Also by John Weeks

A CRITIQUE OF NEOCLASSICAL MACROECONOMICS

ECONOMIC MALADJUSTMENT IN CENTRAL AMERICA
(*co-editor with Wim Pelupessy*)

Development Strategy and the Economy of Sierra Leone

John Weeks
Professor of International Politics and Economics
Middlebury College, Vermont, USA

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For my sister Sally, who raised me

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JOHN WEEKS

1 Introduction

This book is a study of the impact of macroeconomic structural adjustment policies on the economy of Sierra Leone. It contributes to the ongoing policy debate over economic revitalization of the countries of Africa south of the Sahara. Sierra Leone is a small country of little importance to the rest of the world, and economics is viewed by most people as too esoteric or dismal to warrant more than passing interest. Thus, the non-specialist might well ask why he or she should devote the effort to reading this book. The reason lies in the lesson carried by the Sierra Leone experience for other small, unimportant countries which suffered so tragically from economic decline in the 1970s and 1980s. Wracked by the instability of the world market and suffering from population pressure on its resources, Sierra Leone like other small and poor countries sought aid from the international development community. The aid that came was hardly generous and tied to a flagrantly ideological policy package singularly irrelevant for the country's problems. And when the inappropriate policies produced their predictable and disastrous result, the dispensers of ideology blamed the victim for the failure. That, in brief, was the Sierra Leone story, and its moral has general application.

The book is structured around the policies fostered by and role of two multilateral organizations, the International Monetary Fund and the World Bank. It is the basic argument of the book that these two organizations, which in Africa in the 1980s played such a dominant role re-orienting policies of national governments toward 'free market' adjustment policies, incorrectly diagnosed the nature of the African economic crisis and, consequently, promoted stunningly inappropriate policies. Both of these organizations attributed economic decline in Africa to policy mismanagement on the part of African governments. This book is no brief for the efficiency or virtue of African governments; these governments are for the most part corrupt

and representative of the interests of a small elite (and the same could be said of some governments in the industrial countries). But having broached the issue of mismanagement, it is as close to a fact as one can come in these matters to say that the World Bank and the IMF grossly mismanaged the African economic crisis of the 1980s, and millions are the worse for it.

To place the study in context, Chapter 2 surveys the growth of African countries and the increasingly important role of the multilaterals. Also in this chapter is treated the general approach of the IMF and the World Bank to the African economic crisis. Here it is argued that the policy prescriptions of the Fund and the Bank rest upon a dubious theoretical foundation. The policy packages (generically known as 'structural adjustment programmes') are essentially motivated by ideology, responding to a conservative political shift in the Western industrial countries rather than theoretical, technical, or even empirically-established virtues. Despite all their theoretical and practical shortcomings, these 'free market' oriented programmes gained increasing acceptance in the 1980s. However, the evidence produced by the organizations themselves suggests that the free market prescriptions enjoyed limited success in underdeveloped countries, particularly in Africa south of the Sahara.

The arguments of Chapter 2 have been made before, and are presented again in order to prepare the reader for a detailed treatment of a small, low-income country in West Africa that suffered in the grip of stagnation and decline for 20 years, the Republic of Sierra Leone. By the second half of the 1970s, the economy of Sierra Leone urgently required reorganizing. Its previous basis of growth, mining, had fallen into irreversible decline. Chapter 3 initiates the case study, first with a presentation of the extensive chronology of multilateral intervention in the country. We present this chronology to demonstrate that throughout the 1980s the government of the country implemented policy under *de facto* multilateral conditionality. The discussion then turns to the review of 20 years of World Bank policy analysis of the country.[1] This review demonstrates the notable shift in emphasis in the Bank reports from concerns

about equity and development (through 1981) to a focus almost exclusively on the balance of payments and government finance. This shift coincided, of course, with the emergence of the Third World debt crisis in which the Bank took a clear and unequivocal position in favour of full repayment of developing country debt (edging away from this position only in 1988). It also coincided with the Bank (and the Fund) becoming major creditors in the region. Indeed, for many African countries, and certainly Sierra Leone, debt service largely involved repaying the Bank and the Fund. Quite obviously one had a conflict of interest: the organizations formulating the macroeconomic policies of Sierra Leone and other countries fostered programmes whose purpose among other things would be to repay those same organizations.

Chapter 4 analyses the secular stagnation and decline of the economy of Sierra Leone, in anticipation of the next two chapters which deal with agriculture. An agricultural economy, Sierra Leone became more so with the decline of mining. The growth of mining brought prosperity to Sierra Leone, though probably only a few benefited except indirectly. The decline of mining brought depression, instability and crisis; the decline of mining proved much more democratic than its growth, for many more suffered than previously had gained.

Central to the multilateral diagnosis of Sierra Leone was the hypothesis that government policy discriminated against agriculture, and in doing so produced an 'urban bias' in the society. Chapter 5 addresses this hypothesis and finds it incorrect with respect to urban and rural incomes. From the mid-1970s onwards urban incomes fell sharply, relatively and absolutely, compared with rural incomes; by the 1980s farm incomes stood well above wage earner incomes. Structural adjustment policies accelerated this process, thereby worsening the distribution of income. Chapter 6 turns to the distribution of income within the rural sector. In the course of the analysis, we demonstrate that adjustment policies worsened the distribution of income *within* rural areas through their bias towards commercial production.

Chapter 7 considers whether one might justify this worsening of income distribution in terms of increased efficiency and

production in the agricultural sector. No compelling evidence emerges that this occurred. On the contrary, the evidence indicates that the problems of agriculture in Sierra Leone were much more profound than could be remedied by the alleged magic of the market. The 'structural adjustments' fostered by the multilateral organizations were not structural at all: they failed to dislodge the constraints that held most small-scale agricultural producers in poverty, and perhaps intensified them by pressing the government to reduce its expenditure on key rural services.

Chapter 8 turns to the issue of government finance, and the closely related issue of the balance of payments. Here it is demonstrated that the multinationals were wrong in both their facts and their diagnosis for the country. Particular emphasis is placed upon the analysis of the exchange rate, whose role loomed so large in the thinking of the Fund and the Bank. The government of Sierra Leone stood accused of overseeing a 'grossly over-valued' exchange rate, but the empirical evidence suggests that it is unlikely that the defendant would be convicted in any but the kangaroo court of the multilaterals.

'Mismanagement' became a favourite word of the multilaterals when discussing African economic problems, a word that encapsulated the hypothesis that the problems of decline were to a great extent the work of the African governments themselves. Through an analysis of the conditionalities and policies of the multilaterals in the mid-1980s, it is demonstrated in Chapter 9 that mismanagement did occur. In particular, the Fund through its conditionality mismanaged the exchange rate of the Leone, a mismanagement that provoked uncontrolled inflation. This is not to say that the Sierra Leone government made no mistakes of economic policy or should not be held accountable for corruption and anti-democratic conduct. However, on the basis of economic policy alone, the mistakes of the government paled alongside the errors of the multilaterals.

The final chapter offers an alternative adjustment programme for Sierra Leone, one that reflects the structural characteristics of the economy and society, rather than a largely uncritical faith in the workings of markets. One reads repeatedly that for all its

shortcomings, the structural adjustment approach of the multilaterals must be accepted because there was no viable alternative. Either it was 'the only game in town', or the proposed alternatives were so vague and contradictory as to be of no practical utility to policymakers. This is not true. Alternatives exist, considerably more coherent in theory and practice than what the multilaterals offered. However, it was probably the case that no one would fund them given the structure of power and strength of ideology among donor agencies and governments.

Sierra Leone is a small country with enormous problems. Those problems grew worse in the 1980s, in part as a result of the actions of organizations to which the government turned for aid. Perhaps the most pernicious aspect of the structural adjustment ideology is that it preaches to the sufferers that their misery is not only avoidable but of their own making. While this adds insult to injury to the sufferer, it is particularly appealing to the international agencies and bilateral donors by absolving them from any culpability in the matter.

2 The African Crisis and the Ideology of Structural Adjustment

2.1 INTRODUCTION

During the 1970s and 1980s average incomes declined in sub-Saharan Africa.[1] This two decade decline represented perhaps the longest sustained contraction in per capita living standards for a major region of the world in the twentieth century. Due to lack of information on the plight of the common people of the region, one can only speculate on the human impact of this decline, but consequences must have been appalling. No doubt people will look back in fifty years and be amazed that such a massive catastrophe could have occurred and that intervention to prevent it was so slight. Further, little consensus existed at the beginning of the 1990s that the decline had been reversed.

The extent of the decline is suggested in Table 2.1, which shows growth rates for the Africa region. The majority of sub-Saharan countries gained independence in the early and mid-1960s, and from that time until the oil price increases of 1973–4 the economic growth of the region proceeded well above the rate of population increase. For all the countries income per head grew at almost 3 per cent, though when one excludes Nigeria from the weighted average the increase measures a much more modest 1.2 per cent. The inclusion of Nigeria also significantly affects the average increase for the low-income countries of the region: with the region's most populous country included the annual rate was slightly over 3 per cent, but below 1 per cent without it. Thus, even in this period, characterized by a more favourable external environment than subsequently, the smaller and poorer SSA countries had rates of growth far below the performance of low-income countries as a whole (see the last

Table 2.1 Per capita income change in sub-Saharan Africa, 1965–87 (annual percentages)

	1965–73	*1973–80*	*1980–87*
All SSA	2.9	0.1	−2.8
excluding Nigeria	1.2	−0.7	−1.2
SSA low-income	3.1	0.3	−3.6
excluding Nigeria	0.8	−0.6	−2.2
SSA middle-income	1.9	−1.2	0.3
All low-income	3.3	2.6	4.0
excluding India and China	3.0	1.8	−1.1

Low income refers to countries with per capita income of less than US$ 500 at 1987 prices, and middle income to those above this average.

Source World Bank, 1989, p. 221.

two lines of Table 2.1). One can conclude that even when the developing countries of the world on average enjoyed relatively high rates of growth, the small and impoverished countries of the sub-Sahara trailed far behind the pack.

Therefore, it comes as no surprise that when external conditions changed for the worst, the low-income SSA countries fared badly indeed: countries that perform poorly in favourable times would not be expected to excel when difficulties accumulate in the international economic system. In the 1970s after the oil price increases, per capita income declined in SSA countries (when oil-exporting Nigeria is excluded) at 0.7 per cent per year, and at virtually the same rate for the subgroup of low-income countries (again excluding Nigeria). This represented a striking contrast to all low-income countries taken together, whose income per head continued to increase (even when one excludes India and China). But this reversal from growth to decline in Africa during the 1970s proved relatively modest compared with what would occur in the 1980s: through 1987 per capita income in the SSA low-income countries

dropped by an annual rate in excess of 2 per cent, compared with slightly positive growth for the middle-income countries of the region.

Further, declining per capita incomes proved a depressingly general phenomenon throughout sub-Saharan Africa in the 1980s: of the 31 SSA low-income countries for which the World Bank reported data, only four enjoyed a rising average standard of living, four countries accounting for less than 4 per cent of the population of this group of countries.[2] For all of the sub-Sahara (including the middle-income group), per capita income declined in at least 31 of 45 countries, representing over 90 per cent of the region's population.[3] Agriculture offered the main source of livelihood for the populations in the region, and this sector experienced pronounced decline. Food production, the activity of the vast majority of rural Africans, declined in 36 of 42 SSA countries from 1979–81 to 1987–9 by FAO calculations.[4] Production for family consumption characterizes most African farm households, so the decline in food output per head must have primarily affected cash sales; and, therefore, the per capita fall would have affected most supplies to urban areas. Imported food, much of it grains received under concessional arrangements, rose dramatically. Food aid alone went from 900 000 metric tons for 1974–5 to over three million for 1985–6 (World Bank, 1989, p. 234).

The economic performance of the SSA countries in the 1980s can be seen as a continuation of growth rates relatively poor compared with the developing world as a whole since the 1960s. Sub-Saharan Africa as the least developing region was not new; what was new was the extent of decline. This decline accompanied a strikingly more hostile international environment in which African development could be pursued. The degree to which the international environment turned hostile is suggested in Table 2.2, based on calculations in an FAO study by Saigal. The table shows the overall impact of changes in terms of trade and international interest rates (operating via debt service) on the national incomes of the countries in each region. The numbers are interpreted as follows: other things equal, between the mid-1970s (the average for the decade is used) and 1985–8,

TABLE 2.2 Measures of external shocks in the 1980s, by region (percentages)

Region and country	*Terms of trade effect*	*Interest rate effect*	*Total effect*
Africa, south of the Sahara	−10.1	−4.4	−14.4
East Asia (excluding China)	−3.9	−4.3	−8.1
(China	−0.6	−0.6	−1.2)
South Asia (excluding India)	−7.9	−2.3	−10.2
(India	−4.6	−1.0	−5.6)
Latin America and Caribbean	−6.3	−4.0	−10.3

Averages, 1985–8 compared with 1970–80. Aggregations by region not weighted. The terms of trade measure is the difference between export prices and changes in import prices between the two periods. Prices in dollars and weighted by the share of exports or imports in GDP. Interest rate shock calculated from changes in the real interest rate weighted by the debt-to-GDP ratio. The real interest rate is derived from the implicit nominal interest rate (the sum of public and private interest payments less interest receipts on reserves divided by total debt) and from US inflation.
SOURCE Saigal, 1990, p. 19.

declines in the terms of trade would have depressed the national income of the sub-Saharan region by about 10 per cent, with the rise in real interest rates having a further depressing effect in the region of 4.5 per cent. In other words, an annual growth rate of 1.2 per cent for the region over the period would have been required to keep real national product from falling, because of negative resource transfers associated with trading losses and increased debt service (see discussion in Saigal, 1990, pp. 17 20).

No other region suffered terms of trade losses of the magnitude of sub-Saharan Africa, the closest being South Asia (excluding India) at about −8 per cent. The sub-Saharan region also topped the league for the effect of the interest rate, though East Asia (without China) and Latin America and the Caribbean followed close behind. The behaviour of different primary product prices on the world market and the structure of debt partly explained the differences among regions. Also important is the relative openness of the African economies compared with those of Asia, even when one controls for size of the economy. In general, countries for which foreign trade was less important proportionally suffered less from the shocks generated by the international economy. Whether or not there were gains from openness that counter-balanced the losses is an empirical question about which there is little evidence (though much rhetoric). This obvious point – more closed economies are by definition more insulated from external shocks – became lost in the advance of neoliberal economic ideology in the 1980s.

The region's debt stock of US$ 56 billion in 1980 grew to close to US$ 150 billion in 1990. Much of this came on concessional terms from bilateral donors and the World Bank, but was not without its negative side. The major lenders to the region during the 1980s were the World Bank and the IMF, institutions that refused to consider rescheduling of debt.[5] While in other regions, where private banks held much of the debt, rescheduling proved common in the 1980s, SSA countries could renegotiate only US$ 1.5 billion over the decade (Saigal, 1990, p. 17). Instability of the US dollar intensified the debt burden of the SSA countries in the 1980s. Export earnings for most countries came largely in US dollars, but much of the debt, and particularly mounting debt to the two multilaterals, was denominated in SDRs, against which the US dollar depreciated substantially in the second half of the 1980s.

Capital flows, or, rather, the absence thereof, represented a further aspect of the hostile external environment faced by the SSA countries. Table 2.3 shows net transfers of capital to low-income sub-Saharan countries for 1980–6 (taken from Commander, 1989b). The figures show a continuous decline for six consecutive years. Were one to calculate the flows in terms of purchasing power, the total for 1986 would be barely a third of 1980. The decline in the total in great degree reflects the shift of the IMF from a purveyor of loans to a debt-collection agency in 1985 and 1986.

These factors, terms of trade losses, unstable primary product markets,[6] declining financial flows, rising real international

TABLE 2.3 Low-income SSA: net transfers from official and private sources (US dollars in millions)

Year	*Total*	*All multilateral*	*IMF*	*Bilateral*	*Private*
1980	3519	1305	309	1380	835
1981	3127	1099	1002	1636	391
1982	2646	1074	338	1306	2661
1983	2429	1062	661	1426	−59
1984	1468	915	132	807	−255
1985	1045	921	−127	437	−312
1986	1696	1390	−602	517	−212

SOURCE Commander, 1989b, p. 234.

interest rates, and the depreciation of the US dollar, all provide strong *prima facie* evidence for the hypothesis that the African development crisis resulted from external factors largely beyond the control of governments in the region. Yet, as we shall see in the next section, the World Bank and the IMF took a quite different view: namely, that the explanation lay in the misguided economic policies of African governments. Before considering this argument, one should recall that the experience of the SSA countries in the 1970s and even more in the 1980s involved a virtual across-the-board decline in living standards. Thus, if policy mismanagement brought on the decline, it is quite extraordinary that so many governments of such varying characteristics could have so consistently and continuously pursued foolish policies.

2.2 THE IDEOLOGY OF STRUCTURAL ADJUSTMENT

Notwithstanding the severe shocks inflicted upon the sub-Saharan countries by the international economy, the World Bank concluded that economic stagnation resulted almost

exclusively from factors internal to the countries in question; and, in particular, from inappropriate economic policies. In the official Bank assessment of the region's development prospects, one reads:

> Although many African countries have seen their development efforts disrupted by sharp falls in the world price of key commodities, viewed over the long term, falling per capita incomes for Africa as a whole since the late 1970s are explained largely by the declining level and efficiency of investment, compounded by accelerating population growth – and not primarily by external factors . . . .
>
> Many countries, especially the poorer ones, did suffer external shocks. But the low return on investment is the main reason for Africa's recent decline . . . Weak public sector management has resulted in loss-making public enterprises, poor investment choices, costly and unreliable infrastructure, price distortions . . . and hence inefficient resource allocation (World Bank, 1989, p. 3).

The argument can be simply stated: sub-Saharan countries suffered from world market instability, but their stagnation and decline was the result of poor investment decisions that resulted in low or negative yields. Many of the investments here judged as 'poor choices' were financed by the Bank itself, a fact that the 1989 report concedes: 'A 1987 evaluation revealed that half of the completed rural development projects financed by the World Bank in Africa had failed', and goes on to say, 'African governments and foreign financiers . . . must share responsibility [for these failures]' (World Bank, 1989, p. 27). It is surprising, therefore, that the report does draw the obvious conclusion that the Bank make good on its share of the responsibility by cancelling a portion of the loans that went to finance those failed projects. Evidently self-criticism in the Bank does not extend to the balance sheet.

A moment's reflection shows that the 'poor choice of investment' argument assumes what it seeks to prove, or is a meaningless tautology. If one assumes that all inputs other than

capital are in abundant supply, then it follows that the rate of growth of a country is given algebraically by the investment rate out of national income times the marginal output–capital ratio: $dY/Y=(I/Y)^*(dY/dK)$, where by definition $dK=I$ (the change in the capital stock equals investment over the period in question). When the two ratios (investment rate and output–capital ratio) are treated as behavioural parameters, one has the famous warranted rate of growth of the Harrod–Domar model. Under these assumptions the growth of an economy depends upon the rate of return on investment, as the Bank report argues.

The first problem with this single-minded emphasis upon investment is that the factors complementary to capital (e.g. skilled labour) were unlikely to have been in abundant supply in Africa during the 1970s and 1980s. Second, and perhaps more important, the Bank's explanation of poor growth performance presumes that the economies in question were not demand constrained. New investments create new capacity, but do not in themselves insure the full utilization of that capacity. It could be argued that the declining terms of trade for African primary products reflected precisely a demand constraint. The vast majority of Africans work on the land, and most agricultural investment is on-farm and non-monetized (a point elaborated below). Therefore, government expenditure and exports represented the major elements of monetized autonomous demand, which via the multiplier determined aggregate demand. Government expenditure fell in real terms in most of the SSA countries over the 1970s and 1980s, leaving exports as the element to provide adequate aggregate demand to induce full capacity utilization. With world demand for cocoa, coffee, etc. weak, African exports grew slowly or stagnated. Therefore, a low rate of return on investment (low dY/dK) could be explained not by the inefficiency of investments, but by insufficient aggregate demand. This explanation becomes even more plausible when one adds the link between exports and imports. Because exports stagnated, the capacity to import did not grow, indeed, declined. Particularly in manufacturing, but also in agriculture, production is import-using. Thus, the export demand constraint would affect African economies in two ways: directly via the Keynesian multiplier process, and indirectly as it manifested itself in an import constraint.

The 1989 World Bank report on SSA countries noted the possibility of a demand constraint, only to reject it out-of-hand:

> What caused the returns on investment to decline? . . . Falling demand is not the reason; African exports have actually lost market share. The greatest fall in the region's terms of trade happened after 1985, and by then the stagnation and decline in GDP growth were already well established. (World Bank, 1989, p. 26)

The demand constraint argument is rejected on two grounds: that exports from Africa declined relatively in their respective world markets, and that the greatest terms of trade declines came after 1985. Neither of these defences is compelling. With regard to the second, a graph provided in the same report shows that terms of trade for SSA countries declined almost continuously from 1975 onwards, which supports the hypothesis of a demand constraint no matter when the decline manifested itself in most virulent form. No evidence is provided, either regionally or by countries, for the market share assertion, but even if true on either or both accounts it is ambiguous at best. When the demand for a product falls, one would expect there to occur a change in market shares, as producers in some countries react differently from producers in others. The *ad hoc* character of the World Bank attempt to refute external effects as the cause of export decline is shown in an unflattering comparison made with Asian countries:

> It is sometimes argued that because world prices for most African agricultural products have fallen, government intervention is needed to protect export producers. Agricultural prices have indeed declined . . . . Lower prices, however, do not explain why Africa has seen its share of world markets in cocoa, coffee, palm oil, rubber, copra, tea and cotton shrink in the past 20 years. Asian countries – with more liberal trade

regimes, stronger private investment, and growing productivity have taken up the slack. (World Bank, 1989, p. 93)

On the basis of arguments like the above, the World Bank concludes that a decline in export shares shows that 'for the most part Africa is simply not competitive in an increasingly competitive world' (World Bank, 1989, p. 3). The analysis is filled with *non sequiturs* and should not be accepted without supporting empirical evidence. Changes in market shares might result from some countries enjoying preferential trading agreements with importing countries, or because of implicit and explicit export subsidies. The argument of the Bank was that African governments should reduce 'distortions' and increase allocative efficiency. It could well have been that the 'more liberal trade regimes' and other virtues of Asian countries make the exports of those countries more competitive in consequence of pro-export distortions, not greater efficiency. Even if production costs for export crops were higher in Africa than elsewhere, this could be due to the dismal state of internal transport and infrastructure in the region, itself the result of economic decline and reductions in public sector expenditure (often associated with World Bank conditionality).[7] Finally, with the Bank's emphasis upon production costs one skirted close to an argument that trade derives from *absolute*, rather than *comparative* advantage, which if true gives the game away.

Overall, the World Bank diagnosis of the African crisis appeared as *ad hoc* and heavily laden with ideology. One reads, for example, on the same page, that 'real wage rates in Sub-Saharan Africa have fallen by a quarter since 1980 . . .'[8]; and that high wage costs render Africa relatively uncompetitive, 'because the direct and indirect labor content in final production can exceed 50 per cent, Africa's high cost of labor relative to productivity matters all the more'. This percentage referred to manufacturing and mining, for agriculture in SSA countries was for the most part not based on wage labour. Whatever the empirical evidence, the argument was extraordinarily superficial. African countries in the 1980s had the lowest wages for the working class in the world, so if they stood low relative to

productivity, then the obvious candidate for adjustment would be productivity, not pay. Labour productivity is not an autonomous variable, but determined by the intensity of its use relative to other factors, as any neoclassical theorist would argue. Thus, if wages in Africa were high relative to productivity, then one would be more effective by explaining why the latter were low, not advise wage reductions. This was all the more the case when the causes of low productivity in manufacturing and mining in Africa were well-documented: poor transport, inefficient and malfunctioning public utilities (telephone, water, etc.), and inadequate education levels. Perhaps the World Bank drew back from such an obvious conclusion because to remedy the problem would require more, not less, government expenditure. The emphasis on reducing wages adopted the perspective of the private employer, who looks at the cost figures and concludes that profits would be higher if only labour were paid less. One should expect a more sophisticated analysis from an international organization.

Finally, the argument was surprising, for almost no SSA countries exported manufactures, and the major mineral exporters were few. Thus, the labour cost argument seemed out of place, perhaps thrown in as an afterthought on the grounds that a Bank report can never go wrong by complaining about high wages. The percentage, 50 per cent, would seem much higher than most empirical studies show; and in any case, theory would tell one that labour costs should be a high percentage of total costs in low income countries. That is, were labour costs not *relatively* high, presumably the Bank would take African governments to task for fostering excessive capital-intensity. One cannot both argue that labour costs are *proportionately* too high and that adjustment is needed to 'get relative [factor] prices correct'; neoclassical theory tells one that specialization according to comparative advantage should result in more extensive use of the abundant factor (labour, in this case).

These dubious arguments are suggestive of what is called 'taking backbearings' in sailing: from one's current position sightings are taken to determine from where one must have come. Similarly, by championing a particular form of adjust-

ment, the Bank must then produce causes of the crisis appropriate to that form of adjustment. The policy package fostered by the Bank (and the Fund) in the 1980s in Africa involved cuts in government expenditure, monetary contraction, trade liberalization, deregulation of internal markets, and privatization of public sector activities. A strong external influence on growth rates would be a singularly inappropriate basis for such a policy package, and all available arguments must be marshalled to refute such an explanation of the African development crisis.

In order that this combination of policies be viewed as contributing to the solution of the crisis, as opposed to adding severe internal shocks to go along with the burden of external ones, it was necessary to adopt the fiction of a neoclassical general equilibrium framework in which the economy is constrained by relative prices alone. If markets operate efficiently and economic agents act as price takers, then government intervention in markets can be said to produce sub-optimal outcomes – 'distortions'. It is such an ideal world of perfect competition with money neutral and markets that clear instantaneously that the World Bank had in mind when it argued, 'flexible prices, reflecting demand and supply in local and world markets, are the best way to signal to farmers what, how much, and when to produce' (World Bank, 1989, p. 91). A demand constrained economy bears a relation to this general equilibrium world that non-Euclidian geometry does to Euclidian.

Under conditions of demand constraint, relative prices are determined by *effective* demand rather than *notional* demand. Notional demands are those in which the prices of commodities are the only variables considered by economic agents. Prices act as allocative signals, and agents need never concern themselves with the possibility that they might not be able to sell the amount they desire to produce; and they can sell it at the anticipated price. This is the world in which World Bank adjustment programmes are formulated: prices and prices alone 'signal to farmers what, how much, and when to produce'. Effective demand is the expenditure by agents based upon actual income (over the relevant time period). In the terminology of Clower,[9] it represents 'the extra constraint' in

addition to prevailing prices, producers' output decisions must conform to prevailing income, and actual sales may fall short of anticipated sales, or these may be the same, but occur at below anticipated prices.[10] The interpretation of the role of the exchange rate provides an excellent example of the two approaches. In a world of general equilibrium and full employment, a balance-of-payments disequilibrium by African countries taken as a whole represents the failure of their exchange rates to adjust and clear the commercial and capital accounts. Since markets are presumed to operate efficiently, failure of the exchange rate to adjust can only result from government intervention (which maintains an 'overvalued' exchange rate).

In a demand constrained context, balance-of-payments disequilibrium is perfectly consistent with an exchange rate standing at a level that signals to domestic producers the appropriate returns to tradeables and non-tradeables. The disequilibrium arises from a depressed demand for exports, resulting perhaps from less-than-full-employment in the economies of African trading partners, itself a consequence of economic mismanagement in those countries.[11] In such a situation, exchange-rate adjustment in African countries, such as the 'free floats' favoured by the IMF, were both an unfair imposition and poor economic policy. They were unfair because the source of the disequilibrium was the policy mismanagement abroad, which Africans were expected to accept passively.[12] Exchange-rate adjustment represented poor policy because there was no reason to believe that the rate which would eliminate the disequilibrium under demand constrained conditions would establish the correct relative return between tradeables and non-tradeables. This situation was analogous to the one made famous by Keynes: there is nothing inherently desirable about national income equilibrium since it is not unique, able to occur at less-than-full-employment.

Even were it the case that the SSA countries enjoyed a world of efficient markets, the World Bank claimed far too much for its adjustment programmes, asserting them to be the *precondition* for sustained growth,[13] but also growth packages as such.[14] These claims had no theoretical basis, for neoclassical

analysis tells one that removing 'distortions' from an economy results in static efficiency gains (a movement to or along the production possibility frontier), and has no *a priori* implications for the rate of growth. Condos has argued this clearly, and reaches the following conclusion:

> The neoclassical model of economic growth, which evidently provides the implicit conceptual basis for the World Bank study, would justify the seeming uniformity of anti-distortion prescriptions, but not the suggestion that eliminating distortions in the agricultural sector (or elsewhere) would contribute to higher rates of growth on a sustained basis. Efficiency gains obtained from resource allocations approximating competitive market outcomes are *once and for all* output increases, or *level* effects, to be sharply distinguished from *growth* effects. The latter, in *per caput* terms, derive only from technical progress which may continuously displace outwards the economy's production functions. (Condos, 1986, p. 100)

Despite the authoritative tone of World Bank reports and their aura of technical expertise, the arguments they marshal for adjustment programmes prove on inspection to be *ad hoc* and semi-journalistic. It was probably the case that many interventions by African governments proved detrimental to long-term growth. But whether a wholesale removal of interventions would increase growth rates was an empirical question that could not be established in theory.[15]

2.3 THE IMAGINARY CONSENSUS

The Bank sought to make an empirical argument as its final line of defence. It asserted that Bank–Fund adjustment programmes reflected the broad agreement of the international community, by both donors and recipients: 'Despite the profound difficulties . . . involved in economic reform, there is now [in 1989] a strong consensus within Africa and within the donor community on the need for adjustment' (Serageldin), meaning, of course, World

Bank–IMF designed adjustment. The argument went further to assert that this consensus derived in part for the demonstrable success of adjustment programmes in stimulating growth. The empirical evidence for the success of Bank–Fund programmes invariably came from studies by the Bank itself. For example, one reads,

> A recent analysis by the World Bank focused on about twenty countries that were relatively little affected by unusual weather or external shocks. During 1980–85, all these countries had similar real GDP growth rates averaging about 1.5 per cent a year. However, in 1986–87, GDP growth more than doubled to about 4 per cent a year in those countries that had sustained adjustment programs, while it fell by over half in nonadjusting countries.[16] (Serageldin, 1989, pp. 2–3)

This assertion of the success of adjustment programmes (considerably more optimistic than a bank internal document of the previous year),[17] incorporates elements characteristic of the Bank's empirical defence of its policies. First, the empirical work was done by the Bank itself. Given the controversy surrounding the effectiveness of structural adjustment packages and the role of the Bank as a major creditor in sub-Saharan countries, the issue of impartiality is not a minor one. Second, the striking contrast in growth rates refers to groups of countries differentiated on a basis that appears rather arbitrary. One must question on what basis 'unusual weather and external shocks' were measured and wonder whether exclusion of countries on these criteria might have loaded the examples in favour of the desired empirical result. Further, since many believe that external shocks produced the need for adjustment, excluding countries suffering severely from these undermines the entire result. Third, the growth rates themselves refer to only two years, and an apparently arbitrary two years. That 1986 and 1987 might have been the most recent years for which data were available, would not justify using them rather than a longer period for comparison to 1980–85 (itself an arbitrary benchmark).

Finally, the division between 'adjusting' and 'non-adjusting' countries itself might be a meaningless comparison by which to judge the success or failure of structural adjustment programmes.[18] Presumably the former represent those that over the period in question implemented Bank–Fund programmes, and the latter those that did not. Such a comparison provides little information, though it was the central methodology of Bank empirical work. Implied in the division was an 'other things equal' presumption: other things equal, countries that adopted Bank–Fund programmes did better than those that did not. But other things could not have been equal. The group of non-adjusting countries would include (unless arbitrarily excluded) those whose macroeconomic imbalances were not so severe as to require Bank–Fund programmes, as well as those in such desperate straits as to be judged 'unbankable' by the multilaterals. Further, structural adjustment programmes frequently brought with them substantial inflows of concessionary finance, which themselves would foster higher growth rates no matter what policies were followed. At the minimum, the relevant comparison would be between 'adjusting' and 'non-adjusting' countries enjoying similar levels of capital inflows.

Empirical evidence produced by UNCTAD, an organization not a party to Bank–Fund programmes, suggested that countries implementing multilateral programmes on average did worse than other countries. Table 2.4, shows the UNCTAD calculations (in Part B), along with a World Bank comparison of 'adjusting' and 'non-adjusting' SSA countries (in Part A).[19] The purpose of presenting these two sets of calculations is to demonstrate the arbitrariness of such exercises. By use of different reference groups, the two calculations yield quite different conclusions. While the World Bank table suggests that 'adjusting' countries did better than average, the UNCTAD table shows the opposite. In the latter, growth rates and inflation are compared for the 1970s and 1980–86 for the set of least developed countries. Twelve of these implemented IMF programmes (in most cases with World Bank funding also), and on average they grew at about half the rate of all such countries. Only three of twelve grew at above the average for all least

TABLE 2.4 Comparison of two calculations of 'adjusting' country performance

Part A: *World Bank*: Per capita GDP growth rates, 1970–86

	1970–80	*1980–84*	*1984–86*
SSA: low Y	−0.5	−2.4	−0.6
other	1.7	−5.0	−2.9
total	0.9	−4.0	−1.8
Other Africa	4.1	1.3	−0.1
Total Africa	1.5	−2.9	−1.5
SSA: adjustment program	0.7	−3.8	0.8
other	0.9	−4.0	−2.5

Countries with sustained and substantial programmes commencing before 1985: Cote d'Ivoire, Ghana, Malawi, Mauritius, Senegal, Togo and Zambia.
SOURCE Serageldin, 1989, p. 3.

Part B: *UNCTAD*: Performance of selected LDCs having implemented adjustment programmes over consecutive periods since mid-1981

	Growth rate		*Inflation*	
	1970–80	*1980–86*	*1970–80*	*1980–86*
12 LDCs with IMF *programmes*:				
Growth > LDC average (1980–86)				
1. Bangladesh	3.7	3.7	20.7	11.7
2. Malawi	6.1	2.4	9.5	13.3
3. Somalia	2.7	3.1	15.8	44.8
Sierra Leone	1.6	1.1	11.5	57.2
Average (12)	3.3	1.0	13.1*	18.1*
All LDCs	3.4	1.9	na	na

'LDCs' here refers to least developed countries.
*Inflation average does not include Uganda.
SOURCE UNCTAD, 1989, p. 12.

developed countries (Bangladesh, Malawi and Somalia, listed at top of table[20]). Perhaps most indicative of the arbitrariness of the World Bank calculations (and perhaps of UNCTAD also) is that the two sources do not agree on the basic question of which countries should be considered as 'adjusting'. In the judgement of the World Bank these were Cote d'Ivoire, Ghana, Malawi, Mauritius, Senegal, Togo, and Zambia, which excludes Somalia and Sierra Leone, both being listed in the UNCTAD calculations. That Somalia and Sierra Leone implemented IMF–World Bank adjustment programmes in the 1980s is a matter of public record (see ILO/JASPA, 1987, for Somalia, and next chapter for Sierra Leone). Evidently the World Bank did not find it expedient to include these two countries in its list of 'adjusters'. Calculations by the Economic Commission for Africa, presented as a graphic in its 1989 report (and thus difficult to translate into a table) challenges the World Bank figures on their own turf, sub-Saharan Africa and using the Bank categories:

> [G]ross national product growth data show that the first group of countries – those with strong structural adjustment programmes – recorded an overall negative average annual growth rate (about 1.5 per cent) during the period 1985–1987 . . . . The second and third group of countries – weak adjusting countries and non-adjusting countries – achieved an overall average annual GDP growth rate of 1.2 and 3.1 per cent, respectively, during the period 1980–1987. (Economic Commission for Africa, 1989, pp. 22–3)

The startling difference, 4 per cent real growth for adjusting countries from the computations of the World Bank and the minus 1.5 per cent reported by the ECA, apparently results from changing the reference period only one year (1986–7 and 1985–7, respectively), for the ECA claims to have followed the Bank categories faithfully. It is the judgement here that the ECA calculations are the more relevant ones, but at the least the contradictory results suggest that the World Bank's empirical defence of structural adjustment is less than definitive.

As dubious as the empirical evidence offered by the Bank for the success of its adjustment programmes is the allegation of a 'strong consensus within Africa and within the donor community' for such programmes. While African governments seeking finance from the Bank were hardly in a position to be severe critics of the conditionality of that finance,[21] under less coercive circumstances they made their opinions clear. The 1988 document of the Organization of African Unity, signed by all member governments, concluded that, 'The assessment of Stabilization and Structural Adjustment Programmes is not yet conclusive, but there is no evidence to suggest that SAPs are likely to have positive impact on the recovery [of African countries]' (Organization of African Unity, 1988, p. 21). Lest it be misunderstood, the document went on to say, 'the short-term adjustment/stabilization targets of SAPs have ignored the long-term development objectives of African countries' (p. 22), and further, 'it is an established fact that the policy reforms and in particular Structural Adjustment Programmes have resulted in grave difficulties to the African people, particularly the vulnerable and impoverished populations' (p. 49).[22]

Even more critical of Bank–Fund policy packages has been the Economic Commission for Africa, as one might conclude from its empirical assessment of adjustment:

> [T]he orthodox structural adjustment programmes, by their design, assume that the classical instruments of control of money supply, credit squeeze, exchange rate and interest rate adjustments, trade liberalization etc. which may be valid in well-structured economies, could bring about positive results in African economies characterized by weak and disarticulated structures. However, there is documented evidence that in many cases sustained economic growth has not materialized, the rate of investment rather than improve has tended to decrease, budget and balance of payments deficits have tended to widen after some temporary relief and debt service obligations have become unbearable. (Economic Commission for Africa, 1989, p. 8)

One might dismiss the protestations of the OAU and ECA as biased and special pleading were it not for the chorus of criticism from United Nations organizations and mainstream development economists. UNCTAD, for example, in 1989 described the results of structural adjustment programmes as 'poor', and questioned 'the sufficiency, even appropriateness' of these programmes.[23] In its annual review of world agriculture, the FAO also expressed scepticism, albeit in more guarded terms.[24] And a 1990 consultant's report to the FAO concluded, 'since the mid-eighties there has been growing evidence that the [adjustment programmes] have not brought about any significant improvement in the economic conditions of the [SSA] region' (FAO, 1990b). The academic critics of Bank–Fund programmes in the 1980s were too many to list, but an example was the judgement of Commander in his volume of essays surveying adjustment impact on agriculture in Africa and Latin America: 'in short, there has been no significant improvement at either the aggregate or sectoral level' (Commander, 1989b, p. 234).

Previously it was said that the final line of multilateral defence for structural adjustment was empirical justification. This was not quite true, for one found another argument: that while the performance of adjusting countries may not have been impressive (even disappointing in the extreme), results might have been even worse in the absence of adjustment programmes. This is not a scientifically respectable argument. One could say with equal validity (i.e., none), that one does not know how much better off countries would have been had they not embarked on multilateral adjustment programmes. In the social realm (as opposed to the natural sciences) one cannot experiment; only one outcome can be observed. Counterfactual outcomes should not be posed as vague possibilities if they are to be taken seriously, but must be rigorously specified in formal model. Until that is done, structural adjustment programmes must be defended on their theoretical merits and stand the test of actual outcomes. If a consensus were built, it would have to be on this basis.

By 1990 IMF–World Bank designed adjustment programmes, embodying a strikingly similar array of policies in countries of equally striking differences in characteristics, had been applied in the sub-Saharan region for almost a decade. Certainly there came to be a consensus that the African crisis required some form of profound adjustment. But no consensus formed around the IMF–World Bank version of adjustment. On the contrary, these programmes, far from generating a consensus, provoked increasing controversy with each passing year (Mosley, Harrigan and Toye, 1991, ch. 1). If a consensus formed, it was the Bretton Woods multilaterals that were the odd persons out. Beyond the cosy confines of the buildings centered around Nineteenth Street and H Street in Washington, DC, most observers concluded that the African crisis showed no sign of abating. In the words of the Economic Commission for Africa:

> The African social structure is currently undergoing severe strains and stresses due to uncontrolled urbanisation, erosion of social sanctions and values and initiative modernism . . . Today, more than ever before, the African social fabric is in danger of collapse as a result of the cumulative impact of deteriorating economic crisis . . . In spite of [structural adjustment programmes], the crisis remained unabated. Many African economies moved from stagnation to declining growth; food deficits reached alarming proportions; unemployment mounted; underutilization of industrial capacity became widespread; and, environmental degradation threatened the very survival of the African people. (ECA, 1989, p. 16)

To some this passage from the ECA might appear irresponsibly apocalyptic. In the chapters which follow the Sierra Leone story shows it to be distressingly accurate. More distressing still, structural adjustment 'policy reforms' made matters worse than they otherwise would have been.

3 Multilateral Intervention in Sierra Leone

3.1 INTRODUCTION

Sierra Leone is a country covering approximately 28 000 square miles (73 00 kilometres), with a population at the end of the 1980s of about 4.1 million people, two-thirds of which was rural (ILO/JASPA, 1990, p. 34). Until the 1970s, mining provided the dynamism for the economy, but declining yield of diamonds and the contraction of the international iron ore market sent this sector into severe recession. In consequence, the country entered the 1980s suffering from severe balance-of-payments pressure and a substantial fiscal deficit (mining had provided a considerable proportion of government revenue). It was in this context that policy changes became an imperative, to counter decline and, if possible, establish a new basis for sustainable growth.

3.2 CHRONOLOGY OF MULTILATERAL INTERVENTION

To facilitate the discussion in subsequent chapters, we here provide a chronology of the major interventions by the World Bank and IMF in the process of policy-making in the country. From the time of independence, the major multilateral organizations played a central role in the formulation of economic policy in Sierra Leone. From the late 1970s onwards, few were the years the government did not operate within constraints of multilateral conditionality. Over a period of twenty years, the government of Sierra Leone entered into five agreements with the IMF, beginning with the three-year arrangement of 1967–9.[1] Relations with the Fund proved stormy and contentious more often than not. After the rather small borrowing agreement in

1977, three programmes were put in place (1981, 1983 and 1986), all of which were cancelled unilaterally by the Fund after the first tranche.[2] These three programmes involved a total of SDR 260 million, of which only 60 million were disbursed.[3]

Strictly speaking, the government of Sierra Leone was only briefly involved in policy-based lending programmes of the IMF and the World Bank during the 1980s. In practice the government's economic policies throughout the decade reflected the influence of these programmes, suspended or anticipated. From about 1985, the government was in the position of informally accepting conditionality in order to demonstrate its good behaviour, as a prerequisite for subsequent agreement on a formal programme. In other words, the government operated under the constraint of multilateral conditionality without the benefit of multilateral funding.[4] In light of this somewhat anomalous situation, it is justifiable to treat the entire decade of the 1980s as one in which economic policy sought to conform to structural adjustment conditionality. In its empirical studies aimed at verifying the success of adjustment programmes, the World Bank invariably excluded Sierra Leone from the list of 'adjusting' countries. We shall see that this exclusion represented a convenience, perhaps a desire to exclude an embarrassing failure. While the economic policy applied in the country may have been misguided and inappropriate in the 1980s, the multilaterals dictated its content and form. By the end of the decade, the foreign trade regime of the government, fiscal policy, and the formal deregulation of internal markets conformed closely to multilateral diktat. The disastrous outcome that resulted must be assessed accordingly.

3.3 THE WORLD BANK ON SIERRA LEONE

The multilateral organizations, as well as bilateral donors, considered the economy of Sierra Leone a disaster case, even by comparison with other countries of sub-Saharan Africa. Per capita income in 1988 was measured to be the same as in the

mid-1960s and almost 20 per cent below the peak reached in 1981.[5] Further, instability and decline have characterized the economy since independence: from 1963 (when national accounts began) to 1988, per capita income fell in eleven of those years. Throughout these years the economy suffered from balance-of-payments pressures which waxed and waned, reaching crisis proportions in the 1980s. In arrears in its foreign debt payments and a virtual pariah to creditors both commercial and official (declared ineligible for World Bank loans in 1988, see Table 3.1), the Sierra Leone government remained in almost constant negotiations with the IMF and the World Bank throughout the decade, seeking policy-based lending that it hoped would provide an exit from the difficulties in which it found itself.

But relations with the Bretton Woods multilaterals evolved in a tense and acrimonious context. Three times in the 1980s structural adjustment programmes resulted in more conflict than adjustment: the 1981 IMF three-year programme failed to run its course; the 1983 agreement was cancelled by the Fund after the disbursement of only one tranche; and the Fund in 1987 ceased the stand-by arrangement it had negotiated with the government only a few months before (November 1986). Into such ill-grace fell the government with the multilaterals that after 1985 it had to accept conditionality without credits, a somewhat anomalous arrangement going under the euphemisms of a 'pre-programme' or 'shadow-programme'. Even compliance without credit did not satisfy the Fund; in 1986 the government had to take the financially questionable step of obtaining a commercial bank loan to pay off its arrears with the IMF.[6]

Throughout the 1960s and 1970s slow growth and balance-of-payments pressures represented the major symptoms of the economy's malaise, but in the 1980s added to these were accelerating inflation, growing budget deficits, and a collapsing exchange rate, with the three closely interrelated. On the fundamental cause of the accumulating woes of the economy most would agree: going into the 1970s, Sierra Leone had an economy based upon the exploitation of mineral resources (notably diamonds and iron ore), and by the middle of that

TABLE 3.1 Summary of multilateral policy interventions in Sierra Leone, 1967–88

Date	*Policy intervention*	*Outcome*
1967–9	IMF stabilization programme	Conditionality met, all tranches disbursed
1977	IMF loan of Le 7 million from trust fund	Fully dispersed
1981	IMF 3-year programme begins	Cancelled after first tranche
1983	IMF programme agreed	Cancelled after first tranche
1984 (early)	Ongoing discussions with World Bank about SAL	Inconclusive
1985	World Bank agriculture mission; WB public expenditure report recommends large budget cuts; review of public enterprises recommends privatization	No lending involved
1986 Nov	One-year stand-by arrangement agreed with the IMF	Disbursement of first tranche begins
1987 Jan	IMF suspends stand-by arrangement	End of IMF programme
March	'Shadow' programme of IMF and WB begins	Conditionality but no funding
1988	Sierra Leone declared ineligible for IMF borrowing	No lending

SOURCES GSL, 1985; GSL, 1987; and ILO/JASPA, 1990; and interviews with officials at the World Bank, International Monetary Fund, and Bank of Sierra Leone.

decade those resources were rapidly waning.[7] In 1976 the iron ore industry closed, and even accounting for smuggling, the output of diamonds began a long-term irreversible decline.[8] Further, the years of mining-led growth had created serious distortions in the private economy, and few if any benefits spread out from the sector. In sum, the Sierra Leonean economy entered the 1980s in a process of secular decline, requiring fundamental reordering if it were to regain sustained growth.

3.4 THE CHANGE IN WORLD BANK VIEWS

Given these difficulties, the reordering of the Sierra Leonean economy would have been a difficult and expensive process in any event. Some segments of the population would be enriched, others would gain little, and perhaps some would be impoverished. New investments would be required, and politicians and the civil service would face a heavy burden of economic and social management. A smooth transition to a new economic organization would be unlikely.[10] On one point all observers agreed: the new growth-leading sector, if there would be one, would have to be agriculture. In the late 1970s, donor agencies also agreed about the broad framework in which the changes would have to occur:

(1) for success they would require strong and purposeful intervention by the government,
(2) that the process should be equitable, and strong measures would have to be taken to protect the urban and rural poor.

This dual emphasis, *equity* and *sustainable growth*, formed the main theme of the 1978 JASPA report, wherein one found clear advice to the government that certainly not the first, and very likely neither, could be achieved without determined and indicative planning (JASPA, 1981, esp. pp. ix–xix). In only slightly more equivocal form, one encountered the same view in the World Bank report of 1981, whose title might easily be confused with that of the JASPA mission (*Prospects for Growth and Equity* for the former case and *Ensuring Equitable Growth* for the latter). The JASPA report more clearly expressed a concern about the balance between growth and equity, but these same issues loomed large for the World Bank. In light of the subsequent role of the multilaterals in Sierra Leone it is

worth considering the 1981 World Bank document in some detail. At the outset, the report is clear on its priorities: 'this report concentrates on two immediate development issues: growth and poverty alleviation.' In order that these issues be adequately addressed, the report called for a strong role to be played by government, 'the public sector may need to assume a leadership role . . .'. It would do this by expanding its activities, for the public sector 'can mobilize external savings more readily than the private sector . . .' (World Bank, 1981, p. ii). In part, the report's emphasis upon the leadership role of the public sector stemmed from a judgement that markets functioned inefficiently, particularly in agriculture.[11]

And like the JASPA report, the World Bank document stressed the need for government intervention in markets to ensure equitable growth, calling for taxation of the wealthy[12] and endorsing the government's policies of subsidizing articles of mass consumption. Given the subsequent position of the Bank on subsidies, the report's posture on this latter issue should be well noted. Specifically with regard to rice, the major staple of the population, the report found little fault with the government: 'The government's rice policy has been consistent with the self-sufficiency objective'; and the Bank gave even stronger endorsement to the government subsidy on kerosene, '. . . which is socially justified because [kerosene] is used exclusively by the lower income groups' (World Bank, 1981, pp. vi and ix).[13] Overall, the Bank mission judged that the subsidy policies played an important role in alleviating poverty: 'elsewhere in the economy . . . preferential consumer subsidies also assist in mitigating inequalities' (World Bank, 1981, p. vii). These comments indicated an overriding concern with inequality, and a judgement that more, not less should be done to combat it.[14]

Thus, it must have come as a surprise to the Sierra Leonean government when subsequent World Bank missions issued reports in direct contradiction to the analysis and advice of the 1981 report. The 1984 agricultural sector report offered a quite different judgement on the government's economic policies, particularly with regard to rice policy. Viewed as 'consistent

with . . . self-sufficiency' in 1981, the Bank discovered in 1984 that policy to be a major barrier to increased production:

> Government's policies with respect to the incentive framework have had a serious effect on agricultural production. The overvalued leone imposed low producer prices for the export crops as well for rice, since imports at the low rate of exchange depressed the domestic urban market price. (World Bank, 1984, p. vii)

In addition to the explicit criticism of exchange-rate policy, there is also here an implicit criticism of rice subsidies, which comes under sharp attack elsewhere in the report.[15] In contrast to its judgement in 1981 that rice subsidies played a substantial role in protecting the poor, in 1984 the Bank called for their elimination with the goals of not only increasing production, but also decreasing consumption absolutely.[16] Clearly, the decline in rice consumption would be disproportionately concentrated among the low-income, net food-buying households. While not explicitly noting this, the 1984 report sought to argue that higher agricultural prices in general could not help but improve income distribution:

> Higher prices to producers who are mostly smallholders, will directly contribute to the goals of greater production, assist in addressing the rural–urban income imbalance, and weaken the incentive to migrate. The resulting redistribution of income will go in the right direction, since urban income levels are currently distorted upward by the excess of public sector employment and, until recently, undervaluation of rice prices. (World Bank, 1984, p. 31)

This quotation is noteworthy for its implicit assumptions:

(1) that poverty was for all practical purposes an exclusively rural phenomenon in Sierra Leone;
(2) that the rural poor were net sellers of agricultural productions, not net buyers;

(3) that there was a significant rural–urban income gap with reference to potential migration groups;
(4) that public sector employment was relatively well-remunerated (otherwise it would not 'distort upward' urban income levels in consequence of its 'excess').

As will be shown, all of these assumptions prove to be empirically false. But at this juncture it is sufficient unto the argument to contrast the 1984 judgements with those of 1981. For example, in 1981 with regard to urban employment, the Bank had written of 'the relative lack of high-wage islands in the public and private sectors' (p. vii). It is hard to understand what reversed this judgement after three years during which real wages fell sharply.

The 1985 Bank review of public expenditure in Sierra Leone carried further the revision of the judgements of the 1981 report. Here price subsidies were attacked as '*ad hoc*' and 'counter-productive', with the latter term implying that the earlier mission had been in error in thinking that the rice and kerosene subsidies had been poverty alleviating. Overall, the 1985 report assessed the economy as being the victim of serious mismanagement. Among the mistakes of the government that the Bank discovered retrospectively was that it had let recurrent expenditure grow out of control, and that this spending should be reduced in real terms.[17] By 1985, a major cut in government expenditure and complete elimination of all subsidies had become conditionality for any Bank adjustment loan.[18] Along with profligateness, the government was judged as guilty of creating major market distortions, and the recommended solution was to curtail drastically its market interventions across-the-board.

> Markets . . . are not always perfect, and it is necessary for the government to step in and take action when failures occur. In Sierra Leone, Government intervention has tended to focus on areas where the markets work best, thereby preventing prices from changing to bring about the desired reallocation of resources. (World Bank, 1985, p. 100)

While the Bank did not go into great detail as to 'where the markets work best' (it offered the example of export crop pricing), the 'focus' of government intervention since independence has been on agricultural markets and management of the exchange rate. If these are indeed examples of 'where the markets work best', it is somewhat inexplicable why virtually no country in the world allows unregulated agricultural markets, nor do many permit an unmanaged float (particularly not the developed countries). Along with this great faith in markets (notable for its absence in the 1981 report), went a revision of the Bank's view on foreign investment in the Sierra Leonean economy. The 1981 report had noted that a virtue of the country's mining sector was that 'compared to most mineral economies . . . there is less foreign *domination* of the sector' (World Bank, 1981, p. vii, emphasis added), which presumably implied that less foreign ownership was a good thing. In contrast, the 1985 expenditure review counselled the government that 'the attractiveness of Sierra Leone for foreign investors, especially in the gold mining, should be improved' (World Bank, 1985a, p. xi), and implied that too much regulation would be self-defeating. Indeed, the Government was advised to play a more limited role in regulating the mining sector.[19]

By 1986, the Bank had come to the firm conclusion that the ills of the Sierra Leonean economy were overwhelmingly the result of mismanagement by the Government. To remedy the situation, the Bank called for a policy package involving major reductions in government expenditure, deregulation of markets, and privatization of major government enterprises.[20] Whether or not this advice was sound, one could forgive the Sierra Leonean policymakers if it struck them as a *volte-face*.

The purpose of recounting this history of Bank reports is not to criticize the organization for altering its views. Rather, the purpose is to demonstrate that even to the skilled professionals of the World Bank, the nature of the economy's problems, much less their solution, was not readily obvious. If what seemed to the Bank to be sound aspects of economic management in the beginning of the 1980s proved on closer inspection to be manifestations of mismanagement, one should not be surprised

that the Government itself (which would bear the political cost of policies) had difficulty developing a coherent much less successful policy package. Further, if experts from the same organization could reverse themselves in a few short years, one could not be confident that the multilateral policy advice in the 1990s will be the same as in the mid-1980s. It is open to question whether the government should be held culpable by the Bank for pursuing policies previously endorsed by the Bank itself (such as subsidies).

Of course, economies change, so the advice appropriate at one moment may be inappropriate later. However, the shift in emphasis by the Bank was so dramatic and quick that it might be appropriate to consider the influence of changes within the multilateral itself as well as in Sierra Leone when seeking explanation. Exploring that possibility lies beyond the scope of this book (see Mosley, Harrigan and Toye, ch. 4).

In striking contrast to the reversal of World Bank policy was the JASPA report of 1990, where one found quite a different view.[21] While the Bank took the government to task for excessive expenditure, the JASPA mission saw quite the opposite problem:

> The main cause of the continued high budget deficits has been insufficient revenue, rather than excessive spending . . . . Historically, the taxation base has been the external and mining sectors of the economy. But in the 1980s, this base has been eroded substantially due to the secular decline in mining activities and the foreign exchange crisis. (ILO/JASPA, 1990, p. xiii)

With this in mind the JASPA mission recommended enhancement, rather than contraction of the public sector: 'The impression is overwhelming that one of the primary needs of the Sierra Leonean economy is the urgent rehabilitation of the public sector' (ILO/JASPA, 1990, p. xvi). But the most telling criticism of multilateral policy by the JASPA report addressed the issue of why adjustment programmes so consistently failed in Sierra Leone. Here, the JASPA report made a powerful point:

> So far, most reform programmes have been formulated by technocrats in the Ministry of Finance and the Bank of Sierra Leone, in consultation with officials from the IMF and the World Bank. The spectrum of participation has been unduly limited . . . The only way to generate . . . [a successful reform programme] is to ensure that the various socio-economic groups in . . . [Sierra Leone and other countries] participate in the design of the reform programmes. (ILO/JASPA, 1990, p. xvi)

To make this argument was to the credit of JASPA; obvious as it might be, one searched in vain through the adjustment literature for its statement in such explicit form. All too often one encountered references to the 'political will' of governments for economic reform, or 'political commitment' to challenging entrenched interest groups. In addition to being politically naive – the body politic of every country consists of special interests, that being the essence of political pluralism – such phrases have an unpleasant flavour of authoritarianism: if only governments acted with sufficient authority and ruthlessness, the obstructionism of the special interests could be overcome and the technically impeccable programmes of structural adjustment would ensure the general welfare. The JASPA report cut through this mandarin elitism to make the obvious point that programmes affecting the mass of the population should be openly debated and defended on their merits before each country's population, particularly since experts were in profound disagreement as to the merits of structural adjustment.

The invariant practice of the World Bank, and even more so the IMF, to develop adjustment programmes in virtual secrecy through consultations with high-level civil servants and a few politicians could no longer be justified in the late 1980s by passing the responsibility of this approach on to the governments of Africa. While previously the Bank might claim that domestic politics was not its affair, at the end of the decade its president himself indicted African governments for their neglect of the popular will and threw the Bank into the recipient country's political affairs:

> A root cause of weak economic performance in the past has been the failure of public institutions. Private sector initiative and market mechanisms are important, but they must go hand-in-hand with good governance . . . an administration that is accountable to its public . . . . [A] better balance is needed between the government and the governed. Thus [the World Bank] sets out a range of proposals aimed at empowering ordinary people . . . The growing conviction is that development must be more bottom-up less top-down . . . (World Bank, 1989, p. xii)

If the World Bank believed that government should be 'accountable to its public', then a radical change in the practice of structural adjustment lending was required, in which the Bank followed its president in requiring that African governments seek consensus before implementing economic policy. One must presume that Barber Contable and senior executives at the World Bank came as late converts to the principle of democracy in economic policy, for no structural adjustment programme in Africa during the 1980s showed any sign of it; and certainly not in Sierra Leone.

4 The Decline of an Economy

4.1 INTRODUCTION

As shown in Chapter 2, the World Bank, the premier international agency lending to African countries, developed in the 1980s a standard explanation for poor economic performance which it applied generally to the countries of the SSA region. In this analysis, external shocks to the sub-Saharan countries enter as secondary effects, with the primary cause of economic decline resulting from poor economic policy ('mismanagement') and especially unwise investment decisions. This characterization of a sub-continent's problems is not a strawman created by the critics of the Bank, but an argument repeated again and again with great force in official documents.

One would have thought that the World Bank might have offered this interpretation with nuances, that some countries suffered external shocks so great that while the argument held in general, exceptions could be found. If any SSA country presented itself as an exception to the mismanagement argument, it was Sierra Leone. This is not to defend the economic policies pursued by the government, but rather to argue that problems largely beyond the control of Sierra Leonean policymakers reduced their efforts, wise or foolish, to relatively minor importance. It could be argued that what appeared as policy mistakes in practice represented uncontrollable events overwhelming and undermining policy measures that under more benign circumstances might have produced a favourable outcome.

But the World Bank technocrats approached the problems of the Sierra Leonean economy with a religious faith in the 'mismanagement' hypothesis, summarily discarding external factors in a zeal for free-market policy reform. It was as if