bring significant increase in growth and economic recovery, there has been a widespread

[11] Devaluation of existing exchange rate is considered to be an improvement in the policy (World Bank, 1994b).
[12] External transfer (loans and aid) additionally improved the performance of reforming countries what contributes to a distortion in measuring performance.

discussion about its causations. Woods (2006) states that the assumptions of the IMF and the World Bank were based on unrealistic hypothesis, that if government had undertaken stabilisation programs and the first stage of adjustment they would have automatically achieved economic growth. Liberalisation was expected to increase production and exports and privatisation to attract foreign capital. However while relying excessively on market the IFIs underestimated existing external factors[13], and the economic recovery did not manifest. Nevertheless the conditionalities in order to be implemented had to be linked with growth. Otherwise it would be "trying to persuade patients to take medicine that was wrong for them" (Woods, 2006, p. 152). The prescription however seems to be "both wrong and itself damaging" (Woods, 2006, p.153).

Moreover, Rodrik (2006) argues that there is little evidence that macroeconomic policies, price distortion, financial policies and trade openness have *predictable* and *universal* positive effects on growth. Experience from countries like China and India suggests that in order to achieve economic growth it is better to target the most necessary obstacles of growth than to conduct too ambitious reforms that waste human capital (Rodrik, 2006).

Schatz (1994) alerts that except Nigeria SAPs were designed by a group of technocrats and politicians without consultation with governments. The lack of *ownership* is therefore also considered to be serious problem that can have further implications for growth. Schatz further suggests that instead of straight liberalism there should be a balance between market forces and government interventions which when used effectively can lead to positive economic outcomes.

3.1.2 Debt

Debt is regarded as one of the major, if not the most important obstacle impeding economic growth and development in Sub-Saharan Africa (Riddell, 1992). Indeed one of the key motivations of the IMF and World Bank to create and implement the SAP in Sub-Saharan Africa was the fact that in early 1980s the accumulated debt in several African states was so high that they were not able to meet their debt repayment obligations anymore. As the debt crisis manifested the IFIs came to the Africa's aid to

[13] These included declining terms of trade, unfavourable weather, worldwide economic recession and related decline in prices of primary commodities that were an important source of income in African countries.

solve the problems associated with high debt burden and unsustainably high debt repayments. However their intervention coming in the form of SAPs has been criticised for not solving the problem but worsening it.

Logan and Mengisteab (1993) argue that despite debt relief[14] for some countries the actual outstanding debt of Sub-Saharan Africa remained very high and kept increasing at the same time. After the first decade of adjustment the total outstanding debt reached 161 billion dollars. As shown in figure 4 the growth of the debt did not cease and in 1995 the total African debt reached 236 billion dollars (World Bank, 2010).

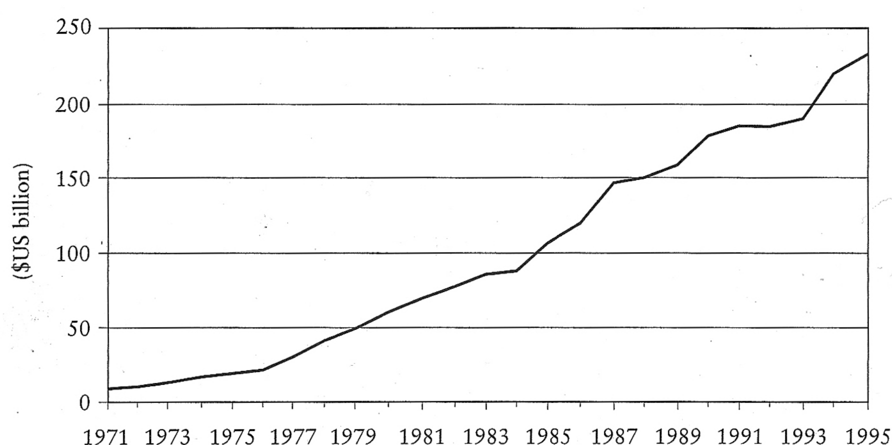

Figure 4: Sub-Saharan Africa Debt 1971–1995
Source: Woods (2006)

Also, given the stagnating economic growth during the 1980s on one side and rapidly amounting total debt on the other, there is no surprise that the debt to GNP ratios rocketed at the beginning of the 1990s. In several countries the ratio exceeded 100% meaning that the outstanding debt was higher that their actual GNP. The most alarming situation in this respect was recorded in Somalia having the debt – GNP ratio at 190%, followed by Congo (183%), Zaire (130%) and Côte d'Ivoire (122%) (Logan and Mengisteab, 1993).

There are several reasons why introduced stabilisation and adjustment measures did not bear fruit in reducing extremely high indebtedness in Africa.

[14] During 1980s several donors including Finland, United Kingdom, Sweden and Norway turned their concessional loans to Africa into grants (World Bank and UNDP, 1989).

Logan and Mengisteab (1993) point at very high interest rates which make the repayment of the existing debt harder and thus support debt accumulation. Nigeria's debt repayment from 1987 to 1989 for example constituted 12.2 billion dollars out of which 3.8 billion was interest. In Côte d'Ivoire the interest comprised 1.7 billion out of 4 billion debt repayments in the same period. Besides the high interest rates the strong dependence on revenues from external trade and the deterioration in commodity terms of trade also largely contributed to the bulk of outstanding debt (Rimmer, 1990).

Although deteriorating terms of trade and high interest rates largely contributed to the increase of outstanding debt it must be realised that factors were not under the control of the IMF and World Bank. Nevertheless the way in which IFIs *managed* the African debt was also often criticised. Since several African countries could not meet their debt repayment obligations their debt had to be rescheduled. The IMF and World Bank were the leading agencies in the rescheduling process since their role, besides providing conditioned loans, was the coordination of lending from other creditors. As soon as a country became eligible for rescheduling in terms of meeting SAP conditionalities, their debt servicing obligations could be postponed. However the debt rescheduling acted only as an immediate remedy leading to long term negative consequences. As the debt servicing obligations were postponed they were added to the capital sum. This, together with arrears in payments, capitalisation of missed interest payments as well as further loans supporting structural adjustment resulted in the cumulative increase of total outstanding debt (World Bank and UNDP, 1989; Rimmer, 1990).

High indebtedness of African countries however is not only a matter of statistics but has serious implications for functioning of economy. Strong pressure from IFIs forcing African countries to meet their debt repayment schedules made them spend significant portion of their domestic savings[15] on debt repayment. This led to severe cuts in imports. However imports, already affected by other fiscal cuts in order to meet stabilisation goals, were necessary for investments and provided African industry and agriculture with spare parts and other essential inputs. Their unavailability therefore led to the underutilisation of existing capacities negatively affecting exports (Woods, 2006). And since exports were the most important source of foreign exchange

[15] In 1980s at average 20–25% of domestic savings were used in debt repayments (Killick, 1989, cited in Woods, 2006, p.154).

needed for investments and debt repayment, vicious cycle was created. Furthermore unfavourable situation in terms of high outstanding debt discouraged potential investors (World Bank, 1994b). Nonetheless the debt repayment problems are not only a matter of economic figures. During the process of SAP implementation high debt repayments and meeting the obligations also in some countries contributed to the cuts in social spending which, contrary to the economic statistics, more directly influenced (and still influence) the inhabitants of Sub-Saharan Africa (Riddell, 1992). Accordingly for adjustment to be successful the emphasis on increasing the domestic savings would be more beneficial in terms of revived investments than strict short-sighted focus on the debt repayment.

In the 1990s it became clear that without considerable reduction in outstanding African debt, the chances for SAPs to be successful in reviving African economies were few (World Bank, 1994b; Riddell, 1992; Sachs, 1996). Several critics supported their calls for debt relief pointing at the fact that in some cases the debts could be regarded as "odious"[16] (Woods, 2006). In the face of vigorous criticism, the World Bank launched *the Heavily Indebted Poor Countries (HIPC) Initiative* in 1996 which aimed to reduce debt burden of low income developing countries. This initiative however demanded countries to meet even stricter conditions in order to become eligible for debt reduction, which resulted from the World Banks attitude about inadequate implementation of proposed adjustment policies. Naturally the African countries lacked both political will and necessary resources and therefore the initiative did not work (Woods, 2006). First modification of the HIPC initiative was not introduced until 1999. This modification however was not done under the aegis of SAPs but along with the Poverty Reduction Strategy Papers (PRSPs) initiative[17] (Andrews et al., 1999).

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[16] Odious debt is debt made by a regime that was not used in the interest of nation, and the creditors at the time of lending were aware of the fact that the loans will be used for personal purposes of the regime. In Africa loans (including adjustment loans) to Zaire's Mobutu Sese Seko for example are often regarded as odious (Woods, 2006).

[17] Enhanced HIPC Initiative was done under the aegis of Poverty Reduction Strategy Papers Initiative that was a replacement for Structural Adjustment Programs (Andrews et al., 1999).

3.1.3 Aid

Foreign aid[18] is regarded as one of the prerequisites for and an indivisible part of the process of structural adjustment. According to World Bank and UNDP (1989, p. iii) "strong domestic policy reforms coupled with substantial foreign financial aid are key factors in making this strategy [SAPs] work".

In the late 1980s in response to the rather negative economic results of "strong reform countries"[19] the World Bank and UNDP (1989) argued that at least the foreign aid donors started to prefer strong reform countries to the countries with weak reform efforts (table 5). Thus more aid was allocated to the countries with more intensive reform programs. However unless the aim of the SAPs was to make countries aid dependent it is a questionable means of assessing the SAPs performance.

Table 5: Shifts in ODA flows, 1986-1987

	Countries with strong reform programs			**Countries with weak reform programs**		
	1985	1986	1987	1985	1986	1987
Increase in net ODA (millions of dollars)	-5	1,356	836	930	123	63
Percentage change in net ODA (deflated by import prices)	1	30	9	34	-3	-6
Percentage of total ODA to Sub-Saharan Africa	39	45	47	42	36	33

Source: World Bank and UNDP (1989).

As a result foreign aid may be regarded one of the motivations of countries to implement SAPs and at the same time SAPs significantly altered the distribution of foreign aid across the region. And although the amount of aid that was delivered to

[18] Foreign aid also includes the grant element of concessional loans. The terms Concessional loans and aid is used interchangeably here.

[19] When comparing periods of 1980–1984 (pre adjustment or early adjustment periods) with 1985–1987, strong reform countries lagged behind weak reform countries in change terms of trade, change in export earnings and change in unit export prices (World Bank and UNDP, 1989).

the adjusting countries was considerable[20] the way how aid was delivered was even more crucial for the success of SAPs.

Indeed in order to meet the costs of adjustment it was important to support African countries by higher volumes of foreign aid coordinated by IFIs. However, according to Collier and Gunning (1999), if the engagement of IFIs is persistent and the aid is *conditioned* it leads to decreasing government commitment to reforms. This is because of lack of *ownership*, which the conditionalities imposed from the "outside" bring. Additionally aid conditioning does not have, according to Collier and Gunning, real effect on policy change. In many cases countries that receive foreign aid often promise to implement IFIs requirements to reform but the promises are not always fulfilled.[21] Changes in policies are much more likely to be realised when governments learn from successful examples around them (Collier and Gunning, 1999).

Besides the failure to effectively induce policy reforms, conditionality also leads to misallocation of aid. This is caused by the fact that donors often, in order to improve the policies, allocated the aid into the countries with poor policy stance. However as soon as the policies improved, they withdrew. This limited the motivation of countries to reform impeding the efficiency of aid and SAP effectiveness in the post-stabilisation phase (IMF, 1998). The main reason for this happening was that the IMF improperly included aid, provided in the form of concessional loans, into the budget deficit.[22] Since in the post-stabilisation phase the deficit and aid dependency was regarded as undesirable the aid flows were cut (IMF, 1998). Aid–in order not to be counted into the budget deficit–could then be used either as foreign exchange reserves or for debt repayment. This however discouraged aid donors since they were unwilling to provide financial support for such purposes (Collier and Gunning, 1999).

Furthermore Collier and Dollar (1998, cited in Collier and Gunning, 1999, p. 645) estimated that the efficiency of aid rises with better policy environment and the countries in the post-stabilisation phase of structural adjustment need more money, not less in order to invest and stimulate economic growth and poverty alleviation (figure 5). Another reason why to allocate more aid to reformed countries is, according

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[20] In Senegal for example the foreign aid grew at about 18% per year between 1980–1987.At the end of this period it comprised 20% country's GDP (Woods, 2006).

[21] For example Kenyan and Malawian government promised to implement policy reforms 5 and 7 times respectively in exchange for a concessional loan but failed to fulfil the promise.

[22] The IMF included the whole sum of concessional loans into the budget deficit despite the fact that the grant element of these loans during the stabilisation and adjustment process accounted up to 70% of loans. The grant element considered as a foreign aid should therefore not be included in the deficit (IMF, 1998).

to Collier and Gunning (1999), that 1 dollar of aid in the countries with policy environment increases private investments by 1.9 dollars.[23] Accordingly, more aid should be allocated to the countries in the post-stabilisation phase not as a reward but because the aid would be more effective in poverty reduction. The provision of aid should be only reduced when the economic growth is high enough to alleviate poverty itself. This misallocation of funds could be well prevented if IMF invested more effort into research in the pre-stabilisation phase (Collier and Gunning, 1999).

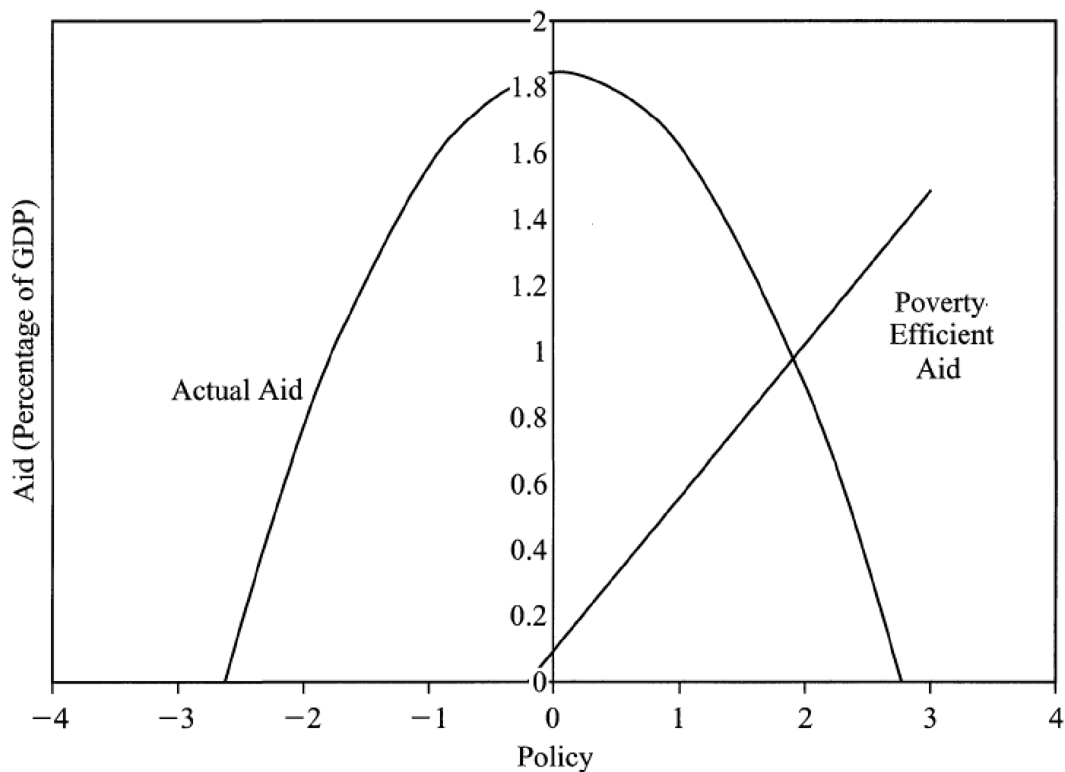

Figure 5:	The relationship between efficient aid and policy reform.
Source:	Collier and Gunning (1999).
Notes:	Countries are ranked according to the average empirical state of 20 different policies (including macroeconomic policies, public sector management, corruption and environmental management). Countries with +2 and above policy ranking are countries with virtually no policies that could seriously impede economic growth. Countries with -2 and below have several dysfunctional policies which could potentially limit economic growth (Collier and Gunning, 1999)

[23] This ratio is valid up to 12% of the aid/GDP ratio since aid is a subject to diminishing returns (Collier and Gunning, 1999).

3.1.4 Agriculture

Agriculture was and still is indisputably one of the most important sectors in African economy. There are a number of reasons supporting this claim. First, the share of agriculture in GDP of Sub-Saharan Africa at the beginning of the 1990s was as high as 32%. Although at the end of the same decade it decreased to 26% it must still be counted on (World Bank, 2010c). Second agriculture was historically and traditionally an important export sector of Sub-Saharan Africa (Adepoju, 1993). Finally, 72% of African population lived in rural areas in 1990 (Morgan and Solarz, 1994). The proportion of rural population remained high also during the last decade when it accounted for 62% of population in 2009 (PRB, 2009). Thus it must be realised that farming–be it subsistence or commercial–is typically the livelihood of rural population (Morgan and Solarz, 1994). Therefore any policies affecting agriculture directly affect the majority of population and the overall economic performance as well.

Prior to the acceptance of SAPs the agricultural sector in Africa was dominated by governments what was a legacy of colonialism (Riddell, 1992). Not only were the agricultural enterprises in public hands but governments were also–although sometimes limitedly–the source of funding, research and innovation. The focus in the pre-adjustment period was on meeting "the cheap food policy" goals and therefore farm inputs such as fertilizers were subsidized and prices controlled (Lopez and Hathie, 1998).

Nevertheless World Bank and UNDP (1989) criticised the agricultural model of African states for inadequate investments to agriculture and rural development leading to low agricultural productivity. African governments were not only criticised for controlling prices but also for overtaxing the farmers what was also a very common feature in the pre-adjustment period. High taxes and price controls also, according to the World Bank and UNDP (1989), discouraged farmers to produce more.

However with the onset of neo-liberal SAPs generous but often inefficient government policies were condemned to doom. The agricultural sector was affected by large majority of SAP policies. Devaluation was prescribed to support export crop producers, state control of prices together with marketing boards were to be removed, subsidies on food and farm inputs were cut, privatisation occurred and taxation was to be reduced (Morgan and Solarz, 1994; World Bank, 1994b).

Although these policies were aimed at boosting agricultural performance and growth the results, as in the case of economic growth, have been rather obscure. In their SAP evaluation *Africa's Adjustment and Growth in the 1980s* the World Bank and UNDP (1989) state optimistically that countries that had liberalised prices and reduced taxation fared much better in terms of agricultural growth than countries that were less consistent in reform efforts. In another report World Bank (1994b) still maintained that agriculture grows faster in those countries that liberalized prices and reduced taxes more rapidly. However as for the World Bank also admitted, that the relation between overall macroeconomic policy improvement[24] and agricultural growth is not "clear" (table 6) (World Bank, 1994, p. 143).

Table 6: Agricultural growth rate change between 1981–86 and 1987–91

	Average annual agricultural growth rate (%)		***Difference in the two periods (percentage points)***
	1981–86	***1987–91***	
Countries with large improvements in macroeconomic policies			
Mean	**3.7**	**2.0**	**-1.7**
Median	**4.2**	**2.4**	**-0.2**
Countries with small improvements in macroeconomic policies			
Mean	**2.2**	**2.7 (a)**	**0.7**
Median	**3.1**	**2.8**	**0.3**
Countries with deterioration in macroeconomic policies			
Mean	**1.9**	**2.6**	**0.6**
Median	**2.3**	**3.3**	**-0.1**

Notes: (a) - average annual growth.
Classifications according to the World Bank (1994b).
Source: Based on World Bank (2004) data.

Unclear relationship between overall macroeconomic policy change and agricultural growth is according to the World Bank (1994b) given by the fact that macroeconomic policy change in itself does not automatically guarantee higher

[24]Overall macroeconomic policy improvement includes monetary policy, fiscal policy and exchange rate policy. Price liberalisation and tax reduction are not included in the macroeconomic policy reforms and for a separate category.

agricultural growth since there may be other "unreformed" policies that may hinder immediate positive response. Such policies include existing marketing boards and government intervention. In countries where these policies were reformed and producer's prices increased as a result of liberalisation, the payoffs in the form of accelerated agricultural growth, according to the World Bank (1994b), manifested.

However the evidence from different sources does not coincide with that of the World Bank. The African Development Bank (1995, cited in Mkandawire and Soludo, 1999, p.53) for example claims that the agricultural reforms in Sub-Saharan Africa on average failed to increase agricultural output. Likewise Morgan and Solarz (1994) hold that SAPs did not address the constraints impeding agricultural growth in Sub-Saharan Africa although they admit that the assessment of agricultural performance must be approached with caution since this sector is especially vulnerable to unfavourable weather, especially in Africa where it is a very common cause of low harvests. Despite the complexity of the problem there are several explanations of stagnation of agricultural growth occurring even after the SAP implementation.

There are some factors that precluded noticeable success of SAPs in increasing agricultural output and resolving the agricultural crisis in Sub-Saharan Africa. According to Logan and Mengisteab (1993) for example the position of Africa in global trade plays a crucial role in understanding the state of African agriculture. Since the international market for primary agricultural commodities is dominated by international monopsonies, it is hardly possible for African countries to influence prices. The position might therefore not be given *purely* by their comparative advantage as it may seem, but *also* by the international laws and free trade restrictions[25] (Logan and Mengisteab, 1993). This leads to worsening international terms of trade while African countries cannot do much to resist the situation. Although the position in the international trade was caused by other factors than SAPs, liberalisation pursued by countries under the SAPs made African countries even more vulnerable to the agricultural policies of developed countries (Woods, 2006). These include stockpiling, nonproduction subsidies of direct subsidising of African traditional export substitutes (Logan and Mengisteab, 1994). This together with the long term decline in the demand for primary agricultural products leads to lower prices disadvantaging the African

[25] Free trade restrictions include tariffs, bureaucratic or for example sanitary barriers that prevent African countries to equally participate in international trade especially in secondary and tertiary sectors (Logan and Mengisteab, 1993).

producers (ADB, 2001; Woods, 2006). Therefore without resolving these impediments, trade liberalisation pursued by SAPs had little chance to combat the agricultural crisis in Africa.

Moreover several critics pointed out that the IMF and the World Bank often pushed several countries at the same time to export the same agricultural crops. In the case of favourable weather conditions numerous countries experienced plenteous harvests what intensified the competition among them (Logan and Mengisteab, 1993). This resulted to serious price dampening which is regarded as one of the most important contributors to the fall in export earnings. For example as reported by Logan and Mengisteab (1993) the agricultural export earnings of Sub-Saharan Africa fell from 64 billion dollars in 1985 to 19 billion in 1986. This fall in earnings occurred despite the fact that the agricultural production might have increased.

The IMF and World Bank have also been criticised for putting too much emphasis on “getting the prices right” in order to support agricultural production (Mkandawire and Soludo, 1999, p. 54). This measure however resulted from a fallacious assumption that farmers are not adequately rewarded for their products and, if they were, the immediate response in the form of higher production would manifest. Here we can observe a serious neglect and underestimation of parallel informal market.[26] As reported by Jamal (1987, cited in Rimmer, 1990, p. 288) in Somalia for example all but the government employment was conducted within the informal market. Although the case of Somalia is an extreme example, the informal market played an important role all over Sub-Saharan Africa (Logan and Mengisteab, 1993). The existence of informal markets caused that the prices of agricultural products, especially those for domestic markets, were *not always* under the control of government and thereby they were *largely* market determined already before adjustment (Mkandawire and Soludo, 1999). Moreover as reported by Azzam (1996, cited in Mkandawire and Soludo, 1999, p. 55) in Côte d‘Ivoire for example, the prices of export crops were also given more by the informal market than by government. The problem that should be faced is therefore rather seen in the revenue distribution between government and the producers rather than inadequate price incentives (Azzam, 1996 cited in Mkandawire and Soludo, 1999, p. 55).

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[26] While the IMF and World Bank assumed that the official market is omnipresent many Africans were (and still are) part of different social systems using social exchange, reciprocity and redistribution (Riddell, 1992).

Moreover the SAPs undue attention on increasing the producer's prices via liberalisation and producers incomes via tax cuts took the IFIs focus off the African realities of inadequate technology, undeveloped commodity and financial markets and unstable climate (Mkandawire and Soludo, 1999). According to Mkandawire and Soludo (1999) Africa desperately needs green revolution given that in 1999 only 4% of arable land was irrigated what is an alarmingly low number compared to the other developing regions of that time.[27] In addition the amount of fertilizers used in 2000 was lower than in 1981[28] (World Bank, 2010c).

In many cases SAPs misdiagnosed and, in fact, exacerbated the existing situation. Cuts in input subsidies caused that fertilizers and machinery became even less accessible for smallholders. Moreover the prices of imported inputs due to exchange rate devaluation increased. Since technologically underdeveloped countries were dependent on imported machinery this further impeded agricultural growth. In the case there were any progressive farmers, their potential investments were discouraged by plummeting interest rates that became reality after the interest rate decontrol (Morgan and Solarz, 1994).

The export oriented SAPs are also very often linked with the decrease in food security especially in urban areas that lack the option of subsistence. According to Sahn et al. (1999) too much emphasis has been put on export crops that were favoured by the countries following IFI prescriptions and partially replaced the food crops. Decreasing food production triggered the need for higher food imports. Although subsidized food imports could be favourable for African countries at the same time devaluation increased the import prices and hence the cost of food imports as well (Riddell, 1992). And although the World Bank claimed that it has reduced urban policy bias by enhancing agriculture the increased number of urban dwellers moving back into subsistence farming is more likely to have been caused by urban "desperation" rather than agricultural boost (see also the chapter on poverty) (Morgan and Solarz, 1994).

[27] In China for example 44% of arable land was fertilized, in India 26 % (Mkandawire and Soludo, 1999).
[28] In 2000 countries in Sub-Saharan Africa used 7.6 kg of fertilizers per hectare while in 1980 it was 8 kg/hectare (World Bank, 2010c). For comparison China used 261.9 kg/ha in 1999 and India 66.7/ha in the same year (Mkandawire and Soludo, 1999).

3.1.5 Industry

Before the onset of SAPs in Sub-Saharan Africa, the governments promoted import substitution model of industrialisation. From early 1960s until the late 1970s this model was relatively successful in terms of industrial growth rate which was on average higher than the growth of GDP. However in the early 1980s the growth ceased and African stagnation of African industry began (Noorbaksh and Paloni, 2000).

Although SAPs did not contain any industrial policies as such this sector was also largely influenced by other stabilisation and structural adjustment measures encompassed in the strategy (Proff, 1994). At the same time the IMF and the World Bank expected these measures to deliver positive results and, likewise in other sectors of economy, to support its growth. However there is a controversy whether SAPs managed to contribute to the revival of industrial sector. The debate exists between two extremes. While World Bank (1994b) advocated SAPs claiming that they induced industrial growth other sources suggest that they contributed to deindustrialisation that has occurred in Sub-Saharan Africa (Noorbaksh and Paloni, 2000).

World Bank (1994b), like in the case of other sector evaluations, links macroeconomic policy change with the industrial growth to find out, that those countries that accepted and implemented macroeconomic policy reforms experienced higher median change in industrial and manufacturing growth, when comparing the early adjustment period of 1981–86 and 1987–91, than those countries that did not.

However the World Bank (1994b) based its assessment on macroeconomic policies which unlike other adjustment policies such as price liberalisation or privatisation do not affect, according to Mkandawire and Soludo (1999), industrial performance in a considerable manner. In fact by linking the improvement in macroeconomic policies with industrial growth, the World Bank suggested that cutting fiscal deficit or good monetary policy is beneficial for industrial growth. However, low budget deficit and monetary policy alone are unlikely to generate such a significant difference in growth. Although the exchange rate reform, which also belongs to the macroeconomic policy reforms and encourages exports, may bring some positive results for industrial growth it is still not as important as other policies such as the aforementioned trade liberalisation or privatisation. Therefore linking the macroeconomic policies with the industrial performance is not the appropriate way to assess the success of adjustment. And if the best adjusting countries experienced higher

change in industrial growth it might rather be caused by other factors than the improvement in macroeconomic policies in itself (Mkandawire and Soludo, 1999).

While macroeconomic policy improvement is believed to have little impact on industrial growth, liberalisation and privatisation that were also a part of SAPs, affected the industrial sector much more (Noorbaksh and Paloni, 2000). As Mkandawire and Soludo (1999) show at the example of Ghana (according to the World Bank (2004b) the country with the most extensive adjustment) the trade liberalisation and the access to adjustment lending made necessary imports spare parts available what in the first years of adjustment led to better utilization of capacities and consequently to higher manufacturing outputs. However the growth turned out to be *unsustainable*. As soon as the liberalisation in later phases of adjustment spread to other areas, the Ghanaian "infant producers" were not able to compete with foreign high skilled manufacturers and the production decreased again (figure 6) (UNECA, 1991). This evidence suggests that the increase in manufacturing was more due to effective utilisation of capacities than to the trade liberalisation alone.

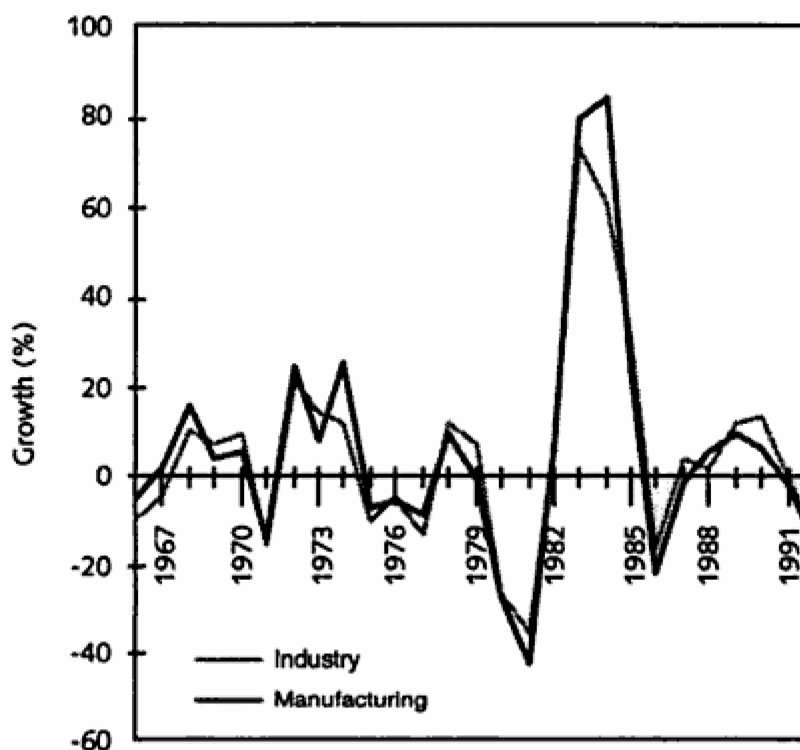

Figure 6: Industry and manufacturing value added in Ghana, 1967–1991.

Source: Mkandawire and Soludo (1999)

Besides trade liberalisation, privatisation was one of the most influential policies for African industry sector. It was originally performed in order to lower the fiscal burden and only secondarily to increase the efficiency of industrial sector dominated by rigid state owned enterprises (World Bank 1994b; Noorbaksh and Paloni, 2000). The importance of public enterprises was considerable since they created as much as 20% of wage employment in several countries and constituted more than 10% of GDP in Congo, Côte d'Ivoire, Guinea, Kenya, Mozambique, Tanzania and Zambia (World Bank, 1994b). According to IFI's prescriptions viable enterprises were to be privatised and those which were considered unviable were sentenced to liquidation. Although the World Bank (2004, p.103) admits that the privatisation was only "moderately successful" the Bank promptly attributes the failure to increase efficiency and growth in industry to the "limited privatisation" (p. 105). On the other hand a considerable number of authors pointed at the negative impacts that the privatisation has brought. According to UNECA (1991, p.19) the poor performance of African industries cannot serve as a "justification of wholesale, indiscriminative, and doctrinaire privatisation". Indeed foreign direct investments are necessary in order to boost African economy and industry in particular. However in Africa according to Logan and Mengisteab (1993), privatisation was predominantly performed in foreign interest and with foreign management without considering the needs of the population. In Togo for example the government sold 58% of its plastic industry to foreign investors who automatically gained control over the industry depriving Togolese government of decision making. UNECA (1991) also pointed out that lack of indigenous private investors will lead to takeover of African firms by transnational corporations which also would lead to the focus on profitability rather than people's interest. This was the case in Côte d'Ivoire where the national telecommunication industry was privatised resulting in creation of private monopoly charging much higher prices and preventing people from access to essential infrastructure (Woods, 2006).

Moreover lack of systematic approach was indicated by Mkandawire and Soludo (1999) who argue that privatisation should be a state-led and state-funded process. However given that African countries lacked both administrative and fiscal capacities it was performed in a chaotic manner causing more harm than good (Woods, 2006). Moreover the privatisation efforts did not bring desired and much needed investment flows since the way in which the privatisation was conducted also impeded the interest of foreign investors to buy African enterprises resulting in closure of further factories

(IMF, 1998). And while the IFIs paid limited attention to how the sale of public enterprises was conducted, the chaotic privatisation also had serious social impacts, namely increasing unemployment and thus wasting scarce human resources (Mkandawire and Soludo 1999). Instead, human capital together with higher investments in infrastructure should be the leading forces of African industrial recovery and growth partially moving them away from the primary commodity exports. However SAPs seem to have failed to deliver desired investments and moreover looking at the adverse social impacts of the IFIs policies they seem to have ignored the need for human capital as well.

3.2 Social Impacts

As noted in the previous chapters many critics agree that SAPs failed to bring in most of the countries significant positive results in terms of economic growth and moreover, in many countries, the SAPs negatively affected agricultural and industrial sector. Nevertheless, besides the large volume of literature evaluating the effects of SAPs on economic performance, its impacts on the poor and vulnerable groups of African population have gradually become even more discussed issue although the two are closely interconnected. Since the launch of the SAPs, the IMF and World Bank have been criticised for being too much focused on short term economic outcomes that they neglected hidden social costs resulting from the implementation of the programs (Woods, 2006). And even though they are not regarded as the sole cause of the decreasing human development they are regarded as one of the major negative factors.
According to Geo-JaJa and Mangum (2003, p. 297) “many of the conditionalities of SAPs threaten the very foundation of human rights and the sovereignty of nations in its compromise of human resources and economic development”. This notion is also supported by UNECA (1991, p. 24) according to which “there is mounting evidence that stabilisation and structural adjustment programmes are rending the fabric of African society”. Geo-JaJa and Mangum (2003, p. 296) went as far as to call SAPs a “retardation of socio economic development”.

On the other hand a number of sources (for example Collier and Gunning, 1999; Elbadawi et al., 1992, World Bank, 1994b) have argued that the social costs associated with the implementation of SAPs are only temporary and are likely to disappear as soon

as the benefits of adjustment in terms of increased economic growth will manifest. These assumptions however often contradict the evidence provided by their critics.

3.2.1 Education

In order to meet the IFIs criteria of stabilisation and structural adjustment the contraction in public expenditures was needed. In such cases it is the social sectors, especially education and health care, that are likely to be affected since it is more "feasible" to cut spending in these than in other areas such as defence or debt servicing (Adepoju, 1993; Logan and Mengisteab, 1993).

There is a general agreement among scholars that education plays a crucial role in development. Specifically rising levels of education generally bring lower fertility rates, increase the usage of technology and rise productivity among workers what leads to the improvements in living standards (Geo-JaJa and Mangum, 2003). It has also been argued that investments in human capital are even more important than the ones in physical capital, and they are likely to bring very high returns. Therefore there is little wonder that education was emphasized in such programs as the US New Deal or the Marshall Plan (Geo-JaJa and Mangum, 2001). Also some development success stories from East Asia are believed to have been brought by high investments in education and therefore investment in education is, according to Geo-JaJa and Mangum (2001), the most reasonable choice a country can make. Accordingly the SAPs in order to be successful in restoring viability of African countries should put education on one of the first places the first.

Although the importance of education was also several times emphasized in the World Bank publications (for example Elbadawi et al., 1992, World Bank and UNDP, 1989), from the early 1980s the SAPs are believed to have brought hard times for education in Africa or at least in some cases to have ignored the problems in this sector. Public expenditure cuts prescribed by the IMF and the World Bank caused that the share of government expenditures on education which had already been inadequate before the adjustment, in some countries decreased (Sahn et al., 1999). The reduction in the share of total expenditures was then intensified by the need to rise of the share of expenditures on debt service payments which, as mentioned in previous chapters rocketed during the adjusting era (Stewart, 1991).

To asses this trend, Logan and Mengisteab (1993) compared the resource allocation in strong and weak reform countries. They found out that in 1978, prior to the adjustment,

countries with strong reform efforts allocated 15.6% of total government expenditures to the education sector compared with the 15.2% of weak reform countries.[29] Nonetheless after the introduction of SAPs in early 1980s the situation reversed and while the weak reform countries allocated 16.5% of their total expenditures to education the spending of the strong reform countries dropped to 15% (figure 7) (Logan and Mengisteab, 1993).

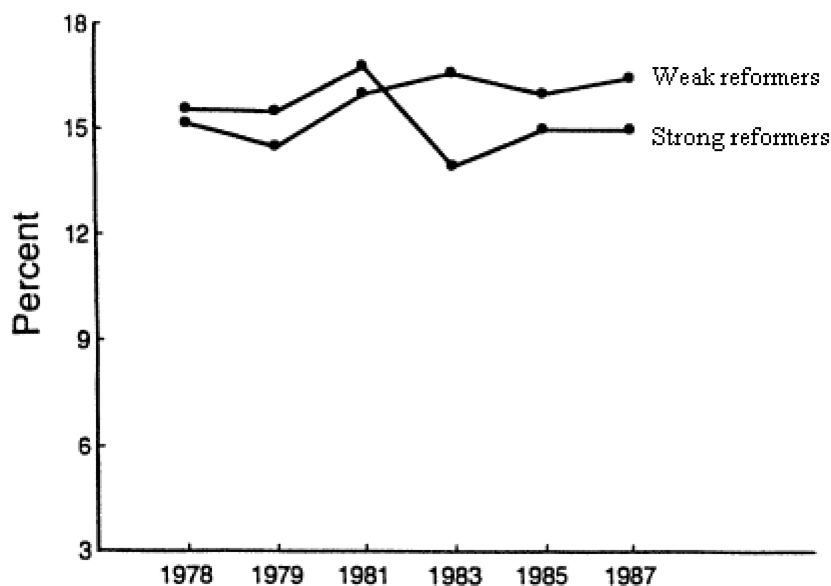

Figure 7: Government expenditures on education as a percent of total government expenditures, 1978–1987.

Source: Logan and Mengisteab (1993).

The decrease in the governments education spending is therefore often seen as direct outcome of SAPs (Geo-JaJa and Mangum, 2003).

On the other hand some authors (for example Sahn, 1992; Adepoju, 1993; Collier and Gunning, 1999) argue that the fall in education spending was not the case in every adjusting country. Some of them, with the help of the adjustment lending managed to keep their expenditures to education constant or even slightly growing. As consoling as this argument may seem there are various reasons why it may not be regarded as satisfactory. First the education sector in Africa was generally not biased

[29]The sample of the strong reformers consists of countries identified both by the IMF and World Bank as strong reformers and includes Central African Republic, Gambia, Malawi, Niger, Togo, and Uganda. Weak reformers are countries identified by the World Bank as weak reform countries and include Ethiopia, Liberia, Sierra Leone, Zimbabwe, Zambia, and Burkina Faso (Logan and Mengisteab, 1993).

towards primary but towards the secondary and tertiary education to which the poor usually lacked access (Sahn, 1992; Summers and Pritchett, 1993). Although SAPs tried to target this problem of redistribution, it was not very successful, the accessibility of education for the poor decreased also in countries which did not decrease their education spending. Second and even more importantly the spending on education did not keep pace with the rapid population increase. Thus despite some countries kept their spending to education constant or growing in absolute numbers their spending per capita due to the large population increase fell. In countries with the decrease in spending in absolute numbers the decrease was even more dramatic[30] (Sahn, 1992; Geo-JaJa and Mangum, 2003).

Critics of the SAPs furthermore claim that adjustment policies did not restrict themselves to the cuts in social spending. Stewart (1991) for example reported that in several adjusting countries fees for primary education were introduced on IFIs recommendations. This was the case in Togo, Mali, Sierra Leone and Zambia. By establishing the user fees, the accessibility of education for the poor worsened. This is especially the case when the vulnerable groups of population were at the same time affected by declines in their real incomes due to the rise in prices and job losses which were very common features accompanying the process of structural adjustment (Collier and Gunning, 1999).

Sarrasin (1997) states that in Ghana due to the reductions in public employment associated with the austerity measures the number of teachers in public primary schools decreased and salaries were reduced.[31] At the same time the number of school age children due the above mentioned high population growth increased. Hence the high teacher per children ratio caused that the quality of public primary schooling decreased. This was however not only the case of Ghana but similar situation repeated in several African countries (Sarrasin, 1997; Geo-JaJa and Mangum, 2003).

The low quality of public education system has also very often been indicated as a partial cause of the post-adjustment increase in what George (1973, p. 88) has termed

[30] In Nigeria for example average spending on education from 1981 to 1985 was 11.5% of total government expenditures. From the introduction of austerity stabilisation measures in 1986 to 1995 the average spending comprised only 6.2% of total government expenditures. However at the same time the population of Nigeria increased from 73 million in 1985 to 109 million in 1995 (Geo-JaJa and Mangum, 2003; World Bank, 2010c). When both of these factors combined they imply a considerable decrease in teacher per pupil ratio.

[31] Zack-Williams (2000) states that the fall in salaries of public teachers forced them to look for second or even third parallel job resulting in considerable decrease of quality of schooling

as *structural unemployment*.[32] In the pre-adjustment period the public sector was dominant employer in majority of countries in Sub-Saharan Africa and the schooling system was set up to provide graduates suitable for existing jobs. Since the arrival of SAPs was accompanied by gradual decrease in public jobs, many public workers have been left unemployed and at the same time the public sector demand for graduates decreased. Now it was the primary sector that was to pick the baton and became the major job provider. However the "modern" private sector did not provide sufficient number of jobs on one side, and more importantly, the skills of graduates mismatched existing job requirements (Geo-JaJa and Mangum, 2001). The existing gap between the job vacancies and the placement which is according to Geo-JaJa and Mangum (2001) result of the new incoherency between the education system and private job requirements is illustrated by an example of Nigeria shown in table 7.

Table 7: National declared job vacancies and job placements (professionals and executives) in Nigeria, 1984–1994.

Year	***Total registration***	***Jobs declared***	***Placement***	***Job placement (%)***
1984	2514	657	23	3.5
1985	4165	748	145	19.4
1986	6128	606	148	24.4
1987	15100	444	175	39.4
1988	16293	591	281	47.5
1989	14281	3091	678	21.9
1990	10182	3695	986	26.7
1991	12624	3989	164	4.1
1992	22206	3088	10	0.3
1993	108153	3204	7	0.2
1994	106934	3307	7	0.2

Note: Numbers of unemployed may be lower than the actual unemployment rate due to limited registration of unemployed.
Source: Geo-JaJa and Mangum (2001)

Provided evidence shows that the concept of SAPs in various aspects disregarded the important role that education plays both in human as well as economic development. Although their stabilisation policies may be successful in terms of improved budget balances, they are not sufficient without the inputs into human capital.

[32] Structural unemployment exists despite existing job vacancies and is caused by the mismatch of job requirements and workers availabilities. By contrast general unemployment is caused by unavailability of job opportunities.

At the same time they neglected the fact, that market forces let loose on the continent cannot solve all the problems themselves, unless they are appropriately complemented by public sector providing social services including education. Therefore in order to be successful such considerable change in working of the economy, as SAPs definitely were, should have been accompanied by reform in education as stated by Geo-JaJa and Mangum (2003):

> Education, appropriately tailored to local and national need, is the essential input to human resource development. If the state does not protect these indispensable functions, who will? Certainly, international agencies devoted to economic development should have been the most committed protectors of those critical development tools.

3.2.2 Health care

Besides education the public spending towards the health sector was, according to Logan and Mengisteab (1993), also cut as a result of austerity measures of SAPs. However the data must be approached with caution as in the case of education large discrepancies exist among adjusting countries. The World Bank (1994b) compared the real expenditures on health for the pre- and post adjustment time periods of 1980–83 and 1987–89. While Nigeria–as a “strong” adjuster–and Zambia–as a “weak” adjuster–decreased their real expenditures on health by 50.5% and 3.4% respectively other countries such as Niger or Zimbabwe–both strong adjusters–increased their spending on health by 36.7% and 37.6% respectively for the same periods. Moreover, when assessing the expenditures on health as a portion of GDP, Van de Walle (2003), Collier and Gunning (1999), and Sahn (1992) discovered either a slightly increasing trend or stagnation. This was as well as in the case of education caused by considerable amounts of foreign aid which in several countries accounted for more than 30% of public spending to health in 1998.[33] However the aforementioned high population growth must be considered since it negatively affects the per capita spending.

Nevertheless the government expenditures influence the accessibility of health care only partially and there are several other ways in which SAP measures affected the health sector in African countries.

[33] Foreign aid comprised 36.2% of public expenditures to heath sector in Niger, 43% in Zambia, 31.9% in Burkina Faso. Slightly lower shares of foreign aid in the public expenditures on health have been reported in Ghana (22.7%), Mali (24.4%) and The Gambia (17.1%) (Van de Walle, 2003).

First, health care is, because of drugs, an import intensive sector. Devaluation introduced as a part of SAPs therefore significantly increased the import costs (Collier and Gunning, 1999).
Second user fees on health care were introduced or raised as a part of SAPs in various countries namely Ghana, Niger, Nigeria and Zaire what led to lower usage of government health facilities (Stewart, 1991). Zack-Williams (2000) reported that the attendance of public health facilities Ghana decreased from 4.3 million at the beginning of the adjustment in 1983 to 1.57 million in 1991. While the decrease might have been partially caused by the overall economic crisis and other factors, SAPs are believed to have contributed to the situation. At the same time the usage of traditional healers and medication increased as for some of the poor the visit of a medical practitioner could cost up to 15% of their monthly income (Zack-Williams, 2000).
Third, Van de Walle (2003) observed significant retreat of the state from the health sector in the two decades of structural adjustment. In several African countries non-governmental organisations (NGOs) and private sector provided from one third to one half of the health services, the area which had been traditionally dominated by the state. This trend may possibly be attributed to the increase of foreign aid flows to the health sector as well as excessive reliance on market mechanisms supported by the SAPs. Indeed the aid is very important for developing countries in the time of their transition. However this kind of substitution may result in dependency and to the government ignorance of its duties in the long term.

However it must be realised that there were (and still are) problems in the health care sector in Africa that had negative implications for the poor and are not caused by the SAPs. For example the majority of public finances were actually allocated to the hospital health care that is quite costly and usually inaccessible for the poor, a fortiori the rural poor. The case study of Mali, provided by Van de Walle (2003) makes the situation even more alarming. In 1997 the government of Mali did not allocate *any* resources into the primary health care which is essential and the easiest accessible service for the poor.[34] IFIs partially tried to reverse this trend when in 1990s, as reported by Van de Walle (2003), supported the community and preventive health care in Mali. These efforts reflected in doubling the vaccination rates and increasing the contraception prevalence in late 1990s compared with the previous decade. However

[34] 80% of the government expenditures on health care went to the central administrative, logistic, secondary health care and training (Van de Walle, 2003).

the success is only partial since it did not affect the redistribution of government spending because of a simple reason. It was funded by foreign aid.

3.2.3 Poverty

Any development policy should be directed at achieving reduction in poverty at its end. However as surprising as it may be poverty alleviation was not originally an explicit goal of structural adjustment. Thus the poverty alleviation was only regarded as a "side effect" of the overall economic prosperity that was expected to be achieved by following the policies prescribed in the SAPs (Mkandawire and Soludo, 1999). At the same time the IFIs admitted that poverty may increase in the initial phases of adjustment. Nonetheless they also claimed that the success of the reforms in terms of increased economic growth would gradually lead to the decrease of poverty (World Bank, 1994b).

Originally the IFIs assumed that by changing rural-urban terms of trade in favour of the rural population the poor will *implicitly* benefit and increase their incomes (Stewart, 1991; Zack-Williams, 2000). However this notion was based on the assumptions that the poor are located in the rural and agriculture dominated areas and that by supporting the tradeable sector and cutting expenditures in non-tradeable the poverty of rural people will decrease (Stewart 1991). The inaccuracy of these hypotheses is underlined by the evidence provided by several authors (for example Stewart, 1991; Zack-Williams, 2000) stating that the most negatively affected social groups were both urban as well as rural poor.

Stewart (1991) illustrates this fact by the example of Côte d'Ivoire. He claims that SAPs especially favoured the export crops producers out of which only 27% were poor in 1980. On the other hand the food producers with poverty incidence of 47% often lost because of the cuts in input subsidies such as fertilizers. In the following period, between 1980 and 1985, the incomes of food producers fell by 4.7% annually while the incomes of export crop produced declined by 1.3% on average in the same period. This suggests that great portion of the poor were adversely affected by the SAP policies. Similar situation was not limited to Côte d'Ivoire but repeated also in other countries, for example in Ghana, a country that was regarded by the IFIs as exemplary adjuster (Stewart, 1991).

In addition Collier and Gunning (1999) point at the fact, that rural smallholders in Malawi, who comprise large part of local poor and are often in remote locations, were also hurt by the early adjustment measures. These farmers were mostly net buyers of maize and thus suffered from high food prices that were an outcome of devaluation, removal of food subsidies and price deregulation introduced by the SAPs. As Collier and Gunning (1999) further state, the case of Malawian smallholders was well known before the adjustment due to the pre-adjustment analyzes performed by the IMF. And yet no measures were introduced to compensate them on time. Nevertheless for other countries such analyses were not even performed (Collier and Gunning, 1999).

Finally, Zack-Williams (2000) also identified poor rural wage workers who do not own any land as one of the most suffering groups. In Malawi the household real wages of agricultural workers declined by 50% at the beginning of the adjustment since their wages were not increased simultaneously with the rising prices of food (Collier and Gunning, 1999). This was again, according to Collier and Gunning (1999), predictable but adequate compensating measures were not introduced soon enough to prevent this unnecessary loss for workers.

The aforementioned measures that were not very successful in lowering the rural poverty however seriously affected the urban population as well. In his book *The Planet of Slums* Mike Davis calls the period of adjustment as an "Urban Poverty's Bing Bang" (Davis, 2006). Although the term may be slightly exaggerated there are other sources that agree that the adjustment gave the urban population a rough time. Devaluation and price decontrol introduced as a part of SAPs rapidly increased the costs of living on one side, while cuts in subsidies on the other made access to food and other essential commodities more difficult (Riddell, 1992). Mkandawire and Soludo (1999) also reported rapid increase in unemployment, especially fall in building sector jobs from which many poor had benefited. Moreover and especially in urban areas the public sector represented the dominant employer. Therefore retrenchment and reduction in public jobs left many teachers, health workers and other public workers unemployed. The "luckier" ones experienced "only" a rapid decrease in their salaries which in some of the adjusting countries fell by 33% (Zack-Williams, 2000). The fall in real wages was even more significant due to the higher living costs mentioned above. Consequently the public workers, who mostly constituted the middle class, in many cases became the "new poor", as reported by Davis (2006).

Despite very limited data on the specific overall numbers on poverty incidence in African countries and its evolution throughout the 1980s and 1990s there is some evidence provided by various authors that show increasing trends in poverty incidence in the adjusting countries. Mkandawire and Soludo (1999) and Zack-Williams (2000) argue that even in the adjusting countries with positive economic growth rates the incidence of poverty increased by the early 1990s (table 8).

Table 8: Change in the percentage of people below national poverty lines and change in macroeconomic policies, 1985–1990.

	Head-count ratio (%)		*Change in poverty*	*Change in macroeconomic*
Country	*1985*	*1990*	*(% points)*	*policy (score)*
Côte d'Ivoire	40.31	45.93	5.62	-1.3
Ghana	**29.00**	**33.49**	**4.49**	**2.2**
Kenya	53.17	58.83	5.66	0.5
Mauritania	32.17	35.52	3.35	0.5
Rwanda	31.59	37.94	6.35	-0.2
Senegal	49.65	54.75	5.10	-0.5
Tanzania	**53.53**	**59.79**	**6.26**	**1.5**
Uganda	37.10	44.69	7.59	0.2
Zambia	48.53	52.54	4.01	-1.3
Zimbabwe	**56.71**	**67.26**	**10.55**	**1.0**

Source: Modified according to Mkandawire and Soludo (1999).

Note: Countries in bold indicate strong reform countries according to the World Bank (1994b).

Nevertheless the IFIs did not attribute much importance to the question of poverty alleviation until the UNICEF report *Adjustment with a Human Face* was published in 1987. This report pointed at the mounting evidence about the negative effects of SAPs on human development and is believed to have induced the IFIs to start to consider introduction of poverty alleviating strategies (Zack-Williams, 2000). As a result in late 1980s and early 1990s the World Bank came with a number of social cost mitigating programs. The Social Action Program in Cameroon, the Grassroot Development Initiative Project in Togo, The Social Development Project in Chad, the National Directorate for Employment Project in Nigeria and the Programme of Action to Mitigate the Social Costs of Adjustment in Ghana are some examples of such programs given by Geo-JaJa and Mangum (2001).

Although these measures were the heralds of actions towards poverty alleviation what may be regarded as positive, they have been criticised by several authors. Geo-JaJa and Mangum (2001) and Woods (2006) for example claim that these programs could hardly allay the "externalities" produced by SAPs. Furthermore according to the Woods (2006) the overall approach of the IFIs was not changed and thus the "origins" of the negative social consequences remained.

Besides, Collier and Gunning (1999), Stewart (1991) and Mkandawire and Soludo (1999) argue that that these "safety-nets" were often poorly performed and badly targeted. Stewart (1991) illustrates this on the case study from Ghana. As mentioned above, in 1987 the World Bank launched the Programme of Action to Mitigate the Social Costs of Adjustment. As pleasant as the intention may seem the program had several imperfections. Firstly, it had a significant urban bias with two thirds of the funds directed to the urban areas notwithstanding the fact that the majority of poor were still located in the rural. Secondly only 3% of the funds were allocated to the northern regions with the highest incidence of poverty. Lastly, the "nutrition project", which was implemented as a part of the Programme, was intended to cover 15 000 children while the total number of children in need was half a million. Therefore similar programs are desirable but in order to be successful they should have been realised with much greater scope and properly targeted (Stewart, 1991).

Collier and Gunning (1999, p. 640) on the other hand hold that such "safety nets" are wasteful since the poor would automatically benefit from the adjustment. The same opinion is shared by the World Bank (1994b). But how much will it take for adjusting countries to recover? This is a complicated question even for the World Bank itself. In 1993 the World Bank estimated, that "it would take annual growth of 4.7 percent in aggregate consumption to reduce the number of poor people in Sub-Saharan Africa–far more than the 0.8 percent achieved in the 1980s [during the first decade of adjustment]" (World Bank 1994b, p. 161). However the World Bank's optimism is not apropos. Although the World Bank maintained that by achieving "sound" macroeconomic policies, economic growth and subsequently the poverty reduction would manifest, the fact remains that average income per head in Sub-Saharan Africa in 2000 was lower than in 1971 (Geo-JaJa and Mangum, 2003) and Sub-Saharan Africa remains the region with the lowest level of human development in the World (UNDP, 2009).

The Banks continuous emphasis on achieving the "sound" policies was fittingly commented on by Mkandawire and Soludo (1999, p.72):

> Nobody on his or her right senses would argue that sound macroeconomic policies and sound economic growth will not reduce poverty. However, surely reasonable men and women could disagree on the definition of adjective *sound* as it applies to policies and to growth. There are differences between poverty-reducing growth paths and other growth paths. Whether, in fact, SAP is a growth inducing strategy is questionable on its own. It is even more questionable, whether the SAP is a poverty reducing growth path.

3.2.4 Reforming the approach

After perpetual criticism from different NGOs as well as the public pressure from the major creditor countries providing funds through the IMF and the World Bank along with the inability of SAPs to solve the debt crisis and to reduce poverty, the IFIs finally resorted to initiate new strategies. The existing HIPC Initiative was reformed so that most of the countries could achieve the debt relief in the earlier stages of the process (Woods, 2006). At the same time SAPs were replaced by a new approach under the aegis of the IMF's *Poverty Reduction and Growth Facility*. The new approach, although still requiring the achievement sound macroeconomic policies, is much more participatory and serves as a link between debt relief and poverty reduction. The main point of the new strategy is the preparation of the Poverty Reduction Strategy Papers (PRSP) by the local authorities in the developing states. Although the completion of the PRSP is still performed under the supervision and in cooperation by the IFIs, much greater ownership of the reforms is likely to been reached in comparison with the previous SAPs (Andrews et al, 1999). Although the PRSP strategy is not an ideal approach and would need some corrections at least it is a first sign of changing the IFIs attitude towards the question of poverty and growth.

The changing attitude was explicitly expressed in the World Bank publication called *Economic growth in the 1990s: learning from a decade of reform* in 2005 which stated:

> […] we need to get away from formulae and the search for elusive "best practices [that have been part of the SAPs]," and rely on deeper economic analysis to identify the binding constraints on growth. […] This much more targeted approach requires recognizing country specificities, and calls for

> more economic, institutional, and social analysis and rigor rather than a formulaic approach to policy making (World Bank, 2005, p. xiii)

This publication presents such a major shift in the World Bank's view that according to Rodrik (2006, p.974–975)

> [...] the reader has to remind himself that the book he is holding in his hands is not some radical manifesto, but a report prepared by the seat of orthodoxy in the universe of development policy.

Nevertheless it will definitely take some time for the "reformed" ideas of the IMF and World Bank to remedy the losses produced by SAPs during its implementation in Sub-Saharan Africa.

4 Conclusion

In spite of several efforts that have been made to put African countries back on the path of socio-economic development the Sub-Saharan, the region still remains the poorest in the world. The Structural Adjustment Programs were one of the most significant strategies and played an important role in the economic and social development of Sub-Saharan Africa throughout the 1980s and 1990s. The programs, which replaced state led development model with the neo-liberal market oriented approach, were implemented in the majority of African countries and intended to revive economic growth. However, despite great expectations and optimism of the International Financial Institutions and the large volumes of foreign aid, the positive effects of the programs remain questionable and several weaknesses of the approach have been identified.

Although there were certainly other factors negatively affecting the economic situation of the Sub-Saharan Africa, the programs are have been criticised for having ignored the diversity and circumstances of African countries and applying universal measures with an ideological preconception. As a result the reforms did not, apart from few exceptions, meet the expectations in reviving the economic growth and have brought several disturbances in many sectors of the economy ranging from industry to agriculture. The excessive focus of economic issues is believed to have brought hard times for vulnerable groups of African population including the rural as well as urban poor with consequences remaining until the present time. Moreover the reforms inadequately addressed important sectors such as education and health care which are regarded as crucial for successful human development.

Nevertheless despite the limited success and the negative adverse effects of the Structural Adjustment Programs, there is a potential to put Africa back on the path of successful human and economic development. However it must be realised that the complexity of African development problems reaches far beyond the fiscal deficits or monetary policy. Therefore, when designing such strategies the policies must be appropriately tailored to the real needs of African population, with reasonable use of government’s role in economy, and must not be based on ideological preconceptions. The Poverty Reduction Strategy Papers approach that replaced the Structural Adjustment Programs in 1999 has potential to at least partially serve as more appropriate development strategy.

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