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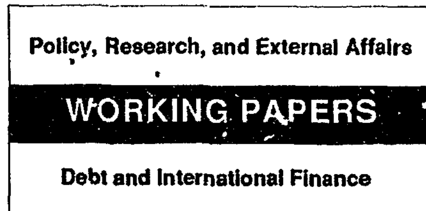


WPS0661

International Economics Department
The World Bank
May 1991
WPS 661

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# The Bretton Woods Agencies and Sub-Saharan Africa in the 1990s

## Facing the Tough Questions

Richard E. Feinberg

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The International Monetary Fund and the World Bank face a complex development challenge in Sub-Saharan Africa in the coming decade. The World Bank should take the lead in organizing external assistance efforts and structural reform programs in this region.

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Both the International Monetary Fund and the World Bank recognize that Sub-Saharan Africa represents a difficult and complex development challenge.

Feinberg proposes that the Bank and the Fund take four institutional steps to ·al effectively with the region's problems in the near term:

• The agencies should reconsider their planned net capital contribution to help overcome the region's severe foreign exchange constraints. A negative resource transfer could weaken the influence of the multilateral agencies and tighten the financial straitjackets already crippling many countries in the region.

• The Brady proposals represented a major conceptual step forward toward alleviating the private debt overhang that seriously burdens at least a dozen countries in the region. Additional efforts to reduce the private debts of the low-income countries will be needed to achieve the objectives of the proposals.

• The Bank's analysis of the problems facing the region argues for a faster and more comprehensive reform program. In the 1990s the Bretton Woods agencies will face increasing pressures to give more weight to issues of social equity and political variables.

• The Bank and the Fund will have to improve their ability to work together to maximize their effectiveness in the 1990s. One way to achieve more effective cooperation between the agencies would be for them to synchronize their policies on such issues as resource transfers, commercial debts of middle- and low-income countries, and economic and political conditionality.

The World Bank and the IMF should collaborate in long-term planning for Sub-Saharan Africa. Policy Framework Papers should go beyond the three-year horizon that current procedures now dictate and plan some issues for five to 10 years.

The Bank and the Fund should unite in an effort to produce strategic plans for the entire region to guide their own work and to give clear signals and realistic expectations to the region. The nations of Sub-Saharan Africa also should play major roles in designing these programs.

Collaboration will proceed more smoothly if one institution clearly has the lead — and, in this region, the World Bank rather than the IMF should take the lead in organizing external assistance efforts and policy reform programs. Such an approach would be consistent with the 1989 decision to give the World Bank primacy over structural matters.

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# The Bretton Woods Agencies and Sub-Saharan Africa in the 1990s: Facing the Tough Questions

by
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*The Bretton Woods Agencies and Sub-Saharan Africa in the 1990s: Facing the Tough Questions*

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Introduction

The International Monetary Fund and World Bank are fully aware that Sub-Saharan Africa presents a daunting development challenge. In addition to the problems inherent in this economic development process, the Bretton Woods agencies will themselves face several difficult institutional issues that, if not properly handled, could seriously impede their ability to assist the region. Since both agencies are likely to play major roles in the region's economies during the 1990s, their performance will be critically important for all parties concerned with Africa's future.

This paper considers four institutional matters that will determine the efficacy of the Fund and Bank in Africa. First, to help overcome the region's severe foreign exchange constraints, the Bretton Woods agencies should reconsider their planned net capital contribution. For the first half of the 1990s, the International Development Association (IDA) is programmed to provide significant resources, but the International Bank for Reconstruction and Development (IBRD) and the IMF could well remove more financial reflows than they provide in new money if they do not alter recent practices. A negative resource transfer could weaken the influence of the multilateral agencies and tighten the financial straightjackets that are already crippling so many countries in Sub-Saharan Africa.

Second, the Brady proposals were a major conceptual step forward toward alleviating the private debt overhang that is a serious burden for at least a dozen Sub-Saharan African countries. So far, however, no Brady-style deals have been closed in the region. Nor have the Bretton Woods agencies been able to

normalize Africa's external financial relations with commercial creditors. A partial response is the recent creation of a World Bank facility to reduce the private debts of the low-income countries; this creative use of IBRD profits will have to be supplemented with additional funds if its laudable objectives are to be obtained.

Third, the World Bank has correctly recognized that policy-based lending programs should be more selective in their key policy targets. At the same time, the Bank's own radical analysis of the problems facing Sub-Saharan Africa suggest a more comprehensive and rapid reform program. Furthermore, in the 1990s the Bretton Woods agencies will face pressures from various quarters to give greater weight to considerations of social equity and to take into account such "political" variables as the quality of economic governance, administrative probity, and fundamental human rights. Conditionality, therefore, threatens to become more ambitious and broader rather than more realistic and narrower.

Finally, if the Bank and the Fund are to maximize their effectiveness in the 1990s, they will have to improve their ability to work together. They will have to struggle to synchronize their policies on all these issues -- resource transfers and arrears, commercial debts of the middle and low-income countries, and economic and political conditionality. Such Bank-Fund collaboration should occur in the context of long-term strategic planning exercises for Sub-Saharan Africa.

## I. Resource transfers

In the first half of the 1990s, the Bretton Woods institutions as a group intend to provide a positive net resource transfer to Sub-Saharan Africa. But this aggregate contribution masks sharp differences among the agencies. IDA is

planning a positive net transfer of over $3 billion per year during 1991-94 (table 1). Under its current policy plans, the IBRD will make disbursements approximately equal to anticipated principal and interest repayments, thus yielding little if any net transfer. It is difficult to predict future IMF flows, in part because the number of future stand-bys is inevitably unknown but also because the IMF refuses to release repayment schedules by country or even by region. But during the second half of the 1980s, purchases declined and repurchases rose sharply. Consequently, the Fund drained money from Sub-Saharan Africa, the average annual negative transfer reaching nearly $700 million during 1985-89 (table 2).

The World Bank's projections may be optimistic with regard to disbursement schedules. Countries may well prove unable to meet the conditions attached to quick-disbursing structural adjustment loans, and fiscal stringency may prevent governments from moving forward with Bank-supported investment projects. Indeed, even under this most optimistic scenario, four Sub-Saharan African countries -- Botswana, Cote d'Ivoire, Liberia and Mauritius -- are projected to encounter negative resource transfers to the World Bank (IBRD plus IDA) of $50 million or more during the 1991-94 period. Moreover, seven other countries which are projected to experience positive overall flows from the World Bank will suffer negative transfers to the IBRD in excess of $50 million: Ghana, Kenya, Malawi, Mauritania, Senegal, Tanzania and Zambia.

In order to augment the financial contribution of the IBRD, it might be wise to reconsider the amortization schedule of both new and old loans. If granted across the board to all low-income countries, a retroactive terms adjustment (RTA) of principal repayment terms on old IBRD loans could improve the debtors' cash flow without involving the World Bank in Paris Club or other

formal debt rescheduling exercises. Such an arrangement could be orchestrated without impairing the present value of IBRD loan assets or damaging its credit rating on world capital markets any more than previous adjustments in repayment terms have done.[1]

The World Bank should continue to resist voices that ask it to give up its preferred creditor status and engage in the reduction of its own assets. So long as the World Bank (IBRD plus IDA) is providing net flows, it should be under no financial or moral obligation to grant its own debt reduction. Nor would such debt reduction necessarily be equitable, since it would come at the expense of other developing-country borrowers, unless the industrial countries were willing to offset losses through additional contributions.

The IMF has sought to improve its resource transfer, and to reduce the cost of its credits to low-income countries, through the SAF/ESAF mechanism. Yet most African countries have not yet availed themselves of the ESAF opportunity. As of December 31, 1990, only 11 nations in Sub-Saharan Africa had gained access to ESAF resources (more generally, only SDR 1.4 billion of the SDR 4.6 billion of total available ESAF resources had been committed, see table 3). The sticking point has been the onus of conditionality: a large number of countries that had SAF agreements have simply been unwilling to enter into stringent three-year commitments. When the ESAF was initiated, Fund management emphasized that the resources would only be used to support strong adjustment programs. Evidently the Fund has honored this commitment.

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[1] The relative weight of the variables that influence the IBRD's credit rating is a matter of some dispute. For an argument that emphasizes capital subscription and retained earnings, see Charles R. Blitzer, "Financing the World Bank" in Richard E. Feinberg, ed., Between Two Worlds: The World Bank's Next Decade. Washington, D.C.: Transaction Books and the Overseas Development Council, 1989.

The dilemma with the ESAF mechanism as it stands arises from its two conflicting objectives: to catalyze tough adjustment programs and to transfer concessional resources to low-income nations. While the tension between these twin objectives of adjustment and financing runs throughout Fund (and many Bank) programs, in the case of ESAF it is especially acute because the program was clearly designed to provide enhanced resources to very poor nations. Indeed, if ESAF funds continue to lie fallow, IDA proponents may argue that the scarce ODA resources should be transfered to the World Bank.

One approach that has been suggested to ease access to ESAF resources is to establish a two-tier conditionality system. The lower-tier program might focus on macroeconomic management and a narrower range of structural reforms, and yield a lower percentage of quota than would be available under a full-fledged comprehensive ESAF reform package.[2] As Joan Nelson has argued, such two-tier conditionality does not imply softer conditionality. "Indeed, it is the existing pattern that erodes the credibility of conditionality by setting often unrealistically ambitious conditions.... Reserving more demanding conditions for the higher tier of more vigorous and capable reformers would similarly restore the integrity of the process."[3]

Above all, the future availability of Fund resources for Sub-Saharan Africa will be a function of access policy, which determines the amounts of money

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[2]. Percy Mistry suggests using ESAF monies to assure a zero net transfer to such debt-distressed countries. See Percy S. Mistry, African Debt: The Case for Relief for Sub-Saharan Africa. Oxford: Oxford International Associates, 1988, p.46. Two-tier conditionality has also been proposed, in broader contexts, by Joan Nelson and C. David Finch. See Nelson, Fragile Coalitions: The Politics of Economic Adjustment. Washington, D.C.: Transaction Books and the Overseas Development Council, 1989, pp.18-22; and Finch, "An IMF Debt Plan," The International Economy, Vol. 3, No. 2 (March-April, 1989), pp.89-91.

[3]. Nelson, Ibid., p.21.

members are permitted to borrow under various circumstances. This critical policy issue will be reviewed in the wake of the recent 50 percent quota increase. Access policy should not take away with one hand what the quota increase is offering with the other: the net affect of the quota increase and access policy decisions should be to increase the potential availability of resources to countries undertaking reform programs.

Arrears and the Fund

The arrears issue is also a question of resource transfer. For countries without acceptable reform programs, arrears have been a way to reduce the resource transfer to the Fund (Africa's net resource transfer to the Fund during the second half of the 1980s would have been even larger were it not for arrears). Even countries with reform programs face a negative transfer to the IMF so long as they are obliged to make payments to the Fund before becoming eligible for fresh IMF resources, unless the Fund immediately mobilizes an offsetting stream of credit.

Of the 9 countries with arrears to the IMF at the end of 1990, five are in Sub-Saharan Africa (Liberia, Sierra Leone, Somalia, Sudan, and Zambia, see table 4). In three cases -- the Sudan, Zambia, and to a lesser degree Liberia -- the arrears are large and have been outstanding since 1984-86.

Initially, the IMF sought to unclog the arrears bottleneck by asking bilateral donors to provide "support" funds that would enable debtors to clear their arrears and proceed with stabilization programs. With the assistance of other countries in the Western Hemisphere, Guyana and Honduras successfully cleared their arrears with the Fund in June, 1990. Nonetheless, the nine other cases of protracted arrears, including all of those in Sub-Saharan Africa,

remained unresolved. Bilateral donors proved reluctant to step forward to take out another creditor that itself seemed unwilling to risk fresh resources. Moreover, by excluding itself from arranging stand-bys, the Fund had inadvertently deprived other potential donors of the comfort of a well-designed and monitored adjustment program in the debtor nation.

In April, 1990, the Interim Committee decided to apply a new "rights" approach to the seemingly intractable arrearage problem. Under this arrangement, the IMF will stand ready to help construct and monitor a medium-term adjustment program even in the presence of protracted arrears. The debtor nation will only have to clear its accumulated arrears to the Fund at the end of the program, and will be assisted in doing so by being eligible to thereafter (pending approval of the IMF of the successor adjustment program) encash the purchase "rights" accumulated during the "shadow" program. ESAF funds will also be available for eligible members.[4] However, countries will be expected to make payments to the IMF falling due during the probationary period.

The "rights" strategy has the virtue of freeing the Fund to reengage with previously estranged members. Also, instead of expecting other donors to clear the stock of arrears to the Fund, the new policy more realistically calls upon the Fund to use its own resources for that purpose. But the "rights" approach still suffers from several weaknesses. It excludes explicit writedowns or other forms of IMF-financed relief, i.e., from resources generated through SDR issuance or gold sales, other than the concessional rescheduling inherent in the substitution of ESAF money for ordinary resources. Thus, it remains unclear how countries with very large arrears in relation to export capacity will ever be

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[4]. The IMF agreed to pledge up to 3 million ounces of gold as additional security for use of ESAF resources in connection with financing of accumulated rights.

able to regain their membership rights. At the same time, the recent IMF decision to build a SDR 1 billion contingency reserve facilitates future leniency, should the Fund decide that under certain strict criteria it would be better to grant some relief than to permanently marginalize members from the international monetary system.

A second problem is that the "rights" approach would seem to lay down unusually rough sequencing of policy performance and finalcial programming. The member state must not only agree to enter into a three-year program, but must also complete it successfully, and enter into a successor arrangement, before gaining access to IMF resources! Such heavy front-loading would seem to establish conditions even more demanding than those that have limited the effectiveness of the ESAF.

Most importantly, while performance requirements are front- loaded the funding schedule is in effect back-loaded. During the program the member country receives no new IMF resources while it is expected to make payments on old debts -- that is, the resource transfer to the Fund will be negative during the reform years. This is the opposite of the fundamental theory underlying all Fund standbys: that purchases are released during the program in order to facilitate adjustment. The Fund might hope that other donors will provide resources to support the adjustment program, but this is typically the case during a normal stand-by as well. Paradoxically, the Fund is breaking with its standard policy of linking financing and adjustment precisely in those countries which find themselves in the most desperate circumstances. While the Fund understandably might seek tighter assurances of performance from countries with very poor track records, this approach seems to go too far and to be potentially counterproductive. And while it is natural for a creditor to adopt a "sanctions"

approach to wayward debtors, the actual nine arrears cases have suffered enough to appreciate the disastrous consequences of imprudent macroeconomic policies.

In sum, the "rights" approach is a step forward towards reintegrating the protracted arrears members back into the fold. Nonetheless, like the earlier "support group" strategy, it may well respond to the needs of some debtors but is unlikely to meet the circumstances of others. If that proves to be the case, more flexible and innovative arrangements should be considered.

## II. The Bretton Woods Agencies and Private Debt

Considerable progress has been made in addressing the debts owed by Sub-Saharan Africa to official, bilateral agencies.[5] Less progress, however, has been realized in dealing with the debts owed to private creditors. While these obligations account for a lesser percentage of the region's total debts than is the case for Latin America, the burden is more significant than is often assumed. Debts owned to private creditors account for 28 percent of Sub-Saharan Africa's total long-term debt. If one includes short-term debts, the percentage owed to private creditors rises to about 34 percent.[6] Private debts account for over 20 percent of the long-term debt of twelve Sub-Saharan African countries (Benin, Cameroon, Congo, Guinea-Bissau, Cote d'Ivoire, Gabon, Kenya, Mauritius, Mozambique, Niger, Nigeria, and Zimbabwe), and for over 30 percent for six of these (Benin, Congo, Cote d'Ivoire, Gabon, Nigeria, and Zimbabwe, see table 5).

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[5]. For an analysis of the "Toronto terms" for official bilateral reschedulings, see World Bank, World Debt Tables 1989-90, Washington,DC: World Bank, Volume 1, pp.47-48.

[6]. World Bank, World Debt Tales 1989-90. Washington,DC: World Bank, 1989, Volume I, pp.82-85. Short-term private credits are derived as the difference between short-term debt and interest arrears on long-term debt outstanding.

Moreover, these private credits carry interest rates whose average terms are more than double those of official creditors. Thus, the contractual service obligations on commercial debt are a serious burden for at least a dozen African nations.

Many African countries are not servicing their debts to private creditors and are accumulating arrears. While the cash flow result may be the same as would result from an organized restructuring, this abnormal international financial situation weakens domestic confidence, makes macroeconomic management more difficult, increases the cost of trade finance, and discourages possible alternative sources of external capital. It may also undermine the authority of debtor-creditor relations within the afflicted nation. For all these reasons, a normalization of private arrears would be most beneficial.

A number of countries in Sub-Saharan Africa have been declared eligible for a Brady-style reduction of debts to commercial banks, but so far no deals have been closed. Lengthy discussions between the Ivory Coast and Nigeria and their respectively creditor banks had not borne fruit as of this writing. Other countries wait in limbo, as banks either give them low priority or prefer to avoid precedent-setting deals that would involve inevitably very deep discounts off the original face value of loans.

The World Bank has sought to provide a partial answer for low-income countries (per capita income under $580) which are eligible to receive only IDA monies. In June, 1989, the World Bank Board decided to devote up to $100 million in IBRD profits to the reduction of commercial debts of IDA-only countries. Most of the facility's debt reduction operations are expected to involve cash buybacks, although it might also collateralize debt exchanges. To participate, a country must have an approved medium-term adjustment program and be the

recipient of substantial debt relief from bilateral creditors as well. The debt reduction deal should also materially enhance the country's growth and development prospects.[7]

To date, the commercial debts of most IDA-only countries have not been actively traded on secondary markets. Those inter-bank swaps that have occured have typically registered deep discounts varying from 50 up to 95 percent. Thus, even assuming a favorable average discount of 80 percent, the new facility's $100 million could retire only $500 million in debts. If the Bank succeeds in mobilizing other donors to provide equal contributions, up to $1 billion in private debts might conceivably be erased. Yet the public and publicly guaranteed medium and long-term commercial debt owed by IDA-only countries exceeds $11 billion.[8] Even subtracting suppliers' credits, debt to financial markets still approaches $9 billion, although a substantial portion of this may be eventually absorbed by official insurance agencies. Even so, the remaining commercial exposure of IDA-only countries will substantially exceed $1 billion.

Therefore, if the Bank demonstrates its ability to utilize this initial $100 million, the IBRD should consider supplementary financing for this highly efficient use of Bank resources. A deeper pool of resources would also permit some relaxation of the $10 million per country ceiling. Future contributions will, of course, depend on the continued profitability of the IBRD; if there is any trade-off between reducing IBRD lending margins and the availability of funds to replenish this debt reduction facility, the pressing financial needs

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[7]. As of August, 1990, no such deals had been concluded, but three countries -- Bolivia, Mozambique, and Niger -- were negotiating World Bank-financed buybacks.

[8]. World Bank, World Debt Tables 1988-89. Washington, DC: World Bank, 1988.

of the world's poorest nations argue in favor of maintaining this modest tax on middle-income countries.

A more comprehensive solution to the commercial debt problems of all Sub-Saharan African countries, including the middle-income ones, remains illusive. The March, 1989 proposals of U.S. Secretary of the Treasury Nicholas Brady legitimized the concept of debt reduction as well as the use of the resources of the Bretton Woods institutions to reduce commercial debts. But implementation has been painfully slow: only four deals -- Mexico, the Philippines, Costa Rica, and Venezuela -- were negotiated by August, 1990, none of them being in Africa. Two key problems have been the lack of clarity with regard to criteria for the amount of debt reduction and the absence of a strong coordinating mechanism to push deals to conclusion. At present, no powerful public coordinator exists to guarantee compliance from a financial community of such diverse interests and wide geographic spread.

Ideally, either the IMF or the World Bank, or a combination of the two, would be empowered by the major creditor nations to inject more order into developing country finance. With such a mandate, these institutions would then work towards the clear strategic objective of making each country's debt service conform to a payment stream consistent with sustained adjustment and growth. First, they would estimate a nation's financial requirements over the medium term, an exercise that the Bretton Woods agencies already perform internally for many borrowers. These calculations of debtors' financial needs would have to be as objective as possible, free from political intrusions, and be firmly endorsed by key industrial-country governments. Once these projections were accepted, the empowered agency or agencies would actively engage the commercial banks, working with creditor governments to orchestrate compliance. Banks would

have the right to choose voluntarily among a menu of options, but not to choose non-participation.[9]

Such an approach of "guided voluntarism" will only be possible if the major shareholders of the Bretton Woods agencies will it to be so. In the meantime, the IMF and World Bank should continue their practice of lending into arrears. To do otherwise would be to unduly augment the leverage of commercial banks who in the main have lost interest in most developing countries, and to deprive those member countries of badly needed advice and finance.

## III. Conditionality

Policy-based lending was central to the operation of both the Bank and Fund during the 1980s. The Bank devoted about a quarter of its loan commitments to this broadened effort to persuade governments to alter fundamental economic policies. The IMF of course has always provided balance of payments loans in support of policy reforms, but in the 1980s gave increasing emphasis to structural reforms embedded in longer term programs. In Africa in particular the Bretton Woods agencies attempted to combine forces to alter the fundamental structures of borrowers' economies.

In the 1990s, the Bank and Fund plan to continue their broad-based attack on Sub-Saharan Africa's existing economic policies. At issue is the appropriate comprehensiveness and tempo of reforms. In addition, both agencies have indicated an intention to place greater emphasis on equity -- a factor which could further complicate both the politics and economics of policy-based lending.

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[9]. For a fuller treatment, see Catherine Gwin and Richard E. Feinberg, Pulling Together: The International Monetary Fund in a Multipolar World. Washington, D.C.: Transaction Books and the Overseas Development Council, 1989.

Moreover, pressure is growing in donor nations to add political conditions to the financial assistance of the Bretton Woods institutions.

Pace of Economic Reforms

Policy-based lending -- whether by the Bank or Fund -- produced mixed results in Africa, as elsewhere, during the 1980s. There were many examples of progress. But programs were often overly ambitious, encompassing too many objectives to be implemented in too brief a period of time. Projections were sometimes based on assumptions about the availability of external finance or the response of domestic investors which even at the time should have been seen as excessively optimistic. Moreover, financially-strapped governments too often felt compelled to sign loan agreements even though they were not fully committed to them.

The World Bank has at times agreed that it should reduce the number of issues addressed in policy-based loans.[10] It may be desirable to provide some detail within a chosen sector or sectors, so that the mere number of proposed reforms is not necessarily a guide to the feasibility of a program. But overly ambitious programs which include a large number of reforms across a wide range of problems are likely to flounder (and may also prove difficult to assess if the program is partially implemented). The civil service in most African nations has been historically unable to coordinate and implement a wide range of major reforms simultaneously. Governments with narrow political bases also hesitate to tackle numerous reforms at once for fear of stirring up a hornets' nest of

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[10]. For example, see World Bank, Adjustment Lending: An Evaluation of Ten Years of Experience, Washington, DC: World Bank, 1988. The conventional wisdom also holds that the "integrated rural development' strategies of the 1970s were too complex and demanding.

offended interests that could coalesce into a powerful opposition. Finally, though public opinion may be willing to accept or even enthusiastically endorse select reforms (such as lower tariffs that benefit consumers or selective privatizations which promises better services), it may oppose full-fledged liberalization which seems to threaten key concepts regarding the role of the nation state or the distribution of power and wealth among social classes.

Consequently, sector loans rather than full-blown structural adjustment loans (SALs) will often be more in keeping with the ability or intentions of African governments. Whereas sector loans may be associated with macroeconomic policy conditions, their overall breadth is much narrower than full-fledged SALs. Even sector loans can strain the political and administrative capacities of states, and the energies required to revamp such sectors as agriculture, industry, the fiscal budget, or education should not be minimized. Recognizing such limitations, the World Bank has correctly been placing greater emphasis on the more narrowly focused sector adjustment loans (SECALs), as opposed to the comprehensive SALs, and should continue to do so.

But the key to success in policy based lending is not just in reducing and streamlining the reform package, but in making sure that it unfolds within an adequate time sequence. The short to medium term time horizon of many African governments, as well as of IMF and World Bank teams, has often resulted in program designs which compressed reforms into an unrealistically brief timetable. The pressure for quick results is one explanation for the incorporation of overly optimistic assumptions regarding the likely availability of external finance, as well as the domestic supply response. No one should therefore be surprised when domestic investment remains depressed in the face of sharp, prolonged contractions of domestic demand and a seemingly endless foreign exchange crisis.

The ill-fated Zambia program of the mid-1980s, for example, harboured excessively optimistic assumptions regarding the responsiveness of foreign investment, and was blind to the negative ramifications of the overwhelming debt overhang. Understandably, the incompleted reform package was eventually jettisoned by the Zambian government. In the end, as many at the Fund and Bank have come to realize, it is wiser to match the time span allowed for implementation, and the frequency of donor assessments, to the nature of the reforms in question.[11]

The sobering experiences of Sub-Saharan Africa during the 1980s would thus seem to suggest modesty, rather than haste, in reform proposals. Yet, the World Bank's major blueprint for African development, *Sub-Saharan Africa: From Crisis to Sustainable Growth: A Long-Term Perspective Study*, appears to point in the opposite direction -- toward more radical, comprehensive, and rapid reform. This important report, which offers such devastating critiques of African policies and such all-encompassing solutions to a wide range of problems, is by no means a document of caution. Indeed, its basic thrust would seem to suggest even more ambitious conditionality.

The ideal synthesis would seem to be for a government to reach agreement on a comprehensive radical reform program, and then to proceed to implement it step-by-step. Initially, it might tackle the most destructive distortions, including any major fiscal imbalances, which must be removed if the entire vision is to be realized. Such fundamental reforms might be combined with measures which threaten to provoke relatively little political opposition but which promise to please some sectors. Some administratively complex or politically

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[11]. For an early discussion of this issue, See Richard E. Feinberg, "An Open Letter to the World Bank's New President," Between Two Worlds: The World Bank's Next Decade, Washington, DC: Transaction Books and the Overseas Development Council, 1986, pp.11-14.

difficult measures, including many admittedly important matters involving institution-building and human capital development, could be undertaken gradually. In ail cases, ultimate decisions on sequencing and timing will have to be tailored to the realities of each country.

The problem is that the conditions required for this ideal synthesis are oft‿n absent. It assumes a government which has a long-term strategic vision and is unified enough to avoid the inevitable efforts by those whose interests are damaged by the reform process to regroup and impair its success. It also assumes regime continuity. Some of the new Eastern Europe democracies may enjoy such unity of vision and mass backing, but most African societies have not experienced such a sharp break with the past.

Thus, in most African countries, donors and governments are going to have to make choices among the many reforms proposed in the *Long-Term Perspective Study*. Program priorities should be politically feasible and be based on realistic assumptions regarding the administrative capacity of governments and the likely response rates of producers and investors. Above all, for any reform agenda to succeed, the African government must feel that it "owns" the program. The design of adjustment programs should be the result of dialogue, not dictat, as actions taken primarily because of externally imposed conditions rather than domestic convictions are unlikely to be sustained.

It is important to recognize that while some of the convention wisdom of the economics profession is gaining ground in Africa and in many other parts of the world, this is not "the end of history." Economists are in widespread agreement on some critical matters, such as the need for responsible fiscal and monetary policies, expanded savings and investment, and supply-side restructuring toward tradable goods through realignment of prices and other incentives. But

much less is known about the dynamics of economic adjustment, the timing and phasing of reforms -- about how to get from here to there. Economists are even less prepared to advise individual nations as to what political roads to follow and what institutional mechanisms to build. Furthermore, key development choices, such as income distribution, the role of government, the composition of taxes, and the structure of the educational system, are heavily political and must be carefully thought out for country-specific application.

Social Equity

Both the Bank and the Fund have been stating with increasing frequency that their programs should take into account the social costs of adjustment. As IMF Managing Director Michel Camdessus has affirmed:

> "macroeconomic policies can have strong effects on the distribution of incomes and thus on social equity and welfare. A responsible adjustment program must take these effects into account, particularly as they impinge on the most vulnerable or disadvantaged groups of society."[12]

Poverty alleviation and equity are thus officially sanctioned objectives, and many adjustment programs now include measures aimed at improving the distributional impact of government interventions (for example, by reducing subsidies to the middle classes and more carefully targeting social programs) and at compensating those who must inevitably suffer during the adjustment process (by providing severance payments, public works employment, and nutrition programs). Yet these welfare objectives remain secondary to efficiency objectives in the policy-based lending programs of the Bretton Woods agencies.

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[12]. "The IMF's Support for Growth-Oriented Adjustment in Africa," remarks before the U.S. Chamber of Commerce, Washington, D.C., March 26, 1990, reprinted in IMF Survey, April 2, 1990, p.108.

Should equity (or poverty alleviation) be a key condition of policy-based lending and a determinant of tranche disbursement? Should enough weight be given to equity objectives so that if a government's policies are grossly unjust (however defined), its access to policy-based loans would suffer?

The authors of the 1990 *Worla Development Report* on poverty answer in the affirmative. They argue that "External assistance should be more tightly linked to an assessment of the efforts that would-be recipients are making to reduce poverty,"[13] urging that countries where policies are inconsistent with efforts to reduce poverty should receive only "moderate" quantities of aid targeted at highly vulnerable groups. In the past, the World Bank has tended to measure poverty alleviation in a project-based fashion, attempting to assess what proportion of project benefits accrued directly to the poor. The authors of the World Development Report suggest an economy-wide approach for the future, wherein government policies as a whole would be evaluated in terms of their impact upon the poor. Indeed, the most recent replenishment of IDA stressed the importance of poverty criteria in allocating the organization's resources.[14]

Poverty allev ation in Sub-Saharan Africa during the 1990s will not be an easy task. As the above-mentioned World Bank study asserts, even to hold the number of poor at the 1985 level will require a massive effort.[15] This effort, the Bank staff concludes, must involve not only more effective foreign assistance, but also comprehensive domestic reforms in industry, agriculture, infrastructure, and social services -- in sum, virtually the entire gambit of

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[13]. World Bank, 1990 World Development Report: Poverty. Oxford: Oxford University Press for the World Bank, 1990, p.4.

[14] Ibid, p. 134.

[15]. Ibid, p.5.

political economy.

Political Conditionality

The political conditionality being written into the charter of the European Bank for Reconstruction and Development will open a pandora's box that the Bretton Woods agencies will not be able to escape. Sooner or later, the commitment in the EBRD charter to "the fundamental principles of multi-party democracy, the rule of law, (and) respect for human rights" is likely to spill over to the other multilateral lending institutions. Moreover, the increasing pressures for political change within African societies, and the distress among donors with the quality of governance in many African countries, will force the Bretton Woods agencies to consider more directly the political milieu in which they operate.

Historically, several factors inhibited donors from pressing political conditionality in Sub-Saharan Africa. East-West geopolitical rivalries often took precedence over the niceties of human rights and domestic governance. Underlying ethnic tensions in many African countries lent credence to the argument that only a strong, single-party state could preserve national unity and prevent tribal bloodshed (which, it was feared, the Soviets would exploit). And economic efficiency was associated with centralized political power.

Today, these inhibitory factors are less compelling. With the dramatic shift in Soviet domestic and foreign policies and the sudden decline in Soviet interest in most Third World regions, the West is less worried that African regimes may align with a hostile global rival. And while ethnic, regional, or religious cleavages certainly remain factors to take into account, they may be less virulent than in the early days of independence where nationbuilding has

made some progress. Finally, there is a growing perception among donors that democracy need not conflict with responsible macroeconomic management and market-oriented economic reform, as many had assumed during the *realpolitik* 1960s and 1970s.[16] Indeed, Eastern Europe has enthralled the world with speedy, simultaneous leaps toward multi-party democracy and liberal economy.

Economic Governance

In the future, the Bretton Woods agencies should consider developing minimal conditions regarding economic governance which, if not met, will result in a curtailment of lending. So as not to contradict the "non-political" clauses in the institutions' founding charters, such conditions could be justified on grounds of a borrower's prospective efficiency and credibility.[17] Such conditions could also be consistent with concerns being raised within Africa itself, where linkages between governance style and economic performance are being widely noted.[18]

Rampant official corruption is one critical area likely to be targeted in this new list of "unacceptable behaviors." Among the donor populace, there is mounting concern that foreign assistance is seemingly wasted on self-interested

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[16]. For a fuller discussion, see Joan Nelson and contributors, Fragile Coalitions: The Politics of Economic Adjustment. Washington, D.C. and New Brunswick, N.J.: The Overseas Development Council and Transaction Books, 1989.

[17]. In the past, Fund and Bank lending decisions occasionally were influenced by the political motives of major shareholders, and their economic advice can also be seen as ideologically based. But these "political" motives are distinct from concern for the domestic political practices of borrowing states. I am indebted to my colleague, Joan Nelson, for clarifying for me this and other points regarding political conditionality.

[18]. For example, see U.N. Economic Commission for Africa, An African Alternative Framework to Structural Adjustment Programmes.

governments whose behavior is antithetical to their own values. In particular, vocal, well organized, and often well informed private voluntary organizations are among those most critical of official assistance to kleptocratic regimes in the developing world.

From a purely economic perspective, gross corruption often makes it more difficult for governments to implement agreed upon policies and decreases the overall efficiency of resource allocation. For private investors, arbitrary and capricious implementation of government regulations adds to the uncertainties and headaches of doing business in Sub-Saharan Africa. Indeed, one serious obstacle to private investment and growth in Africa is that everything is open to negotiation with government officials.[19]

Reforms targeted at economic governance could include: more transparent government budgeting; open and competitive bidding for large public investment projects; accountability of management of state-owned enterprises; and greater consistency in the implementation of regulations governing investment. Such conditionality might raise serious questions regarding programs in countries such as Ethiopia and Zaire, where a World Bank annual report boasted of positive net transfers of $211 million and $340 million, respectively, during FY 1985-89, but is a necessary remedy nonetheless.[20]

Even in circumstances of gross misgovernance, however, lending agencies may want to sustain modest core programs in order to maintain some continuity and presence. In the long run, it would be perverse and even counterproductive to punish poor people within a country because of the practices of a government

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[19]. This is the opinion of one acute observer of the African scene. See Carol Lancaster, "Reform or Else?", Africa Report, July-August, 1990.

[20]. World Bank, Annual Report, 1989, p.112.

which is already victimizing them. In particular, Bank support for basic education and human capital-building efforts could help prepare a population to better hold its government accountable to the popular will. The Bank should therefore proceed with sound basic needs projects, unless it feels the malfeasance to be so rife in those very sectors as to preclude any efficient expenditure of funds.

Beyond issues of economic governance, there are pressures for the Bank to take into account such political matters as popular participation and multi-party democracy. Tackling such concerns could further complicate conditionality and in some instances arguably contradict the mandates of the Bretton Woods institutions. Frequently, other official agencies and non-governmental organizations will be better equipped to promote these laudable goals. But there are ways for the Bank and Fund to address these issues with a positive agenda. Again, education -- whether through primary schooling or the training of economists -- lays the foundation for intelligent political participation. Public debate can also be stimulated by funding local social science research institutes and by the release of certain Bank and Fund documents that discuss country economic conditions. Furthermore, as is occuring with increasing frequency, Fund missions can seek the opinions of an array of non-governmental organizations and the Bank can involve NGOs in the design and implementation of projects. By undertaking such affirmative initiatives, the Bretton Woods agencies would be better prepared to deflect pressures for a sanctions approach to promoting political reform.

The introduction of political objectives carries a clear danger of partisanship, cultural arrogance, and hubris. There is also a clear tension between the well-founded desire to reduce the complexity of conditionality and

the emerging interest in adding conditions regarding equity and economic governance. The policy quandaries will be multiplied by cases where regimes pass one or two but not all key tests, e.g., a regime with efficient economic policies, generally good governance but little concern for equity. Nevertheless, the Bretton Woods agencies will not be able to escape these dilemmas in the 1990s. The prudent course is to confront these issues directly -- however conceptually difficult and politically sensitive -- and to devise clear policy guidelines. Rather than be caught in a defensive, reactive mode, the Bank and Fund should seize the initiative and become positive forces in promoting these worthy objectives.

## IV. Bank-Fund Relations

As it presently stands, both agencies are likely to remain involved in policy-based lending in Sub-Saharan Africa for the foreseeable future. For its part, the World Bank is deeply committed to fostering structural reform. In turn, the ten-year repayment period of the ESAF/SAF is a strong indication that the Fund will also remain in Africa for the long haul. Furthermore, in light of the region's unstable macroeconomics, increasingly volatile politics, and the present inhospitable external environment, Fund advice and financing are likely to be in demand in the 1990s.[21]

Given the strong probability of this mutually extended presence, the Fund and the Bank will want to collaborate closely in Sub-Saharan Africa. In tackling the various issues discussed in this paper, as well as many others, the Bretton

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[21]. Fund staffing patterns have been sticky, however, and have not adjusted adequately to this institutional commitment to Africa. Staff in the African bureau are spread very thin, suggesting that their numbers ought to be augmented.

Woods sisters will need to synchronize policies in order to increase their effectiveness, and at times devise a division of labor in order to avoid wasteful duplication of effort. At the very least, policies should be sufficiently coordinated so as not to send contradictory signals to African officials.

In Africa as elsewhere, the IMF's extended facilities and the World Bank's policy-based lending have often resulted in substantial overlap in jurisdictions. The Policy Framework Papers (PFPs) are an effort to address this issue by assuring coherence between Bank and Fund programs in a multi-year framework. In point of fact, Bank and Fund staff do work well together in some countries, and recent efforts by country teams to compare scenarios and projections and to reconcile differences are encouraging. Still, much remains to be done to assure that PFPs are more than a cut-and-paste exercise. To routinize cooperation, medium-term country programs should be designed by joint Bank-Fund missions. The current practices of including "across the street" representatives in mission teams and "parallel missions" that are in-country at the same time, are positive steps in this direction, though even these depend too much on individual personalities to guarantee coherent programs.

Such collaboration will proceed more smoothly if it is clear that one institution has the lead. In Sub-Saharan Africa, it makes sense for the World Bank, not the IMF, to take the lead in organizing external assistance efforts and policy reform programs. This approach would be consistent with the 1989 decision to give the World Bank primacy over structural matters, though it ought not to prevent the IMF from continuing to assist on macroeconomic problems as needed. Ideally, the result of this division of labor should be more consistent policy advice and more efficient, less time-consuming dialogues with member governments.

With regard to resource transfers, it is acceptable and even desirable that IDA increase its exposure in low-income Africa vis-a-vis the less concessional IBRD and IMF. But IDA monies should not in effect be recycled to the IMF at a time when many African countries are in severe financial distress. It is therefore in the interest of the World Bank, as well as of the African countries, for the IMF to cease to be a financial drain on Sub-Saharan Africa.

In the area of debt, the Bank and Fund have worked closely together to follow the outline of the Brady proposals. But the two agencies could play a more dynamic leadership role if their management could join forces in proposing amendments to the Brady proposals that would speed their implementation. In addition, since the Fund has as much an interest as the Bank in erasing the commercial debts and arrears of many low-income countries, it might want to match the IBRD's contribution to the new debt reduction facility.

Close collaboration will be especially important in the newly emerging areas of policy conditionality: economic governance and social equity. Both the Fund and the Bank can take economic governance into account when considering stand-bys and policy-based loans, since the commitment and credibility of grossly corrupt regimes may be in question. It would be embarrassing for the Fund to be lending to a regime where the World Bank had curtailed lending because of repeated malfeasance.

The Fund cannot, however, be expected to deny credit to a member because its stabilization plans are regressive. But Michel Camdessus has given Fund staff the mandate to address the social costs of stabilization programs, and therefore to analyze the composition of expenditures and incidence of taxation as they affect different social groups. As the Fund develops these capacities, it will be better able to assist receptive governments to design equitable

programs -- and to share its analysis and recommendations with Bank staff.

Finally, it is time for the Bank and Fund to engage in long-term planning for Sub-Saharan Africa. PFPs should go beyond the three-year horizon dictated by the timetable of Bank and Fund country programs, and look out five and even 10 years for some issues. The Bank and Fund should also join efforts to produce region-wide strategic plans for this decade to guide their own work as well as to give clear signals and realistic expectations to the region. Needless to say, the countries of Sub-Saharan Africa should play major roles in designing these programs, which would so vitally affect their interests.

Table 1: Projected World Bank Resource Flows to Sub-Saharan Africa, 1991-1994
(in US$ millions)

| | 1991 | 1992 | 1993 | 1994 |
|---|---|---|---|---|
| IBRD | | | | |
| Commitments | 3,297 | 3,700 | 3,300 | 2,617 |
| Disbursements | 1,493 | 2,064 | 2,013 | 1,957 |
| Principal Payments | 800 | 879 | 894 | 944 |
| Interest Payments | 808 | 898 | 980 | 1,056 |
| Net Resource Transfer | (115) | 287 | 139 | (43) |
| IDA | | | | |
| Commitments | 4,995 | 3,700 | 3,300 | 2,617 |
| Disbursements | 3,201 | 3,721 | 3,748 | 3,563 |
| Principal Payments | 71 | 95 | 123 | 158 |
| Interest Payments | 142 | 170 | 197 | 225 |
| Net Resource Transfer | 2,988 | 3,456 | 3,428 | 3,180 |
| IBRD - IDA | | | | |
| Commitments | 8,292 | 7,400 | 6,600 | 5,234 |
| Disbursements | 4,694 | 5,785 | 5,761 | 5,520 |
| Principal Payments | 871 | 974 | 1,017 | 1,102 |
| Interest Payments | 950 | 1,068 | 1,177 | 1,281 |
| Net Resource Transfer | 2,873 | 3,743 | 3,567 | 3,137 |

Source: Author estimates based on World Bank OPMIS Database and projections.

Table 2: IMF Resource Flows to Sub-Saharan Africa, 1980-89
(in US$ millions)

| | 1980 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 |
|---|---|---|---|---|---|---|---|---|---|
| Purchases | 1,217 | 1,152 | 1,618 | 952 | 738 | 735 | 650 | 990 | 772 |
| Repurchases | 384 | 266 | 401 | 591 | 769 | 1,217 | 1,216 | 1,215 | 1,190 |
| IMF Charges | 103 | 296 | 338 | 402 | 402 | 472 | 326 | 267 | 255 |
| Net Transfers | 730 | 590 | 879 | (41) | (433) | (954) | (892) | (492) | (673) |

Source: World Debt Tables 1989-90 (Washington, D.C.: World Bank, 1989), p. 82.
International Financial Statistics (Washington, D.C.: International Monetary Fund, August 1990), pp. 18, 30, 32.

## Table 3

**ENHANCED STRUCTURAL ADJUSTMENT FACILITY
STATUS OF LOAN ARRANGEMENTS 1/
as at December 31, 1990**

(In millions of SDR)

| Member | Date of Arrangement | Amount agreed | Undrawn balance |
|---|---|---|---|
| Bangladesh | Aug. 10, 1990 | 58.8 | 215.7 |
| Bolivia | July 27, 1988 | 90.7 | 45.3 |
| Gambia, The | Nov. 23, 1988 | 17.1 | 3.4 |
| Ghana | Nov. 9, 1988 | 265.9 | 96.0 |
| Guyana | July 13, 1990 | 47.1 | 14.7 |
| Kenya | May 15, 1989 | 170.4 | 60.5 |
| Madagascar | May 15, 1989 | 43.7 | 31.9 |
| Malawi | July 15, 1988 | 29.8 | 5.6 |
| Mauritania | May 24, 1989 | 44.1 | 30.5 |
| Mozambique | June 1, 1990 | 85.4 | 76.3 |
| Niger | Dec. 12, 1988 | 43.9 | 27.0 |
| Senegal | Nov. 21, 1988 | 127.7 | 37.1 |
| Togo | May 31, 1989 | 26.9 | 15.4 |
| Uganda | Apr. 17, 1989 | 159.4 | 77.2 |
| TOTAL | | 1,410.5 | 736.3 |

1/Resources under Enhanced Structural Adjustment Facility Arrangements may be provided from the Adjustment Facility within the Special Disbursement Account and from the Enhanced Structural Adjustment Facility Trust.

Source: International Monetary Fund, Financial Statements of the General Department of the SDR Department and Accounts Administered by the IMF, (Washington, D.C.: International Monetary Fund, December 1990), p. 60.

Table 4
COUNTRY ARREARS TO THE IMF AS OF JANUARY 31, 1990
(In millions of SDR)

| Member | Total | Longest overdue obligation |
|---|---|---|
| Kampuchea, Democratic | 30.1 | March 1975 |
| Liberia | 305.2 | January 1985 |
| Panama | 181.2 | December 1987 |
| Peru | 624.9 | December 1985 |
| Sierra Leone | 69.0 | January 1987 |
| Somalia | 111.7 | July 1987 |
| Sudan | 895.3 | July 1984 |
| Viet Nam | 46.4 | February 1984 |
| Zambia | 882.4 | June 1986 |

Source: International Monetary Fund, Financial Statements of the General Department and the SDR Department and Accounts Administered by the IMF, (Washington, D.C.: International Monetary Fund, December, 1990), p. 16.

Table 5: Debt Structure of Sub-Saharan Africa, 1988
(in US$ millions)

| Country | all debt | private | private as % of all |
|---|---|---|---|
| Benin | 1,055 | 362 | 34.31 |
| Botswana | 499 | 28 | 5.57 |
| Burkina Faso | 866 | 34 | 3.93 |
| Burundi | 793 | 20 | 2.52 |
| Cameroon | 4,229 | 1,032 | 24.40 |
| Cape Verde | 133 | 3 | 2.11 |
| Central African Republic | 673 | 24 | 3.57 |
| Chad | 346 | 38 | 11.06 |
| Comoros | 199 | 0 | 0.10 |
| Congo, People's Republic | 4,763 | 2,086 | 43.80 |
| Cote d'Ivoire | 14,125 | 6,980 | 49.42 |
| Djibouti | 183 | 1 | 0.71 |
| Equatorial Guinea | 200 | 9 | 4.25 |
| Ethiooia | 2,978 | 461 | 15.48 |
| Gabon | 2,663 | 798 | 29.97 |
| Gambia | 327 | 26 | 7.95 |
| Ghana | 3,099 | 260 | 8.39 |
| Guinea | 2,563 | 213 | 8.31 |
| Guinea-Bissau | 423 | 88 | 20.69 |
| Kenya | 5,888 | 1,294 | 21.98 |
| Lesotho | 281 | 22 | 7.82 |
| Liberia | 1,632 | 201 | 12.32 |
| Madagascar | 3,602 | 312 | 8.66 |
| Malawi | 1,349 | 52 | 3.85 |
| Mali | 2,067 | 27 | 1.31 |
| Mauritania | 2,076 | 111 | 5.35 |
| Mauritius | 861 | 176 | 20.44 |
| Mozambique | 4,406 | 984 | 22.33 |
| Niger | 1,742 | 356 | 20.44 |
| Nigeria | 30,718 | 17,982 | 58.54 |
| Rwanda | 632 | 7 | 1.17 |
| Sao Tome & Principe | 99 | 1 | 0.61 |
| Senegal | 3,617 | 209 | 5.78 |
| Seychelles | 159 | 30 | 18.86 |
| Sierra Leone | 727 | 95 | 13.07 |
| Somalia | 2,035 | 34 | 1.67 |
| Sudan | 11,853 | 1,804 | 15.22 |
| Swaziland | 265 | 10 | 3.81 |
| Tanzania | 4,729 | 276 | 5.84 |
| Togo | 1,210 | 54 | 4.46 |
| Uganda | 1,925 | 107 | 5.56 |
| Zaire | 8,475 | 700 | 8.26 |
| Zambia | 6,498 | 523 | 8.05 |
| Zimbabwe | 2,659 | 1,060 | 39.86 |
| TOTAL | 139,622 | 38,890 | 27.85 |

Source: World Debt Tables 1989-90 (Washington D.C.: World Bank, 1989), Vol. II.

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