STRUCTURAL ADJUSTMENT LENDING
A CRITICAL VIEW

Elliot Berg (Consultant)
Alan Batcheider (Consultant)

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Bank staff use to stimulate discussion and comment. The views and
interpretations are those of the authors.
Preface

The paper was prepared as a contribution at a training seminar at Easton in May 1984 on Structural Adjustment Lending. It was presented as one part of a session on SALs, the other consisting of a presentation by Stanley Please entitled "Structural Adjustment Lending: A Supportive View". (Mr. Please's views have been published in his book entitled The Hobbled Giant.) The two presentations were intended to initiate a discussion by participants. The paper was further discussed at an internal seminar, at the Bank, in October 1984. The present paper, therefore, does not aim at developing a comprehensive and balanced assessment of the experience with the Bank's structural adjustment lending. The focus is on developing a critical view. The paper concludes that incremental strategies of reform as opposed to the global and comprehensive adjustment attempted through SALs may be more effective vehicles for policy change. It makes a case for "longer time horizons, more modest expectations, and smaller scale approaches" in the Bank's policy based lending.

While this version reflects some of the comments made by Bank staff and others at the two seminars, the views expressed are solely those of the authors.

Luis de Azcarate
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I. INTRODUCTION

Since 1960, there has been a flowering of "new style" World Bank lending characterized by a policy focus and conditionality. These loans and credits include export rehabilitation credits, which provide foreign exchange for critical industries; single import loans (e.g., the Nigerian Fertilizer Import loan); "sectoral" lending of various descriptions (the Sudan Agricultural Rehabilitation Loan and Madagascar's Industrial Assistance Credit, for example); and Structural Adjustment Loans (SALs). These lending vehicles now account for 20-30% of total Bank lending, depending on definition. They carry varying degrees of conditionality, and the extent to which they are "projectized" also varies. But all are tied to policy change, the SAL--the subject of this paper--most of all. 1

The differences between the new style, policy-based lending and "traditional" assistance can be exaggerated. Project loans can (and do) contain covenants with performance conditions. And non-project lending is hardly new; Bank (and other donor) "project" loans in the past provided free-standing and quick-disbursing foreign exchange. But the differences are real. Conditionality was not a salient

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1 This is a revised version of a paper presented at the Structural Adjustment Seminar, May 7-10, 1984, and a Bank Seminar on October 4, 1984. The present version takes account of comments made at these two seminars, either by incorporating them in the text or by noting them in footnotes.
feature of project loans in the past. And Bank program loans were limited in volume (they averaged about 7% of total bank lending in the 1970s) and in goals; they were aimed at easing balance of payments crises that arose from export earning shortfalls or natural disasters. "Sector Loans," as defined in Bank operating rules, financed slices of sectoral investment programs and were in general restricted to countries with good planning and implementing capacity. Policy conditions were minimal in these loans or credits.

The rise of policy-based lending derives, of course, from the new stress on policy as a determinant of growth. Until the late 1970s, the mainstream development literature gave relatively little attention to the impact of policy on economic performance. It was rarely ignored altogether, but for most writers of the 50s and 60s, what really counted was capital investment and technology transfer. Even where policy reform was explicitly considered, its impact was judged to be modest.

The heavier weight now being given to policy and to policy reform raises many interesting analytic issues, of which two will be considered here. First, what are the changes in the intellectual rationale for resource transfers, when growth is constrained in a major way by bad domestic policies and when the resource transfer is to be associated with policy reform? And secondly, what are the major implications of the new emphasis on policy for the way development institutions (notably the Bank) go about their business?

It is useful, in approaching these issues, to recall the close degree of integration between thought and action that characterizes "traditional" economic assistance. "Traditional" aid operates within an analytic framework that provides both an intellectual
rationale for the aid relationship and practical guidelines for aid agencies. The main constraint to growth is defined as shortages of capital and access to technology. Simple economic models (e.g., Harrod-Domar and "two-gap" approaches) provide an overall macroeconomic framework for estimating "needs," an explanation of how aid inflows affect output growth, and instruments for measuring results. For donors, especially the Bank, this makes resource "gaps" a principal preoccupation in country economic work.

At the microeconomic level the centerpiece of "traditional" aid was (and is) the project, the elemental unit of development action—an activity with a beginning and an end, and with well-defined inputs and known costs and (usually) measurable outputs. From a project-centered perspective, each country can be viewed as a possessor of potential investments that either exist—i.e., are on the shelf already—or can be developed by proper preparation; only fiscal or foreign exchange constraints prevent their execution. The function of economic assistance then is to release the binding constraint to faster growth, usually foreign exchange availability, by financing the offshore costs of projects that meet the economic criteria of aid donors.

This "traditional" approach shaped the analytic tools that have dominated the development field since the 1950s. Because the project was the primary vehicle of development assistance, project evaluation became the best developed microeconomic instrument of the aid practitioner, just as investment-powered growth models absorbed most attention on the macroeconomic side.

Projects and capital investments were also the principal concerns of aid institutions. Within the Bank, and to a lesser
extent other aid institutions) the project was the backbone of the organization structure. Project cycles regulated the flow of activity. The project focus also provided guidelines for basic management decisions such as how much to lend (or grant) and for what purposes. Country allocations of course always depended on more than project considerations, but certainly the availability of "sound" projects has always been an important input in this decision. And although project "soundness" involves much more than determining an acceptable rate of return, the ideal of project soundness has provided a conceptual anchor for aid organization, especially within the Bank.

Policy-based loans (and SALs in particular) lack the kind of analytical scaffolding that surrounds "traditional" forms of resource transfer. While policy reform has been recognized, along with capital investment and technology transfer, as a major factor in development, the analytic implications of this change have received little attention. Not much theory of policy-based lending has been advanced with respect to SALs (or otherwise). So their rationale is uncertain, and for managers of aid institutions there are unanswered questions, such as: what criteria are appropriate for selecting countries that will benefit from these loans/credits; how should their size be determined; and how should their effectiveness be evaluated?

All of these matters are touched on in this paper, though the main emphasis is on the effectiveness question. The analysis is partial, in several respects. The focus, first of all, is on the SAL--the biggest, broadest, most conditional of the policy-based
lending instruments. Related types of loans/credits are not considered.

It is partial also in that we do not discuss the question of the theoretical suitability of Bank-proposed policy changes in specific cases--i.e., whether the recommended tariff changes in a given SAL country are analytically correct, whether rate changes urged on public enterprises are in accord with sound pricing principles, or whether agricultural price changes discussed with client government policy-makers have taken suitable account of other agricultural prices, likely supply elasticities, and fiscal impacts. Such questions, which focus on the issue of the economic soundness of Bank policy recommendations, however interesting, are not considered here. We assume that the proposals made in SALs are technically appropriate.

Nor do we say much by way of empirical assessment of the SAL experience, except for a few tentative observations on the apparent SAL impact on GNP growth rates. At this stage, empirical assessment in terms of stated objectives such as balance of payments equilibrium, is not feasible. The time period is too short; SALs are supposed to have their impact only in the medium term--some five years after their beginning. For assessment of some aspects of the SAL, the monitoring of progress is extremely difficult; this is so where processes are involved and not single events or acts; and where there are many such processes involved in an SAL. Evaluation is necessarily subjective in such cases. Moreover, even where concrete indications of progress are available,
it is often impossible to disentangle the impact of an SAL from that of an IMF program or other factors.

The paper is critical. Its emphasis is on what seems wrong with SALS. Inevitably, what is right about them is slighted. It is for this reason worthwhile at the outset to note the many positive results flowing from the growth of policy-based lending, and the use of SALs in particular.

It has first of all had a major impact, for the better, on the orientation of Bank staff, especially economists. Policy issues have moved to center stage in Bank economic and sector work and this has not only increased substantially the usefulness of these studies but also raised the policy and political awareness of Bank staff.

Secondly, the SALs have raised the intensity of discussion of many crucial policy issues in the 16 recipient countries. They represent the most carefully designed and detailed reform program efforts ever put together by a development institution. They have provided a model for other international agencies, and for bilateral donors. Technicians in LDCs now have at least the possibility of seeing what the details of a comprehensive program of policy reform look like. Moreover, the effort has pushed forward the process of reform in most of the SAL countries, though it is too soon to be sure of this. As of mid-1984, observable, relatively unambiguous

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• Bank staff point out also that policy-based lending is new and experimental, and that many adjustments are being made as experience accumulates. In fact, some argue, many of the criticisms in this paper are being addressed.
"failures" have occurred in only three of the 16 SAL countries—in Senegal where disbursements were stopped, and in Guyana and Bolivia, where run-on SALs were denied because of inadequate performance.

Nonetheless, genuine problems do exist with policy-based lending in general and the SAL in particular. First, the criteria for selection of SAL countries are not clear. Secondly, the theory of reform on which the SAL rests is not clearly spelled out. Thirdly, the SALs are often too complex, and embody too much fictional conditionality. And finally, conditionality as expressed in the SALs may obstruct achievement of the fundamental objective of policy dialogue, which is the changing of minds about what is good policy.

The remainder of the paper is divided into four parts. Part II reviews the evolution of the Bank's rationale for the SAL program and surveys the array of choices that were available to framers of SAL strategy. Part III presents a statistical picture of experience with SALs; the kinds of countries admitted to the program; the importance of SAL money to the borrowers; the additionality of SAL money; and the growth experience of countries with SALs. Part IV offers a critical analysis of SALs, and Part V is the conclusion.
II. OBJECTIVES AND CHARACTERISTICS OF SALS

A. THE EVOLVING RATIONALE FOR SALS

The Bank first introduced SALs in early 1980. In their original justifications of the new lending instrument, Bank officials stressed two considerations: first, that the LDCs' external economic environment had recently become distinctively different, compared with earlier years and, second, that at least some of the changes were long-term or permanent. In early 1980, three changes were cited: the increased price of oil; the negative impact of the slowdown of the OECD economies on LDC export earnings; and high rates of industrial country inflation and consequent high import prices for LDCs. Deteriorating terms of trade and growing current account deficits were creating increasingly severe resource constraints, and were giving rise to widespread BOP crises in the developing countries.

These three external developments were identified as permanent (or at least long-term) in character and, therefore, as requiring "long-term structural adjustments in the economies of the developing countries." Bank officers announced that they were prepared to make

- One seminar participant observed that no theoretical rationale was really needed for the SAL. A great many countries were in deep economic trouble in 1980, and ways had to be found to help them. The SAL was one response.
staff and consultants available to assist governments in the process of structural adjustment.

But the situation was viewed as calling for more than advice. In early 1980, the Bank projected that current account deficits of low income countries in 1980 would be triple their 1978 level, and rise to nearly five percent as a share of GDP. Bigger deficits were predicted for 1981 and 1982. Responding to this immediate and potentially persistent crisis, the Bank introduced SALs and made them quick disbursing to reduce growth-inhibiting reductions in imports in recipient countries.

By early 1981, high interest rates and slow growth in concessional assistance had been added to the list of external changes justifying the new form of Bank help, but "continued high rates of inflation" had been dropped. More significant, again in early 1981, Bank officials began to cite "inappropriate domestic policies" as growth obstacles calling for basic structural adjustments that would deserve Bank encouragement and support.

As a result of internal reviews and evolving experience in 1981 and 1982, the BOP aspect moved to a secondary position in Bank discussions of SALs. The need for policy changes received increasing emphasis. Landell-Mills' December 1982 paper reflects this transition. He cites the long-term rise in energy costs, the rise in prices of manufactured imports, high interest rates, and recession as changes in the external environment calling for Bank
support for structural adjustment. But he then gives
"inappropriate domestic policies" as an equally important factor.

He writes:

Conceptually, structural adjustment is designed to respond
to permanent changes in the external environment and may be
distinguished from structural reform to correct for
inappropriate domestic policies. In practice, these two
elements become inextricably interwoven and consequently,
none of the programs supported by structural adjustment
lending may be regarded as solely correcting for external
shocks . . . Many of the reforms proposed under SAL are
long overdue and are not necessarily specifically related
to the changed international price structure. They are all
designed, however, to have a direct impact on the BOP.

The BOP equilibrium objective has never disappeared as a
rationale for SALs. The SAL program is a response to existing or
imminent BOP crises and its objective is to help LDCs make internal
adjustments that will accelerate growth now and produce a
sustainable balance on current account in the medium term of 4-6
years. But the emphasis within the Bank clearly shifted during 1982
to policy reform. Indeed, one aspect receives much emphasis: that
SAL money will bring Bank representatives to the borrowers' policy-
making "high table," the levels of government where policy is
decided. This, Bank management asserted, is where the policy
dialogue can be made most effective.

The Bank decision to move more aggressively into matters of
high economic policy is consistent with the intent of many of its
founders:

The Fund and Bank are not business institutions in the ordinary
sense. While they must be operated so as to conserve their
assets and allow the most fruitful use of their facilities, they are not profit-seeking institutions. The business of the Fund and Bank involves matters of high economic policy. They should not become just two more financial institutions.

The Fund has consistently enjoyed that involvement. The Bank has apparently had reasons, up to the present, to operate at a slightly less grand level.

B. ALTERNATIVES IN THE CHOICE OF SAL CHARACTERISTICS

The rationale for SALs has thus come to focus on the developmental usefulness of reforming domestic policies and on the tie to loans large enough to win access to the most senior policy makers, thereby permitting Bank staff to accelerate reform and to influence its character. But in the beginning, long-term changes in the LDCs' external trading environment had been emphasized most, as had the need for quick disbursements to reduce BOP gaps. These assumptions prevailed when the Bank's management was deciding how to shape the SAL program.

The characteristics of the program were certainly not foreordained. The Bank's innovators conceivably had various alternatives, some of which are suggested below.

Sell Advice, Give It, or Reward Users? Two initial premises of Bank officials were that good structural adjustment programs would be difficult to design and that country designers could be greatly helped by access to the expertise of Bank staff. The Bank had then to decide whether to sell advice, in the manner of most of the world's consultants, to subsidize or give it away, in the manner of U.N. agencies (and the Bank staff), or to attach it to attractive
loans that would induce countries to apply advice they might not take in the absence of the loans.

It would not have been inconceivable to set up a policy-advising unit, independent of lending operations. But this would have been contrary to the Bank's style. The decision therefore was to attach advice to loans.

—How Much Money in an SAL? Once the decision was made to tie policy advice to loans, the Bank had to decide on a method for determining the size of each loan. In some Bank discussion, it was proposed that the size of an SAL be linked to the "costs of implementing policy reform." So the decision might have been to make the loans just big enough to cover the costs of adjustment (including, perhaps, the costs of compensating losers). That would have made SALs like project loans in the sense of fixing their size to match the costs identified with their implementation.

Given the SAL program's early emphasis on BOP crises, the decision could also have been to have each SAL cover some specified portion of the country's anticipated BOP deficit. In the event the Bank decided that it would not attempt to cut the loan to match the costs of implementing reforms, nor attempt to estimate the costs of implementing reforms. But the Bank did decide to coordinate with the IMF, and to take account of BOP deficits in determining SAL size.

The principles the Bank uses to decide SAL sizes are difficult to discern. Since an important Bank object is to obtain a seat at each borrower's policy table, the loan has to be big enough to bring it there. But many other influences operate—the regular country lending criteria, the project pipeline, etc. And external events
impinge; for example, the first Ivory Coast SAL was increased 50% when the nation's BOP suddenly worsened.

--How Much Additionality? The Bank might have decided that each SAL would be additional to the total allocation the country would otherwise have received. In practice SAL countries have received some additional funding--on the order of 15-30%--though existing data show some ambiguity on this matter. (See Table 7 and page 19 for more on additionality.)

--How to Schedule Release of the Funds? Given the 5-6 year time horizon of SAL programs, the Bank might have decided on one total for the whole period with release scheduled evenly over the included months. Instead, it decided on a series of loans, to a maximum of about five, spaced some 12-18 months apart when all went well.

The funds could have been assigned for use in projects, whose authorization would have been conditioned on particular policy reforms, or (as in traditional sector loans) for use in time slices of public investment progress, again with authorization conditioned on particular policy reforms. Instead, the Bank decided to make SAL program loans with the heavy BOP connotations the Bank attaches to all program lending. This decision restricted SALs to countries with severe BOP problems and committed them generally to supporting change only in policies and actions touching directly on the underlying causes of the participants' BOP problems. This decision, along with others, means that no rate of return calculations are made on uses of SAL monies.
Given the decision to divide each SAL program into up to 5 sequential loans with each conditional on accomplishments during the period of the preceding loan, the Bank might have made all of each loan available on its effectiveness date. Instead, with exceptions for Mauritius and Thailand, all SALs have involved at least one mid-term tranche with release conditional upon particular policy reforms.

--How Much Control to Put on Money Use? Given all of the above, the timing of release of SAL funds might still have been tied in part to particular uses of the money, e.g., to particular timing in BOP "needs" or to counterpart funding for particular projects or other purposes. Instead, tranche releases are made without any consideration for immediate needs for, or uses of, the funds.

Once released, the funds now are subject only to a negative list. Many SALs do specify, however, that the counterpart funds should be used to finance parts of the public investment program.

--When Should Repayments Be Completed? Since SAL programs seek sustainable current account balances within 5-6 years, repayments might begin then and be completed soon afterwards. In fact, all SALs (as distinct from SACs) have grace periods of 3-5 years and repayment periods of 15-20 years. Obviously, if the repayment periods were shortened, more money would be available for additional SALs—or for other uses.

Presumably, as a SAL program evolves, the rate of return will rise for at least some projects in the country. For this reason and others, SAL programs might call for gradual reductions in the size of the SAL loans and gradual return to project lending. Thus far, this does not appear to have happened—although the standard provision
of a three-year grace period for the higher income countries goes some way in this direction.

--How Broad in Scope? The first SALs were relatively narrow in focus; the Kenya, Turkey and Phillipines loans concentrated on trade and industrial policy, for example. Over time, the scope has broadened, with more sectors and functional areas added. This is true for each country's successive SALs: Kenya I had 9 conditions, Kenya II 42; Turkey I had 11 conditional items, Turkey III 85. And it is true for individual SALs, which typically carry 35-85 conditions.

It is not altogether clear why the SAL became so comprehensive in scope.* One factor may have been the belief that comprehensiveness is necessary to elevate the level of dialogue to the center of decision making authority. Arguments about "synergism" may also play a role: that broadening of policy discussion in one sector opens up possibilities in other sectors. Normal bureaucratic factors may also be at work: sectoral and functional bureaus do not like to see their special area of concern neglected in any multi-purpose program.

For whatever reasons, SALs have become highly complex, with very

* One Bank staff member observed, in seminar discussion that comprehensiveness is cosmetic; in most cases the focus is on two or three key policy points. Another said tactical considerations could operate: a larger number of items allows emphasis on progress on some, depending on circumstances. Several people argued that comprehensiveness has not impeded policy dialogue, but rather improved it. Also, according to another participant, a comprehensive SAL allows projects to be put in their sectoral and macroeconomic contexts.
broad policy coverage. The principal reform areas now are: improvement in trade regimes, mobilization of resources, improvement in efficiency of domestic resource use, and institutional reforms. Institutional components have become increasingly prominent. Almost all SALs now have a major provision on debt management institutions, on public investment program management, on public enterprises, and on agricultural institutions. Planning mechanisms are addressed in seven SALs, and formation of policy-making units is proposed in nine.

--Relationships With the IMF. The Fund was created to help countries weather BOP crises without taking actions unnecessarily disruptive of international trade. The Bank, therefore, might have left all BOP problems to the Fund—including the especially acute BOP deficits of the early 1980s. But long before 1980, the Bank had established “program loans” as a particular category of lending accepted as appropriate for a variety of purposes: to assist in reconstruction following calamities; to provide BOP support after sharp drops in export earnings; to provide BOP support after sharp increases in import prices; to help deal with under-utilization of capacity. By 1980, the Bank had made a number of quick disbursement program loans to countries with BOP problems.

So SALs were designated as program loans and, as described above in the “Evolving Rationale” section of this paper, the Bank has consistently anchored the SAL program to the justification of actual or threatening BOP crises. But it has increasingly left to the Fund responsibility for dealing with the short-term response to those crises, while concentrating on reforms intended to strengthen BOP positions in the medium term, defined as four-six years.
The Bank has established no rule conditioning SAL authorizations on active IMF programs. But in practice, countries have not been admitted to the SAL program unless they have had an active IMF agreement. The exception was Korea, whose SAL was authorized in December of 1982. But that authorization apparently anticipated the stand-by agreement approved in July of 1983.

In practice, SAL programs are generally paralleled by IMF programs. Senegal was an exception and was without any IMF program for two months in 1982. Other SALs have continued after the borrowers' IMF programs have lapsed and the countries have either not needed, or not been able to reach agreement on, successor IMF arrangements.

- **How Restrictive the Tie to the BOP?** Since the Bank is the Bretton Woods instrument charged with responsibility for promoting growth, it has not often subordinated growth to BOP considerations. The SAL programs are exceptions to the rule in that, while their reform agenda is extensive, it appears restricted to sectors likely to affect the BOP. Reforms in education, health, or other areas unlikely to affect the BOP, even though they could have large effects on growth, are not included in SAL programs.

- **How to Raise the Level of Policy Dialogue?** Bank officials might have concluded that the high policy table in most countries could be reached either by offering a large loan, or by conditioning a sector loan on a wide range of policy changes including macroeconomic policies, or even by conditioning project loans on policy changes with highly visible political significance (e.g., raising energy prices, lowering tariffs). Or they could have
increased organizational impact by arranging for annual discussion of entire country programs. In practice, the Bank has concluded mainly that a large-sized program loan is the best way to gain access.

III. 50 MONTHS OF SAL EXPERIENCE: A STATISTICAL PROFILE

Tables 1-8 give the basic information about the SAL experience—the countries enjoying these loans, the criteria for eligibility, the importance of SAL money to the borrowers, its additionality, and the growth experience of the SAL countries.

The principal points emerging from these tables follow.

1. The SALs are highly desirable loans in two main respects. First, they are relatively big, especially when they run their full sequence of five. The Turkey experience is illustrative. Secondly, they involve significant concessionality, as the maturity terms indicate. However, IDA funds have been only 10% of the total.

2. Almost half the loans in number have gone to Asia, Turkey and Yugoslavia. In volume, these countries have received well over 70% of the disbursements.

3. Five of the first eight loans went to countries with per capita incomes below $805 in 1982. Only three of the subsequent eight new country loans went to such low income countries. The average per capita 1982 income in recipient countries in the first two years was below $1000; the average in the past two years is above $2000.

4. The SAL program is now bumping up against the ceiling imposed by the 10% limit on program loans. In 1982 and 1983 the
average SAL amounted to $180mn. This was about 1.3% of the 1983 Bank/IDA commitment of $14.5bn. If each of 12 countries received an average SAL loan every 18 months, that would fully absorb the available 10%.

5. In selection of countries to receive SALs, the Bank seems to have leaned in the direction of favoring the faster-growing economies.

6. It is not possible to generalize about the degree of importance of SALs to the recipient countries. Table 5 shows that it has been especially important as a share of external capital inflow. Except within smaller African countries, the SALs don't finance a big share of imports. Perhaps surprisingly, the SALs rival Fund assistance in size in half the SAL countries.

7. When SALs were first introduced in February 1980, Bank management attempted to obtain additional funds so SALs would not come at the expense of other Bank and IDA lending. That effort failed. Bank analysts have said that SAL countries nonetheless enjoy some additional lending from the Bank Group. The available figures on commitments, shown in Table 7, are ambiguous. They show additionality in the first year of SAL participation, but little thereafter. Disbursement data, not shown here, do not modify this conclusion.

8. With respect to the question of whether SAL recipients have performed better in terms of growth rates than non-SAL countries, the data (Table 8) are ambiguous. Between 1982 and 1983, the average oil importing LDC raised its growth rate by two-thirds. Seven of the nine countries with at least two years of SALs did less well. On the
other hand, five of the nine achieved 1983 growth rates above the average for all oil-importing LDCs.

IV. ANALYTIC CRITIQUE

A. LACK OF CLEAR SELECTION CRITERIA

The Bank's main business is and always has been financing projects that have acceptable rates of return and other positive effects on economic welfare. While not without problems, the project focus gives structure to Bank operations.

The allocation of SALs and other policy-based loans requires new criteria—new principles—to determine who is and who isn't eligible. But these are hard to discern, even after four years of experience. The basic difficulty is that virtually any country can be judged eligible for an SAL by the criteria that have been explicitly or implicitly admitted. Some Bank spokesmen see the SAL as a reward for overall good performance (e.g. as in the case of Korea). Others stress the need to avoid potential or possible balance of payments crises; this opens the eligibility door wide. Some observers see the Bank's role as a provider of policy-based lending (though not necessarily SALs) wherever its help is sought. Since the policy environment is flawed in every country, there are few countries that could not put together a plausible claim for a policy-based loan.

Thus allocation criteria remain undefinable. The Bank has stressed some requirements: SAL claimants should have the expressed will to carry out an adjustment program, and the capacity to draw one up and execute it. The "will" factor may eliminate some countries,
but the "capacity" element is more fictional than real. The Bank is ready to help draw up SAL programs and provides technical assistance for implementation.

A glance at the list of actual SAL recipients provokes a number of observations relative to allocation.

First, only four of the 16 recipients are low-income countries (Kenya, Malawi, Pakistan, Togo). This means that this major new form of economic assistance is directed mainly to middle-income countries, a tendency that Table 3 shows has become more pronounced in recent years.

Secondly, there are countries on the list that are certainly not characterized by either uncommonly poor economic policies or inflexible, unsuitable economic structures: Thailand, Korea, Yugoslavia, Panama, even the Ivory Coast. It is especially hard to understand how Thailand and Korea merit these loans. These are extremely fast-growing economies, highly adaptable and with sound policy environments. Certainly South Korea's energy policy needed fixing, as did its interest rate structure and credit policies. But the same is true for most of the rest of the planet. And in the Thai case, the SAL addresses long-term institutional issues, such as the reform of the civil service, that have only a remote bearing on medium-term balance of payments issues, or policy reform properly defined.

Finally, the SAL recipients are not notably poor-performing
countries. Table 4 shows that the SALs have tended to go to countries with higher than average growth rates.

The SAL selection process, then, has tended to give low priority to poorer countries, slow-growing countries and countries suffering from especially poor policies and or institutional weaknesses. The significance of this should not be exaggerated; such countries are eligible for SAL-like assistance, which many have received. It nonetheless seems to be the case that by existing eligibility criteria, the SAL is regarded as most appropriate to middle income countries. Yet why such countries should benefit from concessional, policy-based loans is not altogether clear.*

B. WEAK THEORY OF REFORM

As noted earlier, until recently, analysis and action proceeded on the assumption that domestic LDC policies were more or less OK, so that a rough harmony prevailed between theory and the role of development institutions. What less developed countries needed to

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*According to some Bank critics, this section is basically wrong, in that it stresses too much the supply side—i.e., the Bank as decider of which country shall get an SAL. In fact, they say, the problem is not that there are so many countries clamoring for SALs that the Bank has the luxury of choice. It is rather that very few countries are willing to accept the conditionality of the SAL. Our analysis assumes that many countries find the SAL an attractive form of aid, and are not much concerned about the conditionality aspect. In our view, the main generators of SALs are within the Bank; Bank staff responsible for particular regions or countries are the principal deciders of which country shall try for an SAL, though the client country officials and senior Bank management, of course, play a role in the initial phases, and a dominant role in the final decisions.
grow faster was capital investment and suitable technology, and these were what the world development agencies were geared up to provide, mainly through projects.

Letting the policy genie out of the bottle has changed all that. Persistent poverty and slow economic growth are now recognized as stemming not only from resource scarcity and limited technology, but also from inappropriate domestic policies. Two fundamental questions immediately arise. Why don’t governments change the policies that are holding back their development? Why don’t they adopt the reforms that experts tell them will raise both their current national output and their growth rate, thereby increasing the economic welfare of their people and brightening their future economic prospects?

That’s the first question. The second is: what has money got to do with all this anyway? Why do external donors have to pay money to induce LDC Governments to do things that we (and presumably they) believe will make them better off?

Bank management and staff have not ignored these questions. They are touched on frequently in Bank documents and in staff conversations. But they have not received much systematic attention, and this may be one of the reasons why, after four years, uncertainties about SALs persist in many parts of the Bank.

Why then aren’t presumably beneficial policy and institutional reforms adopted? Everyone’s list of reasons might be different, but the following factors seem central.

a) Vested interests stand to lose from proposed reforms, and these people or groups are powerful enough to prevent their
adoption. These vested interests can be of different kinds. The whole ruling class or ruling elite may be at issue. Indeed, some of the classic writers on development adopt this position—Paul Baran for example, and critics of the post-colonial elites running from Franz Fanon to Rene Dumont. In more technocratic analyses, the principal sources of obstruction are sectional vested interests, groups that enjoy special privileges (quasi-rents) under existing policies—some civil servants, favored importers, subsidized consumers, etc. The presumption here is that no reform will automatically make everybody better off. It is further assumed that compensation of losers out of reform-induced income increases is either not desirable for "underserving" losers or not easily accomplished for the deserving losers. Either way, the "reformers" are likely to generate opposition.

b) Policy makers' preferences include other things beside economic growth. At one end this merges with the vested interest argument: political elites may prefer the political (patronage) benefits accruing to them, in a system of direct administrative controls, over the alternative of reliance on more impersonal market processes that diminish their political influence. Ideological preferences could be included here; many governments do not wish to encourage the enlargement of the private economy, or fear policies that might make more unequal the distribution of income or assets. Others fear that concentration of economic power in specific tribal or ethnic groups will follow deregulation, or that foreigners will become too powerful.
c) With respect to most policy issues that matter, there is no intellectual consensus on either the nature of the problem at hand or the likely impact of given policy changes. Put another way, most LDC political authorities and probably most LDC technical people, including economists, do not agree with the views of, say, most Bank economists, on how markets and market institutions work in their country or on the impact of proposed reforms. This is especially true, for example, in such key areas as agricultural marketing, industrial policy, trade and exchange rate policies, and interest rate policy.

d) Another possible reason has to do with time horizons. Politicians in many LDCs do not have a long view, for various reasons, including in many cases short expected ministerial tenure. Reforms may take too long to make the struggle for their adoption worthwhile, especially since the policy makers' enthusiasm for reform is often tepid, and they are often skeptical that results will be as positive as outside reform advocates claim.

e) There may be too few local technicians to prepare detailed and well-argued reform programs.

This abbreviated list oversimplifies a complex and diverse reality. But if we accept it as serviceable, it is helpful as we consider the next question: how does the "theory" of SALA address the issues raised? In particular, where does outside money fit in? The "theory" is so far largely implicit, though it is becoming more explicit, as for example in Stanley Pleace's papers prepared for the Bank's May 1984 seminar on structural adjustment. The following arguments are distilled from Bank documents and informal discussions. They are the available answers to the question: how
does policy-based lending in general and the SAL in particular, facilitate policy reform in client countries?

a) The Bank, in the course of preparing an SAL, provides new knowledge and/or technical assistance. This addresses several of the obstacles to change: scarcities of technical staff and lack of detailed data and analysis on reform options.

b) Policy-based loans permit local reformers to override vested interests. This argument takes many forms. It lies behind the common statement that conditional aid is needed to "lubricate" the reform process. In some formulations a notion of compensation is implicit: external resources can pay off the losers—those for whom reform means lost access to subsidies or quasi-rents. It is also possible that external resources can be used to win support from new interest groups, to counter the opposition of those who lose.

c) The SAL, like conditional assistance generally, can throw the balance of decision-making influence onto the side of the reformers. This is a popular argument—that "conditionality helps the good guys." It comes in several versions. Sometimes the argument is that those individuals who are reform-minded are strengthened in bureaucratic or political terms. In other contexts it is reformist ideas that are furthered; that is, the balance of perceptions in some of the relevant players' minds is said to change in the course of the policy dialogue.

d) "Fragmentation" of national economic management between different ministers, according to at least one observer, "is often at the heart of the failure to move ahead with policy reform." The process of economic policy-making in these circumstances is "insufficiently disciplined". SAL, and other policy-based loans
stimulate a more disciplined approach to policy making," and this as been the SAL's most important contribution.

e) The four arguments just cited apply to conditional lending in general. The SAL is said to provide a special advantage: it "gets the Bank to the policy table." Because of its size and comprehensiveness, it elevates the level of policy dialogue; its macroeconomic, trans-sectoral character elicits attention at cabinet level or above.

Most of these propositions directly address one or another of the earlier-listed reasons for failure to adopt reforms. The first argument, however (that lack of knowledge prevents preparation of reform programs), is not really relevant to SALs or to policy-based assistance transfers in general; it is an argument for technical assistance and training, not for SALs. By implication, moreover, it suggests that the institution-building and learning effects of SALs may be small, since the work of devising the policy packages in these instances falls to Bank staff (or consultants), with little genuine anticipation by local technicians or policy makers.

The notion that SALs can be instruments to overcome the anti-reform objections of local vested interests has a certain laudability. But its empirical content is not clear, and analytic question marks persist. For example, the mechanism by which SALs may lubricate the process is not clear. Compensation of losers is never explicitly proposed in SAL agreements, nor would many people consider it desirable: the losers are often losing ill-gotten or ill-deserved gains anyway. In any case, governments are unlikely to be willing to use part of a foreign assistance package to provide
lump sum compensation to people losing a flow of benefits.

The "strengthening the good guys" proposition, which receives heavy emphasis, is clearly pertinent. But it does not seem robust enough to bear the weight put on it in analysis of SALs. This is so partly because the same argument can support other forms of conditional lending. But there also exist some questions about how much the local reformers are really helped. It is certainly possible that Bank conditional lending can tilt the internal balance of bureaucratic and/or political forces in a pro-reform direction. But a rather more negative scenario is equally plausible; that the position of local reformers is undermined by their association with Bank-sponsored policies; they become identified as "puppets," the policy ideas in question become tainted--"the Bank's" ideas. Thus, in Nigeria the agenda proposed by the Bank for industrial policy reform is said to be regarded as "the World Bank's program" and this has apparently made Nigerian economists reluctant to support it publicly. Similar reactions have been reported from Kenya. A recent article entitled "Advisers are Blamed for Economic Woes" (Daily Nation, Nairobi, April 12, 1984) reports a Parliamentary debate during which "Economists responsible for advising the President on Kenya's policies . . . were attacked for not doing it correctly" since they blindly follow the advice of the IMF. 10

The proposition that the SAL makes its contribution to policy reform by imposing order on undisciplined, fragmented LDC policy making processes is rather novel and not well-developed. In Stanley
Please's draft paper, the disciplinary effects of SALs on the Bank's own policy processes are described more fully than the impact on SAL recipients. Please is quite tentative in this draft paper and acknowledges that country experiences may differ. Two general statements should be questioned, however.

First, Please says (p. 21): "The need to agree on a specific, monitorable and time-bound action program has necessitated that decisions be made on policy issues which in many instances would have been left unresolved." This almost certainly overstates the extent to which SAL conditions are "specific, monitorable and time-bound." Many are "process" conditions--"studying" this or "undertaking" that. Few in fact are monitorable by hard criteria and time-boundedness in any event does not seem to be such a forceful incentive, given the fairly frequent delays in tranche releases.

The second questionable argument is in the same paragraph:

In cases in which the relevant line minister has neither the will nor possibly the knowledge to initiate a reform of policies (industrial protection, agricultural pricing and marketing, etc., etc.) the core ministries have been forced to become more involved and in many instances prime ministers and heads of state have also been deeply involved in decision making. In other words, the problem of the fragmentation of responsibility which was emphasized previously as the major institutional weakness in the management of economic policy, has to some extent, at least, been addressed and reduced in SAL and SAL-like situations.

How much this is happening in practice is an empirical question, to the clarification of which those with SAL country experience can contribute. In general, however, it would seem to be unlikely that bureaucratic behavior of the kind indicated in this statement would have positive results in "disciplining" local decision-making. Attempts by core ministries (Planning and Finance) to impose policies
directly affecting sectoral ministries would normally lead to bureaucratic resistance—to procedural obstruction and political maneuvering. Implementation of policy reforms requires the acquiescence of the implementing agencies. It will usually do little good to win agreement from Finance or Planning Ministers, or even a Prime Minister, if relevant technical ministries are alienated in the process. We return to this point later.

The final element in the Bank's implicit theory of reform via SALs as noted above, page 27, is that the SAL "buys a place at the policy table." The SAL's special characteristics--its size and comprehensiveness--give it the weight required for this purpose; (though Bank literature stresses only size, both aspects are relevant).

As with the other propositions about how SALs facilitate reform, this one is plausible, and supporting examples doubtless exist. But here too questions arise--about the precise meaning and generality of the argument, and about its importance.

a) In at least some countries, Bank resident representatives enjoy extraordinary degrees of access and considerable policy influence even where the Bank program is not especially large.

b) If access and influence are a function of the size of an SAL, what kind of function is it? Was $150 mn. necessary to get to the head table in the Ivory Coast, or would $100 mn.--or $50 mn.--have been enough?

c) The concept of "getting to the policy table" can itself be questioned. It implies a discontinuous process of policy dialogue: that at lower levels of aid, political attention and commitment are
small, perhaps non-existent but that at some unspecified but much higher level of conditional aid, the local political community comes involved. In fact, disaggregated reform dialogue can and does generate high-level political debate—e.g., over such mundane matters as bus prices, or fertilizer subsidies, or the price of gasoline. Moreover, it can be argued that most of the "real" progress in reform occurs—if and when it occurs—at lower political and bureaucratic levels, the executing levels. A Vice President of the World Bank and the Prime Minister of Ruritania can sit down at "the policy table" and agree that agricultural prices should be raised. But that's only the beginning of policy reform. The extent of the price rise, the pattern of relative prices, charges for public sector transport, the price of sacks, seeds and fertilizers, marketing regulations—all these must be addressed in detail. And this can be done only at lower levels. Finally, negotiation must be done in a universe where communication is difficult, the span of central government administrative control small, information sparse and environmental changes frequent. It is in this kind of setting that general policy changes are transformed into operational reality. It is here that implementing authorities, representatives of line ministries and the organs of general administration come into their own, armed with discretionary authority in abundance.

The conclusion that emerges from this discussion is that the theoretical or analytic structure underlying policy-based lending, and especially SAL-type lending, is very thin. Explicit or implicit analysis of what prevents reform appears to be sparse and
conceptually rudimentary, and discussion of how policy-based lending
is supposed to overcome these obstacles is only beginning.

C. OVERDESIGN AND MISSPECIFICATION

The SAL is the top of the line in policy-based lending
instruments, the flagship of the Bank's fleet. It is also new, and
the lessons of experience are only now beginning to come in. There
is not yet enough experience for firm judgment about effectiveness,
and evaluation will be difficult in any case for reasons indicated
earlier. But it is not too early to raise some questions about the
design and specification of SALs.

Two basic criticisms are put forward here: that most SALs have
become too complex, too comprehensive in scope; and that they contain
too much explicit conditionality. These deficiencies reduce the
SAL's effectiveness as a vehicle of policy reform in various ways:
by spreading staff so thinly that in-depth reform efforts are
discouraged; by making more difficult the task of genuine policy
dialogue and training of local reformers; and by complicating the
task of monitoring.

Attention is being given to these matters in various parts of the
Bank. One seminar participant put forward the proposition that the
SAL allows winners and losers to come together so that implicit or
explicit compensation arrangements can be worked out; the costs and
benefits of a reform can be internalized in this way, increasing the
chances of success.
1. Excessively Comprehensive and Complex

As noted earlier, the first SALs tended to concentrate on one sector—for example industrial policy in Turkey, the Philippines and Kenya. Conditions were relatively few in number, and their specificity was limited. Over time the SAL has come to include many sectors, many more policy conditions, and numerous institutional reform components. A number of problems arise from the comprehensive and complex character of SALs.

Deepening Impeded

First, the deepening of reform efforts can be impeded. Broadening of the range of conditions covered may make it impossible to bring sufficient resources to bear on the reform of policy in any one key sector. This seems to have happened in Kenya, for example, where trade policy reform, the centerpiece of the first SAL, might have been pushed further had more sustained and focused attention been given to trade issues in the second round. The problem is general, and is related to the scarcity of staff available to deal with the numerous and complex issues of the typical SAL.

Inappropriate Components: Institutional Reform

Secondly, inappropriate components are being included in SALs. The institutional reforms that have become common features of these loans address basic constraints to better policy-making and are therefore of prime importance. But "policy reform" and "institutional change" are not the same kinds of animal. They
differ, usually but not in all instances, in four ways, all of them related. Policy reforms are time-bound in the sense of being one-time, specific actions. They are usually achievable in the short or medium term. They are usually quantifiable and monitorable. And they are admittably feasible. The best examples are price changes: raising the price of diesel fuel or the price of rice by 30% by January 1, 1985.

Institutional changes are process-related; they involve not a one-time change, but procedures. They thus usually require transformations in administrative structures and ways of doing things. They are therefore normally long-term in nature, and are not readily quantifiable. Their monitoring is in most cases subjective. And the problems they address do not exist because of wrong-headedness or ideology, or history, but rather are rooted in the condition of underdevelopment. Budget reform, to take one example, will require better accounting procedures in all ministries as well as at the Finance Ministry. It will require a clearing up of the financial debris and fiscal skeletons left over from years or decades of living with budgets that have been more fictional than real—budgets in which allocations are smaller than appropriations, programs are persistently under-costed, and line items are increasingly removed from real spending. These are not matters subject to remedy in 5-7 years. They will change only gradually, and can probably best be advanced by slow and prudent steps and in a non-contentious environment. Yet institutional "reforms" are included in SARs as though they are amenable to the same kinds of dialogue and
monitoring as policy reforms, as though they are operating on the same time track, and as though they require the same kind of conditionality.

None of this should be interpreted as downplaying the importance of institutional development and the need for a major Bank role in efforts to strengthen central economic decision-making institutions. It is simply unclear why these institutional issues should be part of SALs. After all, governments are derelict in their debt management, or deficient in their budgeting and planning, not primarily because of bad policies but because the environment is that of undeveloped economies--i.e., accountants are lacking and well-entrenched auditing and accounting rules are rare; files are poor; staff are low paid, uncommitted, poorly trained; authority is rarely delegated; ministries hold on to information; and economic analysis is very imperfectly brought to bear on policy decisions. Undoubtedly there is room for dialogue about how to improve these administrative systems, and there is need for money and technical assistance. But inclusion of these matters in a larger, time-bound package, and one of heavy apparent conditionality, would seem unnecessary and probably counterproductive.

There is a related point. On the one hand, the SALs have become increasingly comprehensive in scope, endowed with numerous conditions and often extremely detailed. On the other hand, difficulties of implementation are frequently treated in an extraordinarily cavalier way. Thus in SAL after SAL, one finds exquisitely crafted diagnoses of particular problems (e.g., inadequacies in the size and
composition of a public investment program) followed by a line or two to the effect that: "Bank-provided technical assistance will strengthen the investment planning process over the course of the SAL." In back-to-office reports there are repeated expressions of disappointment at slow progress in introducing rolling budgets, or revising debt reporting practices of parastatals, or improving the organization of road maintenance services. The intractability of institutional problems seems to be a permanent source of surprise and disappointment. The Bank staff involved know the lesson: that these problems are deeply-rooted in the environment of underdevelopment, require much more thoughtful attention and will change slowly even with the most intelligent and sustained assistance. But the lesson does not seem to be adequately institutionalized.

Comprehensiveness and Credibility

A third inconvenience of large size and comprehensiveness is a possible loss of credibility regarding conditionality. This can occur in two ways. First, because the SAL involves a lot of money and carries heavy symbolic value among private bankers and other donors, cancellation becomes too strong a sanction to use. Secondly, it complicates the evaluation of effectiveness by magnifying the weighting problem: if Kenya gets a B on tariff reform, an A- on rolling budgets and a D+ on grain marketing reform, how does the evaluation of the SAL as a whole add up? How is the Bank's staff to decide whether to abandon, delay or carry on with a program in a country with both many As and Ds? Both of these credibility issues are further considered below.
Personnel-Related Problems

Also, the comprehensiveness and complexity of the SAL creates a set of special personnel-related problems. First, the elaboration, negotiation and monitoring of an SAL absorbs an enormous amount of staff time. In some cases, it crowds out economic and sector work.

Also, the SAL requires skills that are particularly rare. Economists are good at analyzing macroeconomic problems in an aggregative way, and some can handle sectoral analyses pretty well. They are good at diagnosis, especially quantitative; they can measure effective rates of protection and can calculate domestic resource coefficients. But it’s a long step from this level of analysis to the definition of specific recommendations at a disaggregated level. It’s one thing to say that the price of rice is low, quite another to say what it ought to be, and much more difficult to know whether a given price rise is "appropriate" or "acceptable." It’s one thing to describe a tariff structure with inappropriate incentives, another--and very different thing--to invent a technically and politically acceptable alternative. Economists are good at the first set of problems, not so good at the second.

One staff comment on the Kenya experience underscores this problem:

Failure to fully anticipate implementation problems stems from insufficient knowledge of government procedures and insufficient understanding of bureaucratic procedures. Finally, experience with the Kenya operation reveals the need to work out action plans in greater detail. The Bank staff’s strength lies in assessing development problems and outlining general lines of action to overcome them. It is on less firm ground when it comes to appraising and programming the specific actions that are required to implement them.
Moreover, effective monitoring of the many covenants in the standard SAL could be virtually all-absorbing, even if restricted to those tangible conditions that have some quantitative basis. The situation is always changing so fast—certainly faster than can be followed from far away. Prices are rising and falling at different rates; political and security conditions are subject to rapid change; some important factors will change before the SAL ink is dry. It is hard to see how Bank technicians monitoring an SAL can stay in touch with these changes.

In fact, the conception, negotiation and monitoring of policy conditions demands such extraordinary capacities, if it is to be done effectively, that one has to wonder whether scarcity of such skills doesn't severely limit the volume of policy-based lending the Bank—or any organization—can do. For what is involved is immensely more demanding than putting together road or power projects, or even rural development projects. It is also much more demanding than elaborating a Fund program. The IMF staff have a more bounded policy arena; they focus on a small number of well-defined performance criteria; they have well-worn paths to follow in terms of data needs, procedures, expectations of local people. The implication is clear: greater simplicity and focus, a more modest set of reform goals, would seem to be called for.

2. Too Much Explicit Conditionality

Conditionality is at the heart of policy-based lending, especially SALs. The main justifications for conditional assistance are straightforward.
a) Assistance without conditionality will be ineffective in
countries where the policy environment is inhibiting.

b) Assistance without conditions can sustain wasteful programs
and inappropriate institutions, and delay necessary changes in failed
policies.

c) Conditionality can increase the total volume of aid. Some
part of the foreign assistance constituency in all donor countries is
concerned that aid money be used "effectively"—that it have
significant effects on recipient countries' income and growth. If
aid is perceived to be useful in promoting policy reforms, political
support for aid programs will be increased.

d) For many countries, inadequate volumes of concessional
assistance, an unfavorable external economic environment, and an
accumulation of dubious domestic policies indicate that policy
reforms have to be a major source of increased growth in the next
decade.

For all these reasons, few observers nowadays question the
legitimacy of conditional aid; for the most part debate is over the
type of conditionality that is appropriate.

The SAL has been conceived by the Bank as its main hard
conditionality instrument, and it is so regarded by outsiders,
including representatives of client states. It is indeed highly
confrontational in appearance and often in fact. For a number of
reasons, however, it would be a more effective instrument if its
appearance of hard conditionality were shaded.
First of all, political realities limit the intensity of conditionality that any donor institution can impose on client states. Even the most hard-nosed lenders (or grantors) have to recognize the niceties of national sovereignty. Moreover, borrowing states are after all full members of the organization, and even the weakest of them often have powerful patron states whose voices are listened to by Bank management. Finally, the marriage between member governments and lending institutions is not readily dissolvable, and both parties know it; the Bank can’t and won’t break off relations with a client state if promised policy reforms lag. Even the IMF, the pillar of (presumably) rigid conditionality, speedily renews almost all failed standbys.

Bureaucratic forces also work in a parallel fashion to dilute the true real conditionality of any program. Neither local reformers nor donor agency staff want “their” program to fail. They therefore look on the sunny side in assessing performance. In the case of the SAL this is especially easy to do because their overall evaluation involves subjective judgement on so many counts that any reasonable forward movement can be deemed acceptable performance. In addition, the multiple components of the SAL allow evaluations to give heavy weight to the more successful components. These arguments are elaborated below. The point is that these bureaucratic propensities combine with political constraints to moderate all conditionality. The SAL thus occupies the worst of two worlds. It gives the illusion
of hard conditionality imposed by outsiders and it is often strongly confrontational in tone. But its conditionality is in truth almost always soft.

The Difficulty of Effective Monitoring

Every SAL contains a very large number of actions the borrower must take to satisfy conditionality requirements. These are of many different types. Numerous studies are to be launched; intangible items, like improvement of procedures, are also common. A few conditions are quantified, but the bulk are not. Together, these circumstances make the SAL almost impossibly difficult to monitor.

First, in many cases the implied information-gathering effort would itself be overwhelming if vigorously pursued. This is true not only because of the number and complexity of the conditional items, but because effective monitoring would require close surveillance of a mass of shifting variables. For example, an import licensing system can be abolished but the effects nullified by changes in foreign exchange allocations. The monopsony powers of marketing organizations can be terminated as agreed, but continuation of licensing regulations may prevent entry of private competitors. In fact, such offsetting counter-reforms are quite common.

Second, it is inherently very difficult to assess progress toward the many intangible objectives such as, "more collaboration between Ministries of Planning and Finance," the "education of local officials in policy analysis," or "increasing the policy awareness" of political authorities.
A third factor is the general sparsity of hard criteria for measuring performance. Unlike the criteria in IMF standbys, which are quantitative and hence objective, the SALs provide long lists of objectives, of which performance on almost all are open to subjective judgment. This is true of almost all the institutional development objectives and the attitudinal change objectives. The criteria problem also arises in the matter of determining an "acceptable rate of change". In all the usual conditionality targets, the SAL criteria involve "introducing" or "improving" or "reducing" or "increasing" something—e.g., a system of export incentives, higher salaries for managers of state-owned enterprises, better performance of SOEs or liberalization of the marketing system. Not only do these targets usually defy quantitative measurement, but those that are multidimensional, e.g. improved performance of parastatals, may not be measurable even in terms of "more" or "less," "better" or "worse" because of weighting problems.

This last point is true more generally: even if agreement were possible on acceptable rates of progress on individual reforms, an insoluble weighting problem would remain, as noted earlier. Every SAL recipient will do better in some areas than in others. Because of the great number of elements in each agreement, every assessment of an SAL has to deal with the weighting problem this presents. In every case, some targets will remain as far away as ever while clear progress will have been made towards some others. So those who see cups as half-empty can bemoan failure, while those who see them as half-full can weight the latter targets heavily and claim success.
And the entirely objective outside evaluator would be hard-pressed to argue that any one weighting system was superior to all others, given the Bank's general objectives. Finally, given the differences that exist in country circumstances, a decision about weighting for one country is unlikely to be of much help when choosing the weighting system for even the country next door.

Fifth, as noted earlier, the monitors and evaluators all have an interest in the perpetuation of the SAL. There is, consequently, a strong tendency on both sides to accentuate the positive. So even where little has changed, many of the Bank staff will tend to point to recent signs of progress, to imminent breakthroughs. Some recipient country ministers will report how their recalcitrant colleagues are "now beginning to move in the right direction". In many cases the Bank reports that "Government has agreed" to revise X or increase Y. Six months later the agreement in principle may remain, but action is still forthcoming. The parties can still say that the reform in question is underway, though delayed.

Finally, and along the same lines, there are almost always ways to justify non-performance on non-invidious grounds. The enforcement of SAL conditionality is even more subject to the kinds of softening propensities that one writer recently attributed to Fund conditionality.12

If the ceilings (on government spending or deficits on credit growth) are not observed, the member undertakes not to make further drafts on standby credit without permission of the IMF. This sounds tough. The catch, however, is that permission appears always to be forthcoming. There are always explanations, and the explanations are accepted, and assurances that new measures being taken will prevent a recurrence are accepted.
Non-credibility of the Deterrent

Added to the near-impossibility of objective monitoring and the ease of positive performance evaluations, there is the non-credibility of the deterrent. As noted earlier the Bank must shrink from the ultimate sanction, cancellation. Ceaseation of disbursements is too strong a response by the Bank to banal acts of non-performance. In the one case where it was done (Senegal) the SNL was replaced by new credits. Non-compliance, at least in the short-run, was virtually costless to Senegal, whose share of Bank-IDA disbursements has been 50% higher, during July-February of fiscal 1984, than it was during fiscal 1981 and 1982. As Table 7 shows, however, new Bank-IDA commitments to Senegal have dropped off, and it is not clear when that decline will be reversed.

One reason for lowering the level of explicit conditionality, then, is that it is illusory—not effective in inducing compliance and hence unnecessary. A second reason is that it tends to be counterproductive, creating an atmosphere of confrontation which is harmful to true dialogue, which in turn is the source of durable policy reform.

We noted earlier that one explanation for the persistence of anti-growth economic policies is that most LDC public sector decision makers and intellectuals are not persuaded that the typical Bank economists' analyses reflect the realities of their countries. They don't really believe that the Bank's market-oriented policy reforms will work.
This "ideological" factor is fundamental. The name of the game, one key to durable reform, is effective dialogue, the fashioning of a true meeting of minds on policy issues. But the SAL, with its complex and heavy conditionality, is poorly designed for this purpose.

The reason is that the SAL process permits little genuine dialogue between believers (Bank and local) and non-believers--local technicians and political leaders who doubt the applicability and/or efficacy of the Bank's medicine. The essence of the process is the elaboration of the terms of conditionality by Bank staff, working more or less closely with committed (persuaded) local officials. On the technical level, the working out of "details" is done in most countries by Bank staff or consultants. On the bureaucratic-political level, the local reformers try to win acceptance in part by defending the reforms on their merits, but also--often mostly--by minimizing the extent of the proposed change, by pointing out the "flexibility" of the conditionality and by stressing the money pay-off. Very little in the way of mind-changing is involved in all this. The Bank staff in particular infrequently engages in dialogue with those who are deeply opposed to the changes.

Moreover, because of the complexity of the conditionality provisions, SAL negotiations and monitoring involve extensive intra-Bank coordination, but relatively little training of local officials in the technical aspects of the policy reforms under consideration. So the SAL exercises provide little opportunity for the dialogue and debate that might change minds and that might have training effects.
The point can be put another way. Policy dialogue, to be effective in changing minds, has to involve an honest exchange of views, and measured debate, not only of general principles and premises, but of details. This implies sustained dialogue at the working level between foreign and local technicians. The SAL provides very limited opportunity for this kind of dialogue.

Lowering the level of apparent conditionality and focussing on dialogue does not mean the abandonment of conditionality. It can enter into the determination of overall levels of country lending, as it now does to some extent. It should also be incorporated in the other instruments of Bank lending, from the project to the sector or sub-SAL loan. But whatever form it takes, it is not the conditionality as such that is crucial but the quality of dialogue it engenders.

V. CONCLUSIONS

In the past few years, non-project or policy-based lending has assumed major importance in most development assistance agencies, and certainly in the World Bank. This reflects a widespread concern over policy reform. Policy reform became a major issue in the late 1970's, when it became clear that poor policies were more pervasive and less affordable than in the past; that productive projects were harder to find, while ongoing projects needed to be sustained, and that policy-based assistance had therefore become more cost-effective than "traditional" project loans.

Several critical themes run through the paper. First, the underlying (implicit) theory of policy-based lending in general, and
of SALs in particular, inadequately treats many basic questions. The question of why governments need money from outside to do things that are good for them and their people requires much closer analysis. We also need to know more about the mechanism by which outside aid actually facilitates the reform process. Also, there are obviously circumstances in which policy-based assistance can retard rather than stimulate reform—an issue not addressed at all in this paper—and little systematic analysis has been given to that problem. The key assumption underlying the SAL—that global, comprehensive “reform-singing” is more effective than incremental strategies of reform—certainly warrants a closer look.

Secondly, the nature and limits of hard conditionality are not always appreciated. The SAL’s seemingly hard and all-encompassing conditionality is largely illusory. So it is not clear why explicit conditionality continues to receive such emphasis, with conditions being piled on conditions in the elaboration of these agreements. This is especially so since its complexity and its overlay of heavy apparent conditionality makes it a less acceptable vehicle for real dialogue between Bank staff and local authorities. In fact, SALs stress too little the importance of real dialogue, of changing minds, as a basic engine of policy reform. The SAL concentrates on high-level discussion, political dramatization, cross-sectoral and comprehensive conditionality. This approach leaves too little room for sustained technical dialogue and for interaction between Bank staff and local technicians at the working level, the level at which people remain to be convinced that the reformers’ ideas are right.
A third underlying theme in the paper is that the policy reform enterprise is vital but extremely difficult and subject to high risks of failure. There is a great temptation to confuse events with processes. This is true of both policy reforms and institutional changes, though especially the latter. It’s almost never enough to make one-time changes in producer prices, subsidies, exchange rates. Successive adjustments are required, to account for price changes and other new factors. So it is a policy adjustment process that is needed. Similarly, as part of an SAL or other policy-based loan, a rolling budget is introduced, and a “contract plan” is arranged for better management of a state-owned enterprise. But this is only the beginning, not the end of reform. More to the point, the Bank sends an economist or two to help an SAL country cut back its public investment program, giving emphasis to so-called “quick yielding projects.” The Bank (and Fund) technicians then record this event as a sign of progress and so it is. But it is the smallest and most fragile of forward steps, one tiny victory in a long struggle. To regard it otherwise is to risk self-deception and cynicism. Most planners know that bad projects not only don’t die, they never even fade away. So the airport, the big dam, the dubious sugar mill that were pruned from the public investment program this year will surely be back again soon. The test of successful reforming will be how effectively their reappearance is dealt with when the Bank is not present.

All of this suggests the need for longer time horizons, more modest expectations, and smaller scale approaches as policy-based lending strategy is reviewed. Closer attention should be given to
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incremental or piecemeal change via conditioned project or sector
loans. The policy reform potentials of project loans have been given
poor marks. But in truth, project conditionality was never given the
chance it deserves. Projects can be monitored adequately, and the
threat of Bank cancellation can be more convincing when it involves
only one area of Bank-country contact. The project and sector loans
also provide better opportunity for ongoing discussions of donor and
local technicians in sector policy councils and, hence, for education
and training effects.

Although there will always be cases where SAL-type
comprehensiveness and size will be appropriate, the Bank might now
consider narrowing its area of concern in many countries in order to
concentrate resources where policy deficiencies are critical, and
perhaps ripe for change. Financial constraints are moving the Bank
in this direction anyway. But a more diverse, and smaller scale
array of policy-based lending instruments, including many of
smaller scale, may be more effective in bringing policy dialogue and
durable policy reforms to a large number of countries.

Several participants denied the policy-changing potentials of
individual projects. One noted that project conditionality is
usually less credible than in program lending; a road project can't
be stopped in midstream because of nonperformance on a policy
condition. Another cited the case of the Ivory Coast, where all rice-
related agricultural projects were foundering because of Government's
hesitancy to raise rice prices. With SALs, rice prices have been
raised three times.
FOOTNOTES

1. As used here, the term "SAL" embraces IDA Structural Adjustment Credits.

2. A. Horberger, "Using the Resources at Hand More Effectively," American Economic Review, May 1959. Harvey Leibenstein has not yet been able to persuade the economics profession that x-inefficiencies arise from factors other than managerial inadequacy.


4. Ibid., p. 18.


6. Several of the early loans required use of some of the foreign exchange and some of the counterpart funds for particular purposes. This restrictive practice was abandoned in July 1981.

7. The "synergism" premise asserts that changing two policies together will bring greater total benefits than if the two changes are made alone.


10. In a 1968 article on conditional assistance Albert Hirschman and Richard Bird comment on this general issue: "... the fact that aid is known to be available if certain policies are followed will sometimes serve to strengthen a domestic group genuinely and independently convinced of the correctness of these policies and it is therefore not inconceivable that aid will on occasion help the group come to power.... [But] at best, situations in which aid helps virtue to triumph in this fashion are the exception rather than the rule. The normal case is far more prosaic: the knowledge that aid is available if certain policies are adopted serves to make these policies more attractive and less costly than they would otherwise be. These policies will therefore often be adopted by aid-hungry governments in spite of continuing doubts of the policy-makers themselves, resistance from some quarters within the government, onslaught against the 'deal' from the opposition, and general diastase for the whole procedure." Albert O. Hirschman and Richard Bird, Foreign Aid--A Critique and a Proposal, International Finance Section, Department of Economics, Princeton University, Essays in International Finance, #69, July 1969, p. 9.
11. Please, "The Institutional Dimension."


13. In one SAL country, negotiations on the agreement were well-advanced when a local official, attending a meeting called to discuss the draft agreement, expressed his ministry's opposition to one of the basic proposals--in this instance, the ultimate abolition of pan-territorial pricing for farm outputs and inputs. The official in question was two or three levels down in the hierarchy, but was in the key implementing ministry (Agriculture). Yet this opposition had not been expressed until late in the negotiation process. In the event this led to change in the SAL terms.
### TABLE 1
SALs, 1980-April 1984:
by Country, Amount, and Repayment Terms

<table>
<thead>
<tr>
<th>Fiscal Year and Approval Date</th>
<th>Country</th>
<th>Amount (in U.S. $ millions)</th>
<th>Length Years</th>
<th>Grace Period Years</th>
<th>Interest Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980 Mar</td>
<td>Kenya</td>
<td>55 (IDA)</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>1980 Mar</td>
<td>Turkey</td>
<td>200</td>
<td>17</td>
<td>4</td>
<td>8.25%</td>
</tr>
<tr>
<td>1980 Jun</td>
<td>Bolivia</td>
<td>50</td>
<td>20</td>
<td>5</td>
<td>8.25%</td>
</tr>
<tr>
<td>1981 Sep</td>
<td>Philippines</td>
<td>200</td>
<td>20</td>
<td>5</td>
<td>7.25</td>
</tr>
<tr>
<td>1981 Nov</td>
<td>Turkey (Suppl)</td>
<td>75</td>
<td>17</td>
<td>4</td>
<td>9.25</td>
</tr>
<tr>
<td>1981 Dec</td>
<td>Senegal</td>
<td>60 (30 IDA)</td>
<td>20</td>
<td>5</td>
<td>9.25</td>
</tr>
<tr>
<td>1981 Feb</td>
<td>Guyana</td>
<td>22.0 (8 IDA)</td>
<td>20</td>
<td>5</td>
<td>9.25</td>
</tr>
<tr>
<td>1981 May</td>
<td>Turkey II</td>
<td>300</td>
<td>17</td>
<td>4</td>
<td>9.6</td>
</tr>
<tr>
<td>1981 Jun</td>
<td>Mauritius</td>
<td>15</td>
<td>17</td>
<td>4</td>
<td>9.6</td>
</tr>
<tr>
<td>1981 Jun</td>
<td>Malawi</td>
<td>45</td>
<td>20</td>
<td>5</td>
<td>9.6</td>
</tr>
<tr>
<td>1982 Nov</td>
<td>Ivory Coast</td>
<td>150</td>
<td>17</td>
<td>4</td>
<td>11.6</td>
</tr>
<tr>
<td>1982 Dec</td>
<td>Korea</td>
<td>250</td>
<td>15</td>
<td>3</td>
<td>11.6</td>
</tr>
<tr>
<td>1982 Mar</td>
<td>Thailand</td>
<td>150</td>
<td>20</td>
<td>5</td>
<td>11.6</td>
</tr>
<tr>
<td>1982 Mar</td>
<td>Jamaica</td>
<td>76.2</td>
<td>17</td>
<td>4</td>
<td>11.6</td>
</tr>
<tr>
<td>1982 May</td>
<td>Turkey III</td>
<td>304.5</td>
<td>17</td>
<td>4</td>
<td>11.5</td>
</tr>
<tr>
<td>1982 Jun</td>
<td>Pakistan</td>
<td>140 (80 IDA)</td>
<td>20</td>
<td>5</td>
<td>11.6</td>
</tr>
<tr>
<td>1983 Jul</td>
<td>Kenya II</td>
<td>130.9 (70 IDA)</td>
<td>20</td>
<td>5</td>
<td>11.6</td>
</tr>
<tr>
<td>1983 Mar</td>
<td>Thailand II</td>
<td>175.5</td>
<td>20</td>
<td>5</td>
<td>SVIR</td>
</tr>
<tr>
<td>1983 Apr</td>
<td>Philippines II</td>
<td>302.25</td>
<td>20</td>
<td>5</td>
<td>SVIR</td>
</tr>
<tr>
<td>1983 May</td>
<td>Togo</td>
<td>40.0 (IDA)</td>
<td>--</td>
<td>--</td>
<td>SVIR</td>
</tr>
<tr>
<td>1983 Jun</td>
<td>Jamaica II</td>
<td>60.2</td>
<td>17</td>
<td>4</td>
<td>SVIR</td>
</tr>
<tr>
<td>1983 Jun</td>
<td>Turkey IV</td>
<td>300.8</td>
<td>17</td>
<td>4</td>
<td>SVIR</td>
</tr>
<tr>
<td>1983 Jun</td>
<td>Yugoslavia</td>
<td>275</td>
<td>15</td>
<td>3</td>
<td>SVIR</td>
</tr>
<tr>
<td>1984 Jul</td>
<td>Ivory Coast II</td>
<td>250.7</td>
<td>17</td>
<td>4</td>
<td>10.97</td>
</tr>
<tr>
<td>1984 Nov</td>
<td>Korea II</td>
<td>300</td>
<td>15</td>
<td>3</td>
<td>SVIR</td>
</tr>
<tr>
<td>1984 Nov</td>
<td>Panama</td>
<td>60.2</td>
<td>15</td>
<td>3</td>
<td>SVIR</td>
</tr>
<tr>
<td>1984 Dec</td>
<td>Mauritius II</td>
<td>40</td>
<td>17</td>
<td>4</td>
<td>10.47</td>
</tr>
<tr>
<td>1984 Dec</td>
<td>Malawi II</td>
<td>55 (IDA)</td>
<td>--</td>
<td>--</td>
<td>SVIR</td>
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</table>
### Table 2

**SALs, 1980-April 1984: Amounts, Geographic Distribution, and Repayment Terms, by Fiscal Year**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Number of SAL's</th>
<th>Millions of Dollars</th>
<th>Numbers &amp; Amounts</th>
<th>Terms</th>
<th>Length / Grace</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Total</td>
<td>IDA</td>
<td>EUR</td>
<td>MID-EAST</td>
</tr>
<tr>
<td>1980</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number:</td>
<td>3b</td>
<td></td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Amount:</td>
<td></td>
<td>305</td>
<td>(55)</td>
<td>55</td>
<td>50</td>
</tr>
<tr>
<td>1981</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number:</td>
<td>7</td>
<td></td>
<td>3c</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Amount:</td>
<td></td>
<td>717</td>
<td>(38)</td>
<td>120</td>
<td>200</td>
</tr>
<tr>
<td>1982</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number:</td>
<td>6</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount:</td>
<td></td>
<td>1070.7</td>
<td>(80)</td>
<td>150</td>
<td>540</td>
</tr>
<tr>
<td>1983</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number:</td>
<td>7g</td>
<td></td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Amount:</td>
<td></td>
<td>1284.7</td>
<td>(110)</td>
<td>170.9</td>
<td>477.8</td>
</tr>
<tr>
<td>1984a</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number:</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount:</td>
<td></td>
<td>705.9</td>
<td>(55)</td>
<td>345.7</td>
<td>300</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number:</td>
<td>28</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount:</td>
<td></td>
<td>4083.3</td>
<td>(338)</td>
<td>841.6</td>
<td>1517.8</td>
</tr>
</tbody>
</table>

a. First number, length of loan. Second number, length of grace period.
b. In the length-grace division the third loan to Kenya is on standard IDA terms.
c. $80 million of the $22 m Guyana SAL was a credit on standard IDA terms.
d. $80 million of the $140 m Pakistani SAL was a credit on standard IDA terms.
e. In the geographic division, the 6th loan to Yugoslavia is for $275 m. In the length-grace division, the 6th loan, to Togo, for $40 m is on IDA terms. Both Yugoslavia and the Togo loans are included in the $1154 m total.
f. $70 m of the 130.9 Kenya II SAL was a credit on standard IDA terms.
g. In the length-grace division the fifth loan is to Malawi on standard IDA terms.
### TABLE 3
New SAL Countries, by Income Category and by Fiscal Year, and Total SALs Active in April 1984.

<table>
<thead>
<tr>
<th>Income Group Based on 1982 GNP per Capita (U.S. Dollars)</th>
<th>Fiscal Year</th>
<th>Active SAL Participants, April 1984</th>
<th>Number of Bank/IDA Borrowing Countries</th>
<th>Active SAL Countries as Percent of Total Eligible</th>
</tr>
</thead>
<tbody>
<tr>
<td>II ($411-805)</td>
<td>1 2a 1b 0 0</td>
<td>0 1</td>
<td>22</td>
<td>4.5</td>
</tr>
<tr>
<td>III ($806-1410)</td>
<td>1 2 0 0 5</td>
<td>23</td>
<td>21.7</td>
<td></td>
</tr>
<tr>
<td>IV ($1411-2440)</td>
<td>0 0 1 0 5</td>
<td>15</td>
<td>13.3</td>
<td></td>
</tr>
<tr>
<td>V (over $2440)</td>
<td>0 0 0 1 0</td>
<td>10</td>
<td>10.0</td>
<td></td>
</tr>
<tr>
<td>Total New:</td>
<td>3 5 5 2 1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Active Total:</td>
<td>3 7 11 11 12</td>
<td>109</td>
<td>11.0</td>
<td></td>
</tr>
</tbody>
</table>

Per Capital 1982 GNP of New SAL Countries:

Unweighted av.: $763 676 1086 1595 2120

Av. weighted by 1982 populations: $1029 725 830 2571 2120

TABLE 1: Level and Growth Rates of GNP per Capita and Growth Rates of GDP in Individual EAL Countries and in IFCs Generally

<table>
<thead>
<tr>
<th>EAL Country, in Order of First EAL</th>
<th>Average Annual Growth in:</th>
<th>X for Those above Average Annual Growth for Their Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya</td>
<td>390</td>
<td>2.9</td>
</tr>
<tr>
<td>Turkey</td>
<td>1330</td>
<td>7.5</td>
</tr>
<tr>
<td>Bolivia</td>
<td>570</td>
<td>1.9</td>
</tr>
<tr>
<td>Philippines</td>
<td>820</td>
<td>2.0</td>
</tr>
<tr>
<td>Senegal</td>
<td>440</td>
<td>-0.3</td>
</tr>
<tr>
<td>Guyana</td>
<td>670</td>
<td>1.8</td>
</tr>
<tr>
<td>Mauritius</td>
<td>1240</td>
<td>2.1</td>
</tr>
<tr>
<td>Malawi</td>
<td>210</td>
<td>2.7</td>
</tr>
<tr>
<td>Ivory Coast</td>
<td>1400</td>
<td>2.3</td>
</tr>
<tr>
<td>Korea</td>
<td>1760</td>
<td>6.9</td>
</tr>
<tr>
<td>Thailand</td>
<td>800</td>
<td>4.6</td>
</tr>
<tr>
<td>Pakistan</td>
<td>380</td>
<td>2.8</td>
</tr>
<tr>
<td>Jamaica</td>
<td>1350</td>
<td>0.8</td>
</tr>
<tr>
<td>Togo</td>
<td>350</td>
<td>2.5</td>
</tr>
<tr>
<td>Yugoslavia</td>
<td>2840</td>
<td>5.0</td>
</tr>
<tr>
<td>Panama</td>
<td>2120</td>
<td>3.1</td>
</tr>
</tbody>
</table>

Averages for:

- Low-Income Countries (Except China and India):
  - 0.8 | 4.7 | 3.6
- Lower Middle-Income Countries:
  - 3.4 | 5.0 | 5.6
- Upper Middle-Income Countries:
  - 4.3 | 6.8 | 5.6
<table>
<thead>
<tr>
<th>Country</th>
<th>Date of the SAL</th>
<th>Merchandise Imports</th>
<th>Gross Public External Capital Flow</th>
<th>Gross Domestic Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya</td>
<td>Mar 80</td>
<td>2.39</td>
<td>13.29</td>
<td>4.17</td>
</tr>
<tr>
<td>Turkey</td>
<td>Mar 80</td>
<td>2.61</td>
<td>9.00</td>
<td>1.38</td>
</tr>
<tr>
<td>Bolivia</td>
<td>Jun 80</td>
<td>6.00</td>
<td>11.39</td>
<td>6.31</td>
</tr>
<tr>
<td>Philippines</td>
<td>Sep 80</td>
<td>2.59</td>
<td>14.39</td>
<td>1.88</td>
</tr>
<tr>
<td>Turkey(Sup)</td>
<td>Oct 80</td>
<td>0.98</td>
<td>3.38</td>
<td>0.52</td>
</tr>
<tr>
<td>Senegal</td>
<td>Dec 80</td>
<td>5.00</td>
<td>21.20</td>
<td>15.09</td>
</tr>
<tr>
<td>Guyana</td>
<td>Feb 81</td>
<td>39.22b</td>
<td>22.91c</td>
<td>26.16b</td>
</tr>
<tr>
<td>Turkey II</td>
<td>May 81</td>
<td>3.37</td>
<td>16.52</td>
<td>2.23</td>
</tr>
<tr>
<td>Mauritius</td>
<td>Jun 81</td>
<td>2.31c</td>
<td>n.a.</td>
<td>3.85c</td>
</tr>
<tr>
<td>Malawi</td>
<td>Jun 81</td>
<td>12.53</td>
<td>34.62</td>
<td>14.40</td>
</tr>
<tr>
<td>Ivory Coast</td>
<td>Oct 81</td>
<td>6.16</td>
<td>12.84</td>
<td>6.41</td>
</tr>
<tr>
<td>Korea</td>
<td>Dec 81</td>
<td>0.96</td>
<td>4.11</td>
<td>1.44</td>
</tr>
<tr>
<td>Thailand</td>
<td>Mar 82</td>
<td>1.50</td>
<td>10.27</td>
<td>1.46</td>
</tr>
<tr>
<td>Jamaica</td>
<td>Mar 82</td>
<td>5.17</td>
<td>18.68</td>
<td>16.09</td>
</tr>
<tr>
<td>Turkey III</td>
<td>Mar 82</td>
<td>3.42</td>
<td>16.77</td>
<td>2.26</td>
</tr>
<tr>
<td>Pakistan</td>
<td>Jun 82</td>
<td>2.62</td>
<td>20.80</td>
<td>3.27</td>
</tr>
<tr>
<td>Kenya II</td>
<td>Jul 82</td>
<td>6.73</td>
<td>27.50</td>
<td>7.52</td>
</tr>
<tr>
<td>Thailand II</td>
<td>Mar 83</td>
<td>1.75</td>
<td>12.01</td>
<td>1.70</td>
</tr>
<tr>
<td>Philipp. II</td>
<td>Apr 83</td>
<td>3.80</td>
<td>19.77</td>
<td>2.59</td>
</tr>
<tr>
<td>Togo</td>
<td>May 83</td>
<td>6.70</td>
<td>105.26</td>
<td>14.66</td>
</tr>
<tr>
<td>Jamaica II</td>
<td>Jun 83</td>
<td>4.09</td>
<td>14.75</td>
<td>12.71</td>
</tr>
<tr>
<td>Turkey IV</td>
<td>Jun 83</td>
<td>3.38</td>
<td>16.55</td>
<td>2.23</td>
</tr>
<tr>
<td>Yugoslavia</td>
<td>Jun 83</td>
<td>2.52</td>
<td>23.29</td>
<td>1.36</td>
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<tr>
<td>Korea II</td>
<td>Nov 83</td>
<td>1.15</td>
<td>4.95</td>
<td>1.75</td>
</tr>
<tr>
<td>Panama</td>
<td>Nov 83</td>
<td>3.91</td>
<td>17.60</td>
<td>5.95</td>
</tr>
<tr>
<td>Mauritius II</td>
<td>Dec 83</td>
<td>6.17c</td>
<td>n.a.</td>
<td>10.27c</td>
</tr>
<tr>
<td>Malawi II</td>
<td>Dec 83</td>
<td>15.32</td>
<td>42.31</td>
<td>17.61d</td>
</tr>
</tbody>
</table>

a. All loans made or planned in 1981 through 1984 use 1981 figures when calculating the ratios unless indicated. Loans made in 1980 use figures for that year.
b. 1978 figures
c. 1979 figures
d. 1980 figures
e. Calculated from GDP and percent of GDP placed in domestic investment.

TABLE 5
Importance of the SALs to Borrowers: Each SAL as a Percent of the Borrower's Merchandise Imports, Its Gross Domestic Investment, and Its Gross Public External Capital Flow
<table>
<thead>
<tr>
<th>Country</th>
<th>(Type of IMF Arrangement)</th>
<th>Total IMF Disbursements (April 30, 1983)</th>
<th>Amount Undrawn (April 25, 1984)</th>
<th>Total SAL Commitment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya:</td>
<td>(Stand-By)</td>
<td>$316</td>
<td>$49</td>
<td>$366</td>
</tr>
<tr>
<td>Turkey:</td>
<td>(Stand-By)</td>
<td>$1390</td>
<td>$90</td>
<td>$1236</td>
</tr>
<tr>
<td>Bolivia:</td>
<td>(Stand-By)</td>
<td>$53</td>
<td>$50</td>
<td>$102</td>
</tr>
<tr>
<td>Philippines</td>
<td>(Stand-By)</td>
<td>$460</td>
<td>$265</td>
<td>$502</td>
</tr>
<tr>
<td>Senegal:</td>
<td>(EFF and Stand-By)</td>
<td>$110</td>
<td>$41</td>
<td>$445</td>
</tr>
<tr>
<td>Guyana:</td>
<td>(EFF)</td>
<td>$52</td>
<td>$22</td>
<td>$22</td>
</tr>
<tr>
<td>Mauritius:</td>
<td>(Stand-By)</td>
<td>$100</td>
<td>$35</td>
<td>$10</td>
</tr>
<tr>
<td>Malawi:</td>
<td>(Stand-By and EFF)</td>
<td>$67</td>
<td>$6</td>
<td>$95</td>
</tr>
<tr>
<td>Ivory Coast:</td>
<td>(EFF)</td>
<td>$300</td>
<td>$154</td>
<td>$100</td>
</tr>
<tr>
<td>Korea:</td>
<td>(Stand-By)</td>
<td>$269</td>
<td>$336</td>
<td>$269</td>
</tr>
<tr>
<td>Thailand:</td>
<td>(Stand-By)</td>
<td>$440</td>
<td>$177</td>
<td>$550</td>
</tr>
<tr>
<td>Jamaica:</td>
<td>(EFF)</td>
<td>$423</td>
<td>$29</td>
<td>$325</td>
</tr>
<tr>
<td>Pakistan:</td>
<td>(EFF)</td>
<td>$635</td>
<td>$284</td>
<td>$136</td>
</tr>
<tr>
<td>Togo:</td>
<td>(Stand-By)</td>
<td>$2</td>
<td>$12</td>
<td>$22</td>
</tr>
<tr>
<td>Yugoslavia:</td>
<td>(Stand-By)</td>
<td>$1283</td>
<td>$379</td>
<td>$389</td>
</tr>
<tr>
<td>Panama:</td>
<td>(Stand-By)</td>
<td>$79</td>
<td>$79</td>
<td>$60</td>
</tr>
</tbody>
</table>

1. IMF disbursements do include all made under arrangements in effect at the time of initial SAL authorization.

2. Represents the undisbursed portion of the IMF arrangement in effect at this date. If that arrangement was still in effect on April 25, 1984, then the undisbursed portion appears in the last column to avoid double counting.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya 1980</td>
<td>255.0</td>
<td>192.0</td>
<td>133.0</td>
<td>131.2</td>
<td>192.9</td>
</tr>
<tr>
<td>Turkey 1980</td>
<td>312.5</td>
<td>600.0</td>
<td>722.0</td>
<td>647.6</td>
<td>669.4</td>
</tr>
<tr>
<td>SUB-TOTAL (New Countries FY80)</td>
<td>567.5</td>
<td>792.0</td>
<td>855.0</td>
<td>779.0</td>
<td>862.3</td>
</tr>
<tr>
<td>% of Total Bank-IDA Lending</td>
<td>5.47%</td>
<td>6.30%</td>
<td>6.96%</td>
<td>5.98%</td>
<td>5.96%</td>
</tr>
<tr>
<td>Philippines 1981</td>
<td>395.5</td>
<td>412.0</td>
<td>533.0</td>
<td>452.9</td>
<td>502.7</td>
</tr>
<tr>
<td>Senegal 1981</td>
<td>31.6</td>
<td>52.3</td>
<td>102.9</td>
<td>19.5</td>
<td>32.2</td>
</tr>
<tr>
<td>Mauritius 1981</td>
<td>0.0</td>
<td>6.0</td>
<td>30.0</td>
<td>6.0</td>
<td>12.2</td>
</tr>
<tr>
<td>Malawi 1981</td>
<td>39.5</td>
<td>13.8</td>
<td>120.0</td>
<td>113.0</td>
<td>56.4</td>
</tr>
<tr>
<td>SUBTOTAL (New Countries FY81)</td>
<td>466.6</td>
<td>484.1</td>
<td>785.9</td>
<td>591.4</td>
<td>603.5</td>
</tr>
<tr>
<td>% of Total Bank-IDA Lending</td>
<td>4.66%</td>
<td>4.23%</td>
<td>6.44%</td>
<td>4.51%</td>
<td>4.28%</td>
</tr>
<tr>
<td>Ivory Coast 1982</td>
<td>52.4</td>
<td>33.4</td>
<td>133.0</td>
<td>374.5</td>
<td>32.2</td>
</tr>
<tr>
<td>Korea 1982</td>
<td>225.0</td>
<td>544.0</td>
<td>390.0</td>
<td>470.0</td>
<td>672.0</td>
</tr>
<tr>
<td>Thailand 1982</td>
<td>285.1</td>
<td>542.0</td>
<td>325.9</td>
<td>634.0</td>
<td>393.1</td>
</tr>
<tr>
<td>Jamaica 1982</td>
<td>66.5</td>
<td>0.0</td>
<td>44.9</td>
<td>133.1</td>
<td>120.4</td>
</tr>
<tr>
<td>Pakistan 1982</td>
<td>164.0</td>
<td>165.0</td>
<td>202.0</td>
<td>309.5</td>
<td>204.0</td>
</tr>
<tr>
<td>SUBTOTAL (New Countries FY82)</td>
<td>793.0</td>
<td>1,284.4</td>
<td>1,095.8</td>
<td>1,921.1</td>
<td>1,521.7</td>
</tr>
<tr>
<td>% of Total Bank-IDA Lending</td>
<td>7.92%</td>
<td>11.13%</td>
<td>8.91%</td>
<td>14.76%</td>
<td>10.51%</td>
</tr>
<tr>
<td>Togo 1983</td>
<td>16.2</td>
<td>11.0</td>
<td>25.7</td>
<td>5.5</td>
<td>81.2</td>
</tr>
<tr>
<td>% of Total Bank-IDA Lending</td>
<td>0.20%</td>
<td>0.18%</td>
<td>0.30%</td>
<td>0.04%</td>
<td>0.59%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1,843.3</td>
<td>2,571.5</td>
<td>2,762.4</td>
<td>3,297.0</td>
<td>3,068.7</td>
</tr>
<tr>
<td>Total Bank-IDA Lending</td>
<td>10,012.3</td>
<td>11,481.7</td>
<td>12,291.0</td>
<td>13,015.9</td>
<td>14,477.0</td>
</tr>
<tr>
<td>13 Country Total as a Percent of Total Bank-IDA Lending That Year</td>
<td>18.4%</td>
<td>22.4%</td>
<td>22.4%</td>
<td>25.3%</td>
<td>21.2%</td>
</tr>
</tbody>
</table>
TABLE 8
GDP Growth Rates for Nine SAL Countries and Average of Net Oil Importing LDCs, by Calendar Year, 1980-83.

<table>
<thead>
<tr>
<th>SAL Countries</th>
<th>Kenya</th>
<th>Turkey</th>
<th>Philippines</th>
<th>Mauritius</th>
<th>Malawi</th>
<th>Ivory Coast</th>
<th>Korea</th>
<th>Thailand</th>
<th>Jamaica</th>
<th>Net-Oil Importing Developing Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP Growth Rate (%)</td>
<td>5.8</td>
<td>-0.7</td>
<td>4.9</td>
<td>-10.6</td>
<td>-0.1</td>
<td>6.5</td>
<td>-3.5</td>
<td>5.8</td>
<td>-5.4</td>
<td>4.5</td>
</tr>
<tr>
<td>1980</td>
<td>4.8</td>
<td>4.4</td>
<td>3.8</td>
<td>6.8</td>
<td>-0.3</td>
<td>1.4</td>
<td>7.1</td>
<td>6.3</td>
<td>3.3</td>
<td>1.9</td>
</tr>
<tr>
<td>1981 (prov.)</td>
<td>2.3</td>
<td>4.7</td>
<td>3.0</td>
<td>5.0</td>
<td>3.0</td>
<td>-1.8</td>
<td>5.3</td>
<td>4.1</td>
<td>0.2</td>
<td>1.5</td>
</tr>
<tr>
<td>1982 (est.)</td>
<td>3.0</td>
<td>3.1</td>
<td>1.3</td>
<td>0.7</td>
<td>4.9</td>
<td>-4.0</td>
<td>9.2</td>
<td>6.0</td>
<td>1.5</td>
<td>2.5</td>
</tr>
</tbody>
</table>

TABLE 8 -A
Change between 1982 and 1983 in GDP Growth Rate

|                | +30% | -34% | -56% | -86% | +63% | -122% | +73% | +46% | +650% | +67% |

TABLE 8 -B
Array by 1983 Estimated Growth Rate

<table>
<thead>
<tr>
<th>Ivory Coast</th>
<th>Mauritius</th>
<th>Philippines</th>
<th>Jamaica</th>
<th>Average</th>
<th>Kenya</th>
<th>Turkey</th>
<th>Malawi</th>
<th>Thailand</th>
<th>Korea</th>
</tr>
</thead>
<tbody>
<tr>
<td>-4.0</td>
<td>0.7</td>
<td>1.3</td>
<td>1.5</td>
<td>2.5</td>
<td>3.0</td>
<td>3.1</td>
<td>4.9</td>
<td>6.0</td>
<td>9.2</td>
</tr>
</tbody>
</table>