IV Country Profiles

Bangladesh

Political Context

A notable feature of Bangladesh's first ESAF program in 1990 was that it coincided with the end of military rule under President Ershad. A spate of domestic violence and demonstrations against the Ershad government led to the dissolution of parliament in 1987 and, thereafter, to elections in 1991 that brought to power Prime Minister Begum Khaleda Zia, leader of the Bangladesh National Party and widow of General Ershad's predecessor, General Zia-ur-Rahman. Given the extreme polarization that has characterized politics in Bangladesh, the process of liberalization meant that, from the beginning, the government's commitment to the ESAF program would almost certainly be made subject to the demands of political expediency. Even so, the Zia government affirmed its commitment to the program signed in 1990 by the previous government. But this commitment to the program was soon put to the test as political tensions failed to subside. Violent demonstrations led by the opposition Awami League resulted in fresh elections in 1996, which brought into power a government of the Awami League under the leadership of Sheikh Hasina.

Thus, the performance of the ESAF in Bangladesh must be evaluated against the background of a political environment dominated by extreme polarization and a continuing quest for a balance between the need for economic liberalization and the challenges of democratic governance. Indeed, even under the Ershad government, there had been periodic political protests, which in some instances had led to policy reversals.[21] The Zia government had endeavored, against difficult odds, to maintain the momentum of the ESAF program by, for instance, rejecting recommendations of a Wage and Productivity Commission to raise wages by a magnitude that it considered incompatible with proper fiscal management. It is interesting to contrast this posture with the stance of the present government in relation to similar pressures for wage increases.[22]

Consensus Building

Given Bangladesh's long tradition of political polarization and a fairly active culture of civic protest, the process of consensus building is naturally a difficult one. This means that support for a program under the ESAF, with its obvious distributional implications and difficult political choices, can at best be somewhat tentative. In these circumstances, the personality of key figures in the reform process, particularly the Minister of Finance, has tended to be an important factor in the success or failure of the program and, not unnaturally, the former Minister of Finance, Saifur Rahman, who held the position for a relatively protracted period, came to be perceived as the very embodiment of the program. To be sure, this is not a particularly Bangladeshi phenomenon. Ministers of finance everywhere are always the object of public ire. But in Bangladesh, with its high incidence of poverty, population pressure, and frequent natural disasters whose devastating effects are sometimes intertwined with the effects of policy reform in the public imagination, the personalization of the reform program around the Minister of Finance can be

[21]A Fund mission reported in 1987 that "under sustained pressure from the opposition, including a series of demonstrations and strikes, the government felt compelled in July to withdraw some of the revenue measures introduced in the 1987/88 budget."

[22]On October 6, 1997, the cabinet approved the national pay scale increases recommended by the secretary committee, formed to review the recommendations of the 5th National Pay Commission. The scale, containing 20 grades, will be implemented in the next three years; what is significant about this measure is that the government has chosen to fix the lowest pay at 86.48 percent of the recommended amount (the highest-ever increase) compared with 75 percent of the amount recommended by the 4th Pay Commission, and 75.75 percent of the pay recommended by the 3rd Pay Commission in 1984. (*Daily Star*, Dhaka, October 7, 1997, pp. 1, 12) This announcement about pay increases coincided with the Bank's release of its October 1997 draft report on public expenditure in Bangladesh, criticizing the increases in defense expenditure (now 17–18 percent of current spending), growing subsidies, interest payments on domestic debt, and salaries and wages arising out of the issue of absorption of personnel from the completed public projects under the recurrent budget. (*Daily Star*, 1997, p. 6).

extreme. This in turn complicates the process of consensus building as, in the words of one interviewee, the program becomes increasingly viewed "as a private transaction between the Minister of Finance and donors."

When ownership of the program is viewed by key figures in government, including cabinet ministers, as residing almost exclusively in the minister of finance, this also bedevils the process of consensus building and the mobilization of resources for the program as other cabinet ministers retreat from public support of the program at the slightest hint of opposition.[23] This clearly was the experience of Bangladesh's leading reformer, Saifur Rahman.

The new Minister of Finance is so deterred by the political costs of a new ESAF that he sees very little space for the mobilization of political support.[24]

The support of labor in Bangladesh is also difficult to mobilize as it is subject to the same polarization that characterizes the political situation: the unions are apparently under the control of the two main political parties so that strikes are often politically induced and are often drawn on party lines. Finally, the role of parliament itself in Bangladesh has tended to be often a disruptive one instead of a unifying one. Instead of being a forum for dialogue and consensus building, parliament is deprived of its proper role as opposition parties boycott it when they have political grievances to settle.

On the positive side, the private sector is generally supportive of the program. It is particularly supportive of the privatization program and is keen to see it speeded up, and therefore views with some disquiet a disruption of the program by the alternation of power between the two main political parties with their different attitudes to the policy. For this reason, the Dhaka Chamber of Commerce and Industry and proreform economists whom we interviewed expressed the rather unusual wish that the ESAF should come with a stipulation that requires, among other things, a consensus among political parties as a condition for financial support.

One important potential player in consensus building and a source of support for the program is the nongovernmental organization (NGO) community in Bangladesh. Thanks in part, perhaps, to the generally good relationship that this community enjoys with the Bank and the Fund, and the large resources that come to them through Bank and donor-funded safety net programs, it is favorably disposed to economic reform.

Agenda Setting and Authorship of Program Documents

The distinct impression one gets from reading Fund documents and also talking to government officials in the field is that the policy agenda has tended to be set more by the Fund than by the government. This is perhaps a little less true in the macroeconomic area than in the area of structural reforms. But even in the macroeconomic, especially in the fiscal, area there are many references in the documentation, confirmed by the protests of leading officials, that tax policy was mostly dictated by the Fund or was the product of compromises that government felt constrained to accept.

Following the fall of President Ershad in 1991, the successor government claimed greater autonomy and leadership in setting the policy agenda. In August 1991, for instance, it increased the national pay levels for civil servants in a decision that clearly reflected more its priorities than the Fund's.[25] There are two particular areas though in which the government's role in initiating policy was more pronounced, namely, the poverty alleviation program and the area of environmental policy. Given the strong NGO role in Bangladesh, it is understandable that the poverty alleviation policy would have been a preoccupation of the government itself. The government's role in putting the issues of environmental policy on the agenda is also not surprising, given Bangladesh's history of floods and natural disasters although, again, donors and NGOs appear at least to have jointly sponsored this push that resulted in the creation of a special Ministry of Environment.

As for the design of policy documents, including the PFP, government officials interviewed in the field readily acknowledged that most documents were prepared by the Fund and thereafter, in the manner of the usual practice, given to the government for discussion and comment.

In the area of tax policy reform, the World Bank's role in preparing appropriate policy propos-

[23]The former Minister of Finance shared an incident of how he failed to win consensus in parliament and his reform effort in this regard was subsequently marginalized. The issue was the establishment of a toll system for the Dhaka-Chittagong Expressway and the "cleaning up" of illegal habitation along the sides of the expressway. The Minister of Transport agreed to propose a bill in parliament to this effect but, in the face of strong opposition, retreated and accused the Minister of Finance of being the instigator of that untenable proposal. (Interviews, Bangladesh, October 1997).

[24]In 1996, representatives of the newly elected government were said to be so concerned about their political image that they reportedly told the Fund that advance publicity about the negotiation of a possible ESAF arrangement would be politically damaging.

[25]The decision was taken without full consultation with the Fund, although the increased pay levels did not undermine the viability of the macroeconomic program, as they were to be financed by new tax measures as well as reductions in subsidies and nonessential current expenditures.

als was particularly pronounced.[26] However, the role of the Bank and the Fund in authoring these basic policy documents did not seem of any particular concern to the technicians, the bureaucrats, or even the political leadership of the ministries, indicating both an acknowledgment of weaknesses in the government's own administrative and technical capability in particular areas (a weakness aggravated a great deal by what would seem to be a high incidence of discontinuity and staff rotation in key government agencies) and the government's view that the authorship of policy documents, as such, was not a particularly important criterion of ownership.

Initiatives to Promote Ownership

In the late 1980s, in the face of stiffening opposition to the program, the government began to devote greater attention to building national consensus and support for structural reform through public education, with particular focus on the bureaucracy. But these initiatives appear to have been largely ineffectual as they were vitiated by the climate of recrimination and civil unrest that marked the politics of the period.

The Fund, for its part, began to take the business of consensus building seriously, as domestic opposition to the program escalated and the pace of domestic reform began to slow down noticeably at the beginning of the 1990s.

A 1993 internal IMF document not only emphasized the need to strengthen the consensus for reform in Bangladesh but also proposed some rather interesting and commendable initiatives that the Fund might take to help build support for the program. It proposed that the Fund resident representative "play a leading role through the development of a wide range of contacts and by direct participation in the national debate." It also recommended the publication of IMF Occasional Papers on Bangladesh for discussion in high-level seminars in which the Fund staff would participate, as well as meetings by Fund missions with opponents of reform, both in and outside the government, in a bid to make the case for reform to a wider audience.

In 1994, a Fund mission made a submission in support of accelerated reform to a large group of ministers and senior officials in a roundtable discussion attended also by the Minister of Finance, who found the interaction so effective that he asked that it be made a regular feature of subsequent Fund mission work.

[26]In 1988, for instance, the Bank submitted comprehensive tax reform proposals, which were then reviewed by high-level committees that, in turn, reported to government.

The Fund mission leader is also reported to have participated in a seminar on reform, growth, and poverty alleviation in May 1994, inaugurated by Prime Minister Khaleda Zia.

Government Commitment to Reform

As we have noted, the level of government commitment and ownership of the program has waned significantly since the beginning of the 1990s, that is, with the onset of the ESAF program. The present government, while recognizing the need for continuing reform, appears to want to resume an ESAF arrangement with the Fund but is caught in a web of political paralysis, partly of its own creation. In the period between the Khaleda Zia government's tenure and when the present government took power, it waged a campaign of violent opposition and vilification of the reform program and now finds itself unable to create space for a resumption of the reforms. This mood was captured sharply by a senior official of the Ministry of Finance who acknowledged, as if in despair, "my administration is weak; even if I am in agreement with IMF, I won't be able to produce changes." The incumbent Minister of Finance himself echoed this same sentiment with a touch of political apprehension, indicating that if the policies insisted on by the Fund were to be followed, "the ESAF will be implemented by another government!"[27]

Conclusion

In our view, it would take a major consensus-building effort in the form of an all-inclusive national conference (such as Uganda's in December 1989), with the sort of active Fund participation recommended in a 1994 internal Fund document, to break the political stalemate that now hovers over Bangladesh, and create conditions for a realization of the country's tremendous potential for higher growth. On the part of the Fund, there would need to be greater recognition of the political constraints that inhibit the consensus-building process and a willingness to allow the government itself to set the timetable for reform.

[27]Interview with Minister Kibria, Hong Kong, September 24, 1997. His predecessor, who had the most outstanding record of program implementation through the 1980s and early 1990s, also noted how difficult a job it is to carry out reform in the extremely polarized, pluralistic, and democratic framework that Bangladesh has, and referred to a standing joke that finance ministers in reforming countries in Africa share with their Bangladeshi counterparts in meetings: "These IMF boys will not let one stay long as minister!" (Interview, Bangladesh, October 7, 1997).

Bolivia

Ownership Issues

Bolivia has long been a user of Fund resources and has gone through the usual progression from stand-by arrangements starting from the mid-1980s to arrangements under the structural adjustment facility (SAF), and then to ESAFs. The political situation in the country has, in recent times, been characterized by an alternation between the two major political groupings, with a large number of smaller parties between them. The present government of President Banzer was elected in 1996, and is based on a coalition of several parties. In general, perhaps because of the fragility of the political consensus and the peculiar problems that attend government succession in the country, the role of technical staff affiliated with the economic ministries—especially the finance ministry, which has the largest concentration of them—has tended to be more pronounced than in other countries. These technocrats have, in general, shown consistently strong support for reform programs. While this has in general been positive, it has tended to often put the Ministry of Finance ahead of the Ministry of Planning and the rest of the government as agreements are sometimes reached with the Fund before the government's internal policy discussions have settled on clear choices and decisions.[28]

Given the prominent role of technical personnel in the structure of government, these positions have become highly politicized, and the composition of negotiating teams has tended to change with every change of government.[29]

Program Support and Government Commitment

The workings of the government machinery in Bolivia appear to be characterized by a number of factors that have an obvious bearing on the scope of support for, and government commitment to, reform programs. In addition to the discontinuities in technical positions in the ministries[30] and the composition of negotiating teams already noted, the transition between incoming and outgoing administrations is often strained.[31]

There appear to be different circles of policymaking within government, the most prominent among them being a so-called "macro group" that meets weekly and consists of the minister of finance, the vice-president, and the president of the central bank, to which the Fund resident representative is often invited. Instead of aiding the process of policy coordination and consensus building, these circles tend in practice to complicate the process through undue overlap and rivalry.

The role of the legislature is especially critical of the fulfillment of government commitments. This point was underscored in interviews with ministers[32] and confirmed by numerous references in internal Fund documents.[33] Although many political parties seem to support the general direction of the reform program, many of them are critical of what they see as undue secrecy surrounding the Fund's relations with Bolivia, as evidenced by the lack of access of most congressmen, outside select committees, to basic program documents, including the PFP.[34]

The private sector, including the banking and financial sector, has a generally more positive and supportive attitude to the reform programs, an attitude partly reflecting the fact that, in contrast with other stakeholders, they have tended to enjoy much greater access to government. They also have had a great deal of leverage over policymaking, which they have used, on occasion, to advantage.[35]

[28]There are several references in staff documents pointing to this. For instance, a 1992 internal Fund document complains, "in part because of a lack of coordination between the Ministry of Finance and the Ministry of Planning, public sector investment was not limited as envisaged in the program" (July 17, 1992).

[29]Interviews, Bolivia, October 1997.

[30]Many interviewees emphasized this discontinuity in the policymaking machinery, stressing that, to a large extent, the short-term focus of successive governments is attributable to interruptions in the institutional memory.

[31]In the most recent change of government, the incoming government reportedly was handed documents relating to the program that had been negotiated by the outgoing government only ten days before it formally assumed power in a transition period that lasted a whole two months. (Interviews, Bolivia, October 1997.)

[32]Ministry of finance officials complained, for instance, that the Fund does not sufficiently appreciate the complexities of the legislative process in Bolivia, especially the time it takes to obtain congressional approval of major legislation. (Interview with Minister Millares and others, Hong Kong, September 24, 1997.)

[33]For example, in 1993, the government's inability to meet structural benchmarks relating to banking sector reforms was said to be attributable to delays in obtaining congressional approval. There are many other references suggesting that governments had considerable difficulty in securing congressional support.

[34]Interview with *Partido Democratro Cristiano* (PDC), Bolivia, October 1997. The mystification of Bolivia's relations with the Fund reflects not only these widespread perceptions of secrecy but also the sensationalism with which these relations are sometimes portrayed in the Bolivian mass media.

[35]Thus, in December 1994, for instance, the government scaled back tax rebates to exporters in fulfillment of one of the prior actions required for the presentation of the ESAF program to the Fund Executive Board. However, this measure was subsequently modified in contravention of the commitments made to the Fund, in response to protests lodged by the business community.

Unlike the business community, other NGOs, in particular those representing the indigenous groups and labor unions, have been highly critical of the reforms on account of what they perceive as their weak poverty alleviation impact. The indigenous groups see their main concerns—decentralization, municipal governance, and environmental issues—as largely marginal to the Fund. To a very large extent, these groups have tremendous ideological affinity with the labor unions. The unions, for their part, have not only been critical of the reforms, but have also been highly confrontational and ideological in their relations with government. In this respect, they differ a little from labor unions in Africa generally, which, by and large, now accept the need for policy reform, focusing their concerns mainly on the issues of governance and adequate safety nets.

Government reaction to labor protests in Bolivia has perhaps, for reasons of their confrontational and ideological nature, tended to be inordinately heavy-handed, thereby leaving precious little room for dialogue and consensus building. Asked during interviews to provide more specific details of the ways in which the programs affect them detrimentally, and also of how they are consciously marginalized in the government's decision-making processes, the labor unions plainly confessed that they were unable to do so, in large measure because of the government's refusal to give them access to statistical and other relevant information. It would seem therefore that much of the antagonism the unions feel can be relieved by more conscious efforts at dialogue and education.[36]

Authorship of Program Documents and Policy Initiatives

In the area of agenda setting and the design of policy reforms, the evidence suggests that throughout the program period, but especially in its later years, contrary to the impression of most interviewees, the role of government at the technical level has been quite prominent.[37]

Government Commitment and Program Performance

The Bolivian program has achieved significant progress in both the macroeconomic and the structural sphere, although program implementation has sometimes been hampered by political strains. These can be attributed to a number of factors, the most important being frequent friction and difficulties in coordination between the executive and legislative branches of government.

To be sure, this friction characterizes not only the conduct of the government's relations with the Fund and the Bank, but also other social and economic policies as well, and to some extent is not unique to Bolivia. However, in the area of Fund-government relations in particular, the problem is aggravated in part by a perception by some congressional leaders that the economic reform agenda has somehow become the preserve of the executive branch—Fund missions' meetings are conducted almost exclusively with the executive branch—although the issues involved are national in character. This appears to be a bit of a paradox because, as many staff documents point out, Fund missions do meet congressional leaders from time to time. That this feeling of inadequate participation persists in the Bolivian congress can perhaps be explained by the fact that the interaction of Fund missions with congressional leaders is neither systematic nor truly consultative.

Other factors include the failure of program implementation schedules to sufficiently factor in realistic timetables for obtaining congressional approval; discontinuities in the technical leadership of key economic ministries, which in turn undermine the efficiency of public administration, with consequent delays in the decision-making process; and, finally, a tradition of noncooperation between outgoing and succeeding administrations, often leading to a withholding of critical policy documents and data from incoming governments for protracted periods.

Initiatives to Promote Ownership

There are indications that governments have, from time to time, sought to explain policy measures to specific interest groups. The present government has begun just such an initiative, rather explicitly called "national dialogue," under which regular roundtable discussions are conducted, which bring together representatives of the private sector and NGOs, including the churches, in an attempt to build a national consensus on several policy issues.

On the part of the Fund, staff reports point to Fund meetings with a wide cross section of stakeholders beyond the normal circle of government officials. There have been meetings of parastatal organiza-

[36]According to the union representatives interviewed, for instance, the union protests against the government's privatization plans, which precipitated the declaration of a nationwide state of emergency in April 1995, were called only after attempts to engage the government in discussion had failed. (Interviews, Bolivia, October 1997.)

[37]In interviews with officials, the fiscal programming unit of the Ministry of Finance, officials presented the PFP process as one of intensive discussion and interaction between government and Fund staff. They firmly rejected the view that the policy agenda was set by the Fund merely because initial drafts of the PFP came from the Fund. They saw the matter more in terms of "coauthorship" than as a unilateral decision by the Fund.

tions and, importantly, occasionally with members of congress. It would appear from the hugely negative image of the Fund in the public mind, and the unanimous condemnation of the "secrecy" surrounding its operations in Bolivia, that these meetings have been viewed as largely sporadic and routine, and not as part of a systematic operational style.

It is interesting to observe though, in this connection, that in contrast with the Fund's generally negative public image, the image of the Managing Director of the Fund appears to be fairly positive.[38] Indeed, this is a phenomenon we found in other countries we visited, and which attests as much to the significance that the public often attaches to visits by the Managing Director as to the effectiveness of the Managing Director's communication skills.

Resident Representative

There has been a resident representative in La Paz since the beginning of the program period. The current resident representative appears to enjoy a particularly good relationship with, and access to, government at the highest political levels. He is clearly very effective and is widely viewed in political circles especially as a friend of Bolivia although, by reason of his professed personal style,[39] his role is not very well known to the general public (especially the press and NGO community), as a number of interviewees noted.

One other important observation that deserves to be made about the role of the resident representative in Bolivia, and one which a number of interviewees made, is that most resident representatives have always enjoyed good relations with government.[40] The technical staff of the ministries quite understandably view the resident representative's office as a particularly good source of policy advice.

Conclusion

In spite of the difficult political environment in which reforms have been undertaken in Bolivia, successive governments have shown continuing commitment to the basic principles of the reform process, and a great deal has been achieved in the framework of the 1994–97 ESAF, especially in the area of privatization. Program implementation would probably be later helped if greater attention were paid to the time and politics it takes for government to obtain congressional approval for agreed actions.

Côte d'Ivoire

Following independence, Côte d'Ivoire had a prolonged period of growth led by agricultural exports. By the 1980s, export crops accounted for half of agricultural output. This period of growth came to an end at the beginning of the 1980s and the economy then went into rapid decline. The decline was triggered by the ending of the coffee and cocoa booms of 1976–79, the aftermath of which produced a fiscal crisis. During the first half of the 1980s there was a reform program, leading to a brief resumption in growth by 1985. However, decline resumed in the late 1980s owing to a conjunction of a further deterioration in the terms of trade of 40 percent and lax public spending: between 1980 and 1990 the civil service increased by 57 percent (Ministère de l'Emploi, 1996, Table 12). By 1989, the government deficit had risen to almost 18 percent of GDP, external debt was $15 billion, and per capita GDP was falling rapidly at about 5 percent a year.

This conjunction of fiscal crisis and economic decline induced the government to embark upon an adjustment program, initially supported by an 18-month stand-by arrangement from November 1989, followed by a 12-month arrangement in September 1991.

The Stand-By Arrangements and Their Sequel, 1989–93

Adjustment to the negative external shock was complicated by two features of the Côte d'Ivoire policy regime. First, there was a commitment to stabilize producer prices for cocoa and coffee. Whereas this stabilization policy had generated large revenues, by the late 1980s it involved a price subsidy. The implication of this was that a negative shock would be borne by the public sector rather than being automatically transferred to producers. Second, membership in the CFA franc zone at a fixed exchange rate kept price levels essentially constant. This meant that the real incomes of wage earners could only be reduced through nominal wage reductions. The negative external shock reduced the equilibrium real wage in the economy. In a flexible exchange rate regime the real wage would have fallen as a by-product of an increase in the price level. The exchange rate regime thus had important implications for the political economy of

[38]Interview with *Accion Democratica Nacionalista*, Bolivia, October 1997.

[39]The resident representative said, in an interview, that he preferred to keep a very low profile, and for this reason, he generally does not talk to the press, as other representatives do. He felt he was very much an insider within government, and normally does not even participate in diplomatic activities. (Interview with the resident representative, Bolivia, October 1997.)

[40]A number of people interviewed seemed to prefer resident representatives of Latin American origin as they seem to relate better to the political and cultural situation in Bolivia.

wage adjustment. Whereas inflation would have reduced real wages in a coordinated fashion and without any overt action by employers, in the context of price stability, reductions required individual employers to change wage contracts. The government as an employer faced precisely this problem. It indeed attempted to reduce nominal wages as part of the stand-by arrangement program. However, this triggered such violent opposition that the policy was reversed. In the context of declining per capita GDP, this real wage rigidity implied that the incomes of civil servants were rising relative to mean incomes in the society. This was particularly problematic because even prior to the negative shock Ivoirien civil servants had been unusually well paid relative to average incomes.[41]

As part of the stand-by arrangement, producer prices for cocoa and coffee were halved. Given the concern with the fiscal position, this decision was understandable since world prices were falling. However, it was very much a second-best response reflecting the constraint imposed by the fixed exchange rate. Once the exchange rate was adjusted, in January 1994, the domestic currency price of tradables doubled. Hence, the chosen adjustment sequence involved a temporary halving of export crop prices. This gave farmers an incentive first to reduce their production of export crops and then to increase production. The initial reduction, while necessary on fiscal grounds (given the exchange rate constraint), imposed resource misallocation costs on the economy. These costs could have been avoided if the devaluation had taken place earlier. Additionally, as we discuss below, export taxation is highly regressive, so that the chosen adjustment sequence imposed an avoidable regressive redistribution.

Following the initial stand-by arrangement, there were six World Bank Structural Adjustment Loans (SALs) covering the period 1989–93. Various structural reforms were attempted in these years. There was a start to privatization, and financial reform followed a major banking crisis. There were substantial reductions in current expenditure (30 percent) and capital expenditure (15 percent), and tax measures aimed at broadening the tax base. The previous expansion in the civil service was reversed with an 11 percent contraction in numbers between 1990 and 1992. Between 1989 and 1991, primary expenditure was reduced by 28 percent.

However, the extent of net fiscal adjustment was constrained. First, there was continued contraction in per capita GDP of around 15 percent between 1989 and 1993. A major reason for the continued deterioration in the economy was that the exchange rate had become substantially misaligned. In addition to the direct resource misallocations implied by this overvaluation, there was increasing financial speculation that the exchange rate would be devalued. Second, there was continued deterioration in the terms of trade. Both of these reduced revenues. Because of the inability to adjust the real wage bill in the face of these declines in revenue, its share of revenue rose very rapidly: from 56 percent in 1989 to 75 percent in 1993. Although the program initially succeeded in reducing the primary budget deficit by over 6 percentage points of GDP, the overall budget balance remained in heavy deficit. As a result there was continued borrowing. In the first two years of the program (end-1989 to end-1991) external debt rose by a further \$3.7 billion. The fiscal deficit, which had peaked at 18 percent in 1989, was still 13 percent of GDP in 1993.

ESAF Program, 1994–97

The continuing fiscal and current account deficits proved unsustainable. There were various attempts to reach agreement among franc zone members on devaluation but this involved considerable delay. The region finally agreed on a 50 percent devaluation in January 1994. The following March, Côte d'Ivoire embarked upon its first ESAF program. The objectives of the program were to generate a primary budget surplus of 3 percent of GDP by 1996 (to finance debt service), to achieve GDP growth of 5 percent by 1995, and to protect the most vulnerable population groups during the adjustment period. The fiscal objective was to be reached through a combination of a revenue recovery and expenditure reduction. Revenue was expected to recover as a result of the devaluation by about 4 percentage points of GDP in 1994, and thereafter was planned to remain constant at about 21.6 percent of GDP. Primary expenditure was to fall from 21.1 percent in 1994 to 17.8 percent in 1996. The planned structural reforms included liberalization of the labor market; price decontrol; trade reform, including reductions in import taxes; civil service reduction; and accelerated privatization. Of these, there were substantial delays in civil service reduction, privatization, and the deregulation of export crop marketing.

It was recognized at the time that the urban poor might be adversely affected by the reforms, including the devaluation. To mitigate these effects, the program planned targeted assistance to urban areas through three channels: emergency assistance targeted particularly to women and children; improvements in social infrastructure, including health and education facilities; and labor-intensive public works. It was envisaged that the program would lead to a substantial rise

[41]This is indeed a general problem for the franc zone. On average in the zone civil servants were paid, prior to the devaluation, 11 times per capita GDP. See Goreux, 1995.

in rural incomes. The government's social strategy also involved reform of the health and education sectors. This involved raising enrollment rates in primary education. The educational system was recognized as having low enrollment and high drop-out rates.

Fortuitously, the devaluation was very soon followed by a doubling in the world price of coffee. While not Côte d'Ivoire's major export, this nevertheless constituted a substantial temporary windfall. Thus, if the 50 percent devaluation was sufficient to restore equilibrium at the terms of trade prevailing at the time of the devaluation, the economy switched from having an overvalued exchange rate during a negative shock to an undervalued exchange rate during a positive shock. Had the exchange rate been flexible, it would have appreciated in response to the terms of trade improvement. With a fixed exchange rate the external shock was inflationary.[42] Thus, during 1994 the economy was hit by two inflationary shocks—the devaluation and the terms of trade improvement. During the year the price level rose by 32 percent.

Associated with the devaluation and the terms of trade boom was a large fiscal adjustment. Between 1993 and 1995 revenue recovered, rising as a share of GDP from 17.6 percent to 21.7 percent, while expenditure declined from 30.0 percent to 26.5 percent. As part of the program, the public sector wage bill was frozen, leaving the government the choice between salary levels and employment levels. The government chose to reduce salaries in real terms by only limited compensation for the postdevaluation inflation, and by reducing the nominal wage for new recruits while requiring older civil servants to retire. The number of employees in the civil service actually started to increase again, although only modestly (Côte d'Ivoire, Ministère de l'Emploi, 1996).

The devaluation was successful in changing relative prices. By May 1995, the price of tradables relative to nontradables had risen by 15 percent and real wages had fallen substantially (Goreux, 1995, p. 23). It also succeeded in reversing the decline in GDP: in 1995, 1996, and 1997 GDP grew by 7 percent per annum. Industrial production recovered immediately, increasing by 14 percent between 1993 and 1995: unlike Zimbabwe and Zambia, Côte d'Ivoire did not have the features of a transition economy. Both the devaluation and the temporary favorable shock would have been expected to reduce consumption relative to savings.[43] This indeed occurred: between 1993 and 1994 consumption fell by 14 percentage points of GDP, with investment increasing by 6 percentage points and the current account improving by 8 percentage points (Goreux, 1995, Table 26).

The planned social safety net measures were only partially implemented. The impact of the devaluation on consumer prices was phased in gradually through the use of subsidies and taxation. However, price increases were phased in more rapidly than had been envisaged and the CFAF 10 billion allocated to temporary subsidies was underspent. The plans for labor-intensive public works were not implemented in the first year of the program. The Fund urged the government to accelerate implementation of these public works.

Distributional Effects, 1989–97

The programs had social consequences partly through changing incomes and partly through changing social expenditures. We first consider the effects on incomes.

Prior to the ESAF there had been a long period of worsening poverty. Between 1979 and 1993, per capita consumption fell by 34 percent and the economy informalized. Whereas in 1980 the modern sector and the urban informal sector had each accounted for 14 percent of employment, by 1992 the modern sector had contracted to 8 percent and the informal sector had expanded to 24 percent (Bodart and Le Dem, 1995, Table 1). One reason for this rapid informalization was the constraint imposed by franc zone membership, since (as noted above) it was much more difficult for real wages to fall in response to the massive negative shocks of the 1980s.

The link from wage rigidity to informalization is supported by the results of a computable general equilibrium model. In this model, a real wage cut of 20 percent in the formal sector results in a 16 percent increase in employment in the sector and an overall increase in GDP of 2.5 percent. The wage cut reduces the size of the informal sector and raises overall incomes in the economy (Bodart and Le Dem, 1995).

The adjustment programs affected income distribution through many channels. Here we discuss the three most important channels—the devaluation, changes in crop taxation, and the change in the public sector wage bill.

By design, in improving the balance of payments the devaluation initially reduced mean consumption. However, in addition to this general decline there would be distributional changes: net sellers of tradables would be favored relative to net purchasers of tradables. In general, farm households producing export crops were likely to be net sellers of tradables

[42]This is because a favorable external shock raises the relative price of nontradables. Since the price of tradables is given in nominal terms by the fixed exchange rate, the required relative price change can be achieved only through an increase in the nominal price of nontradables.

[43]A devaluation reduces real cash balances, and a temporary positive income shock raises transient relative to permanent income.

whereas urban households were likely to be net purchasers. The consequences of this redistribution depended upon the initial incidence of poverty among the various socioeconomic groups. Prior to the devaluation, the incidence of poverty was much higher in rural than in urban areas. Within rural areas it was disproportionately high among households growing export crops and female-headed households. Within urban areas, it was disproportionately high among households dependent upon the informal sector.[44] This would suggest that the devaluation would be distributionally progressive although adversely affecting some components of the initially poor, notably those in the urban informal sector and food producers.

Recall that during the stand-by arrangements the prices of export crops were halved. In 1994, during the ESAF, export taxation of cocoa and coffee was reintroduced.

The distributional incidence of export taxation is regressive. It has been quantified for the case of cocoa, using a computable general equilibrium model (McIntire, 1997). These simulations suggest that removing the current export tax on cocoa (which effectively amounts to almost 30 percent) would lead to a powerful redistribution from urban to rural groups. However, in the case of cocoa, there is a rationale for the export tax since Côte d'Ivoire has considerable power in the world cocoa market. Although in aggregate the nation therefore gains from the export tax, rural groups lose, while urban groups not only capture the entire terms of trade improvement but also benefit from a transfer from rural groups. These effects are substantial: rural groups would gain about 10 percent from an abolition of cocoa taxation. Since rural groups are poorer than urban groups, this gives rise to a trade-off between efficiency and equity. An implication is that because urban groups are gaining from the tax at the expense of rural groups, public expenditure would need to be heavily biased toward rural areas to compensate. With respect to coffee taxation, there is no such trade-off because there is no market power. The removal of the coffee export tax would therefore have both a positive distributional effect and improved allocative efficiency.

The reduction in the public sector wage bill had its social consequences. Throughout the franc zone, civil servants have traditionally been paid at very high rates. Prior to the devaluation, they received on average over 11 times mean national income (Goreux, 1995, p. xiii). Further, in Côte d'Ivoire, the composition of public sector employment is very different from that of the workforce as a whole. First, it is disproportionately male. Whereas women are a majority in agriculture and the informal sector, they constitute only one-third of public sector workers. Second, it is disproportionately Ivoirien. Whereas immigrants make up almost one-third of the labor force, they constitute only 11 percent of the public sector.[45] Hence, to an extent, the reduction in the public sector wage bill could be regarded as affecting adversely a relatively elite social group.

The net effect of reform programs has been the subject of a number of surveys. These provide snapshots of poverty in 1988 and 1993, thus spanning the pre-ESAF adjustment period. During this period, both the incidence and the intensity of poverty doubled (Table 7). There was little change in the distribution of income and the deterioration in poverty reflected the decline in mean incomes.

For the ESAF period, survey data are available only up to early 1995. This truncation is important because in the first year after the devaluation the decline in per capita GDP continued, whereas it was strongly reversed during the following three years. Hence, the comparison of household surveys for 1993 and 1995 does not pick up this recovery but only the impact during the first year and a half. During this initial phase of the ESAF there was a continued increase in poverty, both the incidence and severity of which worsened. This was due, as in the pre-ESAF reform phase, to a decline in mean income rather than to a change in the distribution of income (Table 7). As anticipated in the program, urban poverty had increased dramatically as a result of the devaluation: in Abidjan, the headcount measure rose from 5 percent to 20 percent between 1993 and 1995, and the rate of unemployment rose to 15 percent.[46] Hence, the safety net programs failed to prevent a substantial deterioration.

Overall, between 1989 and 1995 per capita GDP fell by 12 percent and poverty more than doubled. At the end of this period three socioeconomic groups accounted for 80 percent of the poor: farm households producing exports, food crop–producing households, and households dependent upon the urban informal sector. The incidence of poverty in these three groups was 43 percent, 58 percent, and 31 percent, respectively. Poverty had become diffused across the major socioeconomic groups, whereas it had initially been much more concentrated.

We now turn to the effect of the programs on social expenditures and the consequences for health and ed-

[44]Grootaert (1997) shows in a probit analysis of poverty that, controlling for education and various endowments, these groups are significantly more likely to be poor.

[45]Côte d'Ivoire, Ministère de l'Emploi, 1996, Annex Tables 1 and 5.

[46]The poverty incidence in Abidjan is taken from World Bank, 1997d, p. 12, and the unemployment rate from Côte d'Ivoire, Ministère de l'Emploi, 1996, p. 32.

Table 7: Poverty in Côte d'Ivoire, 1979–95

	1979	1985	1988	1993	1995
Private consumption per capita (in thousands of CFAF, 1987 prices)	225	189	187	148	129
Incidence of poverty (percent)	—	11.1	17.8	32.3	36.8
Intensity of poverty	—	2.9	4.5	9.0	10.4
Gini coefficient	.61	.39	.35	.37	.37

Source: World Bank, 1997d.

Note: The incidence of poverty is the percentage of people living below the poverty line of CFAF 6,350 per month. The intensity of poverty measures the shortfall from the poverty line: here we use the "P1" measure.

ucational outcomes. A major part of the adjustment program was the correction of the fiscal deficit. Part of this adjustment was borne by reductions in expenditure. Between 1989 and 1995, government primary expenditure as a share of GDP declined from 29.0 percent to 19.5 percent. The social sectors were relatively protected in that the shares of both health and education spending in primary expenditure increased. The protection was more pronounced for the health sector, the share of which in primary expenditure rose from 4.1 percent to 6.4 percent. The share of education increased only marginally, from 23.9 percent to 24.6 percent. However, these budgetary reallocations in favor of the social sectors were insufficient to protect their spending levels in real terms per capita. To do so would have required health expenditure to have risen to 6.9 percent and education expenditure to have risen to 40.3 percent of primary expenditure.

Health

During the adjustment program real per capita public expenditure on health declined (Table 8).[47] Additionally, there was a substantial shift from recurrent to capital expenditure, so that the latter rose strongly in real terms. The growth in the capital budget was disproportionately directed toward primary health care. By contrast, the composition of recurrent expenditure was virtually unchanged. This suggests that the composition of the recurrent budget was failing to take into account the changes in the capital program that would be presumed to have recurrent cost implications.

There is some evidence that prior to the adjustment program the incidence of health spending was highly regressive. One available measure is the share of total consultations in public health centers for each income quintile. In 1988, the richest quintile had double the share of the poorest quintile. By 1995, the difference had narrowed: the richest had 1.6 more consultations than the poorest. However, even by 1995, public spending remained highly regressive. Spending on health care per capita was three times greater for the highest income quintile than for the lowest.[48]

As part of the policy reforms, user charges were introduced into the public health care system in 1991. Despite these charges, usage by the two poorest quintiles increased, while usage of the private formal health care system fell sharply. There is also evidence, however, of a shift into usage of traditional medicine (see CIRES, 1995).

There is evidence that during the preadjustment crisis of the 1980s there was a deterioration in the quality of health care. For example, the rate of maternal mortality in hospitals tripled between 1978 and 1990. During the adjustment period itself quality improved. A vaccination campaign, launched in 1987, has made substantial progress although failing to reach its original targets: between 1987 and 1991 survey results show significant improvement. During the 1990s, neonatal tetanus has been eradicated from Abidjan, the blood transfusion service has been made safe from HIV infection, and an increased proportion of pregnant women receive professional health care. Despite these improvements, the state of health remains a major problem. The incidence of stunting increased from 20 percent in 1988 to 35 percent in 1995 (Table 8), and a survey that asked people to identify their problems found that among women, health was ranked first.[49]

Education

During the adjustment program real per capita public expenditure on education declined by over 35

[47]On the data presented by Demery, Dayton, and Mehra, 1997, the implied fall is somewhat larger, at 16 percent.

[48]Demery, Dayton, and Mehra, 1997, Figure 2. The data are for 1995.

[49]Côte d'Ivoire and UNICEF, 1996, Table 37.

Table 8. Côte d'Ivoire: Health and Education Expenditures and Outcomes

	1986	1988	1990	1992	1993	1994	1995
Health							
Spending per capita	. . .	. . .	4.6	3.8	3.6	3.9	4.2
Infant mortality rate	. . .	. . .	. . .	. . .	90	. . .	. . .
Life expectancy	. . .	. . .	. . .	. . .	56	. . .	. . .
Stunting	20	. . .	. . .	. . .	. . .	35	. . .
Vaccinations by one year							
BCG	. . .	. . .	. . .	. . .	. . .	73	. . .
DPT3	. . .	. . .	. . .	. . .	. . .	45	. . .
Polio3	. . .	. . .	. . .	. . .	. . .	45	. . .
Education							
Spending per capita	. . .	. . .	20.0	17.9	14.2	12.6	12.7
Gross primary enrollment	63	. . .	. . .	. . .	71	. . .	75
Adult literacy	. . .	54	. . .	. . .	. . .	49	. . .

Sources: Infant mortality, life expectancy, stunting, enrollment and literacy: World Bank, 1997d, p. 6; enrollment rate for 1986 from Demery, Dayton, and Mehra, 1997, Table 8; spending per capita (in thousands of CFAF, 1985 prices) from UNICEF, 1997.

percent (Table 8). Within this decreasing total there were compositional changes in recurrent expenditure. Between 1990 and 1995, the share of primary education increased from 46 percent to 49 percent, that of secondary education fell from 40 percent to 34 percent, and that of tertiary education increased from 14 percent to 18 percent.

Within primary education, the number of teachers increased slightly: the required reduction in the wage bill was achieved by a reduction in the real salary of teachers. Measured as a ratio of mean per capita GDP, the mean salary of teachers fell from 12.6 to 8.7 between 1992 and 1995. The sharp reduction in the wage bill permitted a massive increase in nonsalary expenditures on primary education: from 2 percent of the salary bill to 11 percent. The number of pupils per teacher increased by 10 percent. There were therefore three developments that may have affected the quality of education: the lower wages, which demotivated teachers; higher expenditures on teaching materials; and an increase in the pupil-teacher ratio. The net effect of these changes on the quality of education is ambiguous. Abstracting from a possible change in quality, the policy change achieved both an increase in educational output and a reduction in educational expenditure through reducing the unit cost of primary education. There remained scope, however, for further improvements in educational efficiency. Whereas in principle it should take six years to complete primary education, on average pupils were taking almost nine years.

These changes were even more dramatic at the secondary and tertiary levels. The unit costs of secondary education fell relative to those of primary education from 4.9 in 1988 to 2.1 in 1996. Similarly, in university education relative unit costs fell from 15.5 to 11.1 (World Bank, 1997e, Table 3). By 1997 this had provoked major political opposition including prolonged strikes.

The incidence of educational expenditure differed enormously as between primary and the higher levels. Comparing the richest and the poorest quintile, public expenditure per capita on primary education was substantially higher for the poor. By contrast, spending for secondary and tertiary education was about seven times higher for the rich. This swamped the progressivity of primary spending, so that overall public spending on education was about two-and-a-half times greater for the rich than for the poor (Demery, Dayton, and Mehra, 1997, Figure 4).

Gross enrollment in primary education increased substantially between 1986 and 1995 (Table 8). The increase was relatively larger for the poorer household groups: enrollment for the poorest quintile of households increased from 39 percent to 56 percent, and within this group enrollment of girls increased more than that of boys. Despite this improvement, educational indicators were very poor: by 1995, only 45 percent of girls from the poorest quintile of households were receiving primary education. This improvement in primary education was not matched at the secondary level. The gross enrollment rate declined from 34 percent to 31 percent between 1986 and 1995.

Thus, the two reform programs certainly involved massive reductions in government expenditures and these inevitably substantially reduced social expenditures. The smaller component of these expenditures—health—was, however, almost fully protected by large reallocations of the budget in its favor. With respect to education this was not feasible, and educational expenditures declined almost in line with overall expenditure reductions. However, the effect of the reduction in educational expenditures was borne largely by teachers. This tended to lower the quality of education, partly by demotivating teachers and partly by shifting the composition of the profession toward the less-qualified. A two-tier system of wages was introduced for existing employees versus new entrants, and existing employees were encouraged to leave. However, the reduction in teacher salaries was sufficiently large to leave room for increased nonwage expenditures in primary education. It is, therefore, possible that the deterioration in teacher quality was offset by improved provision of material inputs.

Summary of Developments Under ESAF

The experience of Côte d'Ivoire is distinctive in our sample because of its membership in the franc zone. First, the inability to adjust the exchange rate in response to external shocks contributed to the prolonged decline of the economy during the 1980s and the build-up of severe disequilibria in the labor market, the balance of payments, and the budget. Second, during the phase of policy reform after 1989, the delay in exchange rate adjustment restricted policy options to actions that were subsequently reversed once devaluation was achieved.

Franc-zone membership also limited the options for fiscal adjustment, forcing the burden of adjustment to be borne by expenditure reduction. The implied real wage rigidity contributed to the informalization of the economy. This in turn eroded the tax base. As of 1989, the government faced a huge fiscal deficit, which could not be eliminated by increased taxation owing to the rapid contraction of the private formal sector. The Fund attempted to increase fiscal revenues through measures that were clearly detrimental to income growth. Privatization receipts were increased by conferring monopoly rights on the businesses to be privatized, and the Fund argued for a high external tariff for UEMOA.

The required reductions in public expenditures were imposed on a system that was already failing to meet basic social needs. First, the composition of social expenditures had been geared to meeting the demands of the urban elite. Second, during the crisis of the 1980s service provision had already massively deteriorated (see Berthelemy and Bourguignon, 1996). As a result, by 1989, Côte d'Ivoire had very poor social indicators for its level of income. However, the government chose to place most of the burden of adjustment on its own employees. This was distributionally progressive because the civil service was initially unusually privileged. As a result, the provision of social services was very largely protected despite massive expenditure reductions.

Turning from social service provision to the generation of income, the social costs of adjustment in Côte d'Ivoire were not high. The major groups that were initially poor—rural households—were mostly net beneficiaries of the relative price changes. Nor did the economy face problems of transition: within four years of the devaluation the economy had grown by more than 20 percent and industrial output had increased substantially. Among the initially poor, the major group of losers were those in the urban informal sector. For this group there was an acute increase in poverty. The government both planned and executed safety net programs for this group, but its interventions could have been larger and faster.

Ownership Issues: The Political Context

The 1990s marked the beginning of major structural reforms in the economy. So also did they usher in a process of political liberalization with the first multiparty elections in 1990. The death of President Houphouet-Boigny in December 1993 set off a period of political turbulence, which subsided only with the endorsement of Mr. Henri Konan Bedie as president by the ruling party in 1995, and the presidential and parliamentary elections that followed in that same year. The instability generated by this transition was to have significant implications for the implementation of the ESAF program.

Interviews conducted with government officials, representatives of the ruling as well as opposition parties, and other stakeholders shed a great deal of light on the issues of governance, program ownership, the depth of social and political support for economic reform, and popular perceptions about the Fund's operational methods.

In general, the evidence will seem to suggest that the ESAF program, much unlike the preceding stand-by arrangements, benefited from a reasonable measure of national ownership, especially judged from the apparent commitment of the top levels of political leadership, and from the degree of government involvement in the preparation of policy documents, particularly the PFP. Indeed, government officials generally acknowledged, in interviews, that the ESAF program, and in particular the PFP, provided the occasion and opportunity for much broader consultation and consensus-building *within government* than the preceding arrangements. Whereas the stand-by arrangements were typically negotiated by a small technical group within the Ministry of Finance and cleared with the president, sometimes without even full-fledged cabinet discussion, the ESAF, through the mechanism of the PFP, involved technical teams (and some ministerial oversight) from other ministries at the stage of program preparation.

Political Commitment

For purposes of a general assessment of national ownership, however, three periods can usefully be distinguished: the first period, starting with the beginning of reform efforts in the 1980s and ending with the death of President Houphouet-Boigny in December 1993; the second, roughly covering the period of transition from December 1993 through the end of 1995, with the formal assumption of power by Konan Bedie as president; and the third, from 1996 through 1997.

The first period was predictably characterized by strong high-level political commitment stemming mainly from the decisive and highly centralized authority of President Houphouet-Boigny. Given this degree of centralization and the absence of real democratic participation, the reform efforts initially depended very little on wider societal support. Even so, it is worth noting that by the closing years of the Houphouet-Boigny era, as political liberalization dawned, deep fissures had opened in the crust of the body politic, and strong popular opposition, especially to reforms in the public sector and in education, had begun. Indeed, a stand-by arrangement approved by the Fund's Executive Board in September 1991 ran into difficulty over disagreements about the public sector wage bill, with the prime minister complaining that Côte d'Ivoire had, in his view, "reached the technical and social limits of the domestic adjustment strategy."

However, it was in the second period, the period of political transition, that the sustainability of this high-level political commitment was put to the severest test. The strains of the transition period found their most vivid expression in the implementation of the privatization program. However, the program soon became a pawn in the contest for this succession when Mr. Bedie, then as president of the National Assembly, introduced in 1993 debate in the Assembly and obtained an overwhelming vote suspending the program until a clear regulatory framework had been established. Although on this occasion President Houphouet-Boigny used the tremendous weight of his authority to resolve the impasse by directives to the Central Committee of the ruling party, the program remained mired in controversy after his death, in spite of a general enabling law passed in June 1994 by the national assembly.

While the continuing slippage in the timetable of envisaged actions was in part attributable to administrative and technical problems resulting from the absence of reliable financial reports and data, it was, in large measure, the product of political factors. It was not until 1995, when the new presidency had been consolidated, that the program regained its momentum with a set of new initiatives that came to be referred to as "Bedie's style" privatization.

Once the tensions of the transition period and the political maneuvering associated with elections subsided, the political leadership became more cohesive and its commitment to the program more resolute. Starting from the second year of the program, therefore, agreed structural reforms were carried out with greater resolve and with much less slippage. In March, a Fund mission found the results of the program "broadly satisfactory" and reported that with regard to structural reforms, the government had achieved "significant progress."

Thus, it is fair to say that throughout much of the program period, except for the period of political transition—which really began with political liberalization in the closing years of the Houphouet-Boigny era, and ended with the consolidation of power by the new presidency—the commitment of the political leadership to the reform process remained quite high. Indeed, even in the transition period, no fundamental shift in policy as such occurred.

This high level of political commitment and the relatively smooth record of program implementation was—and this is important—in part attributable to the fact that some of the most politically difficult reform issues, notably those of civil service and labor market reforms, had been largely exhausted by the time the ESAF program began.

Scope of Support: The Depth of the Social Consensus

As noted, earlier, the pre-ESAF reforms had been undertaken under a restrictive political environment that depended mostly on the centralized authority of Houphouet-Boigny for its legitimacy. During this period, relatively little was done to inform and court the support of stakeholders outside the small circle of political actors around the president. This long tradition of nonconsultation began to change only slowly with the onset of multiparty politics, which paved the way for a deepening of the consultative process within the ruling party itself and for a reaching out to other political constituencies. Within the leadership of the ruling party, support for the reform program was initially restrained, in part because it threatened vested interests and also in part because there was a widespread feeling that the policy changes, in particular the structural reforms, were an imposition from the Fund.

Interviews conducted with the leadership suggest that there is now a larger body of support for the reforms. Objectively, this is no doubt because a recovery is under way. In the view of the leadership, however, this is due partly to a recognition that developments in the globalization of the economy made the changes inevitable and partly also to the fact that the ESAF framework provided a longer-term policy framework, which enabled the social impact of adjustment to be better addressed. By contrast, consensus building with the opposition parties and with the unions and student groups appears to be inadequate, at least in the eyes of the leadership of these bodies; at any rate, dialogue with these constituencies is a rather recent development.

While there is recognition of a welcome change in the political culture toward greater inclusivity, the predominant sentiment in these constituencies is that consensus building must be closely linked with good governance to be credible. In this connection, there is general agreement that a democratization of the electoral code—among other things, to rid it of provisions that are *ad hominem,* at least by implication—and the adoption by government of measures to arrest a return to extravagance and conspicuous consumption among the ruling political elite would be important signals. The unions, for their part, acknowledged in interviews that, in contrast with what had prevailed in the pre-ESAF reform period when policy changes were, in their words, simply "handed down," there is now the beginning of a tradition of consultation, although this is still more formal than substantive. For instance, the new labor code, according to them, was formulated without prior consultation with them, and when labor's views were sought, the code was promulgated before their comments were submitted. There is continuing concern among labor, especially about the impact of privatization on employment.

A number of important observations need to be made on the general outlook of the political constituencies outside the ruling party. One is that in spite of lingering concerns about the social impact of the adjustment process and about the pace and speed of change, there is general acceptance and understanding of the need for change and recognition that it is in the objective interest of the country, given the general direction of global developments. Second, there was also, in our view, a general conviction in these constituencies that greater access to information on the context and reasons for reforms would greatly facilitate the process of consensus building and prevent disruptions in implementation caused by social protest. These views were also broadly shared by the business community. Asked specifically during interviews what assurances they could provide to government that, if confidential documents were made available to them, they would not be exploited for political advantage, the leaders of these constituencies stressed that their commitment to the national interest and the requirement of stability for national development would rule out any betrayal of confidence for short-term political gain. They further stressed that, at any rate, such short-term political gain could become a deterrent to responsible policymaking and dialogue with political opponents if they (the opposition) should find themselves in power.

Authorship of Program Documents and Policy Initiatives

Most interviewees did not really see authorship of policy documents and initiatives as the critical determinant of national ownership as such. Nevertheless, they complained that Fund staff tended to stifle local initiatives in preparing drafts, preferring always to work with their own drafts. For the PFP process in particular, staff documents themselves suggest that the custom is for the first drafts to be written by Fund staff, on the basis of consultations with the World Bank. Government officials interviewed and some patchy references in staff documents suggest that there were obvious exceptions to this practice and that, occasionally, government participation in the preparation of early drafts was more than token. However, the overwhelming view in government circles was that these were largely grudging deviations from well-established custom.

Technical staff in the government also stressed the need for more effective technical assistance to improve the government's capacity to prepare policy documents and strengthen the government's role in negotiations with the Fund. They acknowledged, in particular, that the secondment of Fund-based staff of national origin was a useful device and that in the case of Côte d'Ivoire, this, along with technical assistance programs with the Fund, the World Bank, and France had gone a long way toward improving national capacity although problems remained, especially in the area of data preparation and analysis. Over the longer term, one problem that would persist in the absence of incentives comparable to those available in the private sector was the constant loss of trained personnel to the private sector.

The Fund's Operational Methods

The Fund has had a resident mission since about October 1984. Our impression is that the incumbent resident representative is rather atypical in that he has fairly extensive contacts and excellent relations, not only with the technical ministries but also with political leaders, both within and outside the ruling party. His contacts with the business community and the unions appear to be equally cordial.

In general, IMF staff contacts with the country have focused on the top political leadership and the key economic ministries. Fund missions have usually had access to the prime minister and the ministers for finance, economy, planning, and agriculture, as well as the National Director of the Central Bank of West African States (the BCEAO). In the course of the first mid-term review of the ESAF program, for instance, the Fund mission met with a broad range of government officials, including the Minister of Industry and Commerce and the Minister of Agriculture and Animal Resources. One notable feature of the Fund's contacts in Côte d'Ivoire is that missions often met the president and the prime minister.

There are also references in the staff reports, which were confirmed by interviewees in the field, to contacts between Fund staff and officials of public enterprises, as well as representatives of political parties and other interest groups, including representatives of the private sector and the bankers' association.

Interestingly, however, our impression is that this apparent broadening of Fund contacts with stakeholders in the country, outside of the traditional Fund contacts, has done little to encourage a real sense of participation among these constituencies in the process of policy formulation and generally in the conduct of the country's relations with the Fund. This is a sentiment that was echoed in just about every country we visited, about which we will have more to say in our general observations section.

Cooperation with Donors and the World Bank

The Fund documents portray the usual picture of close cooperation with the Bank and the full participation of the Bank, both at headquarters and at the Bank's resident missions in the work of Fund missions in the country. There are also many references to the participation of Bank staff in the preparation of early drafts of the PFP. On closer examination, however, there are indications that these relations were not always so well coordinated. This is particularly true in the area of financial sector reforms, where there were apparent disagreements between the Fund and the Bank over the appropriate level of cash payments to the domestic banks from the government over the period 1991–95 in the context of domestic debt restructuring.

Government Initiatives to Promote Ownership

In the area of ownership, the government's sensitivity to the need for consensus building among a broad range of social forces coincided with the onset of political liberalization and the surge of popular protest against measures introduced in the stabilization period to reduce the public sector wage bill and liberalize the labor market. There is every indication that the process of consensus building is deepening with the beginnings of more effective dialogue with the opposition parties and other stakeholders, although suspicions remain about the depth of the government's commitment to genuine dialogue.

Malawi

In Malawi the precursor to ESAF was a sustained break in the growth rate: after two decades of rapid growth, per capita GDP declined by about 1 percent per annum during 1979–87. This decline had three causes.

First, the growth strategy was arguably unsustainable. It depended upon high implicit taxation of the smallholder sector with the surplus used for investment in parastatals. While this caused the smallholder sector to stagnate, the parastatals became the engine of growth. Although many African countries followed this strategy, Malawi was the only one to make it work. This was at least in part because President Banda imposed hard budget constraints upon the parastatals (see Pryor, 1990). By the 1980s these broke down, the parastatals sank into heavy losses, and the investment rate collapsed.

Second, the economy was hit by unusually severe external shocks. By 1987, the cumulative loss from the terms of trade decline was 65 percent of 1979 GDP.[50] Even with ideal policy responses this would have reduced investment and growth through the decade. In addition to the decline in the terms of trade, war in Mozambique broke the transport connection to the ports. By 1984 shipment costs were 2.5 times as high as in 1980 and it is estimated that this reduced the growth rate in the following five years by 1.4 percentage points per annum (see Van Frausum and Sahn, 1996). The war also caused an influx of almost a million refugees.

Between them these two problems were both reducing growth and affecting the budget. Revenue as a percentage of GDP declined because of the contraction in imports. Expenditure as a percentage of GDP increased because of the need for a military response to the National Resistance Movement of Mozambique (RENAMO), the refugee problem, and the accumulation of a strategic grain reserve.

Third, the initial policy response to the shocks was suboptimal. Although there was some exchange rate adjustment, trade restrictions increased and foreign exchange was rationed, so that the currency became overvalued. It has been estimated that this

[50]Calculated from Table 2.2 of World Bank, 1997a.

Table 9. Malawi: Private Consumption and Smallholder Income, 1979–96
(Kwacha at 1978 prices)

	Private Consumption Per Capita	Index	Smallholder Value-Added Per Capita	Index
1979	82.1	100	252.8	100
1983	73.4	89.4	223.8	79.1
1987	62.3	75.9	242.4	75.6
1991	74.2	90.3	269.0	74.7
1993	83.2	101.3	311.1	81.4
1996	68.6	83.6	387.4	92.7

Source: Malawi, *National Accounts*.
Note: The 1991 population is estimated as 9.1 million; we have assumed a population growth rate of 3.0 percent.

overvaluation was about 40 percent and that it reduced GDP during the 1980s by 15 percent.[51]

Cumulatively, these three elements severely reduced living standards. Between 1979 and 1987, both mean per capita private consumption and mean smallholder value-added fell by about one-fourth (see Table 9). Even before this decline, the incidence of poverty in Malawi was among the highest in the world, so by 1987 there was an acute poverty problem.

Even by 1983 these problems were sufficiently serious to require Fund involvement, although the program was in effect aborted in 1986. At the time the program collapsed in 1986/87, the central bank was not able to meet external payments obligations and the budget deficit was 12.5 percent of GDP. In 1987, the government adopted a shadow program and in 1988 Malawi became the first recipient of ESAF financing.

The First ESAF: Program Design

The focus of the program was partly fiscal and partly structural. The fiscal objective was to reduce government expenditure from 33 percent of GDP in 1986 to 24 percent by 1991, partially offset by a planned reduction in revenue from 20 percent to 18 percent over the period. Within revenue, there was to be a switch from taxes on production to taxes on consumption. The structural objectives were liberalization of foreign exchange, productivity gains in smallholder agriculture, reform of agricultural marketing, and financial liberalization. The growth objective was modest: it was anticipated that the decline in per capita GDP would be converted into a small increase.[52] Since the expectation was for little growth, the reduction in the expenditure share implied a reduction in per capita government expenditure of one-fourth over five years.

The social impact of the program was explicitly considered. The government intended to increase the share of social expenditure. Since the initial share of social expenditure in total expenditure was 20.5 percent, to be fully protected from the planned reduction in total expenditure, if the planned growth of GDP had been achieved the share of social expenditure would have needed to rise to 27 percent. Plans were broadly consistent with such protection. For example, the 1988/89 budget planned to increase the share of social services to 22.6 percent. Although outturns tended to fall short of these plans, by 1992/93 the share had risen to 24.8 percent.

The structural reforms focused on trade liberalization and the smallholder sector. With respect to the latter, there was attention to raising producer prices, increasing fertilizer use, accumulating a strategic grain reserve, and lifting restrictions on entry into cash crops. The likely social impact of the pricing reforms was largely positive. Overwhelmingly, poverty was rural and the reforms were aimed at raising rural incomes. However, the situation was complicated since the poorest 40 percent of smallholders were substantial net purchasers of maize, meeting only about two-thirds of their requirements from their own production, and so would face higher net costs from increases in maize prices. By contrast, the better-off 60 percent of smallholders produced twice as much as they consumed.[53] A 1990 internal Fund document noted this problem. Since the poorer smallholders were net sellers of labor and disproportionately located in the southern region, this could have been tackled either through raising minimum wages on the estates, or through a program of targeted labor-inten-

[51]Van Frausum and Sahn, 1996, Table 11.3.
[52]A second scenario conditional upon additional donor funding anticipated per capita growth accelerating to 2 percent.
[53]World Bank, 1995b, Table 3.22.

sive rural public works.[54] The former was indeed adopted: minimum wages were doubled in 1989.[55] The strategic grain reserve was deployed in 1990 to offset the effects of drought.

Outcomes from the First ESAF

Fiscal adjustment was gradual but effective: by 1991 the fiscal deficit (including grants) fell to 3 percent of GDP.[56] By contrast, structural adjustment was limited. Agricultural marketing remained heavily controlled, and the exchange rate remained overvalued. The net effect on growth during 1987–91 was that per capita GDP continued its decline, but at the more moderate rate of 1 percent per annum. Van Frausum and Sahn (1996) estimate a "pure" effect of the ESAF foreign exchange inflow in the absence of policy changes and this seems the most pertinent characterization of the impact of the first ESAF. They estimate that the inflow increased GDP substantially, by around 4 percent relative to the counterfactual.

From 1992 the fiscal position rapidly collapsed. There were three further shocks in 1992: the most severe drought of the century, during which maize output fell by 60 percent; a cutback in aid of nearly 4 percent of GDP as donors pressed for political liberalization; and a 68 percent wage increase in the public sector in response to labor unrest. This was followed by a period of contested elections, a change of government, and a further drought, culminating in a deficit (including grants) of 15 percent of GDP in 1994/95. One of the last acts of the old government was to float the exchange rate, the rate against the dollar falling from 4.4 to 15.3. The combined effect of the shocks and the fiscal collapse was that per capita GDP declined by 8 percent between 1992 and 1994.

Outcomes from the Second ESAF

In 1995 the new government adopted a new ESAF program. This envisaged rapid fiscal adjustment, reducing the fiscal deficit to 4 percent by 1995/96. Government expenditure was planned to fall from 42 percent of GDP in 1994/95 to 28 percent in 1998/99. The structural reforms included privatization of public enterprises, civil service reform, the elimination of the restrictions on smallholder access to land and cash crops, and the liberalization of agricultural marketing. The net effect of the reforms was expected to raise the growth of GDP per capita to 1.5 percent per annum.

There is evidence that the agricultural reforms would indeed be addressing the constraints faced by the rural poor. As of 1990 among the poorest smallholders nearly one-fifth considered government regulations or transporting and marketing as the most important constraint on new enterprise. However, a further one-tenth identified lack of technical information as the most important constraint, while enhancing the extension service was not a focus of program design.[57]

The envisaged reduction in the government expenditure share and GDP growth implied a fall in per capita real public expenditure of 34 percent between 1994/95 and 1998/99. Despite this, social expenditures (on health and education) were planned to increase, not just absolutely, but as a share of GDP, from 4.5 percent to 6.4 percent. As part of this, primary school fees were abolished, leading to a 50 percent increase in enrollment. Although this was fiscally demanding, it should be noted that expenditure in 1994/95 was highly atypical, so that much of the adjustment could be achieved simply by reverting to the precrisis budget.

The program was explicitly designed to be pro-poor. It was again explicitly recognized that the poorest were net purchasers of maize. To mitigate the negative effect of envisaged food price increases on this group, the program included public works, targeted input programs, and supplemental food programs. An innovative feature was the Malawi Social Action Fund, in which rural communities themselves identified and partly financed projects. The program faced some difficulties because of the absence of democratic institutions of government at the local level.

To date, the program has been highly successful. Fiscal stabilization was achieved very rapidly with the fiscal deficit falling to 3.8 percent by 1996/97. Combined with favorable weather, the growth effect was dramatic: per capita GDP may have grown by 5.6 percent per annum during 1994–1997.[58] The effect of the agricultural pricing reforms alone has been estimated to increase GDP by about 3 percent.[59] The

[54]Malawian smallholders are atypically integrated into labor markets. A measure of this is that out of about one million smallholder households, over 300,000 members were away working or looking for work for more than three months during 1992/93 (Malawi, NSSA, 1992/93, Vol. 4, Table A6.0).

[55]Fund staff produced a study in which the impact of changes in consumer prices, producer prices and wages on the real income of various social groups was calculated. See Hicks and Brekk, 1991.

[56]This is inclusive of interest payments on domestic debt of 2 percent of GDP. Nearly all of this was in fact debt reduction since real interest rates were much lower than nominal interest rates.

[57]Malawi, 1991. We report the responses of the poorest 40 percent of smallholders in the southern region, the poorest of the three regions, Table 29, p. 330.

[58]This estimate is based on provisional national accounts data at 1994 prices.

[59]Van Frausum and Sahn (1996), Table 11.3.

Table 10. Malawi: Survey Evidence on Real Incomes of Smallholders During the First ESAF
(Kwacha in 1990 prices)

	Southern	Central	Northern	All
1984/85	695	1305	1301	990
1990/91	568	1300	1411	909
1992/93				452

Sources: For 1984/85 from Pryor, 1990, Table 16–3; for 1990/91 from Malawi, HESSEA, Tables 15 and 38; for 1992/93, from Malawi, NSSA, as reported in Table 3.1 of World Bank, 1995b, converted to household income by assuming a rural household size of 4.4, as cited in Table 2.1. For 1984/85 and 1990/91 the figure is mean income, for 1992/93 the figure is for median income, which will be somewhat below mean income. Deflators are from Malawi, *Statistical Yearbook,* 1995, rural CPI, and from IMF staff data.

effect of the exchange rate adjustment implemented just before the change of government was probably much larger. Recall that the effect of a full exchange rate liberalization (40 percent real devaluation) was estimated to raise GDP by around 16 percent. Although the actual devaluation was initially even larger than this, it was rapidly eroded to about 20 percent by 1996. Its effect on growth was nevertheless probably larger than that of the agricultural reforms. During the financial liberalization, real interest rates were initially heavily negative, but by 1997 had risen to about 16 percent. The banking sector remained uncompetitive: liberalization had focused more on interest rates than on market structure.

Distributional Effects of the First ESAF

There are two routes by which the ESAF might have had a social impact—through changes in household incomes and through changes in social expenditures. We consider these in turn.

During the first ESAF program there was little structural change. Further, although the decline in the economy was halted, there was no growth in per capita terms in GDP. Hence, one would expect that the impact on incomes would be rather limited. A more sophisticated basis for expectations of the impact on incomes comes from a simulation model.

The main effects of the program were to augment foreign exchange inflows and to contain public expenditure. The distributional effects of the "pure" foreign exchange inflow has been simulated by Van Frausum and Sahn (1996). Their results suggest that the benefits from a pure foreign exchange inflow would accrue disproportionately to urban social groups: urban wage earners, particularly those in the government sector, and the corporate sector. Conversely, the shares of income accruing to smallholders and estate labor would fall. In absolute terms, they estimate that for smallholders the adverse distributional effects outweigh the positive overall effect of ESAF on GDP of 4 percent. Smallholder incomes fall by 2 percent as a result of a "pure" ESAF program without policy change.

The limited evidence on incomes broadly bears out the predictions of the simulation model. Between 1987 and 1991, according to the national accounts, per capita smallholder real income was virtually constant. This is supported by a comparison of household surveys for 1984/85 and 1990/91 (see Table 10). Both surveys showed the southern region to be the poorest by far. Real wages in manufacturing rose by 3 percent. The main deviation from what one would expect on the basis of the model simulations is that the real wages of estate workers rose by 15 percent. However, this reflects the fact that the model does not take into account the social targeting through the increase in the minimum wage on the estates.

We now turn to the impact via social expenditure. Table 11 brings together the input measures of budgetary expenditures on health and education with various output measures.

As discussed in the section on Zimbabwe, there are two possible concepts of real government spending. In one case, a value concept is derived by deflating nominal figures by the aggregate GDP deflator. In the other case, a volume concept is derived by deflating nominal figures by an index of costs, which in the case of health and education will be dominated by wages. These two approaches may lead to very different results, as indeed was the case in Zimbabwe where wages declined sharply in terms of the GDP deflator. For Malawi, using the first approach, the government maintained total health and education expenditure constant, although this implied a fall in per capita terms (see Table 11). Although there are no official sector-specific deflators for the health and education sectors, we can construct one by using data on the earnings of government workers in community, social, and personal services that correspond closely to health and education. The results indicate

Table 11. Malawi: Health and Education Indicators During the First ESAF
(Index per capita, 1987 = 100, unless specified)

Indicator	1987 (or nearest)	1991 (or nearest)
Health		
Health expenditure (value)	100	90
Health expenditure (volume)	100	113
Prenatal attendance	100	121
Infant mortality (per 1,000)	138 (1985)	134 (1990)
Child mortality (per 1,000)	125 (1985)	115 (1990)
Immunizations		
BCG	100	99
DPT	100	113
Polio	100	106
Measles	100	131
Education		
Education expenditure (value)	100	88
Education expenditure (volume)	100	110
Primary school enrollment	100	139

Sources: Prenatal attendances: Malawi, *Statistical Yearbook*, 1995, Table 3.13. Infant and child mortality: Malawi, *Social Indicators Survey*, 1995. Immunizations: Malawi, *Statistical Yearbook*, 1995, Table 3.16. Health and education expenditure calculated from internal Fund documents and deflated by government wages in community, social and personal services from Malawi, *Statistical Yearbook*, 1995, Table 6.4 for the volume series. The wage data are for 1987–90, rather than for 1991; to the extent that wages declined between 1990 and 1991, this is an underestimate. Enrollments from Malawi, *Statistical Yearbook*, 1995, Table 4.7.

that wages fell substantially (by 20 percent) relative to the aggregate GDP deflator. As a result, whereas the value concept shows a deterioration, the volume concept implies an improvement. The volume concept implicitly assumes that quality is constant. To the extent that the decline in real wages led to a deterioration in staff performance, the volume measure overestimates the real delivery of social services. Hence, both the value and volume measures are biased, but in opposite directions. Since the former suggests a deterioration by about 10 percent and the latter suggests an improvement by about 10 percent, the most reasonable inference is that there was little change in real social service delivery per capita during the first ESAF.

Whereas per capita real inputs into health and education appear to have stayed broadly constant, there were significant improvements in the outcome measures shown in Table 11. In health, prenatal attendance and immunizations both increased and infant and child mortality fell. In education, primary school enrollment increased very substantially. However, we should note that the absolute levels of the various indicators are poor even by the standards of low-income countries. Hence, there is some evidence that the productivity of social services increased during the period and that this led to improved outcomes.

In summary, during the first ESAF period the incomes of the poor were broadly constant, while social expenditure was protected and indeed social indicators showed some improvement.

The Phase of Program Collapse

Between the two ESAF programs, Malawi experienced a series of shocks as discussed above. For smallholders, the most important one was the 1992 drought. This is reflected in the fall in smallholder incomes shown in Table 10. The halving of income shown in that table overstates the decline because the figure for 1992/93 is for the median rather than the mean. However, there is no doubt that smallholder incomes fell substantially: the maize crop fell by 60 percent in the drought year. Also in 1992/93 Malawi's National Sample Survey of Agriculture (NSSA) a large number of smallholders reported that their income had fallen even in nominal terms from the preceding year, at a time when inflation was about 20 percent. Wage earners, both rural and urban, also lost heavily. Real earnings declined by about 30 percent between 1990 and 1994. Thus, during the period of program collapse all major social groups lost heavily.

The Second ESAF

During the second ESAF, there has been both substantial structural reform and substantial fiscal adjustment. The structural reforms would be expected to have substantial distributional effects.

The Van Frausum and Sahn (1996) simulations can again be used to estimate the distributional effects of the agricultural price and exchange rate reforms. Recall that an important distinction among smallholders in Malawi is that the poorer half are net buyers of maize whereas the better-off are net sellers. We are able to approximate this effect by distinguishing between smallholders below and above holdings of 1.5 hectare. According to the simulations, the incomes of the poorer smallholders rose by 13 percent as a result of the pricing reforms and by 3 percent as a result of the devaluation. The incomes of the better-off smallholders are affected more substantially by agricultural liberalization, with incomes increasing by 33 percent, and also by devaluation, with incomes rising by 5 percent.

Compared with the economy as a whole, smallholders thus gained much more from the agricultural liberalization and much less from the exchange rate liberalization. The relatively weak effect of the exchange rate reflects the fact that smallholders are net purchasers of foreign exchange, buying imported fertilizer, but that they produce a nontradable good, namely maize. In this distribution respect, Malawi is rather distinctive. Usually, smallholders are regarded as disproportionate beneficiaries of exchange rate depreciation because they are sellers of tradable crops while purchasing few imports. Malawi is distinctive partly because its very high transport costs make maize nontradable over a wide price range, and partly because at the start of the reforms the group of smallholders growing tradable crops such as tobacco was so small.

Whereas smallholders are predicted to have gained quite substantially from the combination of agricultural and exchange rate liberalization, the model predicts that estate workers would face a serious decline in their income of 25 percent. This reflects increasing food prices in the face of nominal wage rigidities.

There are as yet no data at the household level with which to check these predictions. National accounts data suggest, however, that distributional changes have indeed been large. First we consider smallholders. To abstract from the effects of the 1994 drought, we compare data for 1996 with those for 1993. This comparison suggests that per capita smallholder real income went up by 14 percent (Table 9).[60] This reflects the previously untapped potential for raising incomes by diversification. In 1992/93, incomes of households whose main occupation was tobacco growing were 2.3 times as high as those of households whose main occupation was maize growing. Three-fourths of smallholder households had their main occupation as maize growing, whereas only 6 percent were growing tobacco.[61] Between 1993 and 1997 the number of smallholders engaged in tobacco approximately doubled.

For the whole economy, per capita real income declined over the same period by 3 percent, so that smallholders appear to have gained relative to the economy as a whole. This is consistent with the model predictions for a large agricultural reform and a modest exchange rate liberalization, such as has characterized the ESAF to date.

By contrast, formal sector wage earners lost, at least in the short term. In the urban economy, real wages fell by 38 percent between 1994 and December 1995. This was subsequently offset by wage increases following strikes in 1996. In this case, the losers—urban wage earners—were initially considerably better off than the gainers, smallholders. In this sense, therefore, there was not a case for a safety net targeted at this category of losers. In addition, an important policy change has been the deregulation of trading and petty manufacturing activities in urban areas. This has created opportunities for income generation in urban households and has therefore provided a self-selecting safety net for the urban poor.

However, this does not apply to a second category of losers—estate workers. Comparison of living standards between estate workers and smallholders is difficult but a survey conducted in 1994 concluded that the welfare of women and children on the estates was broadly comparable to that among the poorer smallholders (Kamkondo, Dede, and Wellard, 1994). As predicted by the model, estate workers lost heavily. Between 1994 and December 1995, an estate worker receiving a wage entirely in cash would have seen its real value halved.[62] In practice, to varying degrees, estate workers received part of their income in kind in the form of maize. However, even allowing for this, there was a severe decline in real incomes that would have warranted targeted safety net intervention. During the first ESAF, the government had indeed achieved this through an increase in the minimum wage. Since inflation during this period was much more rapid than during the equivalent phase in the first stabilization program, there was a much stronger case for intervention.

The second ESAF envisaged a rapid growth in social expenditures driven by a reallocation of the budget. This has been reinforced by the rapid GDP growth between 1994 and 1997. Hence, the expecta-

[60]The national accounts on which we base these calculations are in 1978 prices. A new series based on 1994 prices is under preparation and may qualify these results.

[61]Malawi, NSSA, 1992/93, Volume 4, Tables A3.0 and A5.0.

[62]This and the urban real wage change have been calculated from Malawi's *Monthly Statistical Bulletin*, May 1997, Tables 4.1, 11.5, and 11.6, and Malawi's *Statistical Yearbook, 1995*, Table 6.3. Agricultural and nonagricultural wages were deflated by the rural and urban CPI, respectively.

tion is that the real value of social service delivery will have increased. This is likely to have been augmented by a fall in the unit cost of social service delivery, as over most of the period real wages in the government sector have been lower than in 1994. The most striking evidence of improvement in service delivery is that enrollment in primary education increased by over 60 percent in 1994/95, after school fees were abolished. The change was strongly pro-poor: enrollment rates had been considerably lower for the children of poor households and these differences were reduced (Castro-Leal, 1996).

Against this major improvement in education, there is some evidence of a decline in the coverage of immunizations due to a cut in outreach activities as a result of reductions in the health budget: between 1992 and 1995, the proportion of children fully immunized fell from 82 percent to 75 percent. Over the same period, there was an increase in the incidence of severe wasting from 5.4 percent to 7 percent.[63] However, both of these deteriorations might have taken place during the 1992–94 period of program collapse. There is also evidence of a reduction in the availability of drugs, possibly due to excessive expenditures on the capital program in the health budget. These problems are compounded by the growing prevalence of AIDS. It is estimated that deaths from AIDS will more than quadruple between 1995 and 2000, by which time AIDS cases will be absorbing half the health budget (Lodh, undated). As yet it is not possible to verify other aspects of social impact against evidence from performance indicators.

In summary, while during the first ESAF the social impact was modest, that during the second ESAF was substantial. The most important effect was the increase in smallholder income. The groups that lost in this period included urban workers who were not initially among the core poor, and the estate workers who were. This latter group was not sufficiently protected in contrast to interventions during the first ESAF. Social services delivery provides a mixed picture. There was a massive improvement in access to primary education, while some of the health indicators deteriorated.

Summary of Developments During ESAF

The first ESAF was characterized by temporarily successful fiscal adjustment, but without substantial structural adjustment. Any social impact of this program was modest. The incomes of the poor were broadly unaltered as were social expenditures, while social indicators improved somewhat. The second ESAF was also fiscally successful, indeed making a much larger correction over a much shorter period. However, in contrast to the first ESAF, it was also a process of structural adjustment. Both the foreign exchange and agricultural markets were substantially liberalized. The structural adjustment produced powerful distributional effects with smallholders gaining and urban wage earners losing. This redistribution was progressive.

However, during the period, estate workers, who were already among the core poor, lost substantially. This can be attributed not to the ESAF but rather to the inflation that was inherited from the period of program collapse. In the absence of ESAF, this group might well have lost more as inflation would have been even higher. It is to be noted that wage earners are likely to suffer substantial short-term income losses during bouts of unexpected rapid inflation. It is relatively straightforward to protect formal sector wage earners from these effects, as indeed the Malawian government did during the earlier ESAF. However, in Africa most formal sector urban wage earners are not among the core poor, so that intervention on the basis of a safety net argument cannot readily be justified. The estate workers in Malawi constitute a group for which intervention is justifiable on a safety net argument, and for whom targeting is straightforward.

While the second ESAF can be considered successful, the economy is still far from reaching its growth potential. The transformation of smallholder agriculture has only just begun and is still suffering from weak marketing and transport infrastructure. Investment in the formal sector has yet to become substantial. The large number of Malawian entrepreneurs living abroad constitutes a resource of considerable potential for the economy (as in Uganda), but there has not as yet been much return migration.

Ownership Issues: The Political Context

After 30 years of repressive and autocratic rule under President Banda, Malawi succumbed to pressure from the international donor community and domestic democratic forces and finally, in 1992, began a process of political liberalization that culminated in elections that brought to power a new government in 1994. The first ESAF arrangement and its precursor programs were thus managed under a highly centralized decision-making system with very little consultation outside the Ministry of Finance and the Reserve Bank of Malawi, although a loose coordinating body, including senior ministers, heads of the security agencies, and representatives of the ruling party, provided some sort of general oversight through periodical meetings.[64]

[63]Malawi, *Social Indicators Survey,* 1995, Fig. 6.2.

[64]Interviews, August 1997.

The ESAF arrangement spanning the period 1988–94 had mixed results; the fiscal adjustment it entailed was reasonably successful while the structural benchmarks suffered significant delays in implementation.[65] But the restrictive political system under which these reforms had been carried out had already begun to crumble in the closing years of the Banda regime, as political liberalization began with the repeal or modification of repressive laws in August 1992, and the rise of opposition parties following the referendum in June 1993, which ended one-party rule. Already in September 1993, there were strikes by the civil service demanding increases in salaries and wage compensation and calling on the government to resign.

The new government took over in a situation of profound fiscal crisis caused by large and unplanned civil service wage increases, and expenditure overruns mainly associated with the elections. These problems had been further compounded by rising food prices, followed by a major drought during the 1994 crop season, and consequent acceleration in inflation.

Ownership of Policy Reforms

Against the background of this crisis, caused by two major droughts (1991–92 and 1994), the suspension of donor aid, and the fiscal deterioration noted above, the new government sought Fund assistance and an eight-month stand-by arrangement was granted in November 1994 to help stabilize the economy and create conditions for the adoption of an ESAF arrangement.

This stand-by arrangement was prepared in rather difficult circumstances. The government was not only new; it had also inherited an enormous crisis and was confronted with a restive civil service whose loyalty could not be taken for granted. In the event, the Fund's intervention coincided with large Bank and donor missions, all of them thoroughly well intentioned but perhaps not mindful enough of the capacity constraints that the new government faced. Indeed, the government recognized these constraints when, in January 1995, it worked out a national capacity-building program for financial management, jointly with representatives from the Fund, the United Nations Development Program, the Bank, the European Union, and bilateral donors, outlining its technical assistance needs and possible funding sources. In the very nature of the situation, even this capacity-building program was not exactly the government's product, as it required government "endorsement" in August 1994.

Apart from these capacity constraints, the new government also had to contend with other political problems. The labor situation was tense, as was the political temperature, following the arrest of the former president on murder charges.

The Fund staff clearly appreciated these constraints in a remarkable assessment of the overall situation in a country strategy brief but saw them, not so much in terms of their effect on national ownership and the implications therefrom for the longer term sustainability of the program, as short-term "risks" that could be "minimized to the extent there is sufficient coordination in the reform process to ensure that potential bottlenecks are arrested in a timely manner." Key policymakers, it continued, "*would also need to be focused and made aware of* the broad objectives of the program. In this regard, it would be useful to engage a broader section of the government in the preparation of the PFP."

The government was required to take a number of prior actions[66] before the stand-by arrangement followed in November 1994.

Not surprisingly, the government ran into considerable difficulty in implementing the agreed reforms. To begin with, the drought in 1994 turned out to be even more devastating than was originally envisaged, and GDP declined by 12.4 percent instead of a programmed 9.3 percent decline. Widespread food shortages caused by the drought, a sharp depreciation of the currency, and the effects of the increases in the prices of petroleum products, among other things, led to an acceleration of inflation, which shot up to 66 percent by the end of 1994 against a target rate of 37 percent.

A sense of hopelessness and a feeling of imposition quickly took hold in the top levels of government as they struggled with the political fallout from these hardships. Indeed, this feeling of imposition still pervades the upper echelons of government and the ruling party, and is also very evident in the outlook of key ministers, including the Minister of Finance, with significant implications for the sustainability of the ESAF program in Malawi.[67] In the business community, no

[65]The agricultural sector reforms included the lifting of restrictions on smallholder production and private sector participation in marketing and distribution of agricultural products, and in the parastatal sector, included a restructuring of a number of state monopolies, mainly the Agricultural Development and Marketing Corporation and the Press Corporation.

[66]The prior actions included substantial increases in petroleum product prices (131 percent for kerosene, 85.3 percent for diesel, and 27.5 percent for petrol) and other revenue measures, a revised cash budgeting system, and an increase in the rediscount rate, among other things.

[67]A number of donors interviewed in Lilongwe also expressed concern that the program had been imposed upon an inexperienced and ill-prepared government, without due regard for the critical economic and political conditions it faced. (Interviews, Malawi, August 25, 1997.)

less, the feeling is even more intense. Our meeting with the business community in Blantyre was perhaps the most hostile of all the meetings we had during our country visits. Malawi was also where we found the Fund's image to be the most negative, generally.[68]

Scope of Support for the Program

Initially, commitment to the program at the top levels of government, including especially the Ministry of Finance, was most determined.[69] The situation was critical, resources were required, and therefore the government made the policy compromises required to obtain access to external funds. But the base of political commitment in government generally was, from the very beginning, rather narrow. The program was largely borne on the shoulders of the Minister of Finance at the time—a highly capable and dedicated patriot who acted from a genuine conviction that the path chosen was the right one, even if less traveled by. But the result was the increasing isolation of the Minister of Finance as other ministers, and organized groups, including the business community, remained largely unconvinced. For the business community, the alienation was deepened by the imposition of an export tax that had evidently been implemented as a once-and-for-all revenue measure, but which they and other donors regarded, quite correctly, as thoroughly irrational (Interviews, August 1997).

The bureaucracy, for its part, remained half-hearted at best and mostly cynical about the reforms and about the role of the rising numbers of well-paid external technical advisors. In these circumstances, the Minister of Finance, as head of the economic management team, had little choice but to put together and work with a small core team, leaving the rest of the ministry and the officials of the Ministry of Planning marginalized and resentful. As the policy agenda got larger with time, and with little relief from uncoordinated technical assistance from different agencies, which the Minister of Finance gratefully acknowledged but sought in vain to better target, the core team quickly became overstretched.

For the majority of the rural poor, including smallholders from around the capital, Lilongwe, frustration over the removal of fertilizer subsidies was very intense. They bitterly complained that these subsidies had been removed without much explanation, and what was more, without any steps being taken to give them access to any form of credit, given that the existing rural credit scheme had all but collapsed under the weight of a high incidence of nonrecovery.[70]

Among donors, there was a feeling that policies were not being thought through enough, except where the Fund had a direct interest, such as, for instance, the value-added tax, although even here they thought the timing was wrong. There was a sense that too many initiatives were being undertaken by different donors, that nobody seemed to be in charge. The Bank, it was felt, had become overpowering and much too obtrusive in its work in Malawi, often to the great irritation of political leaders; there was some expectation that in such circumstances, the Bank would have been "called to order" by the Fund. The general impression was that the absence of a Fund resident representative was not helping matters in this regard.

Authorship of the Policy Agenda

In the final analysis, authorship of the policy agenda and policy documentation is a function of technical capacity that, as we have noted in Malawi's case, was severely constrained. The ruling party has had a proreform posture from the very beginning. Indeed, the party had declared itself in favor of liberalization and privatization in its election manifesto. However, political opposition and weaknesses in the administrative and technical capacity of the civil service had imposed real constraints on the government's space for maneuver. Moreover, donors also often push agendas of their own. Given the government's limited technical capacity and the pressures on such capacity as there is, the PFP process and the entire policy agenda setting has tended to be dominated unduly by the Fund.[71]

Ownership Promotion

While there are no references to any particular initiatives for the Fund to deepen the ownership of the

[68]Some in the business community blamed the Fund, even for the sins of others. For example, one of the most bitter complaints was the passing of a new industrial relations act which, in their view, contained unreasonably permissive provisions on strikes and which they blamed the Fund for. When we pointed out that this legislation had nothing to do with the Fund and had in fact, been proposed by the International Labour Organisation (ILO), we were met with a retort that the ILO must have been directed to do so by the Fund! The Fund, it would seem, is often perceived as having a preeminent position among international organizations but this obviously comes with great costs!

[69]The stabilization measures were greeted with widespread strikes all over the country which the government resisted firmly. It faced off a strike by civil servants in August 1995, arguing that no accommodation could be provided before the following fiscal year and, also, that any further salary increases could only be granted in the context of a general rationalization and reduction in the size of the civil service.

[70]When asked what they would do if some benefactor handed them $1,000, peasant farmers (mostly women) interviewed around Lilongwe each replied without any hesitation and in a remarkable attestation to their determination to break out of the stranglehold of poverty, that they would buy fertilizer, and more fertilizer. (Interviews, August 1997.)

[71]Interview with the Minister of Finance, Lilongwe, August 1997.

program, there are references to internal Fund documents that suggest, and again this was confirmed by interviewees in the field, that Fund missions have in the past held meetings with the Economic Committee of the Cabinet "to convey the message that remedial actions are immediately required."

As for the range of Fund contacts, staff reports suggest—again, this is corroborated in the field—that missions have interacted mostly with the usual core team, mainly the Ministry of Finance, Ministry of Planning, and reserve bank officials. They also have had regular meetings with the donor community, and occasional ones with private sector representatives.

Cooperation with the Bank

Staff documents contain the usual references to full and close cooperation with the Bank, with the participation of Bank staff in meetings of Fund missions, especially joint discussion of the PFP. While there is no reason to doubt that the cooperation is as described in these documents, it is worth noting that the perception of some donors in the country was that the Bank takes initiatives without due consultation with the donor community or with the Fund in areas of common interest.[72]

Uganda

In the period 1971–86, the economy declined rapidly owing to a conjunction of poor economic policies and severe social disturbance. In the early 1980s there were two stand-by arrangements, but both collapsed under the pressure of events. The National Resistance Movement government took power in 1986, inheriting a devastated economy with a number of distinctive features. Per capita income was among the lowest in the world; the public revenue base had collapsed, with coffee taxation accounting to close to half of revenue, and high inflation had eroded the demand for money. Since there was little scope for external borrowing, government expenditure had fallen. A by-product of this was that while public sector employment had expanded enormously, public sector wages had become derisory. As a result, while the public sector was large it was not well-suited to service delivery. The private economy had retreated into subsistence activities, and exports and investment had declined. By 1986, government expenditure, exports, and investment were each only 9 percent of GDP.

The new government was initially suspicious of Fund and Bank involvement in economic policy. It dismantled aspects of the previous stand-by arrangement, notably refixing the exchange rate. By 1987, inflation had accelerated to over 200 percent and such early failures of the policy changes led the government to seek an agreement with the Fund. A structural adjustment facility program was initiated for the period 1987–90.

The SAF Program, 1987–89

A major objective of this program was to restore exports. For this, it was seen as necessary to shift from dependence upon export taxation. The producer price for coffee, the main export crop, was tripled, and there were efforts to make payments to farmers on time and to improve transport. Price controls in manufacturing were removed. There was a start to foreign exchange liberalization, with a 60 percent devaluation in 1988 followed by frequent smaller devaluations. There were plans for the privatization of public enterprises and for the removal of ghost workers from the government payroll. The targets were for GDP growth of 5 percent and inflation of 10 percent.

The period of the Structural Adjustment Facility (SAF) program coincided with a deterioration in the world coffee price. Between 1986/87 and 1989/90, the terms of trade deteriorated by 24 percent. Despite this, there was a strong recovery in output, with the growth rate of per capita GDP exceeding 3 percent per annum. In view of this satisfactory performance, the SAF program was revised before its planned completion into an ESAF program.

The First ESAF Program: From 1989 to the Crisis of 1992

The ESAF program had three objectives: continued growth of at least 5 percent, a reduction in inflation to 7.5 percent, and a balance of payments surplus of $11 million. The new program included exchange rate liberalization, the removal of import licensing, rehabilitation of infrastructure, improved fiscal controls, and public enterprise reform. From the viewpoint of the government, the core of the program was exchange rate liberalization: in 1990, it introduced foreign exchange bureaus while maintaining an official exchange rate for some transactions.

[72]The donors made particular reference to an instance when just weeks after the May 1997 consultative group meeting on Malawi, the Bank sent a letter to the Minister of Finance, which it apparently also sent to the president, protesting an increase in the number of ministries contrary to commitments made by the government. This letter evidently caused great disquiet among the cabinet, and also among donors, who felt that the Bank's intransigence over the matter (the Bank had sent two missions to protest the issue even after the government had explained the situation) created unnecessary awkwardness in relations between the government and the donor community, including the Bank and the Fund.

The social impact of the program was explicitly considered. It was recognized that some vulnerable groups would not benefit in the short run. This concern led to the setting up of a program to alleviate poverty and the social costs of adjustment (PAPSCA). The main components of the program were assistance for retrenched government workers and projects in primary education, in primary health care, and in rural infrastructure rehabilitation.

There was a further sharp deterioration in the terms of trade of 22 percent between 1989/90 and 1992/93. This created a dilemma: the collapse in the world coffee price was liable to accelerate the shift by farmers out of coffee, yet to prevent it would require the government to reduce export taxation, which was central to its revenue.

In 1991/92 there was a fiscal crisis. In part, this was due to an interruption in donor inflows because of the introduction of the dual exchange rate. However, the major reason was an extreme loss of control of expenditure: the share of government expenditure in GDP rose from 16 percent in 1990/91 to 23 percent in the following year. This loss of fiscal control produced a rapid acceleration in inflation. By March 1992 the annualized rate had reached 230 percent and per capita GDP growth had decelerated to 2 percent. In response, the president merged the ministries of finance and planning, dismissing the finance team and giving control to the planning team, which had been the main base of analysis and advocacy for economic reform.

ESAF Programs from the Crisis of 1992 to 1997

The new team thus faced a short-term stabilization problem and a longer-term need for policy reform. The fiscal crisis had cost the government the limited credibility with investors that it had achieved. The risk rating of the country by the *Institutional Investor* fell to the lowest of the 25 African countries rated. To stabilize the economy, the government introduced a cash budget. This brought about a reduction in expenditure of 3 percentage points of GDP. The cash budget had a dramatic effect on inflation. Within four months of its introduction, prices were stable. The cost of this disinflation in terms of lost output was modest. Between 1992 and 1993 the growth in per capita GDP actually accelerated to 3 percent.

In 1994, a further ESAF program was agreed (1994–97). By this time the economy was already stabilized. We should note that this makes the Ugandan ESAF program of 1994–97 unique in our sample, since its focus could have been entirely on structural reforms. In the event, the program also included important fiscal objectives. Reserves were to be accumulated to five months of imports, and the fiscal deficit (which was largely aid-funded) was envisaged to fall from 10.6 to 5.5 percent of GDP. This would involve substantial repayment to the banking system. Indeed, the objective of the fiscal adjustment was not to reduce inflation but to improve access of the private sector to credit.

The fiscal adjustment was to be achieved primarily by increasing revenue as a share of GDP by 1 percentage point per annum. This was achieved by a combination of institutional and tax rate changes. An independent revenue authority was established outside the structure of the civil service. Taxes on petroleum were increased sharply so that Uganda came to have fuel prices more than double those of its neighbors. Import duties were raised, so that even by 1996 more than half of revenue was from trade taxes. The remaining fiscal adjustment was to be achieved through reduced expenditures. To protect social expenditures during this phase of fiscal tightening, a "core budget" was created in which social programs were given priority. This was partly a response to the difficulties created by the cash budget, which increased the volatility of expenditure and thereby reduced its efficiency.

The government embarked upon a wide range of radical reform measures. With respect to export crops, it first abolished the export tax on coffee, then removed the monopoly of the Coffee Marketing Board, and finally removed the rail monopoly on coffee transporting. The introduction of private road haulage for coffee had the beneficial side effect of expanding the market for road haulage sufficiently that the market structure of the industry became much more competitive: with the demise of the haulage cartel, freight rates nearly halved.

With respect to foreign exchange, the government first unified the exchange rate at the Bureau de Change rate, then introduced an interbank market (November 1993), thereby achieving Article VIII status, and finally moved to full capital account convertibility (July 1997).

On public employment, both the civil service and the army were drastically reduced, the civil service by one-third and the army by one-half. Prior to the army demobilization, there had been considerable concern that it would lead to an increase in unrest, with demobilized soldiers resorting to crime. The government implemented a program of financial and material assistance for the demobilized. In the event, crime rates actually fell and there is evidence that the demobilized reintegrated into their rural communities.[73]

With respect to financial markets, the government gradually developed the treasury bill market. Initially, interest rates on the market were very high. There was substantial new entry into the banking

[73]See Collier, 1994.

sector, breaking a long-established cartel. However, the capitalization requirements were initially set far too low. This reflected the failure to revise the relevant legislation in response to the high inflation of the previous two decades. As a result, some of the new banks had to be placed under supervision, and their existence was a serious constraint upon the operation of monetary policy: the interventions that would have absorbed liquidity in aggregate would have made the weaker banks unviable. A distinct and major problem was posed by the Uganda Commercial Bank, which had a large, weak, and politicized portfolio. The process of privatization of the Uganda Commercial Bank was slow, and the one important respect in which the implementation of reform fell behind schedule. However, its completion was in prospect at the time of this writing and there have been over 60 other privatizations. Both the Fund and the World Bank were heavily involved in financial sector reform.

In contrast to the first two program periods, the terms of trade sharply improved owing to a temporary increase in the price of coffee. Between 1992/93 and 1994/95, there was an improvement of 76 percent. The Fund and the government were concerned that such a large favorable shock would cause powerful real exchange rate appreciation or inflation, and so they introduced a stabilizing export tax. In the event, this raised little revenue. However, neither of the concerns proved well founded: the private sector sharply increased its savings and investment rates. The liberalization of the coffee sector and the stabilization of the economy had been achieved just in time for the windfall to be well used by private agents. The government reduced the export tax in 1995 and abolished it in 1996. Unlike many governments in similar circumstances, the government was able to contain its expenditures through the temporary windfall.

The record during the liberalization phase was impressive. Over the whole period 1992–97, the growth rate of per capita GDP averaged 4.2 percent and inflation 8 percent. Foreign exchange reserves increased to five months' worth of imports despite rapid import growth. The investment risk rating improved from 5.4 in 1992 to 20.1 by September 1997, a level equal to that of Côte d'Ivoire.

Aggregate Performance: An Assessment

Over the decade 1986–96 the Ugandan government transformed the economy, with per capita GDP increasing by 40 percent. To an extent this remarkable performance was made easier by the disastrous decline that preceded it. However, the government achieved both stabilization and substantial decontrol. By the end of the period, private investors were regarding Uganda as a credible location.

The Ugandan stabilization and adjustment programs were relatively unproblematic because there were no features of a transition economy: there was no large, heavily protected import substitute sector that would become unviable through liberalization, and the public sector was small.

After the preceding years of economic disorder, a highly flexible informal economy had developed. Prices therefore responded rapidly to policy changes and there was a large natural safety net for those displaced by reform. The major category of those who lost from reform—those civil servants who lost their jobs—had already largely learned to live from the informal sector because their official salaries were below a living wage. Thus, the social costs of adjustment were unusually low.

However, for most of the period, policy change conferred only limited benefits on many of the poor because of their initial dependence upon subsistence. The liberalization of cash crops had limited beneficiaries because only a minority of rural households grew coffee, and its importance in the rural economy had greatly diminished as a result of the retreat into subsistence. Fiscal policy did not always assist the reversal of this process. First, although coffee taxation was abolished, trade taxes were little reduced. Rather, there was a shift from the taxation of exports to that of imports. Analytically, these are broadly equivalent in their incidence, both being borne by the export sector (i.e., coffee farmers), although the taxation of coffee has a more transparent incidence than the taxation of imports. Hence, the shift to import taxation appeared to confer benefits on the export sector, while largely failing to do so.[74] Second, the massive increase in the taxation of petroleum will to an extent have offset the decline in transport costs in rural areas that resulted from other aspects of the programs, notably better roads and greater competition.

A further reason why reform may not have conferred substantial benefits on the poor is that the poor are concentrated in agriculture, Uganda being one of the most rural societies in the world. Other than improving transport and raising coffee prices, the government interventions in agriculture were limited. For example, only 11 percent of rural households reported ever having been visited by an extension worker (CIET International, 1996, p. 31), and there are cases of old cottonseed being distributed to farmers. This reflected the collapse of the extension service in the pre–National Resistance Movement period.

Distributional Effects

Over the decade 1986–96 per capita GDP grew by 40 percent. Growth was sustained throughout the

[74] In trade theory this is known as the Lerner equivalence theorem.

Table 12. Uganda: Rural and Urban Per Capita Private Incomes

	1988/89	1992/93	1994/95
Rural (index)	100	101	104
Urban (index)	100	130	159
Urban/rural	2.1	2.7	3.2
Headcount of poverty			
Rural poor	. . .	49.2%	43.5%
Rural very poor	. . .	13.1%	6.4%
Urban poor	. . .	10.9%	9.0%
Urban very poor	. . .	1.9%	1.0%

Notes: Urban/rural ratios for 1988/89 are from Uganda, 1989, for 1988/89 and for 1992 and 1994 from Uganda, 1997, Table 27. For 1994/95 we take the average of the first and second monitoring surveys. We estimate the growth in private per capita income for the survey years from per capita GDP (Table 13), adjusted for the share of GDP accruing to the public sector as revenue in each fiscal year. The headcounts of poverty are from Tables A2 and A4 of *Poverty Trends in Uganda, 1989–95*, Discussion Paper No. 1, May 1997, Department of Statistics. Note that this source also gives data for 1989–92, but these are not comparable and so we do not report them.

decade (Table 12), with the most rapid growth being in the last five years. With such strong aggregate growth it would be expected that there would be room both for rising household incomes of most major social groups and for rising social expenditures. We consider incomes and social expenditures in turn. A notable feature was the shift from private to public expenditure. The share of public expenditure in GDP more than doubled over the decade, financed partly by extra revenue and partly by aid.

Incomes

The private component of GDP grew in per capita terms by 31 percent over the decade. As a result of rising aid and private capital inflows, private expenditures were able to grow much more rapidly than this, namely by 48 percent. Here, however, we focus on income.

There have been three household surveys within the period, conducted in 1988/89, 1992/93, and 1994/95. Between them, the surveys thus span much of the reform period. However, unfortunately, they present severe problems of comparability. We adopt two approaches. First, between 1992 and 1995, the surveys are comparable. In Table 12 we show the resulting headcount measures of moderate and severe poverty. In both rural and urban areas over this period, there was a substantial fall in both measures of poverty. Second, taking the longer period, we can avoid the problems of comparability to some extent by using, from each survey, not the income levels but only the ratio between urban and rural incomes. Taking total private income from the national accounts rather than from the surveys, we arrive at the income series shown in Table 12. These results suggest that urban per capita incomes increased rapidly, by almost 60 percent over a six-year period. Rural incomes, by contrast, on this measure virtually stagnated, rising by only 4 percent. For the subperiod 1992–95, the two measures show rather different results. If the headcount series are right, it seems likely that rural incomes rose more rapidly than implied by the indirect inference from national accounts. There is some reason to consider the headcount measure as more reliable.

Although (as everywhere in Africa) urban incomes were higher than rural incomes, at the start of the period there was less difference in Uganda than in most other societies. The modern economy, both public and private, had been so eroded that the structure of incomes of urban households was similar to that of rural households: few urban households depended upon wage income, and most of them had incomes from farming (Bigsten and Kayizzi-Mugerwa, forthcoming).The headcount index of poverty for rural households showed 46 percent in poverty in rural areas and 13 percent in urban areas. Thus, a substantial number of urban households were poor. However, the divergence of urban and rural incomes over the reform period must have substantially reduced urban poverty (proportionately), substantially more than rural poverty.

There is also some evidence that by the mid-1990s within rural areas incomes were markedly higher in those areas closest to the urban economy. The rural area closest to the urban economy was the central region. As a percentage of rural incomes in this region, the rural incomes in the northern, eastern, and western regions were estimated at 51 percent, 54 percent, and 62 percent, respectively.[75]

[75]UNDP (1997), Appendix 2, Table D.

Table 13. Uganda: Social Indicators

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Real recurrent expenditure per capita											
GDP per capita	1,000	1,038	1,081	1,118	1,146	1,172	1,183	1,218	1,301	1,371	1,396
Total/GDP	9.2	11.6	10.7	13.5	15.6	22.5	19.8	20.1	18.4	19.2	19.3
Rec/total	62.5	54.9	66.5	56.2	48.2	55.5	45.0	47.8	54.4	55.8	57.0
Rec/per capita	1,000	1,138	1,328	1,466	1,483	2,517	1,810	2,017	2,241	2,534	2,655
Health											
Percent rec.	3.2	3.5	4.0	4.6	5.4	. . .	5.1	4.8	4.5	. . .	. . .
Deflator	1.00	0.88	0.95	0.93	1.37	1.64	1.57	1.76	1.51	1.58	1.65
Output, per capita	100	141	175	227	183	. . .	184	172	209	(226)	(226)
Value added, per capita	1.7	1.7	1.7	1.7	1.7	1.8	1.8	1.9	1.9	1.9	1.9
Vaccinations											
BCG	. . .	. . .	70	. . .	. . .	. . .	. . .	. . .	. . .	83	. . .
DPT3	. . .	. . .	38	. . .	. . .	. . .	. . .	. . .	. . .	63	. . .
Pol3	. . .	. . .	38	. . .	. . .	. . .	. . .	. . .	. . .	62	. . .
Measles	. . .	49	. . .	. . .	. . .	. . .	. . .	. . .	. . .	61	. . .
Full immunization	. . .	. . .	31	. . .	. . .	. . .	. . .	. . .	. . .	49	. . .
Stunting	. . .	. . .	43	. . .	. . .	. . .	. . .	. . .	. . .	38	. . .
Underweight	. . .	. . .	23	. . .	. . .	. . .	. . .	. . .	. . .	25	. . .
Wasting	. . .	. . .	. . .	2	. . .	. . .	. . .	. . .	. . .	. . .	5
Infant mortality	. . .	. . .	. . .	. . .	. . .	122	. . .	. . .	. . .	97	122
Rural safe water, percent	. . .	. . .	. . .	. . .	19	25	28	32	36	39	. . .
Education											
Percent rec.	. . .	12.9	19.7	15.1	14.9	16.7	. . .	14.1	12.0	12.0	. . .
Deflator	1.00	0.82	1.04	1.05	1.29	1.38	1.30	1.75	1.59	1.59	1.68
Output, per capita	100	212	149	161	149	. . .	152	107	131	(148)	(147)
Value added, per capita	4.2	4.0	4.1	4.2	4.5	4.5	4.5	4.6	4.5	4.8	4.9
Primary enrollment	. . .	78	80	81	71	77	69	70	72	. . .	. . .
Pupils/book	. . .	. . .	. . .	10	. . .	. . .	. . .	. . .	. . .	3	. . .

Sources: Immunizations, nutrition and rural safe water, Government of Uganda and Uganda National Council for Children, 1996, Figures 3, 6 and 15. Infant mortality, UNDP, 1997. National accounts: health and education at constant 1991 prices, *Background to the Budget*, 1996 and 1997, Table 2. Primary enrollment, calculated from Uganda, *Statistical Abstract, 1996*, Tables B2 and L1, assuming 3 percent growth of the school-age population. Pupils per textbook from Government of Uganda and Uganda National Council for Children, 1996, p. 23.

Notes: We derive output of health and education by deflating government recurrent expenditures in these sectors by the sector-specific GDP deflator. The value-added for health and education is calculated by deflating current price value-added in these sectors by the same deflator.

Social Service Provision

Recall that per capita GDP grew by 40 percent over the decade. We have also noted that total government expenditure rose substantially as a percentage of GDP, financed partly by higher revenues and partly by increased aid. Over the decade the share of the government in national expenditure more than doubled, albeit from a very low base. The division of public expenditure between the recurrent and development budgets was fairly volatile, but over the decade as a whole there was a small shift toward the development budget. Despite this shift, per capita recurrent expenditure rose in real terms by 166 percent (Table 13). This evidently provided considerable scope for increased social expenditures. We now consider health and education expenditures in turn.

As a result of decentralization, total government expenditure on health and education cannot presently be determined post-1994/95 since there is uncertainty about the expenditure patterns of the districts.

Prior to the decentralization, the share of the recurrent budget allocation to the health sector rose between the beginning and the end of the decade, although there was no steady trend (the first line shown under "Health" in Table 13). Hence, the health sector benefited both from the strong growth in the total recurrent budget and from an increasing share. However, offsetting this, the price of health care services rose substantially more rapidly than average prices across the economy.[76] Hence, a given amount of health spending bought a smaller quantity of health services. This was partly because of the rising wages of workers in the health sector

[76]That is, the GDP deflator for the health sector rose relative to the GDP deflator for the economy.

and partly because of the depreciation of the exchange rate, which raised the cost of many material inputs. This effect was large: costs of health services rose by 65 percent relative to average prices (the second line under "Health" in Table 13).

Despite this increase in relative costs, the provision of health care per capita increased substantially in real terms, more than doubling on our estimate (shown in the third line under "Health" in Table 13). There is also some evidence that the increased provision was disproportionate in terms of nonwage material inputs. The number of health workers per capita rose by only about 10 percent. This is shown as value-added per capita in the fourth line of Table 13. This suggests that health workers were becoming more effective, since they were better supplied with inputs such as drugs and vaccines.

Turning to direct measures of performance in the health sector, we can see such a change. For example, the proportion of children receiving full immunization rose by nearly 60 percent over the decade (from a coverage of 31 percent to one of 49 percent).

However, direct measures of health states of the population show a less satisfactory picture. The proportion of children who are malnourished on various measures shows no systematic improvement. This is consistent with the evidence on rural incomes, which, as we have seen, suggests little change.

We now turn to education. Unlike in the health sector, prior to decentralization there was no systematic increase in the share of education in the recurrent budget. Indeed, other than for a large increase between 1986 and 1987 (which precedes the SAF program) there was a substantial decline in its share. This will have been at least partially reversed by the move toward universal primary education in 1997, but data are not yet available.

As in the health sector, the price of providing education service rose substantially relative to other prices (this is shown in the second line of "Education" in Table 13, with an increase of 68 percent). Combined with the declining share of the recurrent budget, this was sufficient to reduce the provision of educational services per capita. As shown in line three of Table 13, this tended to decline from 1987 onward. This is borne out by the decline in the enrollment rate for primary education, which also deteriorated prior to the move to universal primary education.

As in the health sector, there is some evidence of an increase in the inputs available per teacher: output per capita tends to increase more than value-added per capita. This is supported by some direct evidence on the number of books per pupil, which tripled over the period, although there has presumably been a recent deterioration as a result of universal primary education.

In summary, the provision of health services has improved while that of education services was erratic prior to universal primary education. However, the level of service provision remains extremely poor. A major reason why service provision did not improve more despite increased recurrent expenditure was that the costs of provision rose relative to other prices. This was broadly reflected in health and education outcomes: health outcomes such as vaccinations improved, while educational outcomes such as primary enrollments until recently deteriorated.

A further reason why health and educational outcomes might be poor despite increases in expenditures is that only a fraction of budgetary releases from the central government actually reach the rural population. A study that tracked the vote for nonsalary primary education from its release by the Ministry of Finance through to the primary schools found that only 36 percent of the vote was received by the schools.[77] Moneys were retained by higher levels in the educational administration. Finally, professional standards had collapsed in public service delivery: teachers were not inspected, and medical workers diverted supplies to their private practices.

Thus, despite the very large increases in overall real recurrent expenditures, social provision improved relatively little. This was made more serious by the heavily skewed distribution of the direct benefits in terms of the growth of private incomes. The rapid aggregate growth was largely confined to the urban economy. Urban households experienced large gains in income, whereas rural incomes virtually stagnated.

Summary of Developments Under ESAF

Uganda has evidently been successful both in terms of stabilization and growth. Over the decade the economy was transformed from a stagnant, subsistence orientation to an economy that enjoyed fast growth. Although there were continuous Fund programs through the decade, most of the key decisions were taken by the government on its own initiative. This was the case both for highly successful policies, such as the liberalization of the exchange rate, and for potentially disastrous policies, notably the loss of control of public expenditure in 1991. However, the growth was urban led.

It is not evident how policy could significantly have improved on this outcome. The rural development strategy was based upon the reintegration of the rural economy into the market, through better roads and deregulated markets. In the medium term this strategy can be expected to raise rural incomes sub-

[77]Economic Policy Research Centre and Management Systems and Economic Consultants Ltd., 1996.

stantially. However, in the short term the main way to reach the subsistence economy would have been through the delivery of services. However, the legacy of a large and virtually nonperforming civil service precluded effective public service delivery. The government increased real recurrent expenditure massively, but much of this did not reach the poor. Recall that only 36 percent of the nonwage vote for primary schools actually reaches the schools. The government tackled the problem of civil service nonperformance in two ways. First, across the board it shed staff and raised wages. However, because of the very large initial size of the civil service this strategy inevitably takes a long time. Second, in the one area that both it and the Fund regarded as critical—revenue generation—the government bypassed its civil service and set up an independent revenue authority that was reasonably successful. It is possible that this model could have been applied in the field of rural service delivery.

If growth is sustained at recent rates, it is very likely that poverty will gradually be reduced. However, to sustain high growth the economy will need to increase the investment rate. To date, there have been many opportunities for growth without investment as the policy environment has been improved: the economy was very far inside its production possibility frontier. To raise investment from the present level of 16 percent to the 25–30 percent range needed for sustained rapid growth, the economy will need to increase its capital inflow, both private and public. To date, the Fund has correctly urged both domestic and external deficit reduction. However, with the stabilization task completed, this can become counterproductive. The public investment program needs to be expanded relative to GDP, yet the scope for further increases in revenue to GDP is very limited in the short term. Indeed, at the margin, the major taxes—those on trade and petroleum—are probably a serious impediment to growth. The present strategy of raising tax revenue to run a surplus with the banking system may both underestimate the marginal cost of taxation and overestimate the capacity of the new banking system for financial intermediation.

The revenue constraint can be overcome by an expansion in the aid program. Several of the large donors appear willing to provide this expansion, yet the Fund has been planning on the basis of a rapid and substantial reduction in aid dependence. Similarly, with full convertibility and the most rapidly improving investment rating in Africa, Uganda is likely to attract substantially increased flows of private capital. An increased inflow, whether of aid or of foreign investment, will appreciate the real exchange rate. This will directly reduce the incentive for exports and so give rise to a potential trade-off between exports and investment. Fears of this trade-off at present heavily influence Ugandan policymakers. However, it has not been explicitly addressed by the Fund, either qualitatively or quantitatively. Ugandan policymakers note that the exchange rate is seldom even discussed by Fund missions.

This is an example of a more general issue. The ESAF program of 1994–97 was the only one in our sample not to need a stabilization component. It therefore rightly focused upon a development agenda of structural reforms. However, as a result, the scope of policy dialogue between the Fund and the government focused on a range of issues not traditionally within the Fund's area of expertise. The Ugandan government values the continued presence of the Fund, which is potentially of importance not only for advice and resources but also for credibility. However, the role of the Fund in low-income countries outside the context of stabilization requires examination. We return to this in the thematic discussion.

The social impact of the program has had both good and bad aspects. The good aspect is that there have been few outright losers from the reforms. The main exception would be retrenched civil servants, but even here the losses were small because civil service pay was so low that households were not reliant upon it. The bad aspect is that parts of the rural population have yet to gain substantially from the program. Rural poverty has fallen, but proportionately less than urban poverty. The quantitative evidence for this from surveys is consistent with the qualitative assessments of local and foreign NGOs. Social service provision gradually improved with respect to health, but the improvement in education is only very recent.

The government has recently given much greater attention to poverty reduction through a new Poverty Action Plan. A dilemma faced by the government in attempting to target its expenditures more effectively on the poor is that this has to be reconciled with the new decentralization to the district level. While it is possible that decentralization will directly improve targeting through greater local political participation, early indications are not entirely encouraging. Two initiatives that are being considered to increase the pressure on district level authorities to deliver social services are the promulgation of minimum standards, so that the population might know what to demand from its local government, and the use of conditional grants by the central government.

Ownership Issues: An Overall Assessment

Uganda presents a rather interesting ownership case, which much resembles Zimbabwe's in some respects and Ghana's in almost every respect. For this reason, it is useful to detail somewhat the processes and dynamics that helped the maturation of national ownership. The government of the National Resistance Movement, under President Museveni, which came to power in 1986, had come out of a protracted guerilla and civil war, had a radical and socialist ideological orientation that was decidedly antireform and anti-IMF, and gradually came round to negotiating an ESAF program after a long process of internal debate and consensus building.

Museveni had attacked the previous government's economic policies and condemned previous stabilization programs as Fund impositions. Accordingly, upon assuming power, he had reimposed price and foreign exchange controls in the apparent belief that this would help curb inflation. And all this over the vigorous protestations of the bureaucrat reformers in some of the technical ministries. But in an early sign of his openness to debate, the president had shielded these technicians from political victimization and kept them in their jobs.

By end-1986 to early 1987, it had become increasingly evident that the new policies of interventionism were a failure. By May 1987, inflation had accelerated to 380 percent from 120 percent in May 1986, when the exchange rate was revalued, and aid flows had all but ceased. But the apparent failure of these policies, while not swinging the debate conclusively in favor of liberal reform, discredited the control regime enough to pave the way for a renewed search for alternatives. In 1986, the International Development Research Council (IDRC), including Ugandans, was commissioned to do precisely that—that is, to propose alternatives. The team ended up proposing two models, one based on market reforms and the other, on central controls, although it advised strongly against controls.

Although dissension within the government continued, President Museveni felt confident enough about the base of his political support to invite the Fund back in early 1987 for discussion and to conclude, in May 1987, a SAF supported by the Bank in the context of a three-year Economic Recovery Program. The president's confidence was well founded. By 1987, the government had gained widespread support for restoring peace to the country and although isolated cases of fighting still continued, the policy of amnesty to the vanquished forces had brought about a great deal of reconciliation and improved the security situation, even if it had to bear the cost of a vastly increased army whose numbers jumped rapidly from 14,000 at the beginning of 1986 to over 100,000 in 1990.

It is interesting to observe though—and a cross section of interviewees did indeed confirm this—that ownership of the program was still very tentative and partial at this stage. Debates within the government still raged and the president himself was not the wholehearted convert that he was to become a few years later.

The government's decision to adopt the 1987–89 SAF program was dictated mostly by the need to obtain access to donor funds. Indeed, a 1988 internal IMF document does note correctly of this period that "the authorities were anxious to rally the support of the donor community." One of the most thoroughgoing assessments of the political economy of Uganda's reform experience by the Institute of Development Studies confirms this view and adds, in our view correctly:

> Given the lack of government conviction, it is not surprising that no progress was made at first with structural reforms; the liberalization of agricultural marketing, the reform of the banking system, the reform of the civil service, and the reform and privatization of the parastatal sector . . . . The Coffee Marketing Board resisted pressures to introduce coffee auctions; the government-owned commercial banks ignored liquidity and capital ratios while recklessly expanding their branch networks. The civil service continued to expand and parastatals continued to declare heavy losses. The government persisted with control on the official price of current exchange . . . and continued to direct the lending of the government-owned banks.[78]

Against the background of continuing dissension and debate in government circles over the direction of economic policy between the date of adoption of the SAF in May 1987 and end-1989, parliament decided in 1989 to bar further devaluation. The key economic ministries themselves were divided, with the Ministry of Finance opposed to market reforms and the Ministry of Planning and Economic Development arguing for them in a rather unusual reversal of roles. In these circumstances, and to help break the impasse and thereby create space for corrective action, the president launched a debate under the auspices of the Presidential Economic Council, and under his direct chairmanship, in which proponents and adversaries of contending alternative policies were invited to canvass their positions openly and with written presentations that the president himself reportedly read diligently.

The high point of the debate was a national conference convened in December 1989 to debate the issues of exchange rate policy and management. All members of parliament, trade unions, academics with research interest in the subject, and technocrats in the ministries were invited to dispassionately and objectively canvass their positions. The most important outcome of this phase of the debate—one

[78]Harvey and Robinson, 1995, p. 7.

that was to prove a major development in the resolution of the continuing policy stalemate—was the shift in the position of the president, who had thus far straddled the divide between market and anti-market forces, to the side of the reformers. Of particular importance was the decision to legalize exchange rate bureaus. This decision conclusively resolved the debate on exchange rate policy, leaving still unresolved the issues of fiscal policy and the management of inflation.

The Ministry of Finance supported an expansionary fiscal stance and continued to resist pressure from the Ministry of Planning and Economic Development to curb spending. Once again, the president intervened on the side of the Ministry of Planning and Economic Development when in April 1992, with the rate of inflation accelerating, he removed the Minister of Finance, merged the Ministries of Finance and Planning, and put the merged ministry under the erstwhile Minister of Planning and Economic Development. With this, the government's ownership of the program of reform deepened as the Institute of Development Studies report correctly observes (Harvey and Robinson, 1995). The relative success of the ESAF programs that followed this period and the government's success in dealing with the fiscal crisis of 1992 are largely attributable to this deepening of ownership. At the same time, delays have continued to characterize the implementation of those aspects of the program on which disagreement between the Fund and the government persists—notably, the areas of privatization, civil service reforms, and defense expenditure cuts.

The Scope of ESAF Support

Although ownership had deepened tremendously by the time of the adoption of the first ESAF in 1989, the scope of support for the program naturally was by no means complete. A number of key members of government still did not share the president's keen commitment to the reforms. This was particularly evident in the first period of the program from 1989 to 1991, during which, as we have pointed out, tensions continued between the Ministry of Finance on the one hand and the Ministry of Planning and Economic Development on the other, especially over fiscal policy. Again, many internal IMF documents make references to government indecision.[79]

Beyond this phase though, it would seem that the program now enjoyed a broad measure of support well beyond the small circle of highly committed and unusually forceful technocrats in the Ministry of Finance and Economic Planning, who had initially carried it with the support of the president. This was due in part to the greater degree of political openness that characterized the political economy of the reform process, especially since the mid-1990s. There is currently a growing perception that government is much more open to dialogue and debate.[80] But this general assessment requires some important clarifications. First, there are new, as well as continuing, tensions within government, which have been fueled especially by the reseparation of the Ministry of Finance and that of Planning and Economic Development. Moreover, thanks to this very process of political liberalization, powerful interest groups have emerged that are now capable of influencing policies in significant ways. Pockets of opposition to various aspects of the program undoubtedly still remain. One such grouping is the Uganda Manufacturers' Association (UMA), a group that was largely moribund through the 1970s and early 1980s but which has been revived and now represents a large cross section of business associations and includes about 400 members.

Thanks to financial support from the U.S. Agency for International Development and technical assistance from Canada, the UMA is a well-organized group with a credible policy unit that submits policy recommendations and position papers to government regularly. The Association can be a fairly effective lobby, as it demonstrated in 1993 when it mounted a campaign against increases in excise duty rates introduced in the 1993–94 budget that took the intervention of the president and a compromise in the way of a reduction in some of the proposed rates to resolve. The Association enjoys the patronage and support of the president, to whom they have ready access. For this reason, they separate the president from the Minister of Finance and senior officials of his ministry; the president, in their view, consults while the implementers, namely, the Minister of Finance and his advisors, do not.[81] They have often used this access to great advantage and by their own admission, were instrumental in getting the president to once again separate the Ministries of Finance and Planning because in their words, "the [incumbent] Minister of Finance and his principal secretary came from Planning to Finance, and promptly forgot all about plannning."[82]

The future direction of the program and the sustainability of the government's commitment to the program, especially in the areas of fiscal policy, pri-

[79]A June 1989 internal Fund document noted that "the authorities were not able to commit themselves to any specific measures" and also makes reference to a draft Memorandum on Economic Policies "which was extensively discussed with the authorities but is not yet fully agreed."

[80]Interviews, August 1997.
[81]Interviews, August 1997.
[82]Interviews, August 1997.

vatization, and financial sector reforms, will be influenced significantly by the effectiveness, or otherwise, of the UMA lobby and the outlook of the Minister of Planning, whose support for these aspects of the reforms is far from whole-hearted. Another grouping, the Uganda National Chamber of Commerce and Industry (UNCCI), is not quite as well organized and lacks the policy analysis capability of the UMA. For this reason, it is not as effective a policy lobby although it has some political influence, especially with members of parliament.

The Uganda Exporters' Association, on the other hand, although not quite as organized as the UMA, is more effective than the UNCCI and is capable of militant agitation. In 1994, it organized a short-lived but disruptive protest by coffee exporters against a newly introduced graduated coffee tax. This Association's technical capabilities appear to be improving and their attitude to government would seem to be more positive and less antagonistic than that of the UMA. This disposition, if nurtured by government through active dialogue, can be turned into a useful counterweight to the protectionist pressures from the UMA.

Uganda also has a fairly large number of nongovernmental organizations (some estimates put the number at over 800), mostly formed apparently after the National Resistance Movement government came to power. It would seem that in spite of their numbers, the NGOs are as yet not very influential as a policy lobby, except perhaps in the area of human rights advocacy, a notable exception being OXFAM, which in the past has campaigned for debt relief. Moreover, tensions between local and foreign-based NGOs have tended to dampen the effectiveness of the NGO community in policy advocacy and, if not resolved, will continue to undermine their potential impact on policy.[83]

Another institution whose support for the program is increasingly becoming crucial is parliament. In the initial stages of parliamentary practice, parliament's role in economic policymaking was limited and the Minister of Finance usually got his budget passed by lobbying influential members of parliament before bringing budget proposals to the full house for debate. It would seem that this has now changed and—with the exception of monetary and exchange rate policy, which is left more or less exclusively to the central bank—major economic policy changes, especially those affecting the budget and structural changes like privatization, civil service reform, and financial sector reforms, are now subject to much fuller parliamentary oversight through the work of various parliamentary committees that review major policy reform proposals and report to the full house, which then adopts the proposals through reports of the parliamentary committee chairmen. Parliament has been particularly active in the implementation of the privatization program; in March 1993, it effectively stopped the implementation of the program on a private member's bill when government sought to implement the program without obtaining the prior approval, by parliament, of appropriate legislation in the form of a parastatal enterprise reform and divestiture bill. The bill was later to be passed in August 1993 in a closed session of parliament, under the chairmanship of the president himself and at his prodding. Two members of parliament sit alongside ministers and others on the Divestiture Implementation Committee, which oversees the implementation of the divestiture program generally while parliament as a whole participates in decisions affecting the privatization of large enterprises such as the Uganda Commercial Bank. Indeed, parliament's extraordinary interest in the privatization of this particular bank was brilliantly caricatured in one of the local newspapers while we were visiting Kampala; the cartoon had a number of parliamentarians standing in front of the parliament building and threatening that parliament would not pass a bill sanctioning the privatization of the Uganda Commercial Bank unless the bill contained provisions obliging the government to intervene if the new owners of the bank should attempt to seize the properties of loan defaulters, many of whom apparently were members of parliament!

Finally, through its Committee on Social Services, parliament also gets involved in issues of poverty alleviation. Interestingly, the two issues that appear to occupy the majority of members of parliament are the sustainability of the reforms when formal arrangements with the Bretton Woods institutions come to an end, and ways of ensuring that poverty alleviation is mainstreamed into the reform program itself rather than through more or less adventitious safety netting. Finally, the most significant, even if unorganized, source of opposition to these reforms are mid- to senior-level civil servants and staff of state-owned enterprises who have either lost income from scarcity premiums and the perks that came with the administration of economic controls or are threatened by potential job losses from privatization. In the end, therefore, the sustainability of the reforms will depend crucially on greater consultation by government with business and political leaders and with trade unions whose power is bound to increase with better organization, and also with mid- to senior-level public sector employees who, for now, feel some disaffection on account of their marginalization from the gains of the recovery. In this way, the program's longer-term sustainability can be

[83] Interviews, August 1997.

better safeguarded by a reduction of its undue dependence on the role of the president himself.

Authorship of Policies and Agenda Setting

The government's role in setting the policy agenda and authoring major policy documents, especially those in the area of exchange rate reform and, to some extent, the area of fiscal policy, has been reasonably strong, especially from the beginning of the 1990s when the dissension within government subsided with the conversion of the president to the side of the reformers. In other areas that were essentially products of compromise, such as military spending, privatization, and civil service reforms after the initial round of layoffs, the government's leadership in setting the policy agenda and the pace of implementation does not appear to have been as strong. Moreover, given the usual asymmetry in technical expertise between the Fund and ESAF governments, not excluding Uganda, Fund staff input into technical work, especially in the initial stages of the program, was much larger than the government's.[84] Even so, the general policy framework of the SAF program had been under discussion within government long before the Fund was invited, in early 1987, to negotiate the program.[85]

Promotion of Ownership

The Uganda reform experience, as we have seen, benefited from a great deal of public education and consensus-building initiatives by government. Mention has already been made about the debates and the culminating National Conference that took place in December 1989. Another distinguishing feature of the Uganda reform program in this regard is the role of President Museveni himself in canvassing support for the program through public speeches, addresses, and seminars. Many of these initiatives are reported in various Fund staff reports. Of particular importance is the president's role in defending policies, even in the face of popular opposition and protest, rather than opting for the path of political expediency as most presidents are wont to do in such circumstances. Without his personal intervention, for instance, the value-added tax would not have been passed.

On the part of the Fund, a notable initiative for promoting ownership was its proposal to, and acceptance by, government to publish the PFP in 1995.

The Resident Representative

A resident representative has been stationed in Kampala since 1982. Government, private sector, and NGO representatives interviewed generally had a favorable impression of the role and effectiveness of the incumbent resident representative and the office of the representative mission. In the first years of the program period, Fund missions tended to interact, as is customary, mostly with the government, particularly Ministry of Finance and central bank officials, and importantly, with the president, with whom (according to some Fund staff reports) they had even more extensive meetings on occasion than they had with technical staff. In recent years, however, the Fund has met a broader range of people, again as noted in staff reports and as confirmed by our field interviews. These include other ministries than the economic ministries, committees of parliament, NGOs, private sector organizations, and UN agencies. Finally, donors appear to be satisfied with briefings by Fund missions.

Vietnam

Vietnam represents a particularly interesting case from the point of view of its general reform experience, but particularly for the lessons it offers on the issues of ownership, for a number of reasons.

First, market reforms were started long before the Bank and the Fund resumed operations in the country following the termination, in October 1993, of Vietnam's ineligibility to use the general resources of the Fund.[86] Second, these reforms took place in a largely war-torn economy. Third, the reforms were started and have continued largely without accompanying political liberalization. And fourth, the country benefited from a remarkably large program of technical assistance under two UNDP/IMF programs spanning the period 1990 through 1996, with a total of some 25 person-years, and this evidently without any real loss of ownership over the direction of its policy reforms.

The first three-year ESAF program, approved by the Board in November 1994, was preceded by a 12-

[84]In November 1988, for instance, a Fund mission reported that it "prepared several technical notes at the request of the Minister of Finance—for example, requirements for crop finance, impact of exchange rate changes on the budget, and on domestic prices; revenue enhancement from corporate taxes." Similarly, a 1992 report states "the authorities welcomed the mission's proposal that the Fund staff would prepare for the authorities' consideration, an outline of the main elements of the exchange rate system to be implemented."

[85]Interviews, August 1997.

[86]The ineligibility was lifted after Vietnam settled its arrears with the Fund, totaling SDR 100.2 million, with funds arranged by the Support Group for Vietnam and supplementary bridge finance from conventional sources.

month stand-by arrangement that was canceled and replaced by the ESAF.

Ownership and Governance Issues

The first period of reform, which entailed largely stabilization measures, and the follow-up program under ESAF, which entailed a larger measure of structural reform, have both been conducted under a highly centralized decision-making system that characterizes Vietnam's one-party political system. Accordingly, Party Congresses have been an important forum for policymaking and consensus building, and contrary to the teachings of conventional (Western) political theory, this has meant, in practice, that decisions are taken after lengthy periods of internal debate, especially at the upper echelons of the party. The decisive landmark in the government's liberalization effort was the decisions taken by the Sixth Party Congress held in 1986, which recognized the need for a fundamental modification of the socialist model of development. These paved the way for the adoption in the ensuing years of comprehensive measures of stabilization and structural reform.

The stabilization measures of the 1980s and early 1990s brought about a rapid transformation of the economy and, thanks to accompanying structural reforms and expanding flows of FDI, have helped to achieve spectacularly high rates of growth with an expanding and increasingly diversified export base.

The first phase of the go-it-alone reforms was characterized by a high level of government support and commitment although, of course, there were some in the party leadership who were less than enthusiastic in their support.[87]

Government leadership in setting the agenda and determining the pace of reforms was clearly decisive in this initial phase. Policies were adopted by government after thoroughgoing debate and without any external pressures, although the government sought technical assistance from varied sources, including the Fund, whose technical opinion it often sought in the framework of the intensive collaborative approach. Such technical assistance and advice merely aided the process of decision making without determining its outcome as such.

In contrast, the second phase of reforms has been characterized by an unmistakable slowing down in the pace of implementation, and this against the background of an equally unmistakable erosion of ownership and commitment on the part of the government to the reforms. First, there is a widespread view in government circles that the government has lost the initiative in setting the agenda and determining the speed of change. Government officials and key functionaries, interviewed on the occasion of our visit to Hanoi, went to great lengths to explain that while no policies had been imposed on the government as such, there have been many instances in which government felt it had surrendered to compromises, so as to conclude agreements with the Bank and the Fund in the full knowledge that they risked the prospect that opponents would maintain their reservations through the implementation period.[88]

There is the added factor that the reforms in the ESAF period have been largely in the nature of structural changes—privatization, tax reform, trade liberalization—whose political economy is usually more difficult to manage in any political situation than purely macroeconomic reforms. Naturally, in a country that had had no previous experience whatever with market reforms, and in which the closed economy had developed such strong political and ideological roots, it was bound to be even more difficult. Predictably, in these areas the government preferred a more gradualist approach to what it perceived as the Fund's unreasonably fast pace.[89]

It is probable also that the building of support for the reforms and the deepening of the government's commitment to the program may have been compromised by some incompatibility between the tortuous and often protracted nature of the decision-making process and the negotiating style of the Vietnamese government[90] on the one hand, and the time frame and negotiating strategy of the Fund on the other.

[87]In 1990, a leading Vietnamese official expressed his hope that the successful implementation of the intensified collaborative approach "will disperse suspicion of the Fund among various circles in our country."

[88]In an interview with the governor of the State Bank of Vietnam, a leading figure in government relations with the Fund (who, unfortunately, lost his position a day after we interviewed him but for reasons, we were assured, that had nothing to do with our interview!), we were told that whereas in negotiations with the Fund, consensus was always quickly reached on the general objectives, disagreements invariably arose on specifics, among which he cited tariffs and state-owned enterprises, where government often felt that Fund staff came with fixed positions that they merely wished to impose without sufficient understanding of the specific conditions prevailing in Vietnam, especially its long period of state controls in economic management. He added that, in these areas of disagreement, there often were "compromises which then run into difficulties in implementation because not everybody is convinced."

[89]The government's preference for a more gradual approach to privatization and for the transfer of user rights rather than of property rights to private citizens was not lost on the staff as this was alluded to in a number of internal staff documents. But this did not stop the staff from maintaining pressure on the government to accelerate the pace of reform. The result inevitably was delay in policy implementation.

[90]It is a negotiating strategy that has been influenced, not only by the centralized nature of decision making in Vietnam but also by the long history of Vietnam's participation in the COMICOM system, which is notorious for interminable horse-trading.

Vietnamese negotiating teams would typically negotiate after obtaining a mandate from the party on key issues to be negotiated. They would then begin negotiations and, in the course of the negotiations, provide briefings as required to the party, and when necessary seek fresh mandates for such concessions as needed to be made. The internal negotiating process is thus often protracted and rather unhurried and, as the Fund missions for their part are always unavoidably time-bound and also mandate-constrained, there is often a rush to conclude discussions, which then result in compromises that have little support within government.

In the area of privatization, which is perhaps the most difficult in the policy agenda for the continuing reform,[91] the pace of reform has been hampered, not only by opposition from workers and management for the usual reasons, but also by the absence of a clear legal framework. For some reason, in Vietnam and in most other ESAF countries undertaking programs of public sector reform, the privatization process has always begun before an appropriate legal framework in the form of a divestiture implementation or state enterprise law is passed, clarifying not only the institutional framework but also ownership rights in the case of Vietnam. Indeed, a number of officials interviewed pointed out that one of the reasons for the difficulties encountered in the public sector reform program was precisely that the government's own guidelines for the program were unclear.[92]

Our sense is that the implementation of the privatization program will now move more smoothly, as a number of officials pointed out, because these initial difficulties have been mostly overcome. First, there is broader support among management and workers of the affected enterprises, thanks to initiatives by government to explain the objectives and allay their concerns. Second, there are more specific and clearer guidelines from government on the program. And third, the program that used to be under an Enterprise Reform Committee is now under the Ministry of Finance, which has greater experience in managing state assets and probably has a keen eye on the resources that can be mobilized from their privatization.[93]

The Consensus-Building Process

The effectiveness of the processes of consensus building is obviously an important factor influencing the extent of government commitment and public support for policy reform. In Vietnam, the process is played through the various layers of the party, culminating in debates in the Party Congress and in the National Assembly. The Party Congress sets out major policy directions for socioeconomic development. The National Assembly is the supreme lawmaking body, which in addition to the passage of laws approves major objectives and targets for economic development programs, including growth rates and other macroeconomic targets and budget projections for both recurrent and development expenditure. The government is the executive body responsible for formulating and implementing specific policy measures aimed at realizing the broad directions and goals set by the Party Congress and the National Assembly.[94] There is, of course, the electorate, whose voice and leverage are important in the politics of the party. In the most recent elections, held in the last week of September 1997, a new leadership representing this tendency, headed by President Tran Duc Luong and Prime Minister Phan Van Khai, was elected. This change in leadership holds great potential for an acceleration in the pace of reforms and a strengthening of the government's commitment to the Fund-supported programs.

Authorship of Program Documents and Policy Initiatives

As we have already noted, government ownership of the reform agenda was particularly strong in the first years of the program of reform, with the government itself clearly defining the agenda, in spite of the extensive technical assistance that it sought and used in the development of the policy framework in many areas.[95]

Indeed, the government's management of technical assistance and the way it ensured government ownership, even with such extensive reliance on external technical assistance, was especially skillful as a 1995 internal Fund document duly noted. According to this report, "Partly stemming from the authorities' desire for 'ownership' of the program, and the emphasis on institution building, proposals requested from the [Fund's] advisors are usually compared with those

[91]There are over 6,000 state-owned enterprises on the agenda of the reform.

[92]Interview with the Governor of the State Bank of Vietnam, Hanoi, September 27, 1997.

[93]Interviews with officials with the Ministry of Planning and Investment, September 29, 1997.

[94]A leading national newspaper commenting on the election of this new team noted correctly that "unlike their predecessors who spent most of their lives in the atmosphere of battle, with the two wars going on, first between Vietnam and France, then between Vietnam and the United States, most members of the newly elected leadership have been carefully trained at professional institutions at home and abroad." (Dung, 1997).

[95]In 1990, for instance, the Vietnamese government sought the views of the Fund on proposed financial sector reform measures that it planned to put before the Council of Ministers.

made by other donor-assisted technical assistance programs before any action is taken."

Thanks to this same concern for national ownership, the government's participation in the negotiation of the PFP has been particularly active and detailed.[96]

The Resident Representative and Fund Cooperation with Donors and the Bank

The Fund has had a resident mission in Hanoi since 1992. The present resident representative is fairly new. We did not have the opportunity to assess how well established the mission is since our meetings in Vietnam were arranged and coordinated entirely by the State Bank of Vietnam.

Regarding the Fund's relationship with the Bank, although the staff documents describe this cooperation as close, and although numerous documents refer to joint work and the participation of the Bank in discussions with the authorities, there have been conflicts, especially in the coordination of policy on state-owned enterprise reform and banking sector reform, as we have already noted. On a more general level, it would seem that Fund missions have not always fully involved Bank resident mission staff and consulted them adequately on issues of mutual interest such as those of privatization and banking sector reforms.[97]

In the view of some staff members, the asymmetry in the levels of authority exercisable by Bank and Fund resident missions—Bank resident missions have greater decision-making authority than Fund resident representatives—makes it difficult to conduct proper dialogue on, and coordinate, policy discussions in the field as conflicts often have to be referred to Washington, where they are not always resolved satisfactorily. Any strain in relations would be unfortunate as the Bank has been in Vietnam longer and has more in-depth knowledge of the country's economic and political profile, which can only be beneficial both to the Fund's resident mission and to visiting missions.

Zambia

During the first decade of independence, the government built a controlled, state-owned economy with high social spending financed by a booming copper sector. This system was probably the most extreme example on the continent of state involvement in the economy, and was unsustainable except in the context of rising copper prices. The state sector (the civil service and state-owned industries) had little incentive to be efficient and was used as the basis for a massive patronage system.

This inherently unviable system was hit by a large deterioration in the terms of trade. By 1976, the government was seeking assistance from the Fund. Since then, Fund involvement in the economy has been almost continuous.

Program Design: The First Phase of Fund Involvement, 1976–91

Between 1976 and 1986 there were five stand-by arrangements and one extended arrangement, all in support of adjustment. The last two of these programs aimed at limited structural reforms centered on the liberalization of exchange rate and pricing policies. These liberalizations began to be reversed in 1986 and collapsed completely in 1987. By 1987, the economy was subject to intense rationing over a wide range of activities and the budget deficit reached 18 percent of GDP. Between 1976 and 1986, per capita GDP declined by about 25 percent. Within the same period external debt rose by $3 billion.

Between 1987 and 1989 there was no program. The government again began dismantling some aspects of the control regime that it had restored in 1987. By 1989, the Kaunda government again approached the Fund.

An internal IMF document described the Kaunda government's strategy as follows: "In 1989 Zambia embarked upon an economic adjustment program that was designed to create a diversified and market-oriented economy . . . . The Zambian authorities set out to end administrative controls in both financial markets and markets for goods, diversify the economy's export base, rebuild its infrastructure, and exert control over domestic finances." Given the record, this characterization of government intentions was implausible. Formally, most price controls were lifted, but informally they continued. Parastatals were restructured but little role was accorded to the private sector. Rather, the authorities intended that the government would remain the dominant participant in the economy. There is little reason to believe that this program would have been more successful than its six predecessors. Economic events were overtaken by political events and the Kaunda government was heavily defeated in the elections of late 1991. In the run-up to the election, the government had increased expenditures considerably, leaving a large fiscal deficit.

[96]Interviews, Vietnam, September 1997.

[97]Although the Bank staff we interviewed were understandably cautious in their reactions, they cited one recent example in which a Fund mission ignored the Bank's comments and handed in policy recommendations that were at variance with the Bank's position.

Program Design: The ESAF Phase of Fund Involvement, 1991–97

The new government was elected on a program of radical structural adjustment, but faced an immediate stabilization task. It negotiated a Rights Accumulation Program with the Fund, which began in 1992. The program envisaged a reduction in expenditure from 31 percent of GDP in 1991 to 27 percent in 1992. Revenue was to rise from 16 percent to 17 percent and total resources (revenue and grants) from 24 percent to 32 percent, largely on account of additional aid. A complicating factor was the severe drought of 1992. The government devoted 4 percent of GDP to drought-related expenditures, but these were more than covered by an increase in aid of 6 percent of GDP. These plans envisaged a transformation in net borrowing from the banking system from 5 percent of GDP in 1991 to minus 2 percent in 1992 despite the drought.

The actual expenditure reductions implemented during 1992 were considerably more draconian than had been planned. Nondrought recurrent expenditure excluding interest payments fell from 18 percent in 1991 to 12 percent in 1992. However, this reduction in expenditure occurred in the context of very high inflation and very weak accounting systems. As a result, the government did not recognize the severity of its own expenditure reduction and interpreted the inflation as a symptom of loss of fiscal control. Indeed, in 1993, it introduced a cash budget to regain control.

Contemporaneous with this fiscal adjustment, the government liberalized the foreign exchange market in October 1992 and shortly afterward, the domestic financial market. It has been shown that this resulted in a large, one-off reduction in the demand for money, resulting in the inflation that the government misattributed to loss of fiscal control (Adam, 1995).

Hence, while the fiscal adjustment was dramatic, as a result of the sequencing of structural reforms it did not succeed in reducing inflation. In the first half of 1992, the tight fiscal position had succeeded in reducing annualized inflation from close to 400 percent to less than 50 percent. However, following the liberalization, inflation rose again to nearly 500 percent. Such a level of inflation poses two problems. First, with an open capital account there was a severe danger of hyperinflation driven by falling real money demand. The introduction of the cash budget effectively removed this potential danger by stabilizing expectations: inflation fell to zero within four months. Second, very high inflation erodes the real value of tax receipts. This indeed happened: nondrought revenue collapsed from 18 percent of GDP in 1992 to only 13 percent in 1993. This collapse in revenue when combined with the cash budget led to a further drastic reduction in expenditure: nondrought expenditure fell from 17 percent to 12 percent of GDP.[98]

There is thus evidence that the sequencing of the stabilization and the macroeconomic components of structural adjustment was mistaken. The exchange rate and financial liberalizations undertaken prior to completed stabilization produced a large step-increase in the price level. If these reforms had been postponed until the fiscal adjustment had completed the process of bringing inflation down, they would not in themselves have been inflationary. This is because while the reforms would have made capital flight possible there would no longer have been an incentive for it. Hence, the demand for money would not have collapsed.

The consequence for public expenditure was dramatic: between 1991 and 1993 expenditure halved as a share of GDP. This was massively deviant from program plans and may be presumed to have imposed very high political costs. The problems in achieving stabilization did not prevent the government from proceeding rapidly with the microeconomic components of its structural adjustment program. It started a massive program of privatization, eliminated subsidies, and liberalized trade.

The domestic budget was intended to be partitioned from both debt service and aid. Aid inflows were planned to cover debt service with any surplus aid being used to reduce foreign debt. There was no provision for domestic debt service in the cash budget. This created two ways in which the overall budget could be in deficit even though the cash budget was balanced, and both became important. Due to interruptions in aid inflows the central bank purchased foreign exchange to meet the shortfall in debt-service payments, thereby increasing the money supply. The net transfer to Zambia of external assistance declined sharply from $407 million in 1992 to $48 million by 1996.[99] This reflected a fall in debt relief and in balance of payments support partly offset by reduced debt service. The reduction in aid inflows was the result of the dissatisfaction of donors with political developments. Although the initial stock of domestic debt was very small, extremely high interest rates made domestic debt service increasingly significant, amounting to 4.4 percent of GDP by 1994. A third inflationary factor was a bailout of a failing domestic bank. Between them these three factors maintained inflation at high levels until 1997 despite continued fiscal stringency.

A corollary of the rise in inflation, given that interest rates were liberalized, was that there was a

[98]World Bank, 1995c, Annex Table 5.

[99]Zambia, 1996, Table 2.9. The figures exclude maize provided as drought relief.

squeeze on private sector liquidity. This drove real interest rates to very high levels and appreciated the real exchange rate.

Until 1996 the effect of the stabilization and adjustment programs on GDP was heavily negative: per capita GDP declined over the first four years of the program by 22 percent. However, in 1996 the economy started to rebound, GDP growing by 10 percent.[100] There is evidence of considerable structural change. The growth rate of 10 percent is measured at 1994 relative prices; when measured at 1977 relative prices, GDP growth is much lower (6 percent). This implies that growth has been concentrated in activities that have been favored by the relative price changes brought about by liberalization. Within manufacturing there was a large switch from import-substitute sectors, such as fabricated metal products, to agro-processing activities such as food, beverages, and tobacco. Within agriculture, resource reallocation has been slower but there is evidence of considerable recent crop diversification. In 1997 the area devoted to maize declined by 4 percent, offset by expansions of 52 percent in cotton, 41 percent in groundnuts, and 32 percent in cassava.

The prolonged period of rapid decline must raise questions about program design. However, given the initial configuration of the economy, even with an ideally designed program there was likely to be an initial phase of decline.

Agricultural value-added declined by about one-fourth in the first four years of the program. There were four factors accounting for this decline. First, there were three years of drought. Second, the government withdrew public marketing agencies before private agents entered the market. This was to a large extent unavoidable since private agents were deterred by the expectation of renewed government interference in food marketing. Third, the government withdrew the fertilizer subsidy. While at world prices this probably enhanced allocative efficiency, the agricultural response is currently only measured at the highly distorted prices prevailing in Zambia in 1977.[101] Fourth, the previous system of pan-territorial pricing of maize and fertilizer had encouraged overproduction in the remote areas.

While these factors were reducing the economy, the forces of expansion released by the liberalization were initially likely to be atypically weak in Zambia. First, the heritage of the Kaunda era was the restricted size of the private sector, with most manufacturing and all rural trade in the public sector. Although markets were liberalized, there were initially few agents to take advantage of the new opportunities.[102] There were few private traders: even by 1996 only 40 percent of farmers were within 5 kilometers of a food market and only about one quarter of farmers received satisfactory information on output markets.[103] There was a lack of farmers in the age groups likely to innovate: Zambia was unique in Africa in the extent of its migration to urban areas, leaving the rural areas denuded of prime-age, educated adults. Second, the rural road network was very poor, having deteriorated through neglect of maintenance. This presented a serious constraint upon the switch from food to cash crops. The bus network gradually improved, but even by 1996, over 40 percent of the rural population was more than 5 kilometers from a bus. Where the transport network was well developed, particularly along the line of rail, a substantial switch to new crops occurred. Third, the initial situation was one in which few crops other than maize were grown. Hence, the agricultural sector was producing at a “corner solution.” This specialization implied that there were neither existing growers for the newly profitable crops from whom techniques could be diffused, nor the necessary market institutions. Some coordination was therefore needed between potential growers and potential buyers.

In the event, there were several respects in which the program was not ideal. As we have discussed, there were in our view sequencing errors that delayed the attainment of stabilization. The delay in stabilization produced an avoidable credit crunch, which had two serious consequences for the private sector. First, and probably most important, it delayed the emergence of private trading in rural areas, an activity that was vital in view of the removal of public trading, the limited extent of on-farm storage, and the need for changes in the production mix. Second, the credit crunch squeezed private investment. A survey of manufacturing firms in 1995 found that three-fourths faced liquidity problems.[104] Private investment was also deterred by lack of credibility.[105] In one sense a lack of credibility would be surprising in view of the sweeping structural reforms and massive expenditure reductions. However, the continuing inflation could

[100]This figure is based on provisional National Accounts data, kindly supplied by the Central Statistical Office.

[101]At present only aggregate GDP is available at 1994 relative prices; the sectoral level growth rates are still reported at relative 1977 prices.

[102]In this respect Zambia was similar to transition economies. However, it did not have the other characteristic of such economies: a large sector that was intrinsically uncompetitive at world prices. Zimbabwe was just the opposite, having private agents but a large, uncompetitive manufacturing sector.

[103]Zambia, Central Statistical Office, University of Zambia, and World Bank, 1997, p. 10.

[104]Seshamani, 1997. The data are from the RPED Survey. Comparable data for other African countries show a much lower incidence of liquidity problems.

[105]World Bank, 1996b.

well be misinterpreted as a lack of commitment, while the large debt overhang potentially constituted a future tax liability for the economy.

The delay in stabilization also unnecessarily squeezed public expenditures, in particular on maintenance and investment. This reduced the road program, which, as we have seen, should have been a high priority in terms of the critical path to renewed agricultural growth. A further error of sequencing was the failure to privatize ZCCM early in the program. The cost of continued mismanagement of the copper sector was foreseeably high. The Fund staff justifies program sequencing as follows. What we regard as premature financial liberalization is defended as "the urgent need for liberalizing the economy, which had been stifled by controls was so great that the potential short-run costs were probably unavoidable." Conversely, what we regard as unwarranted delay in privatizing the export sector is defended as "a reflection of the Fund's flexibility to allow the authorities more time to deal with this highly sensitive issue."

Distributional Effects: The First Phase of Fund Involvement, 1976–91

We consider in turn the two routes by which a Fund program might have a social impact, changes in incomes, and changes in social expenditures.

During this phase per capita GDP declined by one-fourth. Against this background, it is to be expected that most social groups would face severe declines in income. Real wages in the formal sector declined to around one-fifth of their initial level (UNFPA, 1997). Urban household incomes halved while rural household incomes were protected.[106] Since wage earners were much better off than smallholders, and since within the formal sector there was powerful wage compression, there was a considerable reduction in inequality. The ratio of income in the top quintile to that in the bottom, initially very high at 18, narrowed to 9.[107]

By 1991, despite the increased equity, Zambia had a severe poverty problem. The two major socioeconomic groups among which poverty was concentrated were smallholders and urban wage earners. The two groups were of similar size and accounted for around 87 percent of the population. The incidence of poverty among smallholders, was double that among wage earners: 81 percent as against 42 percent.[108] Although urban wage earners had borne the brunt of the income decline during the period, the poverty problem remained concentrated among smallholders, who accounted for two-thirds of the poor.

Health and education spending sharply declined even relative to GDP (Table 14). In conjunction with the decline in incomes, this produced a deterioration in most of the health-related social indicators. Whereas at the beginning of the period the social indicators for Zambia had been much superior to the African average, by 1991 they had deteriorated to below the average.

In summary, during the first period of Fund involvement there was a severe fall in income and a deterioration in social indicators. Poverty was concentrated among the rural population.

Distributional Effects: The ESAF Phase of Fund Involvement, 1991–97

The program explicitly considered the social consequences both of the reforms and of the contemporaneous drought. The measures envisaged included the distribution of maize, largely in rural areas, either at a 50 percent discount or free. Part of the savings from the removal of urban consumer subsidies were earmarked for welfare programs for the rural poor. There were also labor-intensive public works programs for the creation of infrastructure in poverty-targeted rural public services. The share of health and education expenditures in the budget was raised. However, in view of the scale of the reduction in public expenditure, the protection of social expenditures was inevitably going to be difficult.

Again we first consider the impact of the program on incomes. Per capita GDP declined by 22 percent between 1991 and 1995, rising by 7 percent in 1996. We focus mainly upon snapshots of the economy in 1991 and 1996 over which period it declined by 16 percent.

Recall that as of 1991 the major poverty group was smallholders. Somewhat surprisingly, real wages in the formal sector appear not to have declined between 1991 and 1996.[109] However, urban

[106]Zambia, Central Statistical Office, 1994. We have compared data from the 1974/75 Household Budget Survey with the 1991 Prices and Incomes Commission Survey, assuming that the ratio of metropolitan/urban households and of non-metropolitan/rural households was the same in 1991 as in the 1993/94 Household Budget Survey.

[107]World Bank, 1997f.

[108]Zambia, Central Statistical Office, 1993. The poverty line is nutritionally based.

[109]Real mean earnings of central government workers remained constant between December 1991 and June 1996. In local government, parastatals and the private sector real mean earnings rose, but this may be a statistical artifact because of compositional changes, notably the privatization of parastatals. Compositional changes are unlikely to account for the constancy of central government wages. However, it should be noted that calculations of real wages over periods of very rapid inflation are liable to be subject to wide margins of error.

Table 14. Zambia: Social Indicators, 1976–91

	1976 (or nearest)	1991 (or nearest)
Health		
Health spending	100 (1981–85)	45
Quality of hospital care	12 (1978)	44
Stunting	37% (1970–72)	40% (1992)
Underweight	23% (1970–72)	25% (1992)
Wasting	5% (1970–72)	5% (1992)
Infant mortality	135	107 (1992)
Child mortality	180	190
Life expectancy	50 (1980)	47 (1992)
Education		
Education spending	100 (1980)	60
Primary school enrollment	80%	70%

Sources and definitions: Health spending: index of spending in constant prices per capita, from World Bank, *Zambia Poverty Assessment*, Vol. 1, p. 95., education spending: index of spending in constant prices per capita, from Government of Zambia and United Nations, 1996, Fig. 5.8. quality of hospital care: malaria deaths per 1,000 hospital admissions, from United Nations, 1996, Fig. 5.6. primary school enrollment: for 1976, percentage of children aged 7–14 attending school, from Ministry of Education, 1976, Table A13; for 1991, percentage of children aged 7–13 attending school, from Zambia, *Social Dimensions of Adjustment*, 1997, Table 7.1.

household incomes nevertheless declined because of the reduction in formal sector employment opportunities. Urban formal sector jobs declined by about one-fourth relative to the urban workforce.[110] Formal sector employment was atypically important as a component of income in Zambia because of the suppression of informal economic activity. We estimate that in 1991 it accounted for about 56 percent of urban household incomes.[111] Hence, had per capita informal sector income been constant, mean urban household income would have fallen by around 14 percent. This may exaggerate the decline in urban incomes because the informal sector rapidly expanded.

Smallholder value-added per capita declined by 13 percent during 1991–96. Hence, comparing the two major social groups in the two snapshot years, 1991 and 1996, both appear to have experienced income losses of about 13–14 percent, a magnitude that is corroborated by the national accounts. However, the path between these snapshot years was probably very different for the two groups. Smallholder income was markedly lower in 1996, partly because of three droughts. Between 1991 and 1994, rural household incomes fell by around 30 percent whereas urban incomes rose slightly.[112]

This picture of fairly equally shared losses by the end of the period with rural households bearing the brunt of the larger intervening losses is broadly supported by the evidence from selfassessment. Asked whether living standards were higher, the same, or lower in 1996 than in 1991, urban respondents split 36 percent-27 percent-37 percent, whereas rural respondents split 23 percent-28 percent-49 percent.

We now turn to the provision of social services. Government spending on health and education increased as a share of GDP. As a result, per capita spending on health and education increased in value terms (i.e., deflated by the GDP deflator) despite the fall in per capita GDP. However, the cost of providing the services rose relative to the GDP deflator. These services were labor intensive and, by protecting the real incomes of its workers at a time when productivity across the economy was falling in terms of consumption goods, the government increased their cost. Table 15 shows these divergent effects. The volume measure is derived by deflating expenditure by its own GDP deflator, which is dominated by government wages. The value measure is derived by deflating by the aggre-

[110]In absolute terms, formal, nonagricultural employment declined by 12 percent. There are no data on urban population growth over the period and we assume, conservatively, that it grew only in line with the national population, at 3 percent per annum.

[111]Urban employment in 1991 is taken from Zambia's *Quarterly Digest of Statistics, 1996*, Table 47 (excluding agriculture). Average earnings in December 1991 are from the *Quarterly Employment and Earnings Statistics*, June 1992, Table 2. This gives an estimate of the urban wage bill at the end of 1991 of K 3,721 million per month. Mean urban household income and the number of urban households for 1991 is from Zambia's Central Statistical Office, 1993, Table 9.1. This gives monthly urban household income as K 6,700 million.

[112]Zambia, 1994, *Household Budget Survey 1993/94*, Table 1.3.

Table 15. Zambia: Social Indicators, 1991–96
(In percent, unless otherwise indicated)

	1991	1994	1996
Health			
Budget actuals per capita (volume)	100		91
Budget actuals per capita (value)	100		127
Health value-added per capita (volume)	100		85
Rural			
Households within 5 km. of health facility	42		52
Households with clean drinking water	20		31
Households with pit latrines	50		63
Incidence of stunting	46		52
Children underweight	25		27
Incidence of wasting	5		5
Urban			
Households within 5 km. of health facility	92		100
Households with clean drinking water	90		88
Households with pit latrines	49		51
Incidence of stunting	35		41
Children underweight	20		19
Incidence of wasting	7		6
National			
Vaccinations			
BCG	96	100	
DPT3	91	86	
OPV3	90	90	
Measles	89	99	
Full	67 (1992)	78	
Education			
Budget actuals per capita (volume)	100		72
Budget actuals per capita (value)	100		124
Education value-added per capita (volume)	100		85
Rural primary school attendance aged 7–13			
Boys	60		62
Girls	59		63
Urban primary school attendance aged 7–13			
Boys	82		81
Girls	82		81

Sources: Zambia, Central Statistical Office, 1996; for vaccinations: Zambia and United Nations, 1996, and Central Statistical Office, Ministry of Health and Macro International Incorporated, 1997; health and education volume measures from National Accounts data on GDP in education and health (in 1994 prices), corrected for population growth assumed at 3 percent per annum.

gate GDP deflator. Table 15 presents a third measure—namely, value-added (rather than government spending) in the health and education sectors, deflated by the sector-specific GDP deflators, as in the case of the volume measure.

For health care, both volume measures decline. However, the value series shows a substantial increase; hence, the government was devoting more of the economy's resources to the health sector but this was producing less. As elsewhere in Central Africa, over the period 1991–96 the need for health care was rising because of the incidence of AIDS and by 1992, AIDS-related illnesses accounted for 43 percent of in-patient days in hospitals (Foster, 1993). The evidence on the indicators is mixed. The access of the rural population to health facilities, drinking water, and latrines improved, but there is evidence of increasing malnutrition. This is not surprising given the fall in incomes.

Cost recovery had started in 1989 and was extended in 1993. In rural areas this was not a good time to implement cost recovery. The rural population had faced a depletion of its real cash balances as a result of inflation, and was not in a good position to replenish them in view of the drought and the breakdown of the marketing system.

For education, the two volume measures also show a decline, but in this case there is considerable divergence between them. The most likely reason for this is that expenditure for school books and other materials fell relative to the wage bill. This would reduce the expenditure measure (a gross output concept) relative to the value-added measure. Pupil textbook ratios in primary education currently range between 5 and 50.[113] As with health care, the government was devoting more of the economy's resources to the sector, reflected in a substantial increase in the value measure, but this was purchasing reduced services.

The outcome measures show that enrollment was stable in urban areas and increased a little in rural areas. Although we lack quality indicators, there must be a presumption that in view of the decline in material inputs the quality deteriorated.

In summary, there was during this period a sharp fall in per capita income. While urban wages were protected, formal sector employment contracted. Both urban and smallholder incomes fell in per capita terms by about 13–14 percent. Government spending on health and education increased as intended, but the output of these services fell. Although all major social groups appear to have lost, since poverty was initially concentrated in the smallholder sector, it is the losses in this sector that are of particular concern for the design of safety nets. Malnutrition worsened among smallholders and this at least raises the question as to whether safety nets were adequate. Part of the increase in malnutrition was presumably due to the series of droughts during the adjustment period. However, drought relief programs were quite effective, and there are identifiable failures in safety net design for those adversely affected by the adjustment.

There were several channels through which these adverse effects arose. First, the removal of the fertilizer subsidy reduced food production. While in the long term this will improve allocative efficiency and thereby income, in the short term it reduced food consumption. There was no automatic mechanism directing the resources released from the removal of the subsidy to rural households. Second, the removal of pan-territorial pricing abolished the implicit subsidy on maize production in the remote areas. Third, the previous subsidy system had implicitly discouraged on-farm storage: farmers could purchase milled grain for less than they could sell their unmilled grain. Fourth, the removal of the public marketing system created an interval in which there were too few private marketing agents.

These changes affected particular groups of farmers differently. The loss of the fertilizer subsidy affected all farmers. Farmers in remote areas had to adjust to a situation in which maize was only economic as a subsistence crop, but as a subsistence crop it required on-farm storage, which was lacking. For them, the absence of grain traders was not a temporary phenomenon but a new permanent feature. In other areas, maize would remain economical as a cash crop so that the absence of private traders would be only temporary. During the phase in which markets were developing in these areas, market access would be unreliable and so farmers also would face a storage problem. These effects were predictable and hence had implications for program design. In the remote areas there was a clear policy problem: more on-farm storage was required than was initially available. There was a need for a targeted program supplying these farmers with on-farm storage facilities. In other areas, the best that the government could do was to facilitate the emergence of private marketing and the concomitant commercialization of smallholdings through diversification into new crops. This would involve road repair and targeted extension advice. The first step in improving extension advice would be to retrain extension workers. The focus of the service was initially the maximization of maize yields and needed to be switched to the maximization of agricultural income.

Conclusion

Zambia has had an unusually long relationship with the Fund in the area of adjustment. We have grouped the various programs into two phases, corresponding to the previous and current governments (1976–91 and from 1991 to the present).

In the first phase, the economic philosophy of the government was fundamentally antipathetic to the liberalization of the economy. As a result, Fund and donor involvement led to the accumulation of massive debts and a record of failure in both stabilization and adjustment. Although the present reform program was begun in the final years of the Kaunda regime, there seems little reason to expect that it would have been sustained had it not been for a change of government.

The debt overhang has had consequences for the current program. While when the new government took office there was an understanding that the donors would meet debt-service obligations, political concerns have led to sporadic interruptions in donor support, worsening the stabilization problem.

There have been three weaknesses in the design of the current program. First, the move to capital account convertibility and interest rate liberalization prior to the attainment of stabilization created an avoidable bout of inflation, which had multiple adverse effects. It created a credit crunch in the private sector, delaying the emergence of rural food markets and reducing the private investment required for structural change. It also induced the government to reduce expenditures far in excess of program plans,

[113]Saasa and others, 1996, p. 59.

while creating the impression that it was fiscally irresponsible. Second, the structural reforms needed to be sequenced in a particular way in order to produce growth. Two important sectors, copper and agriculture, needed early policy attention. Reform of the copper sector required the privatization of ZCCM, a policy that has still not been implemented. Given the fundamental importance of the copper sector in Zambia, this was a major error. Agricultural growth required early improvement of rural roads and the refocusing of the extension service to new crops.

Finally, although there was some discussion of safety nets in program design, the scale of resources was not commensurate with the problem. Further, insufficient analytic attention was paid to the identification of target groups. In the health sector, user charges were extended just when the rural population was facing a serious liquidity problem. In the education sector, the squeeze imposed through the cash budget reduced nonsalary relative to salary expenditures, as a result of which the availability of teaching materials declined. Identifiable groups of smallholders were adversely affected in ways that could have been better offset. Smallholders in remote areas had to make a transition into maize subsistence and urgently required assistance in building up on-farm storage capacity. In more accessible areas, the transition to the private market could have been accelerated by increased road maintenance and refocusing of extension.

Zimbabwe

By the late 1980s, the government of Zimbabwe had come to regard its development strategy as unsustainable. This strategy had two core components. One, inherited from the Unilateral Declaration of Independence (UDI) regime, was an extensive system of economic controls to support industrial autarky. The other, initiated by the postindependence government, was a massive redistributive system of social expenditures—notably, high levels of health and education expenditures. The former strategy was condemning the economy to slow growth. As a result, the latter strategy was seen as becoming fiscally unsustainable.

The control regime had resulted in a very large and diversified industrial sector serving largely the domestic market. By 1990, manufacturing accounted for one-fourth of GDP. The export sector had stagnated because the same control regime that sustained the industrial sector implicitly heavily taxed the export activities. Since there was no scope for further import substitution, industrial growth depended upon growth elsewhere in the economy. However, since the export sector was handicapped by the policy regime, the only dynamic component of the economy during the 1980s had been the public sector, which became fiscally constrained. Hence, the government was in our view correct to regard economic policy change as being necessary for faster growth.

Many of the existing industrial firms produced inputs that would be needed by potential export activities. Many of these firms were producing at high cost and were intrinsically uncompetitive at world prices. Hence, export expansion required the demise of these activities. The peculiar industrial structure of Zimbabwe thus left no option for continued protection: to make viable the activities with the potential for growth, the existing industrial sector had to contract. This made the reform process in Zimbabwe more analogous to that in the transition economies than that in the rest of Africa: the first years of reform would be likely to be contractionary. In the event, between 1991 and 1996, manufacturing output contracted by 14 percent.

The economic control regime inherited from the UDI period had been extended to cover the labor market by the postindependence government for redistributive purposes by means of minimum wage rates and employee rights. Minimum wages were sharply increased in the early 1980s. To prevent firms from shedding labor in response to the increase in wages, employee rights were introduced with severe restrictions upon firing. While these changes redressed an inherited imbalance of power in the workplace, over time they reduced employment. There is evidence that employment declined significantly as a result of both higher wages and restrictions on firing.[114] Hence, reform was necessary for enhanced growth. However, the short-term effect of removing employee rights was likely to be a reduction in employment as firms shed workers that were surplus to existing requirements. Therefore, as with trade policy, the effect of reform on employment, while ultimately positive, was likely to be negative in the short run.

The core of the government's redistributive agenda was through increased public expenditures on education, health, and public sector employment. During the 1980s much was achieved, both in terms of an expansion of these expenditures and in terms of measurable indicators of performance. In the process, government expenditure rose rapidly to about 47 percent of GDP. This was financed partly through high explicit taxation, at about 37 percent of GDP, with the remaining large fiscal deficit of 10 percent financed by domestic borrowing. This borrowing was done at heavily negative real interest rates as a by-product of

[114]See, for example, Fallon and Lucas, 1993; and Jenkins and Knight, 1997.

financial repression, so that the allocation of credit was part of the economic control regime.

Program Design

The program had in effect two components—fiscal adjustment and economic liberalization. Since some aspects of economic liberalization had large fiscal consequences the two were connected.

The fiscal aspects of the reform program had three elements. First, as noted, the fiscal stance had come to be seen as unsustainable since it depended upon rising indebtedness. There was seen to be a need to reduce the fiscal deficit from 10 percent to 5 percent of GDP. One potential option would have been to increase explicit taxation to reduce the implicit taxation of forced savings. However, this was not considered.

Second, there was a perception that taxation was already dysfunctionally high. Part of the reform program was, therefore, to reduce explicit taxation rates. It was hoped that lower tax rates would sufficiently stimulate activity so that revenue would be at least somewhat protected. The original agreement with the Fund (requested in December 1991) envisaged reducing the "high tax burden" but targeted the revenue/GDP ratio for 1994/95 at 34 percent, which had been the average for the 1986–89 period. The actual revenue/GDP ratio in that year was 28.3 percent. This was a point of contention between Fund and Bank advice. The Fund supported the Ministry of Finance's proposals for reductions in tax rates, whereas the Bank tended to oppose them, partly on the grounds of equity and partly because of the likely revenue impact. In the event, revenues as a share of GDP, declined by 5 percentage points.

Third, the government wished to dismantle the system of nonmarket credit allocation. In the December 1991 request, it announced that there would be a "complete deregulation of interest rate." However, the liberalization of financial markets would be fiscally costly. As of 1991, domestic debt of the central government was 26 percent of GDP. In 1990, the government was paying about 9.5 percent nominal interest on its domestic debt with an inflation rate of 23 percent so that its real interest rate was heavily negative. By 1996, the Fund and the Bank were projecting a real interest rate of 8 percent on domestic debt. Hence, even if domestic debt remained constant as a percentage of GDP, the eventual cost of financial liberalization would have been about 5 percentage points of GDP although the cost would be phased according to the maturity of the existing debt. In the event, by 1995/96 the interest bill on government debt had already risen by the full 5 percentage points of GDP.[115] This was because, although not all the low-interest stock had matured, the failure to meet fiscal targets had necessitated further domestic borrowing so that the domestic debt burden had increased to around 55 percent of GDP.

[115]World Bank, 1996d, Vol. 1, Table 1.1.

Thus, the fiscal aspects of the reform program presupposed an astonishing contraction of noninterest expenditures. The three policies noted above required a combined reduction in noninterest expenditures of 15 percentage points of GDP over the four years 1992–95. The program itself estimated that the reduction would have to be 7.5 percent of GDP. Of this, the "excessive burden" of public sector enterprises was estimated at 3 percent of GDP. The program thus radically underestimated the fiscal implications of its policies. Since noninterest expenditures initially amounted to 37 percent of GDP, they would (in the absence of GDP growth) have to be cut by 40 percent. In the absence of growth, this would involve expenditure reductions of 40 percent. With expenditure reductions on anything like this scale it would be inevitable that social and redistributive expenditures would be massively curtailed. Nor, as we have noted, was it likely that in the first years of the reform program there would be rapid growth. In the event, GDP per capita declined by 9 percent over the period 1990–96. Hence, the macroeconomic decline compounded the fiscal problem: to meet the fiscal goals real per capita noninterest expenditures would have needed to be reduced by 46 percent.

Such a severe reduction in social and redistributive expenditures would inevitably have put the reform program under great political strain. Arguably, this would have been feasible only if there had been wide consensus in the government, the party, and civil society on the need for such drastic change. That no such consensus was built reflected two miscalculations. First, there was an economic miscalculation: the government was not fully aware of the aggregate implications of the three desired components of fiscal adjustment. The scenarios envisaged by both the government and the international financial organizations were unduly optimistic. We should note that this goes beyond the failure to build in the risk of drought. While the 1991/92 drought derailed the program, the likely political unsustainability of the program could have been anticipated. The second miscalculation was political. The above fiscal adjustments proved to be politically unfeasible: in particular, the fiscal deficit actually increased and this was the reason for the 1995 interruption in the program. The reformers in the government failed to campaign for a sufficiently broad-based consensus to sustain the program, although it must be doubted whether any political campaign could have sustained such a drastic reduction in social expenditures as that required to meet the fiscal objectives.

The core of the economic liberalization program involved dismantling the system of nonmarket allocation of foreign exchange, including comprehensive protection of the large manufacturing sector. This was very substantially accomplished by 1996. Similarly, the financial sector was decontrolled; interest rates became market determined and many new banks were established. The labor market was deregulated, with free collective bargaining replacing centralized wage setting, and firing restrictions were removed. Reform of the parastatal enterprises was much slower, but by 1996 the monopoly of the Grain Marketing Board had been ended and a start had been made on privatization of state enterprises.

As noted above, Zimbabwe had many of the characteristics of a transition economy, so that the likely initial consequences of economic liberalization were negative. Thus, the decline in manufacturing by 14 percent between 1991 and 1996 was broadly predictable. Since manufacturing was one-fourth of GDP, it was unlikely that other components would offset this decline in the short run. The program agreed between the government and the Fund made no allowance for these short-term effects of liberalization. The Fund staff report of January 1992 envisaged an 18 percent growth of GDP between 1991 and 1995. In the event, growth over this period was only 1 percent. This very large misforecast clearly had the effect of making the fiscal adjustment appear more feasible than was actually the case.

Of the two components of the reform program, the economic liberalization was almost fully implemented, whereas the fiscal adjustment, though massive, seriously missed its goals. That the fiscal goals were missed reflected not primarily the droughts but the fact that goals were unrealistic.

Macroeconomic Consequences of Fiscal Incompatibility

The fiscal objectives of the program implied such a draconian reduction in noninterest expenditures that it was unsurprising they were not fully attained. The government made a huge fiscal adjustment, reducing noninterest expenditures by 7 percentage points of GDP. However, this was insufficient not only to close the original deficit, but also to meet the new fiscal costs of tax reduction and financial liberalization. As a result, the deficit increased from 10 percent to 12 percent of GDP. With such a large and variable deficit, both nominal and real interest rates were high and volatile. Nominal rates at times exceeded 40 percent. There is evidence that these high real interest rates had a strong negative effect on private investment (Marande and Schmidt-Hebbel, 1994). In the event, total fixed investment (public and private) declined by 9 percent in real terms between 1991 and 1996. Although the breakdown between public and private investment is not precisely known, there is clear evidence that public investment declined sharply. Private investment is likely to have declined both because of the interest rate effect noted above and because of the uncertainties arising from the unsustainable fiscal deficit and the interruption of the Fund program.

The decline in investment has repercussions for the path of the economy during adjustment. The shift in relative prices is designed to generate growth in newly profitable activities, generating both employment and investment opportunities. Evidence from tracking surveys over 1993–95 in the manufacturing sector suggests that, to date, there has been little reallocation of investment in favor of export activities (Neube and others, 1997). The lack of investment exacerbated the employment problem.

The other consequence of the insufficiency of fiscal adjustment was that the government entered a debt trap. Since the real interest rate considerably exceeded the growth rate, the ratio of debt to GDP rose rapidly. By 1996, it had reached 80 percent and was projected to rise to over 100 percent within the next decade.[116]

Hence, the macroeconomic consequences of fiscal incompatibility were severe. Given the highly ambitious nature of the original program, some risk assessment of what proved to be the actual scenario should have been undertaken. However, a much more effective way of introducing a realistic degree of caution into the program would have been to change its sequencing. When the Board discussed the original program in January 1992, no consideration was given to sequencing. Yet, both the financial liberalization and the reductions in tax rates had the potential for being phased in gradually, behind the implementation of deficit reduction measures rather than before them. Politically, the most difficult reforms proved to be the containment and privatization of public enterprises, which in the event took about six years. The fiscally costly elements of the reform program could have been sequenced to follow public enterprise reform rather than anticipate it. Financial liberalization would have been achieved automatically had the deficit been brought under control because the decline in inflation would have permitted real interest rates to be positive. As it was, the abrupt decontrol of nominal interest rates created fiscal crisis. Similarly, the reductions in tax rates could have proceeded on a more limited and experimental basis, rather than being implemented despite the evidence of continuing and substantial reduction in tax receipts.

From the start, outcomes were very different from program targets. By August 1992, the full magnitude

[116]World Bank, 1996d, Vol. 1, Table 1.3.

of the drought was apparent: in the staff report GDP was projected to decline in 1992 by 9 percent as against a program projection of a 4 percent increase. However, the longer-run projections became more optimistic, so that for 1995 the anticipated fiscal deficit was *reduced* from 4 percent to 3 percent. Thus, the evidence of program divergence was interpreted as being due entirely to the drought. The drought was so severe that it was indeed not feasible to disentangle its effects from those of the reform program so that there were genuinely acute difficulties of monitoring program performance. By January 1994, following an increase in the deficit to about 12 percent, the deficit for 1993/94 was projected to contract to 5 percent (its outturn was 8 percent). Government expenditure was forecast to decline by 6 percentage points of GDP in two years to reach 32 percent in 1995/96 (the outturn was an increase of 3 percentage points to 41 percent).

By July 1994, staff reports began to sound a note of warning on fiscal policy and delays in public enterprise reform. It was stressed that budget deficits led to high interest rates and thereby held back private investment. There appears to have been no concern about the distributional consequences of the program: implicitly, adverse effects were attributed to the drought.

Distributional Effects

As noted, during the 1980s, the government had placed considerable priority on redistribution. The reform program potentially changed distributional outcomes through both its effect upon public service delivery and its effect on personal incomes.

The program agreed between the government and the Fund discussed the likely social impact of policy change. The program was expected to result in per capita consumption growth of 1.5 percent per annum. These gains were expected to be "broadly shared." It was anticipated that some groups would suffer from the program, but only relatively small minorities. These were identified as those retrenched (implicitly from the public sector), those affected by price decontrol, and those who would have to start paying for health and education. A Social Development Fund was established to offset these effects. Its strategy was to offer pension and retraining arrangements for retrenched civil servants, to introduce labor-intensive public works, to support informal enterprises, to finance rural resettlement, and to introduce a targeted food subsidy. Reflecting the modest scale of the problem envisaged, few resources were devoted to the Social Development Fund.[117] For example, the Social Development Fund allocation for 1993/94 was only Z$100 million. There were also targeting problems; a large number of eligible households did not receive the benefits intended for them and there was confusion about the definition of the targeted groups.[118]

The expectations proved to be a massive underestimation of the social costs of the program. Much higher costs could reasonably have been anticipated.

Whereas the program envisaged that between 1991 and 1996 per capita private consumption would rise by about 8 percent, in the event it declined by 37 percent.[119] This alone transformed the group of those who lost from the reforms from a minority to a majority. Further, the program failed to recognize that even had mean per capita consumption not declined, there would have been large groups of losers after the large resource reallocations that would result from liberalizing such a highly controlled economy. The decontrol of manufacturing was likely to lead to an initial phase of contraction. Combined with the deregulation of the labor market, it was therefore reasonable to anticipate that both employment and wages would decline quite sharply in the manufacturing sector.

Public Service Delivery

Recall that to meet its fiscal objectives the government would have needed to reduce its noninterest expenditures by 15 percentage points of GDP. In the event, it reduced them by 7 percentage points. Because the economy grew by only 12 percent between 1990 and 1996, even this reduction implied a decline in absolute terms: growth was insufficient to offset the reduced share in GDP, so that noninterest expenditures fell by 9 percent in units of GDP.[120] This is corroborated by the national accounts: between 1990 and 1996, government consumption (which excludes both interest payments and capital expenditures) fell in units of GDP by 10 percent. However, this was made up of a large increase in the volume of government consumption, which was more than offset by a large decrease in its unit price: the volume of government consumption increased by 20 percent, with its unit price falling by 25 percent. The unit price fall reflected the reduction in public sector wages. In effect, the government was employing more people but paying them so much less that its expenditure

[117] In April 1993, Fund staff expressed concern about the slow implementation of the Social Dimensions of Adjustment project.

[118] See Chisvo and Munro, 1994, and Kaseke, 1993.

[119] This was partly because private consumption was atypically high in 1991 as a result of import liberalization. If the base is taken as 1990, a normal year for private consumption, the decline is 26 percent.

[120] Recall that noninterest expenditures were initially 37 percent of GDP. The required reduction is therefore to 30 percent of the new level of GDP, which was 1.12 times its initial level. Hence, the reduction is 37–[30(1.12)]/37 = 9 percent.

fell in units of GDP. As we will see, the large divergence between changes in the volume and the value of public consumption complicate statements about changes in service delivery.

This pattern applied not only to government consumption in aggregate but also to its key social components. Between 1990/91 and 1995/96, health spending (recurrent plus investment) declined as a share of the budget from 6.4 percent to 4.3 percent and as a share of GDP from 3.1 percent to 2.1 percent.[121] However, the unit cost of health services fell by one-third relative to GDP. As a consequence, the volume of health services (public plus private) increased by 45 percent whereas its value in units of GDP declined by 6 percent. Taking into account population growth over the period, there was a substantial *increase* in the volume of health services per capita, and a substantial *decrease* in the value of health services per capita. There are two reasons why, despite the large volume increase in health services, there may have been a reduction in health care delivery. First, the measures of volume used in the national accounts make no allowance for changes in quality. It is most unlikely that quality would have remained constant when health workers suffered such large reductions in real wages. The reductions in wages in the public health sector have led to many doctors leaving for the private sector. Over 90 percent of the doctors in rural areas are now non-Zimbabwean. Second, there was a shift from public to private provision. This tended to make the service less accessible to the poorer part of the population. The population certainly received less valuable public health services: in per capita terms government health spending fell in units of GDP by one-third. Nonwage spending has declined even more dramatically than wages, so that shortages of drugs are becoming common. Health indicators are deteriorating rapidly.

There is no doubt that the previous trend of improving health outcomes was reversed during the period of the reform program. During the 1980s, health outcomes had improved remarkably. For example, the infant mortality rate declined from 100 to 50 between 1980 and 1988 and life expectancy increased from 56 to 64 years. Since then several health indicators have deteriorated. Between 1988 and 1994, wasting in children quadrupled and maternal mortality rates appear to have increased. After many years of decline, the number of tuberculosis cases began to rise in 1986 and by 1995 had quadrupled.

However, while health outcomes deteriorated during the phase in which the public health budget was severely squeezed, it is not straightforward to attribute the former to the latter. This is because of the rising problem of AIDS. Zimbabwe has amongst the most serious AIDS problems in the world with about 30 percent of pregnant women and about 10 percent of newborn children now being HIV positive. AIDS alone will therefore soon account for an under-five-year-olds mortality rate of 100 per 1,000, whereas in 1994 its rate from all causes was only 77.[122] The stunting and wasting evidence is consistent with the child health problem being AIDS-driven: while wasting quadrupled, stunting fell. Stunting reflects the long-run effects of food shortages, whereas AIDS often leads to wasting.

Hence, there have been four large changes in the health sector. First, the volume of health care services increased by more than the population. Second, the value of these services decreased very substantially, so that quality is likely to have deteriorated. Third, the demand for health care increased dramatically because of the rising incidence of AIDS. Fourth, health outcomes deteriorated whereas they had previously been improving. Unfortunately, the attribution of the deterioration in outcomes as between AIDS and quality deterioration is not possible. What is, however, evident is that during a period in which the demand for health care was rising enormously and predictably, the resources devoted to public health care were dramatically reduced. Given the present unit cost of treating AIDS patients, the total cost of treating those already infected will be four times the present annual health budget.[123]

Education was given a very high priority by the government. During the 1980s, there was a remarkable increase in educational attainments. During the 1990s, as with health, education services increased in volume but decreased in value in units of GDP. Between 1990 and 1996, the volume of education services increased by 7 percent and their unit price in terms of GDP declined by one-fourth. However, unlike in health care, the volume increase was insufficient to keep up with population growth so that the per capita volume of services declined. While teachers' salaries declined by about one-third in real terms, their quality appears not to have declined unlike in health. Student-teacher ratios were maintained and the proportion of qualified teachers actually increased, both for primary and secondary schools. Educational outcomes provide a mixed picture: O-level pass rates increased, but completion rates for primary schools fell slightly. In effect, the government managed to pass on the effects of its expenditure reductions in education to teachers rather than to children.

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[121] World Bank, 1996d, Vol. 2, Annex 3. There are now indications that data revisions may change this picture, so that the decline shown in the Public Expenditure Review may turn out to be spurious.

[122] World Bank, 1996d.

[123] World Bank, 1996c, p. 64.

Table 16. Zimbabwe: Changes in Real Income per Household
(Baseline and three most recent growing seasons)

Growing Season	Number of Households	Mean Income[1] (in 1990 Z$)	Coefficient of Variation	Minimum–Maximum
1982/83[2]	356	765	1.51	0–8,428
1993/94[3]	397	3,219	1.08	120–26,083
1994/95[2]	393	1,778	1.16	0–20,829
1995/96[4]	397	4,324	0.97	17–35,553

Source: Kinney, 1997, Table 10.
[1]Income is defined as the sum of the market value of crops harvested, revenue from the sales of livestock and livestock products and services, remittances and income from off-farm or nonagricultural employment. Excluded are other transfers, aid, and drought relief.
[2]Season was badly affected by drought; rainfall was less than two-thirds of the long-term mean.
[3]Season was drought-affected; rainfall was some 80 percent of the long-term mean.
[4]Season was normal; rainfall was within 1 percent of the long-term mean.

Incomes

The deregulation of the labor market together with the reduced protection of manufacturing and the reduction in public expenditure produced a severe squeeze in the labor market. Both employment and real wages declined sharply. During 1991–96, formal sector employment in manufacturing fell by 9 percent and real wages declined by 26 percent. In public administration employment declined by 23 percent and real wages fell by 40 percent.

At the same time, agriculture benefited both from exchange rate adjustment and marketing deregulation. One indicator of this is that the implicit GDP deflator for agriculture increased by 15 percent relative to the aggregate GDP deflator between 1990 and 1996. These developments led to large changes in income distribution.

The major redistribution in the economy was from formal sector wage earners to farmers. This can be seen from the national accounts, which show the share of wages and salaries in gross national income declining from 51 percent in 1990 to 35 percent in 1996. During the same period, the share of unincorporated gross operating surplus (a category that is dominated by the incomes of small farmers) rose from 20 percent to 32 percent: farmers gained almost all the share that wage earners lost.

Unfortunately, there are no nationwide panel survey data available to assess changes in rural incomes. However, panel data are available for an interesting and important subset, the "resettlement farmers." This group consisted originally of landless poor who were given land by the government shortly after independence. Income data for a sample of these households who have been followed since their resettlement are shown in Table 16.[124] The interpretation of this series is complicated by the fact that two out of the four years for which data are shown are drought years. Two points stand out. First, rural incomes are extremely vulnerable to climatic shocks. The very large income drop shown for 1994/95 shows that the effect of drought is so large that it swamps any effect of structural adjustment. Second, the resettlement farmers have realized rapid growth and this was maintained through the period of adjustment.[125] This group is certainly not representative for the rural population: it is much better able to handle shocks, having built up assets for consumption smoothing. In this case, the resettlement policy, initiated almost a decade before structural adjustment started, may well have been more effective in protecting the poor than the short-run, targeted policies adopted in the context of structural adjustment.

Recall that, overall, per capita private consumption declined by 26 percent between 1990 and 1996. Since the share of small farmers in national income rose by 60 percent, if their consumption had tracked their farm income then their per capita consumption would have risen by around 18 percent. However, there are two reason to expect that consumption will not have tracked farm income. First, as of 1990, remittances amounted to some 12 percent of consumption in rural households (CSO, 1994, Tables 3.1 and 3.5). Much of these were probably from wage earners in urban areas and would have fallen, probably in percentage terms, by more than the decline in urban wages themselves. Second, food prices rose by about 36 percent relative to overall consumer prices. Rural households have almost double the share of food in their consumption

[124]We are grateful to Bill Kinsey for making these unpublished data available to us.

[125]Comparing the endpoints in Table 15 overstates the point since the first year was a drought year. However, other evidence, in particular the rapid accumulation of assets (mainly livestock) over this period, supports the conclusion of rapid growth. See Kinsey, Burger, and Gunning, 1998.

bundle that urban households do. The increase in the relative price of food thus raises both the income and the cost of expenditure of rural households. The former is picked up in the rising income share of rural households but exaggerates the increase in their welfare. The rise in the price of food raised the cost of living of rural households by 7 percent relative to that of urban households.

Despite this differential change in the cost of living, it is evident that there was a large redistribution from urban wage earners to rural households. This was a progressive redistribution because as of 1990 urban households had been considerably better off: mean per capita consumption of urban households was some 3.6 times that in rural households.[126]

A second but much smaller redistribution was between private sector nonfinancial companies and the financial sector. Over the same period, the share of the former declined from 14.5 percent to 13.5 percent while that of the latter increased from 4.6 percent to 5.9 percent. In addition, there is anecdotal evidence that within the private sector nonfinancial companies, agriculture gained while manufacturing lost.

Against the large reductions in the mean level of consumption and the large changes in distribution, the government's targeted programs for offsetting social costs were liable to prove inadequate. An evaluation indeed found them ineffective: there were delays in getting the program started, overcentralization, reliance upon an already overworked staff, inadequate funding, urban bias, and poor targeting.

Summary of ESAF Developments

The social impact of ESAF in Zimbabwe to date has been considerable. During the period, average private consumption levels have declined by about one-fourth. There has been a powerful redistribution from urban wage earners to the rural population, to the extent that consumption levels of rural households may have been fully protected and indeed may even have risen a little. Conversely, urban households have suffered severely: there are fewer jobs and real wages are very much lower. In addition to these changes in private incomes, household welfare has also been affected by the decline in public expenditures on social services. The brunt of the fall in these expenditures has been borne by those working in the social services. However, the reductions in their real wages are likely to have resulted in reductions in service quality. There is some evidence that this was much more pronounced in health care than in education.

In describing these large changes we have compared snapshots of the economy around 1990 and 1996. These changes owe little to the intervening droughts and were consequently reasonably predictable by economic analysis. As with other structural adjustment programs, the ESAF involved relative price changes in favor of agriculture and at the expense of the formerly protected urban sector. However, unlike most other African adjusters, Zimbabwe had a very large industrial sector producing not only final goods but also intermediate goods. In this way, it resembled the transition economies. As in the transition economies, liberalization inflicted an initial phase of contraction: the manufacturing sector, accounting for over one-fourth of the economy, has contracted by 14 percent. The analysis underlying the program design did not take either of these features into account. It therefore radically underestimated the social consequences of the program.

In addition to this neglect of the likely social impact, the program was remarkably ambitious in its fiscal objectives. The share of noninterest government expenditures in GDP would have needed to fall by 40 percent over a period of six years. The government could only have achieved this by expenditure cuts, which would have massively compounded the negative social impact on the urban population noted above. This implication of the fiscal objectives was not recognized.

The core political achievement of the government had been a redistribution in favor of the indigenous population. In our view, the program as designed was manifestly politically unsustainable since it would have required the government to dismantle these distribution achievements. The program indeed proved unsustainable, in that although there was sufficient political will to persist with the structural policy reforms, the envisaged fiscal adjustments were only partially attained. This in turn inflicted considerable damage on the economy. The fiscal crises that characterized the period caused both high and volatile interest rates and a climate of policy uncertainty, which presumably reduced private investment.

This political unsustainability could have been avoided. The financial and tax reduction liberalization, which were fiscally very costly, should have been sequenced after the politically difficult expenditure reductions coming from parastatal reform and public employment reductions. This would have obviated the need for reductions in per capita expenditures on health and education. It would also have accelerated the recovery of employment in manufacturing and reduced the decline in real wages, which was partly driven by high inflation. Some of the social hardship was doubtless unavoidable, as in other tran-

[126]Calculated from CSO, 1994. Table 3.6(a) gives mean household figures. Per capita figures were estimated using the household size information in Table 2.2, assuming a mean household size of 12 for households with nine people or more. The comparison makes no allowance for differences in the cost of living.

sition economies. However, because the scale of the costs in urban areas was radically underestimated, the safety net operations put in place were inadequate. Further, the social hardship was avoidably severe because of poor program design. The drought made it more difficult to recognize the design error and obviously added to the social costs.

The design of the program originated with the government. The role of the Fund in design was limited. However, some responsibility must be taken by the Fund for supporting the government in a fiscal strategy that was clearly implausible.

Scope of Political Support

Although some of the literature portrays Zimbabwe as a repressive one-party state in which decisions are taken centrally and handed down without discussion,[127] the reality bears closer resemblance to what has been called a system of "societal corporatism," which in fact permits fairly active democratic participation and in which, therefore, competing political groupings operate to exert considerable influence on government policy.[128] Consequently, the failure to factor in an appropriate measure of consensus building was a particularly grave miscalculation.

Two phases in the program period may be distinguished in a general assessment of the scope of government and national support for the program, the first covering roughly the first year of the program through 1993, and the second covering the ensuing period right through 1995 when the program was interrupted.

From the very beginning of the program, there were naturally forces within the government and party leadership that opposed the program. This is normal in politics. What distinguished the Zimbabwe situation, however, was the extent of polarization and the strong ideological lines that marked the divide[129]—on the one side, those committed to market-based reforms and economic liberalization, and on the other, those committed to a socialist strategy of development. The former included Dr. Chidzero, senior minister responsible for finance, who was the leading proponent of reform, Reserve Bank officials, and technical officials of the economic ministries in the main. The latter group of antimarket reformers, in Zimbabwe's case, were not the bunch of slogan-mongering ideologues that one often finds in these situations but trained and committed intellectuals, including the president himself and other senior members of the party leadership, who simply did not share the reformers' belief in the efficacy of the market. They were open to debate and were not given to mere polemical denunciation. This is an important distinction to bear in mind, for it explains how and why the reform program came to be adopted at all, given the polarization in ideological positions in the leadership, and provides a foundation not only for the Fund's continuing relationship with Zimbabwe in the long run but also for resolving in the near term the lingering stalemate in its relations with Zimbabwe.

In the first phase of the program period, the proponents of reform clearly dominated the government position. By mid-1989, President Mugabe had been persuaded that a change in policy was necessary if faster economic growth was to be achieved. As we have noted, this was, in our view, a correct position given that the export sector was weighed down by the control regime while the only other dynamic sector of the economy, the public sector, had become fiscally constrained. The government also, at this time, showed a willingness to discuss major structural issues. This shift in the policy stance was aided by the World Bank's comprehensive study on the Zimbabwe economy, issued in 1987, which formed the basis for wide-ranging discussion between the government and the Bank, as well as by studies conducted by foreign consultants at the government's request.

But by far the most critical link in the chain of government commitment was undoubtedly the personal role of the Senior Minister of Finance, Dr. Chidzero. Indeed, the fragility of government commitment to the program resided in the fact that it hinged much too crucially on his personal role. The result, as a number of staff documents point out, was that whenever Dr. Chidzero was not available for discussions with Fund missions, the government appeared rather unprepared and unable to present a credible and consistent viewpoint. For instance, a 1993 internal IMF document notes that "the authorities did not clearly state their position with regard to exchange rate reform, partly because of the imminent departure of both the Governor of the Reserve Bank and the Senior Secretary of the Finance Ministry. This also contributed to a slow start to the discussions and an initial lack of preparedness of officials to discuss the issues." Again, in 1993, a mission reported that "in the absence of Senior Minister of Finance Chidzero during the last week of discussions in Harare, the authority's position with respect to some of the accompanying measures remained unclear."

But the weakening of government's commitment from 1993 amid a general stiffening of opposition within government to the reform program was not attributable entirely, or perhaps even mainly, to Dr. Chidzero's deteriorating health and his consequent inability to participate as fully in meetings with Fund missions.

[127]Mukonoweshuro, 1992.
[128]Skålnes, 1995.
[129]Skålnes, 1995, p. 132.

The more fundamental point is that, clearly, not enough had been done to create a sufficiently strong and broad-based fund of support for the program, given the drastic fiscal adjustment that it entailed. Indeed, in a situation of such widespread and often violent protest, such as prevailed in 1993, it is doubtful that Dr. Chidzero could have done much by himself at that stage to turn the tide. In 1992, students at the National University embarked on violent demonstrations and boycotted classes to back demands for increases in student grants to offset rising costs resulting from devaluation and inflation. More ominously, in 1993, a wave of bread riots shook the lower income suburbs of Harare as demonstrators smashed bakeries and engaged in widespread looting to protest recently announced price increases for bread and flour.

At the same time, although in the initial stages of the reform, some important business groups had strongly supported trade liberalization measures despite the increasing competition it was to entail—and this is true especially of the Engineering Employers' Association and the Confederation of Zimbabwean Industries—the private sector's support for, and commitment to, the program had by 1993 loosened considerably, partly as a perfectly understandable reaction to the steady erosion of the substantial regime of protection to which they had long become accustomed, and also partly as a result of a breach in the channels of communication and dialogue with government resulting from the sudden death of the Minister of Commerce and Industry, Chris Ushewokunze, who, together with Bernard Chidzero, had been the main proponents of market reforms. Interestingly, Ushewokunze's position was to remain vacant until after the elections in April 1995.

Increasing pressure from business groups, to which Fund reports make references from 1992, predictably led to a slackening of the program of import liberalization with the granting of additional tariff protection to a number of industries, including the motor, textiles, clothing, and shoe industries.[130]

These gestures of accommodation failed to restore business confidence in the reforms, however. As late as 1996, Fund reports were noting that the government's policymaking processes were characterized by "inadequate consultation with the private sector and social partners," a view that was also expressed in interviews with officials of the Confederation of Zimbabwean Industries.

Political support for the program was further shaken by increasing agitation among civil servants against retrenchment and other civil service reforms. In the midst of a general recession in the economy and widespread unemployment, the government had by June 1993 abolished over 10,000 civil service positions and reduced the number of ministries from 27 to 22—results that Fund missions found "disappointing" even as they acknowledged that the slippages in compliance were attributable to "the government's concerns about aggravating unemployment and social dislocation at a time of severe economic downturn and contraction by private employers."

Rising calls for indigenization also undermined the pace of implementation of the privatization program and by implication, the fiscal program. While the Fund and, the Ministry of Finance saw privatization as a critical means of raising funds for budgetary support in a bid to reduce costly bank financing, the advocates of privatization—a policy that the president himself favored—saw privatization as a means of promoting indigenous ownership of productive assets, a political objective whose importance the Fund's 1996 country study paper explicitly acknowledges evidently only in word.

As the pressures mounted, the government began to perceive the Fund's continuing counseling of fiscal restraint and public sector retrenchment as politically insensitive. In 1994, in a speech given to the South African Parliament in Cape Town, the president reportedly called for a democratization of the Fund and accused the Bretton Woods institutions of "financial imperialism" and "dictatorship." In 1995, he was also reported as speaking of "disastrous" reforms imposed by the World Bank and the Fund and adding ominously "we are wiser than we were three years ago and we will not listen willy-nilly to what the international institutions will tell us to do."[131]

Ownership Issues

Zimbabwe is, in our view, a classic case of a reasonably strong national commitment to reform gone sour from economic and political miscalculation in the sequencing of economic reforms. As we have already noted, the tremendous fiscal crunch and the drastic reduction in social expenditures that the program objectives entailed made the task of consensus building difficult enough. In the event, the political economy of the program was further strained by a failure to deepen support for the program within government itself and, more important, a failure to broaden its scope to cover the highly politicized ranks of the political parties, especially the ruling party and civil society at large.

In general, however, given the tremendous social costs of the program thus far, the government's commitment to the reform has been reasonable. The major structural reforms have now largely been implemented.

[130]Skålnes, 1995, p. 144.

[131]*Africa Research Bulletin,* 1995, p. 12018.

Table A1. Comparative Analysis for External Viability: Pre- and Mid- and Post-ESAF

(In percent)

	Debt-Service Ratio[1]		Ratio of Debt Service to GDP[2]		Debt-Export Ratio[3]		Debt-GDP Ratio[4]		Real External Debt Burden[5]				Debt Deepening Index[7]	
	Pre-ESAF	Mid- and Post-ESAF	Pre-ESAF	Mid- and Post-ESAF	Pre-ESAF	Mid- and Post-ESAF	Pre-ESAF	Mid- and Post-ESAF	Pre-ESAF	*r* = 8 percent[6]	Mid- and Post-ESAF	*r* = 8 percent[6]	Pre-ESAF	Mid- and Post-ESAF
Bangladesh	31.5	34.0	2.0	2.7	662.4	708.0	41.7	58.5	–0.6	1.8	–1.5	2.3	2.6	–1.3
Vietnam	15.3	8.6	3.9	2.2	1,131.9	570.2	296.8	148.1	–19.8	3.0	–12.7	–1.7	–17.4	–4.3
Côte d'Ivoire	53.9	35.1	16.4	13.5	452.8	545.4	132.4	210.8	7.2	8.5	–14.1	–2.4	7.7	–18.3
Malawi	39.5	24.7	8.7	6.5	395.3	457.8	85.9	129.6	2.1	5.0	3.2	10.0	7.3	15.3
Uganda	33.3	65.5	3.4	3.6	314.6	1,178.3	28.0	67.2	0.2	1.3	–3.8	0.6	–0.5	–0.2
Zimbabwe	28.7	33.0	7.1	10.5	175.0	235.6	43.3	75.1	1.4	2.1	1.9	4.1	2.2	3.1
Average	33.7	33.5	6.9	6.5	522.0	615.9	104.7	114.9	–1.6	3.6	–4.5	2.2	0.3	–1.0

Sources: Authors' calculations based upon IMF, *International Financial Statistics*, and internal Fund documents; and on World Bank, *World Debt Tables* and *Global Development Finance*.

[1]Debt-service ratio = (interest payment + principal repayment) / export.

[2]Ratio of debt service to GDP = (interest payment + principal repayment) / GDP.

[3]Debt-export ratio = debt stock / exports.

[4]Debt-GDP ratio = debt stock / GDP.

[5]Real external debt burden = (real interest rate – growth rate of GDP) * debt stock / GDP.

[6]Obsfeld (1996) uses a real interest rate of 8 percent, and states that the rate of return on equities is probably a better approximation.

[7]Debt deepening index = (real interest rate – growth rate of GDP) * debt stock /GDP + current account deficit excluding interest payment / GDP.

Table A2. Bangladesh: SAF I–III (1986/87–1989/90)

	GDP (billions of national currency)	Exchange Rate (national currency/ dollars)	GDP (millions of dollars)	Nominal GDP (percent)	Real GDP (billions of national currency)	Real GDP (percentage change)	Exports (millions of dollars)	Exports (percent)	Trade Balance (millions of dollars)	Trade Balance/ GDP (percent)	Current Account (excluding interest payments)	
1974/75	71.1	8.11	8,762.4		376.5		(973.4)		(973.4)	–11.1		
1975/76	125.7	12.02	10,461.9	19.4	389.2	3.4	(1,170.4)	–20.2	(1,170.4)	–11.2		
1976/77	107.5	15.35	7,002.0	–33.1	437.0	12.3	400.5	134.2	(419.5)	–6.0		
1977/78	105.4	15.38	6,852.6	–2.1	442.8	1.3	476.4	19.0	(542.6)	–7.9		
1978/77	146.4	15.02	9,747.5	42.2	471.6	6.5	549.3	15.3	(790.3)	–8.1		
1979/80	172.8	15.55	11,112.5	14.0	493.1	4.6	655.6	19.4	(1,070.2)	–9.6		
1980/81	198.0	15.45	12,811.5	15.3	499.6	1.3	793.2	21.0	(1,559.6)	–12.2	(629)	–4.9
1981/82	233.3	17.99	12,968.5	1.2	533.4	6.8	790.5	–0.3	(1,644.3)	–12.7	(925)	–7.1
1982/83	265.1	22.12	11,987.6	–7.6	537.8	0.8	768.4	–2.8	(1,452.6)	–12.1	(390)	–3.3
1983/84	288.4	24.62	11,717.1	–2.3	557.2	3.6	723.9	–5.8	(1,206.8)	–10.3	70	0.6
1984/85	349.9	25.35	13,801.4	17.8	580.7	4.2	931.7	28.7	(1,408.3)	–10.2	(357)	–2.6
1985/86	405.4	27.99	14,481.7	4.9	602.3	3.7	999.5	7.3	(1,287.0)	–8.9	(322)	–2.2
1986/87	465.6	30.41	15,312.6	5.7	630.7	4.7	880.0	–12.0	(1,420.7)	–9.3	(472)	–3.1
1987/88	539.2	30.95	17,421.8	13.8	655.8	4.0	1,076.9	22.4	(1,368.8)	–7.9	(54)	–0.3
1988/89	597.1	31.73	18,817.5	8.0	674.7	2.9	1,291.0	19.9	(1,443.4)	–7.7	(88)	–0.5
1989/90	659.6	32.27	20,440.0	8.6	691.7	2.5	1,304.8	1.1	(1,995.3)	–9.8	(899)	–4.4
1990/91	737.6	34.57	21,336.3	4.4	737.6	6.6	1,672.4	28.2	(1,587.0)	–7.4	(180)	–0.8
1991/92	834.4	36.60	22,799.9	6.9	762.7	3.4	1,688.7	1.0	(1,385.8)	–6.1	262	1.1
1992/93	906.5	38.95	23,272.9	2.1	794.9	4.2	2,097.9	24.2	(1,255.9)	–5.4	353	1.5
1993/94	948.1	39.57	23,960.7	3.0	830.5	4.5	2,544.7	21.3	(1,112.6)	–4.6	535	2.2
1994/95	1,030.4	40.21	25,623.4	6.9	865.5	4.2	2,934.4	15.3	(1,416.1)	–5.5	397	1.5
1995/96	1,170.3	40.28	29,054.4	13.4	904.0	4.4	3,733.3	27.2	(2,324.1)	–8.0	(638)	–2.2

	Debt (millions of dollars)	Interest Payment	*r* (in percent)	Repayment	Debt Service*	*D* (Debt/GDP)	Debt Service Requirement (percent)
1979/80							
1980/81	4,035	75	1.9	122	197	31.5	24.8
1981/82	4,464	95	2.1	96	191	34.4	24.2
1982/83	5,056	115	2.3	100	215	42.2	28.0
1983/84	5,474	119	2.2	89	208	46.7	28.7
1984/85	5,607	124	2.2	155	279	40.6	29.9
1985/86	6,535	136	2.1	201	337	45.1	33.7
1986/87	7,865	155	2.0	294	449	51.4	51.0
Average 1979–1987	5,577					41.7	31.5

1987/88	9,718	184	1.9	380	564	55.8	52.4
1988/89	10,693	185	1.7	320	505	56.8	39.1
1989/90	11,119	201	1.8	323	524	54.4%	40.2
1990/91	12,757	218	1.7	573	791	59.8	47.3
1991/92	13,470	197	1.5	433	630	59.1	37.3
1992/93	13,898	172	1.2	/402	574	59.7	27.4
1993/94	14,619	176	1.2	391	567	61.0	22.3
1994/95	16,223	197	1.2	406	603	63.	20.5
1995/96	16,370	186	1.1%	543	729	56.3	19.5
Average 1987–1996	13,207					58.5	34.0

	Debt Service–GDP–R (in percent)	Debt/Exports (in percent)	REDB[1] (in percent)	REDB[2]	Debt Deepening Index[3] (in percent)
1979/80					
1980/81	1.5	508.7	2.1	0.2	5.1
1981/82	1.5	564.7	0.4	–1.6	5.5
1982/83	1.8	658.0	3.0	0.6	3.9
1983/84	1.8	756.2	2.0	–0.7	–1.3
1984/85	2.0	601.8	1.5	–0.8	1.8
1985/86	2.3	653.8	1.9	–0.7	1.5
1986/87	2.9	893.8	1.7	–1.4	1.7
Average 1979–87	2.0	662.4	1.8	–0.6	2.6
1987/88	3.2	902.4	2.2	–1.2	–0.9
1988/89	2.7	828.3	2.9	–0.7	–0.2
1989/90	2.6	852.2	3.0	–0.4	4.0
1990/91	3.7	762.8	0.8	–2.9	–2.1
1991/92	2.8	797.7	2.7	–1.1	–2.3
1992/93	2.5	662.5	2.3	–1.8	–3.3
1993/94	2.4	574.5	2.1	–2.0	–4.2
1994/95	2.4	552.9	2.4	–1.9	–3.4
1995/96	2.5	438.5	2.0	–1.9	0.3
Average 1987–96	2.7	708.0	2.3	–1.5	–1.3

Sources: IMF, *International Financial Statistics*, and *Recent Economic Developments*, various issues; and World Bank, *World Debt Tables*, 1989–90, and *Global Development Finance*, 1997.

[1]Real External Debt Burden = $(r–g)D/Y$, where r = 8%.

[2]Real External Debt Burden = $(r–g)D/Y$, where r = interest payment /debt.

[3]Debt Deepening Index = $(r–g)D/Y$ + noninterest current account deficit/Y.

Table A3. Vietnam: ESAF I (1994–95)

	GDP (billions of national currency)	Exchange Rate (national currency/ dollars)	GDP (millions of dollars)	Nominal GDP (percent)	Real GDP (billions of national currency)	Real GDP (percentage change)	Exports (millions of dollars)	Exports (percent)	Trade Balance (millions of dollars)	Trade Balance/ GDP (percent)	Current Account (excluding interest payments)	
1986		90	—									
1987		368	—									
1988	14,428	3,100	4,654.2		25,885							
1989	28,093	4,415	6,363.1	36.7	28,039	8.3	1,320		–350	–5.5	–495	–7.8
1990	41,955	6,689	6,272.2	–1.4	29,526	5.3	1,731	31.1	–41	–0.7	–186	–3.0
1991	76,707	13,252	5,788.3	–7.7	31,286	6.0	2,042	18.0	–63	–1.1	–86	–1.5
1992	110,535	11,179	9,887.7	70.8	33,991	8.6	2,475	21.2	–60–0.6	56	0.6	
1993	136,571	10,640	12,835.6	29.8	36,735	8.1	2,985	20.6	–547	–4.3	–639	–5.0
1994	170,258	10,978	15,509.0	20.8	39,982	8.8	4,054	35.8	–1,190	–7.7	–1070	–6.9
1995	222,840	11,037	20,190.3	30.2	43,797	9.5	5,198	28.2	–1,868	–9.3	–1699	–8.4

	Debt (millions of dollars)	Interest Payment	*r*	Repayment	Debt Service	Debt-Service Ratio	*d* (debt/ GDP (percent)	Net Present Value of Public and Publicly Guaranteed Debt as Percent of GDP
1986								
1987								
1988	—	—	—	—	—	—	—	
1989	19,498	89	0.5	190	279	21.1	306.4	
1990	22,253	73	0.3	129	202	11.7	354.8	
1991	22,435	47	0.2	161	208	10.2	387.6	
1992	23,891	64	0.3	347	411	16.6	241.6	
1993	24,856	126	0.5	374	500	16.8	193.6	
Average 1986–93	22,587					15.3	296.8	
1994	25,571	127	0.5	266	393	9.7	164.9	
1995	26,495	169	0.6	217	386	7.4	131.2	
Average 1994–95	26,033					8.6	148.1	29.4

	Debt Service–GDP–R (percent)	Debt/Exports (percent)	NPV/ Exports	REDB[1] (percent)	REDB[2] (percent)	Debt Deepening Index[3] (percent)
1986						
1987						
1988						
1989	4.4	1,477.1		–1.0	–24.1	–18.6
1990	3.2	1,285.6		9.6	–17.7	–17.0
1991	3.6	1,098.7		7.9	–22.3	–21.2
1992	4.2	965.3		–1.6	–20.2	–19.6
1993	3.9	832.7		–0.1	–14.7	–10.4
Average 1986–93	3.9	1,131.9		3.0	–19.8	–17.4
1994	2.5	630.8		–1.4	–13.8	–6.1
1995	1.9	509.7	271.1	–2.0	–11.7	–2.4
Average 1994–95	2.2	570.2		–1.7	–12.7	–4.3

Sources: IMF, *Recent Economic Developments*, various issues, and *Debt Relief for Low-Income Countries*, 1997; and World Bank, *Global Development Finance*, 1997.
[1]Real External Debt Burden = $(r–g)D/Y$, where r = 8.
[2]Real External Debt Burden = $(r–g)D/Y$, where r = interest payment/debt.
[3]Debt Deepening Index = $(r–g)D/Y$ + noninterest current account deficit/Y.

Table A4. Côte d'Ivoire: ESAF I–II (1994–96)

	GDP (billions of national currency)	Exchange Rate (national currency/ dollars)	GDP (millions of dollars)	Nominal GDP (percent)	Real GDP (billions of national currency)	Real GDP (percentage change)	Exports (millions of dollars)	Exports (percentage change)	Trade Balance (millions of dollars)	Trade Balance/ GDP (percentage change)	Current Account (excluding interest payments)	Current Account (percentage change)
1974	739.0	240.7	3,070		2,934.3							
1975	834.5	214.3	3,894	26.8	2,973.4	1.3	1,238.8		226.8			
1976	1,120.4	239.0	4,689	20.4	3,561.8	19.8	1,735.1		573.8			
1977	1,590.4	245.7	6,473	38.1	3,967.9	11.4	2,412.1		814.9	12.6		
1978	1,783.0	225.7	7,901	22.1	3,928.3	–1.0	2,615.9	8.4	573.0	7.3		
1979	1,944.7	212.7	9,142	15.7	3,682.8	–6.2	2,722.8	4.1	489.4	5.4		
1980	2,149.9	211.3	10,176	11.3	3,549.6	–3.6	3,012.6	10.6	399.0	3.9	(694)	–6.8
1981	2,291.4	271.7	8,433	–17.1	3,477.3	–2.0	2,435.1	–19.2	367.3	4.4	(289)	–3.4
1982	2,486.5	328.6	7,567	–10.3	3,507.5	0.9	2,347.2	–3.6	557.5	7.4	601	7.9
1983	2,605.9	381.1	6,838	–9.6	3,479.6	–0.8	2,066.3	–12.0	431.2	6.3	(248)	–3.6
1984	2,989.4	437.0	6,841	0.0	3,827.9	10.0	2,624.7	27.0	1,137.4	16.6	892	13.0
1985	3,134.8	449.3	6,978	2.0	3,940.8	2.9	2761	5.2	1,351.1	19.4	836	12.0
1986	3,171.7	346.3	9,159	31.3	3,635.3	–7.8	3,187.4	15.4	1,547.5	16.9	135	1.5
1987	3,031.7	300.5	10,088	10.1	3,249.3	–10.6	2,949.7	–7.5	1,086.4	10.8	80	0.8
1988	3,067.2	297.9	10,298	2.1	3,074.3	–5.4	2,691.3	–8.8	921.9	9.0	(752)	–7.3
1989	2,987.5	319.0	9,365	–9.1	2,963.3	–3.6	2,696.8	0.2	919.7	9.8	(386)	–4.1
1990	2,695.1	272.3	9,899	5.7	2,695.1	–9.1	2,912.6	8.0	1,093.8	11.0	(573)	–5.8
1991	2,960.1	282.1	10,493	6.0	2,911.2	8.0	2705	–7.1	923.4	8.8	(412)	–3.9
1992	2,903.9	264.7	10,971	4.6	2,740.0	–5.9	2,946.8	8.9	994.7	9.1	(448)	–4.1
1993	2,946.5	283.2	10,406	–5.2	3,718.4	35.7	2,518.7	–14.5	748.3	7.2	(383)	–3.7
1994	4,136.2	555.2	7,450	–28.4	4,140.0	11.3	2,853.7	13.3	1,216.1	16.3	512	6.9
1995	5,031.2	499.2	10,080	35.3	4,405.8	6.4	3,938.9	38.0	1,470.5	14.6	152	1.5

	Debt (millions of dollars)	Average (1)	Interest Payment	*r*	Repayment	Debt Service	*d* (debt/ GDP (percent)	Average (percent)	Net Present Value of Public and Publicly Guaranteed Debt as Percent of GDP	Debt-Service Ratio (percent)	Average (percent)
1978											
1979											
1980	5,801		1,133	19.5	558	1,691	57.0			56.1	
1981	6,608		1,122	17.0	612	1,734	78.4			71.2	
1982	7,820		1,618	20.7	608	2,226	103.3			94.8	
1983	7,802		683	8.8	611	1,294	114.1			62.6	
1984	7,892		969	12.3	499	1,468	115.4			55.9	
1985	9,794		772	7.9	666	1,438	140.4			52.1	
1986	11,220		435	3.9	899	1,334	122.5			41.9	

1987	13,608		1,050	7.7	926	1,976	134.9			67.0	
1988	13,342		489	3.7	586	1,075	129.6			39.9	
1989	14,821		581	3.9	496	1,077	158.3			39.9	
1990	17,259		641	3.7	621	1,262	174.4			43.3	
1991	18,174		662	3.6	618	1,280	173.2			47.3	
1992	18,547		565	3.0	594	1,159	169.1			39.3	
1993	19,071	12,269	509	2.7	585	1,094	183.3	132.4		43.4	53.9
1994	17,395		457	2.6	787	1,244	233.5			43.6	
1995	18,952	18,174	421	2.2	625	1,046	188.0	210.8	143.5	26.6	35.1

	Debt Service–GDP–R		Debt–Exports		NPV to Exports ratio	REDB[1]		REDB[2]		DDI[3]	
	(percent)	Average	(percent)	Average		(percent)	Average	(percent)	Average	(percent)	Average
1978											
1979											
1980	16.6		192.6			6.6		13.2		20.0	
1981	20.6		271.4			7.9		14.9		18.3	
1982	29.4		333.2			7.4		20.5		12.5	
1983	18.9		377.6			10.0		10.9		14.5	
1984	21.5		300.7			–2.3		2.6		–10.4	
1985	20.6		354.7			7.1		6.9		–5.1	
1986	14.6		352.0			19.3		14.2		12.8	
1987	19.6		461.3			25.1		24.7		23.9	
1988	10.4		495.7			17.3		11.7		19.0	
1989	11.5		549.6			18.4		11.9		16.0	
1990	12.7		592.6			29.7		22.3		28.0	
1991	12.2		671.9			0.0		–7.6		–3.7	
1992	10.6		629.4			23.5		15.1		19.2	
1993	10.5	16.4	757.2	452.8		–50.8	8.5	–60.5	7.2	–56.9	7.7
1994	16.7		609.6			–7.8		–20.3		–27.2	
1995	10.4	13.5	481.1	545.4	340.2	3.0	–2.4	–7.9	–14.1	–9.4	–18.3

Sources: IMF, *International Financial Statistics* (IFS), and *Debt Relief for Low-Income Countries*, 1997; and World Bank, *Global Development Finance*, 1997, and *World Debt Tables*, 1989–90.
[1]Real External Debt Burden = $(r–g)D/Y$, where r = 8.
[2]Real External Debt Burden = $(r–g)D/Y$, where r = interest payment/debt.
[3]Debt Deepening Index = $(r–g)D/Y$ + noninterest current accout deficit/Y.

Table A5. Malawi: ESAF I–III (1988–94)

	GDP (billions of national currency)	Exchange Rate (national currency/ dollars)	GDP (millions of dollars)	Nominal GDP (percent)	Real GDP (billions of national currency)	Real GDP (percent)	Exports (millions of dollars)	Exports (percent)	Trade Balance (millions of dollars)	Trade Balance/ GDP (percent)	Current Account (excluding interest payments)	
1974	462	0.8405	549		3034							
1975	530	0.8998	589	7.2	3202	5.5						
1976	612	0.9074	674	14.6	3401	6.2						
1977	728	0.8678	839	24.4	3549	4.3	200		17	2.0		
1978	801	0.8091	990	18.0	3844	8.3	185	–7.7	–79	–8.0		
1979	865	0.7996	1,081	9.3	3972	3.3	222	20.5	–95	–8.8		
1980	1005	0.8258	1,217	12.6	3957	–0.4	281	26.3	–27	–2.2	(207)	–17.0
1981	1108	0.9074	1,221	0.3	3750	–5.2	273	–3.0	28	3	(80)	–6.5
1982	1245	1.0970	1,135	–7.1	3856	2.8	240	–12.0	26	2.3	(63)	–5.5
1983	1437	1.2992	1,106	–2.6	3992	3.5	246	2.7	30	2.7	(87)	–7.8
1984	1707	1.5649	1,091	–1.3	4170	4.4	312	26.6	150	13.7	2	0.2
1985	1945	1.6792	1,158	6.2	4356	4.5	246	–21.3	69	5.9	(82)	–7.1
1986	2198	1.9524	1,126	–2.8	4403	1.1	248	1.2	94	8.4	(33)	–3.0
1987	2613	2.0538	1,272	13.0	4497	2.1	278	11.8	101	7.9	(18)	–1.4
1988	3418	2.5355	1,348	5.9	4650	3.4	294	5.7	40	3.0	(46)	–3.4
1989	4199	2.6788	1,568	16.3	4839	4.1	269	–8.4	64	4.1	(11)	–0.7
1990	5070	2.6469	1,915	22.2	5070	4.8	406	51.2	126	6.6	(43)	–2.3
1991	6106	2.6638	2,292	19.7	5465	7.8	476	17.0	60	2.6	(179)	–7.8
1992	6694	4.3958	1,523	–33.6	5032	–7.9	400	–15.9	–15	–1.0	(249)	–16.3
1993	8942	4.4944	1,990	30.7	5576	10.8	318	–20.6	–23	–1.1	(138)	–6.9
1994	11209	15.2986	733	–63.2	5060	–9.3	363	14.2	–276	–37.7	(425)	–57.9
1995	22472	15.3031	1,468	100.4								

	Debt (millions of dollars)	Debt (average) (I)	Interest Payment	*r*	Repayment	Debt Service	d (debt/GDP (percent)	d (debt/GDP (average)	Net Present Value of Public and Publicly Guaranteed Debt as Percent of GDP	Average
1978										
1979										
1980	821		53	6.5	35	88	67.5		31.3	
1981	812		67	8.3	47	114	66.5		41.8	
1982	857		50	5.8	44	94	75.5		39.2	
1983	885		45	5.1	35	80	80.0		32.5	
1984	876		45	5.1	60	105	80.3		33.7	
1985	1,018		45	4.4	65	110	87.9		44.8	
1986	1,156		52	4.5	96	148	102.7		59.6	

1987	1,369		43	3.1	70	113	107.6		40.7	
1988	1,361		41	3.0	65	106	101.0		36.1	
1989	1,419	1,057	40	2.8	56	96	90.5	85.9	35.7	39.5
1990	1,579		43	2.7	65	108	82.4		26.6	
1991	1,670		49	2.9	82	131	72.9		27.5	
1992	1,697		36	2.1	69	105	111.4		26.3	
1993	1,812		28	1.5	47	75	91.1		23.6	
1994	2,009		25	1.2	46	71	274.2		19.6	
1995	2,140	1,818	40	1.9	68	108	145.7	129.6		24.7

	Debt Service–GDP–R		Debt–Exports		REDB[1]		REDB[2]		Debt Deepening Index[3]	
	(percent)	(average)	(percent)	(average)	(percent)	(average)	(percent)	(average)	(percent)	(average)
1978										
1979										
1980	7.2		292.4		5.7		4.6		21.6	
1981	9.3		298.0		8.8		9.0		15.5	
1982	8.3		357.5		3.9		2.3		7.8	
1983	7.2		359.5		3.6		1.2		9.1	
1984	9.6		280.9		2.9		0.6		0.3	
1985	9.5		414.7		3.1		0.0		7.1	
1986	13.1		465.4		7.1		3.5		6.5	
1987	8.9		493.2		6.3		1.1		2.5	
1988	7.9		463.7		4.6		–0.4		3.0	
1989	6.1	8.7	527.9	395.3	3.6	5.0	–1.1	2.1	–0.4	7.3
1990	5.6		388.5		2.7		–1.7		0.6	
1991	5.7		351.2		0.1		–3.5		4.3	
1992	6.9		424.4		17.8		11.2		27.5	
1993	3.8		570.7		–2.6		–8.4		–1.5	
1994	9.7		554.1		47.3		28.8		86.7	
1995	7.4	6.5		457.8		10.0		3.2		15.3/

Sources: IMF, *International Financial Statistics*, *Recent Economic Developments*; and World Bank, *Global Development Finance*, 1997, and *World Debt Tables*, 1989–90.

[1]Real External Debt Burden = $(r–g)D/Y$, where $r = 8$.

[2]Real External Debt Burden = $(r–g)D/Y$, where r = interest payment/debt.

[3]Debt Deepening Index = $(r–g)D/Y$ + noninterest current account deficit/Y.

Table A6. Uganda: SAF I–II (1987–1989), ESAF I–IV (1989–94)

	GDP (billions of national currency)	Exchange Rate (national currency/ dollars)	GDP (millions of dollars)	Nominal GDP (percent)	Real GDP (billions of national currency)	Real GDP (percent)	Exports (millions of dollars)	Exports (percent)	Trade Balance (millions of dollars)	Trade Balance (percent)	Current Account (excluding interest payments)	Current Account (percentage change)
1974	739.0	240.7	3,070		2,934.3							
1974					1259							
1975					1233	–2.1						
1976					1242	0.7						
1977					1262	1.6						
1978					1193	–5.5						
1979					1061	–11.1						
1980		0.07			1025	–3.4	319.4		1.8		(72)	
1981		0.50			1065	3.9	228.8	–28.4	(55.5)		14	
1982		0.94			1128	5.9	347.1	51.7	9.5		(42)	
1983	6	1.54	3,896		1216	7.8	367.7	5.9	25.2	0.6	(31)	–0.8
1984	15	3.60	4,167	6.9	1159	–4.7	407.3	10.8	120.5	2.9	169	4.0
1985	26	6.72	3,869	–7.1	1161	0.2	347.8	–14.6	109.5	2.8	58	1.5
1986	65	14.00	4,643	20.0	1230	5.9	406.8	17.0	45.9	1.0	(0)	0.0
1987	224	42.84	5,229	12.6	1309	6.4	333.6	–18.0	(142.0)	–2.7	(75)	–1.4
1988	635	106.14	5,983	14.4	1411	7.8	266.3	–20.2	(257.2)	–4.3	(152)	–2.5
1989	1178	223.09	5,280	–11.7	1509	6.9	277.7	4.3	(310.6)	–5.9	(214)	–4.0
1990	1602	428.85	3,736	–29.3	1602	6.2	177.8	–36.0	313.2)	–8.4	(226)	–6.1
1991	2223	734.01	3,029	–18.9	1690	5.5	173.2	–2.6	203.9)	–6.7	(124)	–4.1
1992	3688	1,133.83	3,253	7.4	1769	4.7	151.2	–12.7	(270.7)	–8.3	(66)	–2.0
1993	4024	1,195.02	3,367	3.5	1893	7.0	200.0	32.3	(241.7)	–7.2	(134)	–4.0
1994	5130	979.45	5,238	55.5	2094	10.6	440.9	120.5	(231.3)	–4.4	(120)	–2.3
1995	5814	968.92	6,000	14.6	2303	10.0	548.9	24.5	(317.8)	–5.3	(238)	–4.0

	Debt (millions of dollars)	Debt (average) (I)	Interest Payment	r	Repayment	Debt Service	d (debt/GDP (percent)	d (debt/GDP (average)	Net Present Value of Public and Publicly Guaranteed Debt as Percent of GDP	Debt-Service Ratio (percent)	Debt-Service Ratio (average)
1978											
1979											
1980	733		11	1.5	33	44				13.8	
1981	794		13	1.6	67	80				35.0	
1982	933		28	3.0	46	74				21.3	
1983	1,016		41	4.0	73	114	26.1			31.0	
1984	1,031		65	6.3	97	162	24.7			39.8	
1985	1,171		53	4.5	112	165	30.3			47.4	

1986	1,287		43	3.3	119	162	27.7			39.8	
1987	1,632	1,075	37	2.3	91	128	31.2	28.0		38.4	33.3
1988	1,923		43	2.2	158	201	32.1			75.5	
1989	2,177		46	2.1	141	187	41.2			67.3	
1990	2,583		37	1.4	111	148	69.1			83.2	
1991	2,777		46	1.7	102	148	91.7			85.5	
1992	2,928		34	1.2	80	114	90.0			75.4	
1993	3,029		37	1.2	119	156	90.0			78.0	
1994	3,369		38	1.1	112	150	64.3			34.0	
1995	3,564	2,794	38	1.1	99	137	59.4	67.2	32.8	25.0	65.5

	Debt Service–GDP–R		Debt/Exports			REDB[1]		REDB[2]		Debt Deepening Index[3]	
	(percent)	(average)	(percent)	(average)	NPV/Exports	(percent)	(average)	(percent)	(average)	(percent)	(average)
1978											
1979											
1980			229.5								
1981			347.0								
1982			268.8								
1983	2.9		276.3			0.1		–1.0		–0.2	
1984	3.9		253.1			3.1		2.7		–1.3	
1985	4.3		336.7			2.4		1.3		–0.2	
1986	3.5		316.4			0.6		–0.7		–0.7	
1987	2.4	3.4	489.2	314.6		0.5	1.3	–1.3	0.2	0.1	–0.5
1988	3.4		722.1			0.1		–1.8		0.8	
1989	3.5		783.9			0.4		–2.0		2.1	
1990	4.0		1,452.8			1.3		–3.3		2.8	
1991	4.9		1,603.3			2.3		–3.5		0.6	
1992	3.5		1,936.5			3.0		–3.2		–1.1	
1993	4.6		1,514.5			0.9		–5.2		–1.2	
1994	2.9		764.1			–1.7		–6.1		–3.8	
1995	2.3	3.6	649.3	1,178.3	271.1	–1.2	0.6	–5.3	–3.8	–1.3	–0.2

Sources: IMF, *International Financial Statistics*, and *Debt Relief for Low–Income Countries*, 1997; and World Bank, *Global Development Finance*, 1997, and *World Debt Tables*, 1989–90.

[1]Real External Debt Burden = $(r–g)D/Y$, where r = 8.

[2]Real External Debt Burden = $(r–g)D/Y$, where r = interest payment/debt.

[3]Debt Deepening Index = $(r–g)D/Y$ + noninterest current account deficit/Y.

Table A7. Zimbabwe: ESAF I–II (1992–94)

	GDP (billions of national currency)	Exchange Rate (national currency/ dollars)	GDP (millions of dollars)	Nominal GDP (percent)	Real GDP (billions of national currency)	Real GDP (percent)	Exports (millions of dollars)	Exports (percent)	Trade Balance (millions of dollars)	Trade Balance/ GDP (percent)	Current Account (excluding interest payments)	
1974	1,832	0.6	3,105		10,332							
1975	1,995	0.6	3,512	13.1	9,957	–3.6						
1976	2,166	0.6	3,462	–1.4	9,847	–1.1						
1977	2,198	0.6	3,499	1.1	9,341	–5.1	900.8		229.6	6.6		
1978	2,359	0.7	3,483	–0.5	9,140	–2.2	927.7	3.0	270.3	7.8		
1979	2,822	0.7	4,151	19.2	9,487	3.8	1,079.8	16.4	204.6	4.9		
1980	3,441	0.6	5,355	29.0	10,490	10.6	1,441.1	33.5	106.1	2.0	(123)	–2.3
1981	4,433	0.7	6,436	20.2	11,804	12.5	1,451.4	0.7	(82.6)	–1.3	(473)	–7.4
1982	5,217	0.8	6,889	7.0	12,115	2.6	1,312.1	–9.6	(159.9)	–2.3	(472)	–6.9
1983	5,990	1.0	5,927	–14.0	12,307	1.6	1,153.7	–12.1	84.1	1.4	(232)	–3.9
1984	6,407	1.2	5,149	–13.1	12,072	–1.9	1,173.6	1.7	184.3	3.6	141	2.7
1985	7,363	1.6	4,568	–11.3	12,844	6.4	1,119.6	–4.6	200.6	4.4	110	2.4
1986	8,274	1.7	4,969	8.8	12,966	0.9	1,322.7	18.1	311.2	6.3	186	3.7
1987	9,217	1.7	5,548	11.7	13,984	7.9	1,452.0	9.8	381.0	6.9	225	4.1
1988	11,439	1.8	6,349	14.4	15,209	8.8	1,664.9	14.7	501.3	7.9	303	4.8
1989	13,708	2.1	6,487	2.2	16,968	11.6	1,693.5	1.7	375.2	5.8	192	3.0
1990	16,883	2.4	6,896	6.3	16,883	–0.5	1,747.9	3.2	242.7	3.5	61	0.9
1991	22,347	3.4	6,518	–5.5	16,404	–2.8	1,693.8	–3.1	48.1	0.7	(262)	–4.0
1992	27,833	5.1	5,464	–16.2	15,885	–3.2	1,527.6	–9.8	(254.5)	–4.7	(397)	–7.3
1993	36,073	6.5	5,574	2.0	16,136	1.6	1,609.1	5.3	122.1	2.2	95	1.7
1994	47,426	8.1	5,820	4.4	17,352	7.5	1,961.1	21.9	157.6	2.7	(197)	–3.4
1995	57,196	8.7	6,608	13.5	17,070	–1.6	2,217.0	13.0	89.0	1.3	(129)	–2.0

	Debt (millions of dollars)	Debt (average) (I)	Interest Payment	*r*	Repayment	Debt Service	d (debt/GDP (percent)	d (debt/GDP (average)	Debt-Service Ratio (percent)	Debt-Service Ratio (average)
1978										
1978										
1979										
1980	786		26	3.3	40	66	14.7		4.6	
1981	1,250		73	5.8	35	108	19.4		7.4	
1982	1,846		160	8.7	47	207	26.8		15.8	
1983	2,311		166	7.2	343	509	39.0		44.1	
1984	2,256		184	8.2	172	356	43.8		30.3	
1985	2,464		174	7.1	278	452	53.9		40.4	
1986	2,705		169	6.2	334	503	54.4		38.0	
1987	2,912		167	5.7	425	592	52.5		40.8	

1988	2,668		178	6.7	356	534	42.0		32.1	
1989	2,791		175	6.3	264	439	43.0		25.9	
1990	3,247		201	6.2	270	471	47.1		26.9	
1991	3,436		195	5.7	266	461	52.7		27.2	
1992	4,006	2,514	207	5.2	391	598	73.3	43.3	39.1	28.7
1993	4,210		211	5.0	409	620	75.5		38.5	
1994	4,411		228	5.2	380	608	75.8		31.0	
1995	4,885	4,502	240	4.9	410	650	73.9	75.1	29.3	33.0

	Debt Service–GDP–R		Debt/Exports		REDB[1]		REDB[2]		Debt Deepening Index[3]	
	(percent)	(average)	(percent)	(average)	(percent)	(average)	(percent)	(average)	(percent)	(average)
1978										
1979										
1980	1.2		54.5		–0.4		–1.1		1.2	
1981	1.7		86.1		–0.9		–1.3		6.1	
1982	3.0		140.7		1.4		1.6		8.5	
1983	8.6		200.3		2.5		2.2		6.1	
1984	6.9		192.2		4.3		4.4		1.7	
1985	9.9		220.1		0.9		0.4		–2.0	
1986	10.1		204.5		3.8		2.9		–0.9	
1987	10.7		200.6		0.1		–1.1		–5.2	
1988	8.4		160.2		–0.3		–0.9		–5.7	
1989	6.8		164.8		–1.5		–2.3		–5.2	
1990	6.8		185.8		4.0		3.2		2.3	
1991	7.1		202.9		5.7		4.5		8.5	
1992	10.9	7.1	262.2	175.0	8.2	2.1	6.1	1.4	13.4	2.2
1993	11.1		261.6		4.8		2.6		0.9	
1994	10.4		224.9		0.4		–1.8		1.6	
1995	9.8	10.5	220.3	235.6	7.1	4.1	4.8	1.9	6.8	3.1

Sources: IMF, *International Financial Statistics*, and *Debt Relief for Low-Income Countries*, 1997; and World Bank, *Global Development Finance*, 1997, and *World Debt Tables*, 1989–90.

[1]Real External Debt Burden = $(r–g)D/Y$, where $r = 8$.

[2]Real External Debt Burden = $(r–g)D/Y$, where r = interest payment/debt.

[3]Debt Deepening Index = $(r–g)D/Y$ + noninterest current account deficit/Y.

Figure A1. Debt-Export Ratio Versus Debt-GDP Ratio
(Pre-ESAF)

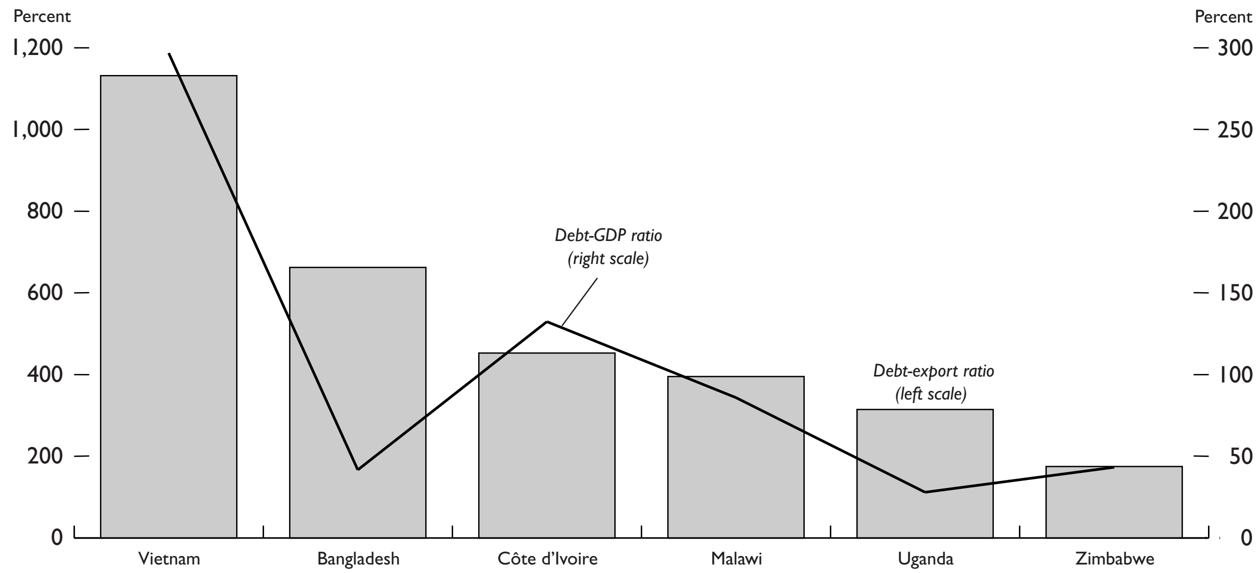


Figure A2. Real External Debt Burden Versus Debt Deepening Index
(Pre-ESAF)

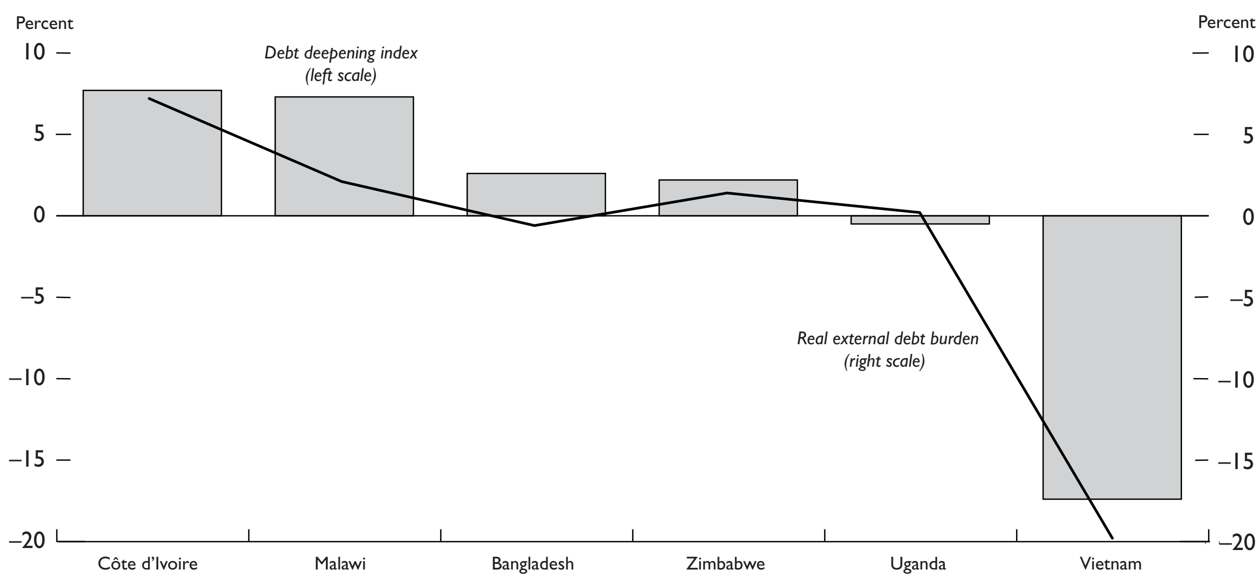


Figure A3. Debt-Export Ratio Versus Debt-GDP Ratio
(Mid- and Post-ESAF)

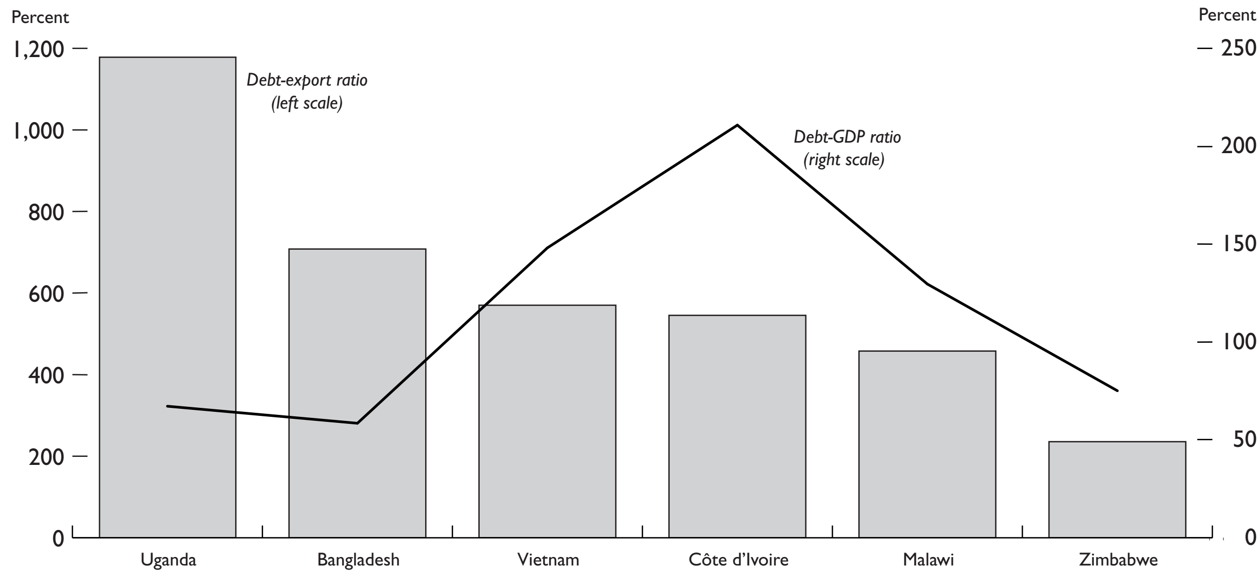
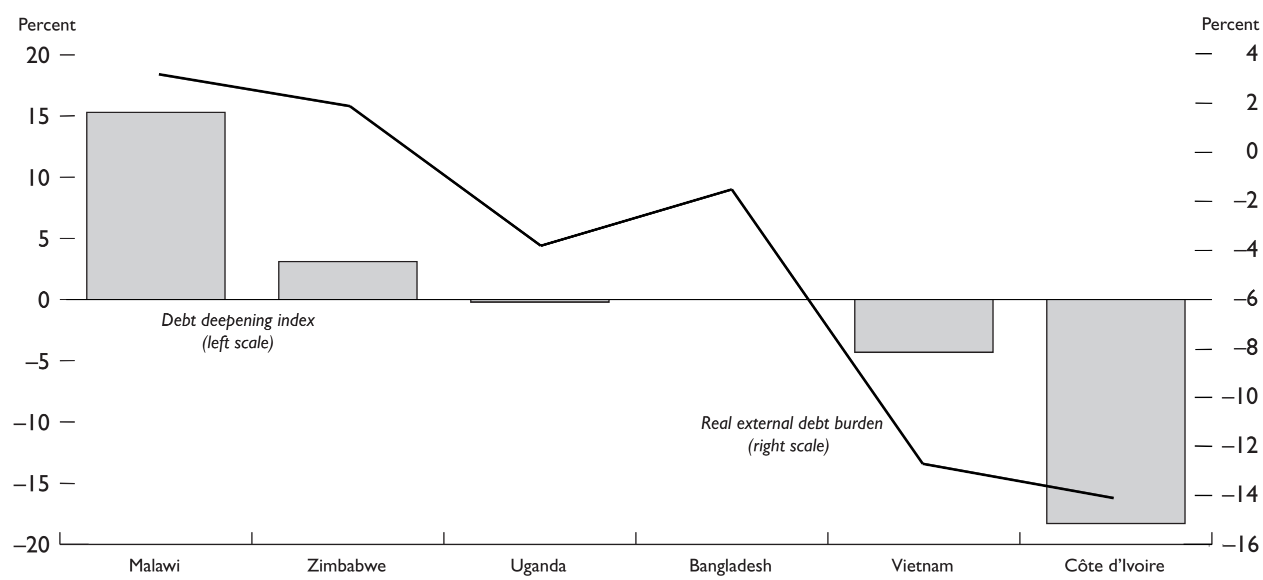


Figure A4. Real External Debt Burden Versus Debt Deepening Index
(Mid- and Post-ESAF)



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