

Washington Consensus Reforms and Lessons for Economic Performance in Sub-Saharan Africa*

Belinda Archibong[†]
Barnard College

Brahima Coulibaly[‡]
Brookings Institution

Ngozi Okonjo-Iweala[§]
Brookings Institution

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Abstract

Over three decades after market-oriented structural reforms, termed “Washington consensus” policies, were first implemented, we revisit the evidence on policy adoption and the effects of these policies on socio-economic performance in sub-Saharan African countries. We focus on three key ubiquitous reform policies around privatization, fiscal discipline, and trade openness and document significant improvements in economic performance for reformers over the past two decades. Following initial declines in per capita economic growth over the 1980s and 1990s, reform adopters experienced notable increases in per capita real GDP growth in the post 2000 period. We complement aggregate analysis with four country case studies that highlight important lessons for effective reform. Notably, the ability to implement pro-poor policies alongside market oriented reforms played a central role in successful policy performance.

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*Belinda Archibong is Assistant Professor of Economics at Barnard College, Columbia University, New York City, New York. Brahima Coulibaly is Vice President of the Global Economy and Development, Brookings Institution, Washington, DC. Ngozi Okonjo-Iweala is Director-General of the World Trade Organization, Geneva, Switzerland. She is also a Nonresident Distinguished Fellow with the Global Economy and Development Program, Brookings Institutions, Washington, DC; Chair of the Board of the Global Alliance for Vaccines and Immunization, Washington, DC; and a former Finance Minister of Nigeria.

[†]Barnard College, Columbia University. 3009 Broadway, New York, NY 10027, USA. ba2207@columbia.edu.

[‡]Brookings Institution. BCoulibaly@brookings.edu.

[§]Brookings Institution.

1 Introduction

The story of how African countries experienced a debt crisis in the 1980s began in the 1960s and 1970s, when newly independent African governments, struggling to help their countries recover from the ravages of European colonialism, carried out expansionary fiscal spending aimed at economic development. Governments also borrowed significantly to finance development expenditures over this time. For African countries that were oil exporters, the high oil prices of the 1970s made this borrowing look affordable.

But in the 1980s, the economic tides turned. Falling oil prices along with a collapse in world prices of primary agricultural commodities, which made up 88 percent of Africa's exports, resulted in a shortfall in export revenues that put enormous pressure on governments' finances (Onyekwena and Ekeruche, 2019; Mkandawire and Soludo, 1999). The early 1980s also saw a global recession, along with an increase in real interest rates in donor countries that raised interest payments on previously contracted US dollar-denominated loans, markedly increasing the debt burden of African countries (Onyekwena and Ekeruche, 2019; Due and Gladwin, 1991). Additionally, Africa's governments featured largely in domestic financial institutions like the banking sector, with many of them nationalizing foreign banks or creating new state-owned financial institutions (Mkandawire, 1999).

By the early and mid-1980s, African governments were in severe financial straits and, with lowered incomes, increasing poverty, and declining welfare, turned to international financial institutions for debt relief. When economist John Williamson coined the term "Washington Consensus" in 1989, he was referring to a set of ten market-oriented policies that were popular among Washington-based policy institutions at that time, particularly as prescriptions for improving economic performance in Latin American countries (Williamson, 1993). These policies centered around fiscal discipline, market-oriented domestic reforms, and open-

ness to trade and investment. For indebted African countries, the Washington Consensus inspired market-based “structural adjustment programs” prescribed by international financial institutions (like the World Bank and the International Monetary Fund (IMF)) that were often prerequisites for financial assistance (Onyekwena and Ekeruche, 2019; Naiman and Watkins, 1999; Mkandawire and Soludo, 1999). Several African countries adopted these market-oriented policies beginning in the 1980s. The number of reform adopters increased further following the introduction of the Highly Indebted Poor Countries (HIPC) initiative by the World Bank and IMF in the mid-1990s, which provided debt relief to countries with ‘unsustainable’ debt, provided they enacted many of the SAP policies (Onyekwena and Ekeruche, 2019).

It has been over three decades since these policies were first adopted across Africa and other developing countries, yet the evidence of their impact on economic outcomes remains a subject of debate. In this essay, we begin with an overview of the earlier evidence on the effects of these policies, which sometimes emphasizes the importance of policy inputs that go beyond the reforms themselves, like government capacity and public support. We then revisit whether market-oriented reforms of the 1980s and 1990s may have contributed to latter positive economic outcomes for sub-Saharan Africa, with a focus on descriptive statistics comparing growth of countries that carried out reforms and those that did not. A common pattern is that economic performance was worse for reform adopters in the 1980s and 1990s- which may partly reflect the fact that countries which came under pressure to adopt reforms already tended to be worse off, but may also reflect that such reforms required adjustments that caused short-term hardship to already struggling low income populations. Between 2000 and 2019, median per capita GDP growth was higher than during the 1980s and 1990s for both reformers and non-reformers. However, the increase in growth was even higher for reform adopters. While it would be imprudent to draw definitive conclusions from these simple descriptive analyses, the results are consistent with a reversal of the economic

fortunes of reform adopters in the last two decades following their initial dismal economic performance during the 1980s and 1990s.

We next explore the role of two alternative explanations for improved growth across the sub-Saharan Africa region since 2000: whether countries received debt relief and the “super-cycle” increase in commodity prices early in that time period. We find that the post-2000 per capita GDP growth was higher for non-commodity dependent countries compared with commodity dependent countries. Additionally, among the commodity-dependent countries, the per capita GDP growth was higher for reformers compared with non-reformers. For debt relief, countries that benefited from debt forgiveness experienced higher per capita GDP growth compared with countries that did not. Among the countries that benefited from debt relief, reformers generally experienced a higher per capita GDP growth.

To enrich the aggregate analysis, we present three case studies for Nigeria, Uganda and Ethiopia. This discussion illustrates how the factors of economic reform, debt relief, and commodity prices interact, and also emphasizes the potential importance of other factors like national investment in infrastructure. An overall message is that implementing economic reforms successfully requires a stable government and socio-political environment, which in turn requires a focus on the poor and on those negatively affected by reforms to sustain needed public support.

2 Existing Evidence on Washington Consensus Policies in Sub-Saharan Africa

One can make a prima facie case that something changed for the better with regard to the economies of sub-Saharan Africa in the early 2000s. As shown in Figure 1, African economies have experienced remarkable improvement in economic growth, with median country real GDP per capita growth rising from 0.2 percent per year on average in the 1980s and 1990s

to 1.6 percent over 2000 to 2019. Figure 2 shows that the rate of inflation in the region for the median country declined from double digits in the 1980s and 1990s, including a peak of 25 percent inflation for the median country in 1994 (partly caused by the devaluation of the African Financial Community (CFA) Franc in 1994 (Franses and Janssens, 2018)), to stabilize at around 5 percent in the past two decades. These observations raise the question of whether the market-oriented reforms of the 1980s and 1990s could have played a role in the region's improved economic performance of the past two decades. The hope was that market-oriented reforms would correct domestic policy-induced distortions in prices, such as overvalued exchange rates, subsidies that led to artificially low agricultural commodity prices, high wage rates, low interest rates and subsidized input prices (Due and Gladwin, 1991; Williamson, 1993; Easterly, 2019; Chari, Henry, and Reyes, 2020). Similarly, market-based policies like privatizing public enterprises, removing or relaxing exchange rate controls that biased export trade towards certain commodities and fiscal adjustment to balance budgets by reducing spending on subsidies would support stronger economic growth.

Most of the early literature found that the reform policies failed to improve economic conditions in African countries. Perhaps the most common reason for this outcome centered on the failure of the reforms to account for political economy within countries: in particular, a sense that reforms were being imposed by outside agents as a condition for debt relief or additional loans without adequately emphasizing the role of local ownership in shaping domestic economic policy (Ekpo, 1992; Easterly, 2000; Due and Gladwin, 1991; Birdsall, Caicedo, and De la Torre, 2010; Adedeji, 1999; Mkandawire and Olukoshi, 1995; Rodrik, 2006; Stiglitz, 2005). Other studies attributed the failures of the reforms to increases in domestic inflation and its adverse effect on real incomes and well-being post-reform (Due and Gladwin, 1991; Ekpo, 1992). The negative effects of the reforms were also disproportionately felt by rural farmers, especially women working in food crop production. Ironically, while international financial institutions were advocating for the removal of agricultural subsidies in

Africa, the advanced economies, including the United States and other high-income countries, heavily subsidized agricultural production making it difficult for African farmers to compete (Due and Gladwin, 1991; Mkandawire and Olukoshi, 1995). Thus, these market-oriented reforms increased unemployment and socio-political unrest in several African countries in the 1980s and 1990s (Mkandawire and Olukoshi, 1995; Due and Gladwin, 1991; Ihonvbere, 1993; Elson, 1995).

A more recent literature has highlighted that the reforms were successful in improving economic growth over time, particularly when policymakers had the state capacity to implement them (Prati, Onorato, and Papageorgiou, 2013; Grier and Grier, 2020; Dollar and Svensson, 2000). Conversely, these studies suggest that the de facto reductions in state capacity required by some reforms may have contributed to their failure in some countries. For instance, the ratio of civil servants to the population in sub-Saharan Africa as a whole fell to 1 percent in 1996, lower than the 3 percent for other developing countries and much lower than the OECD average of 7 percent (Sender, 1999). Without a motivated, well-equipped, civil service, proper implementation and regulation of these reforms was often incredibly difficult.

3 Descriptive Evidence on the Effects of Reforms

For the purpose of this study, we classify the ten Washington Consensus policies (as discussed in Serra and Stiglitz (2008)), into three main categories: 1) fiscal policy reform, which includes fiscal discipline, reordering of public expenditures toward pro-poor priorities, tax reforms to broaden the base and hold down marginal tax rates; 2) domestic market-oriented reforms, which includes interest rate liberalization, privatization, deregulation to reduce barriers entry and exit of firms, and legal security for property rights (especially in the informal sector); and 3) openness reforms, which include liberalization of inward foreign

direct investment, trade liberalization, and competitive exchange rates.

For each of the three main categories, we choose one indicator to represent changes in this area. For fiscal policy reform, we treat a country as a fiscal reformer if the average primary fiscal balance in 1995 to 1999 is higher than -0.7 percent of GDP, which is the median for the region. For domestic market reform, we treat a country as a reformer if the cumulative number of privatizations deals from 1988 to 1999 is greater than or equal to six, which is the median for the region. Finally, for openness we treat a country as a reformer if it was open to trade, as defined in Sachs and Warner (1995), for at least five years from 1980 to 1999. They classify a country as “open” to trade if it does not have any of the following: average tariff rates in excess of 40 percent; non-tariff barriers that cover more than 40 percent of imports; a socialist economic system; the state has a monopoly on major exports; and a black market currency-trading premium in excess of 20 percent.

Table 1 shows the classification of countries by reform categories. Of the 32 sub-Saharan African countries for which we have data, 59 percent are fiscal reformers. Of the 36 countries for which we have data, 42 percent are domestic market reformers and 47 percent are openness reformers. Six countries- Benin, Cote d’Ivoire, Kenya, Mozambique, Tanzania, and Uganda- are reformers in all three categories.

There is admittedly some subjectivity in these rules. After all, whether a nation is a “reformer” is not a binary yes-or-no question. The classification used here mostly distinguishes between those who enacted the most reforms and those who reformed the least. Still, this descriptive approach provides useful insights.

Table 2 summarizes the results showing the trends in per capita GDP growth rates for reformers and non-reformers for all countries and by reform category. Overall, the median GDP per capita growth was slightly positive (0.2 percent) across the region between 1980 and 1999. Between 2000-2019, the growth rate rose by 1.4 percentage points to 1.6 percent.

However, performance varied by reform categories.

4 Reform Adoption and Economic Performance

The premise of the Washington Consensus policies reforms rested on two interdependent and testable hypotheses: first, in the years following the reforms, economies that adopted reforms would perform better than they did in the preceding years and, second, reform adopters would outperform non-reformers. In the following sections, we examine the links between reform adoption and the region's economic performance, as measured by per capita GDP growth.

Across sub-Saharan Africa, the median budget deficit declined from -2 percent of GDP in the early 1980s to -0.7 percent of GDP in the late 1990s, suggesting an increase in fiscal discipline across the region. The reduction in the deficit continued through 2010: indeed, budget deficits for the region as a whole were near-zero from 2005-2009. However, deficits widened afterwards due partly to the effects of the global financial crisis of 2008-09 and a substantial terms-of-trade shock in 2014.

Africa's fiscal reformers in the 1980 to 1999 period experienced negative growth rates, with the trends reversing sharply in the post-2000s era. Comparing the two sets of countries as shown in Table 2, per capita GDP growth rate was slightly higher for non-reformers than for reformers over the past two decades. However, the per capita GDP growth rate increased by more for reformers compared with non-reformers between 1980-1999 and 2000-2019, consistent with, but not conclusive confirmation of, the positive long-run predictions of reform adoption for economic performance.

We use privatization as a proxy for domestic market-oriented reforms (Parker and Kirkpatrick, 2005) in part because no comprehensive and reliable cross-country measures were available for deregulation, legal security for property rights and interest rate liberalization.

Moreover, privatization is often regarded by both supporters and opponents of the Washington Consensus reforms to be a key feature of domestic policy. In sub-Saharan Africa, the share of countries with one least one privatization deal rose from 5 percent in 1988 to reach 40 percent in the late 1990s. Similarly, the number of enterprises privatized increased significantly from just three in 1988 to 160 in 1996. The pace of privatization varied across the region. While some countries, including Cote d'Ivoire, Uganda, Nigeria, Ghana, Kenya, Mozambique, Zambia and Tanzania, privatized more than 50 state-owned enterprises between 1988 and 1999, others, including Gabon, Mauritius, Rwanda, Equatorial Guinea, Gabon, and Central African Republic, did not privatize any over this period. In some cases, the push to privatize state-owned enterprises was part of a strategy to consolidate fiscal balances.

Previous scholars have highlighted the serious challenges faced by African countries in the planning and implementation of privatization policies while pursuing other aspects of structural adjustment plans and debt-relief negotiations in environments of incomplete markets and weak enforcement capacity (Bayliss and Cramer, 2003; Ariyo and Jerome, 1999). Although the Washington Consensus framework did recognize the importance of complete markets and proper regulation as preconditions for successful privatization, these caveats were often overlooked in policy design. In particular, international financial institutions often failed to adequately highlight that privatization reforms should be accompanied by antitrust legislation in promoting competitive markets. They also underestimated the effects of rapid privatization on the morale of public sector employees, who were essential for proper regulation of the privatization process (Bayliss and Cramer, 2003; Ariyo and Jerome, 1999).

Table 2 shows the average performance between those with more and fewer privatizations as a proxy for more general domestic market oriented reforms. Similar to the results of the fiscal reforms, market reformers experienced declines in per capita GDP growth over

the reform period from 1980-1999, followed by a sharp reversal post 2000. Over 2000-2019, growth rates for reformers and non-reformers looked very similar at 1.5 percent and 1.6 percent on average, respectively. However, the set of countries that privatized the most in the late 1980s and in the 1990s, experienced a much higher increase in median real GDP per capita growth in the last two decades: 2.1 percentage points compared with 1.4 percentage points for the non-reformers.

Finally, sub-Saharan Africa increasingly opened to trade in the 1980s and 1990s. In the early 1980s, only 5 percent of the countries were classified as open to trade. That share rose to reach almost 60 percent by 2000. Around the same period, African countries accelerated the adoption of more competitive exchange rates: for example, the share of countries with floating or semi-floating exchange rates rose from 45 percent in 1980 to 60 percent in the early 1990s. While trade openness increased, previous scholars have highlighted that this did not translate to immediate increases in investment in sub-Saharan Africa. Indeed, cuts in public investment to adhere to fiscal reforms contributed to the decline in investment (Sender, 1999).

Many trade liberalization policy reforms undertaken over this period underestimated the role of incentives facing producers in incomplete markets. Liberalization in the agricultural sector, hastily implemented, negatively impacted terms of trade for farmers who were sometimes unable to compete with international prices (Sender, 1999). Higher prices for agricultural commodities in the 1980s and 1990s worsened local food shortages and led to protests in African countries (Herbst, 1990). Indeed, these events may have also contributed to the steep reductions in Africa's aggregate investment levels in the early 1980s.

Despite initial reductions in total investments across the continent in the early part of the reform years, countries that adopted trade openness reforms experienced small positive growth rates over 1980 to 1999. Real GDP growth per capita increased for both reformers

and non-reformers between 1980-1999 and 2000-2019. The increase was roughly comparable for reformers and non-reformers, although reform countries ended up with higher growth rates of 1.9 percent in the 2000 to 2019 period.

Taken as a whole, this descriptive evidence is consistent with the earlier work: that is, reforming countries tended to be worse performers before 1990, but made a more substantial jump in growth rates after 2000.

5 Possible Alternative Explanations for Post-2000 Economic Performance

In this section, we assess two plausible alternative, but not necessarily mutually exclusive, explanations for the improved economic performance of sub-Saharan Africa over the past two decades. One explanation is that African countries benefited from debt relief and the resulting additional fiscal space allowed governments to increase public expenditures to boost economic growth. A second explanation is that African countries benefited from the sustained increase in commodity prices in the early 2000s, driven, in part, by the high demand from China, and known as the commodity super-cycle (Fernández, Schmitt-Grohé, and Uribe, 2020).

5.1 Debt Forgiveness

Beginning in the 1990s, officials from major creditor countries (a group known as the Paris Club) and multilateral organizations adopted the ambitious Multilateral Debt Relief Initiative for outright forgiveness of debt owed by a group of 36 low-income countries- 29 of them located in Africa. This debt relief effort was the logical advancement of a variety of initiatives for debt relief, the most prominent of which was the Heavily Indebted Poor Countries (HIPC) initiative instituted by the IMF and World Bank in 1996 to address debt overhang in

the poorest countries of the world. A list of African countries scheduled for debt relief under the HIPC program is shown in Table 3. 32 countries, 67 percent of countries in Sub-Saharan Africa were classified as HIPC countries, accounting for a total of \$239 billion in (constant 2010) GDP in 2000. In contrast, the total GDP in 2000 for the 16 non-HIPC countries listed in Table 3 was higher at about \$560 billion by World Bank estimates.

The debt relief initiatives were expected to improve economic performance in countries. Unloading of the inherited debt overhang, together with an infusion of new loans, improved policies, and enhanced investment incentives were expected to increase economic and social development outcomes. Some previous evidence has shown positive correlations between reduced debt burdens and economic upturns (Coulibaly, Gandhi, and Senbet, 2019). The average public debt level (as a percentage of GDP) for sub-Saharan Africa declined to about 36 percent in 2012 from highs of around 110 percent in 2001, significantly below the levels leading up to the HIPC initiative.

Table 4 offers a comparison of African countries that benefited from debt relief and those that did not. Countries receiving debt relief might be expected to be in worse overall economic shape at the start of the process and, indeed, the growth rate for beneficiaries of debt relief was lower between 1980 and 1999 than non-debt relief recipients. However, growth rates were similar between debt relief and non-debt relief countries at 2 percent over 2000-2019. Thus, countries that received debt relief experienced higher increases in per capita economic growth over the last two decades, 2.3 percentage points, compared with 0.3 percentage points for the countries that did not receive debt relief.

Debt relief through programs was often conditioned on strict adoption of market liberalization reforms like those outlined in Washington Consensus policies. Indeed, many of the reforms undertaken by African countries in the 1990s were initiated with an objective to reach certain debt relief eligibility targets (Ekpo, 1992; Sender, 1999) and hence, there was

significant overlap between reform adopters in Table 1 and debt relief recipient countries in Table 3. A full and persuasive decomposition of patterns and trends between reform adopters and the debt relief recipients would be a challenging task. But this descriptive comparison of patterns and trends over this period shows that, among the beneficiaries of debt relief, the countries that adopted fiscal and market-oriented reforms posted higher economic growth than non-adopters. However, there do not appear to be significant differences in growth rates between the 1980-1999 reform period and the post-2000s era for debt relief recipients that adopted more trade-openness reforms.

5.2 The Commodity Super-Cycle

Commodities have featured heavily in the exports of many African countries for a number of years, with exports of commodities like oil as high as over 80 percent of total exports in countries like Angola, Congo, and Nigeria in 1990 and through the early 2000s (Deaton, 1999). Minerals like diamonds and uranium have also featured heavily in commodity exports of African economies like Botswana (where diamonds were 80 percent of exports in 1990) and Niger (where uranium was 83 percent of exports in 1990). In the 2000s, commodity prices surged in response to higher demand from emerging market economies, notably China, as well as from concerns over long-term supply. A notable example was the boom in oil prices over this period, with oil prices rising over 200 percent from \$30 per barrel in 2000 to \$100 per barrel in 2008.

The commodity price super-cycle was then disrupted during the 2008 to 2009 global financial crisis and, subsequently, by an adverse terms of trade shock for Africa's exporters in 2014. Despite these shocks, higher commodity prices over much of the past two decades benefited several commodity-dependent countries. We define commodity dependence according the International Monetary Fund (IMF) definition of resource-intensive countries as countries with ≥ 80 percent of total merchandise exports from commodities. A list of

commodity-dependent countries is shown in Table 3. 33 countries, 69 percent of countries in Sub-saharan Africa were classified as commodity-dependent countries, accounting for a total of \$452 billion in (constant 2010) GDP in 2000. In contrast, the total GDP in 2000 for the 15 non commodity-dependent countries listed in Table 3 was lower at about \$347 billion by World Bank estimates.

Table 5 shows a breakdown for both commodity dependent and non-commodity dependent countries. Both groups experienced higher GDP per capita growth between 2000 and 2019 compared to the previous two decades. In fact, the increase in per capita GDP growth rate was higher for non-commodity dependent countries, 1.9 percentage points compared with 1.4 percentage points for commodity dependent countries.

This seems to suggest that although the commodity price super-cycle likely played an important role from 2000-2006, when comparing the longer periods as in Table 5, its differential effect on longer-term growth of African countries is not substantial. Indeed, per capita GDP growth averaged 2 percent between 2000 and 2004 before commodity prices began their rapid ascent (Coulibaly, 2017), suggesting that the increase in commodity prices was not the sole driver of the post-2000 economic performance for sub-Saharan Africa. As shown in Table 5, an examination of the trends in growth rates among commodity dependent countries between reformers and non-reformers shows that countries that adopted market reforms like privatization and trade openness posted higher increases in median growth rates between 1980 to 1999 and 2000 to 2019. For fiscal reformers, in contrast, there appears to be no discernible difference in growth rates.

The results suggest that debt relief may have also contributed to the higher per capita economic growth of the last two decades, with less of an effect for commodity prices. Within the categories of countries that were beneficiaries of debt relief and commodity dependent, reformers generally posted larger growth gains between the reform period and the post-2000s

era, suggesting that reforms may have played a role in improving economic performance, independently of the commodity price boom and debt relief.

6 Select Country Experiences

The analysis so far has taken a broad-brush approach to examining the links between Washington consensus policy adoption and economic performance in Africa. To complement and enrich the discussion on the regional experience, we explore the reform experience in three countries with different situations, implementation approaches and results, with the largest populations in Africa (Nigeria and Ethiopia) and representing what is widely viewed as a case of successful reform adoption (Uganda). The case studies represent two reform countries (Nigeria and Uganda) and 1 non-reform country (Ethiopia) according to the domestic market-oriented, trade openness and fiscal reforms classifications discussed in the previous sections.

6.1 Nigeria

Nigeria is a country which scored highly on both domestic market-oriented reforms and fiscal reforms as shown in Table 1, and is a commodity-dependent country that was not one of the countries scheduled for HIPC debt relief in Table 3. Nigeria has been heavily dependent on oil exports since the 1970s. In the 2000s, over 70 percent of Nigeria's government revenue comes from petroleum with petroleum exports as a share of total exports growing to over 90 percent in the 2000s (Archibong, 2018). The heavy dependence on oil exports has made the country very vulnerable to external price shocks, with deleterious implications for the ability to finance public spending and debt (Okonjo-Iweala, 2014). Swings in oil prices played a major role in creating Nigeria's debt problem in the 1980s, but after 2000, a combination of improved management of oil resources and improved macroeconomic policies helped to improve Nigeria's growth.

Global oil prices crashed (in nominal terms) from about \$30/barrel in the early 1980s to about \$12/barrel in the mid-1980s, significantly increasing Nigeria's debt-to-GDP ratio. Under pressure to reach agreements on debt rescheduling, Nigeria implemented policy reform in the form of structural adjustment programs with the support of the IMF and World Bank (Ekpo, 1992; Devarajan, Dollar, and Holmgren, 2002). Previous work has described the Nigerian economic experience post policy adoption in the 1980s as dismal by citing decreases in GDP growth rates from 6.9 percent pre-adjustment to -1.7 percent in the post-period (Ekpo, 1992), but this also compares the period of high oil prices to the period after oil prices crashed.

Nigeria's reforms focused on fiscal tightening and privatization (as shown earlier in Table 2), but also induced severe cuts in social spending on education and health, which led to increased hostility for the reforms in the 1980s and 1990s by Nigerian citizens (in contrast, the list of actual Washington Consensus policies in Williamson (1993) explicitly emphasizes reorientation of spending toward pro-poor programs). Nigeria's reforms were then abandoned by the Babangida military regime and the country continued to be beset by poor macroeconomic policy. Nigeria continued to borrow and accumulated up to \$30 billion in debt to the Paris Club of Creditors even though the country earned more than \$300 billion in crude oil revenues over the 1970s-2001 period (Okonjo-Iweala, 2014). While some of the oil revenue and borrowed money was invested in needed infrastructure, education and health, lack of monitoring of spending and opaque ad-hoc budgets meant there was a significant amount of spending on "white elephant" projects like unproductive steel mills.

Following the transition to democracy in 1999 and under the helm of then- President Olusegun Obasanjo, Nigeria was faced with an unstable macroeconomic environment in the early 2000s: volatile exchange rates, double-digit inflation (23 percent per year in 2003), a relatively high fiscal deficit (3.5 percent of GDP in 2003) and low GDP growth (2.3 percent

on average for the previous decade). The country embarked on macroeconomic reforms (under then-finance minister Ngozi Okonjo-Iweala), again with a focus on privatization and budget monitoring, but this time also with a notable investment in education and health. In addition, to reduce volatility in public finances, Nigeria adopted an oil price-based fiscal rule that used the long-run 10-year average oil price to set government budgets and targets for spending. Based on the rule, when oil prices were above-average, the government would set aside some excess revenues from oil in the form of a savings account called the Excess Crude Oil Account. The fiscal rule, which was institutionalized in national law in the Fiscal Responsibility Act signed in 2007, linked savings to fiscal discipline around government spending, aiming for a fiscal deficit of 3 percent of GDP. The Excess Crude Oil Account policy was successful both in building fiscal discipline and helping Nigeria weather shocks like the financial crisis of 2008-2010 when oil prices fell from over \$140 to \$40 per barrel. Over this period, Nigeria was able to draw on savings from the account to implement a fiscal stimulus of around 0.5 percent of GDP and maintain public spending.

Increased public savings between 2004 and 2006 as a result of policy led to fiscal surpluses of 7.7 percent of GDP in 2004 and 10 percent of GDP in 2005. This laid the groundwork for a relief of a \$30 billion debt, of which \$18 billion was completely written off by the Paris Club and Nigeria to pay off its external debt arrears of about \$6 billion. In addition, Nigeria was able to increase its foreign reserves from \$7 billion in 2003 to \$46 billion by the end of 2006, and implement tighter monetary policy to reduce inflation from 21.8 percent in 2003 to 10 percent in 2004. This also helped to spur private sector investment. Growth averaged 8.1 percent a year from 2003 to 2006 and the share of spending on health and education rose to 5 percent and almost 10 percent, for health and education in 2007, respectively.

Reforms in the early 2000s also targeted sectors that were large drains on public fi-

nances for privatization, including the telecommunications sector, the downstream petroleum sector and the power sector, with varying degrees of success. Nigeria also benefited from the increase in oil prices in the post-2000 period, and both the reforms and increases in prices combined to create an attractive environment for private investors in the country. The Nigerian experience with reforms, and specifically the contrast between the outcomes of reforms under the military versus democratic regimes mentioned here, highlights the importance of a committed government centering social welfare with pro-poor spending in implementing successful reforms

6.2 Uganda

Uganda is often touted by international financial institutions as an example of successful application of reforms; however, digging into the details of reform present a more mixed picture (Dijkstra and Van Donge, 2001; Devarajan, Dollar, and Holmgren, 2002; Hickey, 2013; Rwamigisa et al., 2018). Of the three key areas of reform discussed earlier, Uganda was one of a handful of countries (6 from Table 1) that scored highly on all three: domestic market-oriented reforms around privatization, fiscal reforms aimed at improving the fiscal balance and increased trade openness over the 1980 to 1999 period. The country was not one of the commodity dependent countries in Table 3 but was one of the countries scheduled for debt relief under the HIPC initiative.

Between 1971 and 1986, Uganda experienced economic decline, but GDP per capita rose by almost 40 percent in the first decade after longtime/current president, Yoweri Museveni, became president between 1986 and 1996. In 1987, the country received an IMF loan, with loan renewals occurring from 1989-1992 and again from 1992 to 1997. Real GDP per capita grew on average 4.2 percent per year between 1992 and 1997. The two main reforms mandated by the IMF in Uganda were trade liberalization and the progressive reduction of export taxation; in Uganda, coffee was the main export crop. The benefits of liberalized

cash crop exports were large, but also limited and unequally distributed, with only a small number of rural coffee farmers experiencing increases in rural per capita incomes over the period of policy reform from 1988 to 1995.

Uganda also privatized a substantial number of public enterprises, including industries in banking, insurance, railways, and telecommunications, a move that was highly criticized within the country. The main critique was that the privatization had proceeded too rapidly, with relatively little oversight. As a result, the privatizations benefited government and corporate interests of advanced economies, rather than the Ugandan population. While public spending in healthcare increased, it did not keep pace with government spending, so that the share of health in the budget declined slightly between 1989 and 1994. In 1998, Uganda was also the first country to receive debt relief under the HIPC initiative, some \$650 million reduction in Uganda's multilateral debt stock, although the reduction was delayed by a year, which amounted to \$193 million in lost relief benefits. With the delay, public funds were diverted from spending on health care provision toward debt repayments. A key difference between the Nigerian and Ugandan cases was the relatively higher commitment and spearheading of reform policies in Uganda. The strong commitment from Uganda could have been due to the country's highly indebted/HIPC status and high level of external financing as well, with critiques about donor pressure in spearheading reforms (Hickey, 2013).

Between 2000 and 2019, Uganda, a non-commodity dependent country, experienced stable growth rates of around 6.3 percent per year on average. Reforms in the agricultural sector have been credited with halving between 1992 and 2013 the share of households in poverty. The details of the success of some of the agricultural sector reforms have also come under criticism in recent studies, with a prominent example being the National Agricultural Advisory Services (NAADS) program, first implemented in 2001 (Rwamigisa et al., 2018). The NAADS reform was aimed at increasing market oriented agricultural production by

‘empowering farmers to demand and control agricultural advisory services’, replacing public sector extension agents with contracted private service providers (Rwamigisa et al., 2018). Although early evidence from the program heralded the program’s success in 2007, particularly in encouraging farmer adoption of new crops and agricultural production technologies and practices, more recent evidence have found more mixed results on the program’s success, with studies citing mismanagement of public funds and low technological uptake by farmers as obstacles (Benin et al., 2007; Rwamigisa et al., 2018). The program was finally scrapped in 2014, with agricultural extension services duties transferred back to the Ministry of Agriculture, Animal Industry and Fisheries. Despite these reforms, Uganda still faces challenges in translating recorded growth rates into improvements in human capital like reductions in child stunting and increases in educational attainment for most of its population.

6.3 Ethiopia

Ethiopia is the second most-populous country in sub-Saharan Africa (after Nigeria). Ethiopia’s experience is a story of being a country without much success as a reformer, and does not score highly/feature as a reform adopter on any of the three classifications discussed previously. It was also a country which was both commodity dependent and listed for debt relief as one of the HIPC countries shown in Table 3.

In the 1980s, the country was immersed in a civil war under the military regime, the Derg, and struggled to implement reform during significant political and economic crises (as described in Devarajan, Dollar, and Holmgren (2002)). Economic policy under the Derg was notorious for granting monopolies to the state over imports and exports, with high tariffs and heavy investment in the public sector (Oqubay et al., 2018). Towards the end of the Derg era and with the introduction of the new communist government, the People’s Democratic Republic of Ethiopia in 1987, the government adopted a few financial stabilization policies in the early 1990s, including infrastructure investment as well. However, with weak state

capacity, promoting development and financial stabilization amidst a civil war made attempts at reform an arduous process.

After the end of the civil war, and following the dissolution of the People's Democratic Republic of Ethiopia in 1991, a coalition of political parties under the Ethiopian People's Revolutionary Democratic Front (EPRDF) took over the country from 1991 till 2019. The EPRDF government explicitly pursued industrial policy with active government involvement in agriculture as the assumed key for economic growth between 1995 and 2015 (Oqubay et al., 2018). An example of this was the government's adoption of the Agricultural Development Led Industrialization (ADLI) strategy in 1994, which it then proceeded to follow for over 2 decades, and focused on investment in agriculture. While the government received substantial debt relief and official development assistance from donors like the IMF particularly in the early part of the regime (the official development assistance or ODA to gross national product/GNP ratio rose from 12 percent in the 1980s to 23 percent in the 1990s, it did not adopt many of the reforms proposed under the Washington Consensus, choosing instead a so-called 'gradualist' approach that involved a mixture of some liberalization like privatization of some state owned enterprises in specific sectors (e.g. banking, utilities and air travel) and industrial policy (Tekeste, 2014; Oqubay et al., 2018; Abegaz, 1999). Other sectors like retail businesses, some banking and domestic freight services were closed to foreign investment and open only to Ethiopians, a fact which was sometimes a point of contention with lending institutions like the IMF (Oqubay et al., 2018). Ethiopia saw significant increases in growth over this period in the 1990s, with average annual real GDP growth increasing from 3 percent in 1990-91 to 7.8 percent between 1995-97 and inflation rates falling from 21 percent in 1991-92 to 3.6 percent in 1993-98 (Abegaz, 1999).

Among policy instruments used were industrial financing including investment financing through the Development Bank of Ethiopia and Commercial Bank of Ethiopia, export

promotion through target setting, retention of forex earnings and exchange rate policies like devaluation and forex allocation. Import tariffs along with some privatization of state owned enterprises in specific sectors, and investment support towards the horticulture and cement industries, among others were other policy instruments implemented by the EPRDF government (Oqubay et al., 2018). In the early 2000s, around half of the federal government’s budget for its consecutive 5 year programs was designated for pro-poor and high growth sectors (Oqubay et al., 2018). Since 2015, the government has also focused on investment in the manufacturing sector as key for economic development.

Despite not being one of the reform adopters, and explicitly pursuing industrial policy with active government involvement, Ethiopia has consistently ranked among the top economic performers in the region for much of the past decade and a half, with an average growth rate of real GDP of 8.9 percent between 2000 and 2019. Much of this growth has been attributed to public investment in key infrastructure along with interventions in the agricultural sector to improve productivity and facilitate structural transformation. There has also been a reallocation of labor from low productivity agriculture to more productive industrial and service sectors in the country.

7 Discussion and Concluding Remarks

Growth in the countries of sub-Saharan Africa improved substantially after around 2000. To what extent can the “Washington Consensus” reforms claim a share of the credit?

The descriptive evidence in this paper certainly does not establish a causal effect of the Washington Consensus policies on economic performance in Africa. In addition, as illustrated through the country case studies, reform experience and outcome differed across countries depending on the particular policy and macroeconomic environments, along with the specific policy objectives of governments in different countries.

That said, the reforms in a number of cases did lead to an improved macroeconomic environment with lower inflation, combined with debt reductions. These changes did help to attract more private investment in key sectors like retail, wholesale, telecommunications and manufacturing that accounted for a significant share of the growth increases in the 2000 to 2019 period. In addition, the countries of sub-Saharan Africa saw a wave of democratization in the 1990s, with the number of countries that held multi-party elections increasing from just 2 (Botswana and Mauritius) before 1989 to 44 of 48 or 92 percent of Sub-Saharan Africa by mid 2003 (Lynch and Crawford, 2011); this had the effect of encouraging investment in infrastructure and in pro-poor policies. While the total investment as a share of GDP in sub-Saharan Africa fell sharply in the early 1980s as shown in Figure 3, investment stabilized and then rose. Over time, countries that were more responsive to their citizens, as well as international financial institutions, learned from past experiences and improved design and implementation of reforms.

But as this emphasis on democratization helps to make apparent, we believe that the story of Africa's growth surge in the last two decades also relies heavily on a number of factors that go beyond the economic reform packages of the 1980s and 1990s. Here are some of the reasons why. First, many of the especially indebted countries that came under pressure to carry out reforms were already suffering from lower per capita economic growth over much of the reform period from 1980-1999. Thus, comparing the experience of reformers and non-reformers involves some selection bias: the low economic performance may have been a motivator for the reforms. Or the lower economic performance may have resulted from the short-term negative effect of the reforms.

Second, the speed with which many of these reforms were carried out initially, especially domestic reforms like privatization of state-owned enterprises, without careful consideration of the environment of incomplete markets and the institutional challenges faced by African

governments, affected the initial effectiveness of policy implementation and contributed to lower growth rates during the 1980 to 1999 reform period. Indeed, a difficulty in judging the Washington Consensus framework is that, in the form spelled out by Williamson (1993), it contained a number of conditions were often lost in policy design. For example, the framework advocated for pro-poor fiscal expenditures and advised against abolishing deregulation designed for safety or environmental reasons. It cautioned against capital account liberalization and, importantly, warned that privatization should occur with strict regulation only in competitive markets. But in practice, African governments seeking immediate debt relief were often under significant pressure to quickly meet policy measures set by international financial institutions. As a result, African governments often lacked the ability to regulate the pace of policy adoption, with sometimes detrimental consequences for their populations in the initial reform period.

Third, one ironic but true point is that for market-oriented reforms to be effective, their implementation requires stable and committed governments with a high level of social and political capital. The reforms often placed an overwhelming emphasis on macroeconomic stability and market-oriented changes without adequate provision of social safety nets that contributed to weaken governments and undermine the reform agenda. The reforms of the 1980s and 1990s were often viewed as an infringement on the national sovereignty of countries, which spurred deep resentment among many governments and populations. Policy adoption itself is inevitably a political affair, a seemingly obvious fact that has largely been ignored in previous analyses of Washington consensus policy reforms (Mkandawire and Olukoshi, 1995; Mkandawire and Soludo, 1999; Mkandawire, 1999; Herbst, 1990). While international financial institutions often attributed the lack of success with the reform agenda to weak state capacity, the focus on market orientation and limiting state intervention in development activities led to market failures. State intervention was actually important to implement successful market-oriented reforms in some cases (Mkandawire, 1999).

Fourth, it is not obvious that the market-oriented reforms emphasized by international financial institutions are the best or the only method to successful economic development. Skeptics of market-oriented reforms in Africa point out that in many successful development efforts around the world, including many countries across Asia, governments played a prominent role for much of the critical phase of their economic development. Historically, many of today's developed economies did not fully embrace free market economies in the earlier phases of their economic development, which instead involved substantial state involvement including industrial subsidies and infant industry protection (for a discussion of the development experience of today's advanced economies, one useful starting point is Chang (2002)).

In Africa, many of these same practices used at other places and times were frowned upon by proponents of market-oriented policies. But before countries of sub-Saharan Africa fell into the debt crisis of the 1980s, many of them had experienced success in the period immediately post-independence in the 1960s and 1970s (Mkandawire, 1999). Indeed, some of the policies that were abandoned in favor of market-oriented reforms had rational, development-motivated justifications. For example, African states promoting low interest rates sought to boost investment and capital accumulation, and market-oriented reform of financial systems with limited competition hindered this objective. Many countries offered subsidies to the agricultural sector, although inefficient, kept prices low to facilitate access to food for many who lived in poverty and to reduce the risk of social unrest. Protests against food prices then erupted following the removal of subsidies in the 1980s and 1990s.

As general guide moving forward, we offer a few lessons from Africa's experience with the Washington Consensus reforms. First, while market-oriented reforms can be beneficial for growth, each reform policy needs to be carefully considered in the institutional contexts, initial conditions of development and socio-political environment, among others. Second,

ownership of the reform agenda by local government with stakeholder buy-in is important to encourage support for the reforms and increase the likelihood of success. Third, the negative spillovers of reform policies need to be minimized: for example, investment in social safety nets is a crucial part of reforms to protect the most vulnerable populations within the countries. Fourth, where reforms aim to achieve macroeconomic stability, they should not trade away social investment in human capital like education and health. Finally, reforms should be a process of continuous reevaluation, adjustment, and recalibration over the reform period. A reform agenda must be approached with flexibility.

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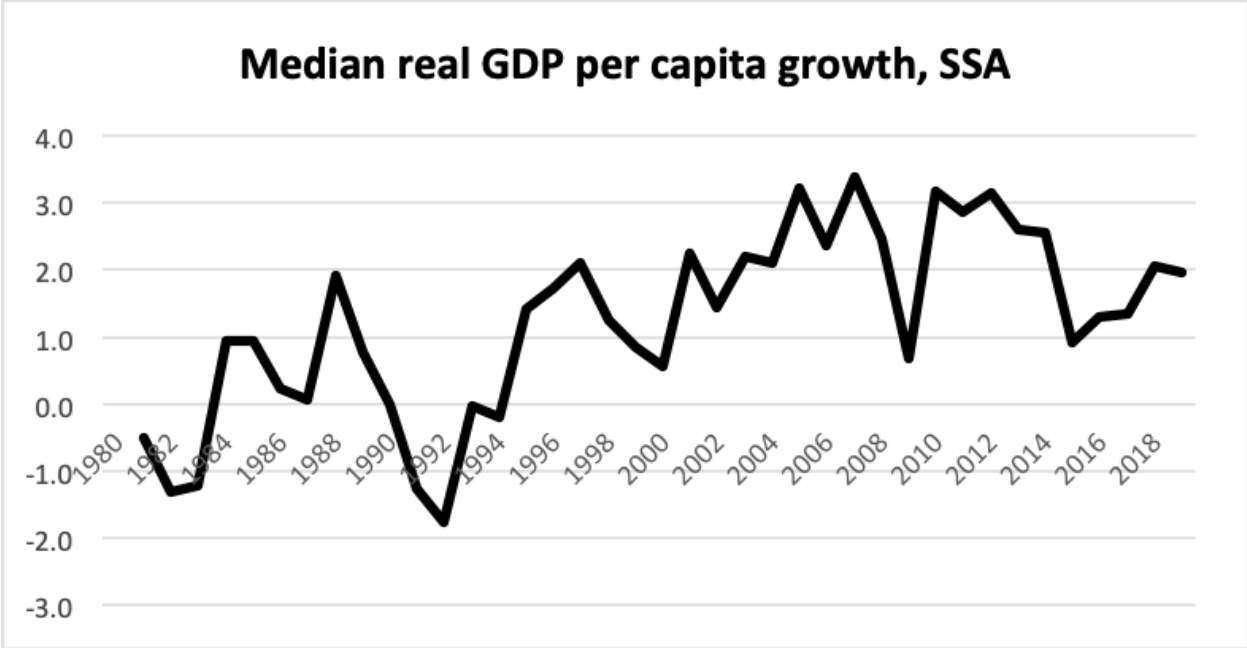


Figure 1: Median real GDP per capita growth rates in SSA, 1980-2019. Notes: Initial reform period between 1980 and 1999. Source: World Bank

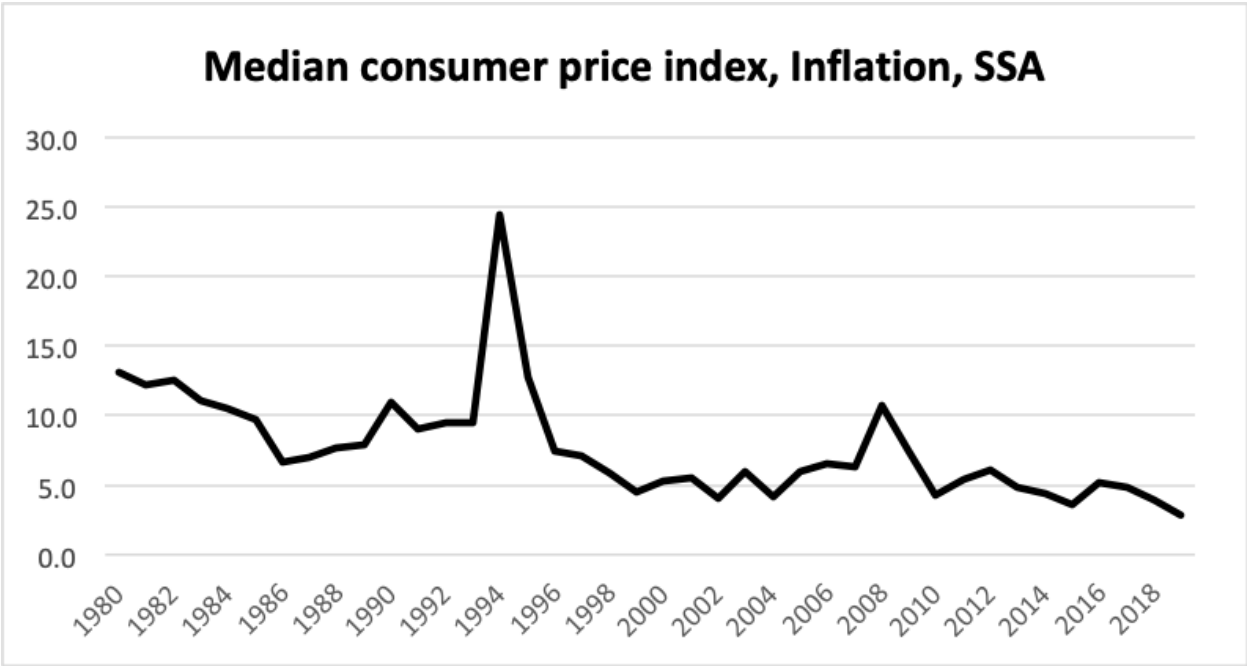


Figure 2: Median consumer price index, inflation in SSA, 1980-2019. Notes: Initial reform period between 1980 and 1999. Source: World Bank

Table 1: Reform countries in Sub-Saharan Africa (SSA)

Domestic Market-Oriented Reforms	Trade Openness	Fiscal Reforms
Burundi	Benin	Angola
Benin	Botswana	Benin
Cote d'Ivoire	Cote d'Ivoire	Central African Republic
Ghana	Cameroon	Cote d'Ivoire
Kenya	Cabo Verde	Congo, Dem. Rep.
Mozambique	Ghana	Congo, Rep.
Malawi	Guinea	Gabon
Nigeria	Gambia, The	Guinea
Senegal	Guinea-Bissau	Guinea-Bissau
Togo	Kenya	Kenya
Tanzania	Mali	Madagascar
Uganda	Mozambique	Mozambique
South Africa	Mauritius	Nigeria
Zambia	Niger	Rwanda
Zimbabwe	Tanzania	Senegal
	Uganda	Eswatini
	South Africa	Seychelles
		Tanzania
		Uganda

Notes: See text for details. For fiscal policy reform, we treat a country as a fiscal reformer if the average primary fiscal balance in 1995 to 1999 is higher than -0.7 percent of GDP, which is the median for the region. For domestic market reform, we treat a country as a reformer if the cumulative number of privatizations deals from 1988 to 1999 is greater than or equal to six, which is the median for the region. Finally, for openness we treat a country as a reformer if it was open to trade, as defined in Sachs and Warner (1995), for at least five years from 1980 to 1999. They classify a country as "open" to trade if it does not have any of the following: average tariff rates in excess of 40 percent; non-tariff barriers that cover more than 40 percent of imports; a socialist economic system; the state has a monopoly on major exports; and a black market currency-trading premium in excess of 20 percent. Some non-reformers, not included in the above list include Namibia, Sudan, Eritrea, Somalia and Sierra Leone.

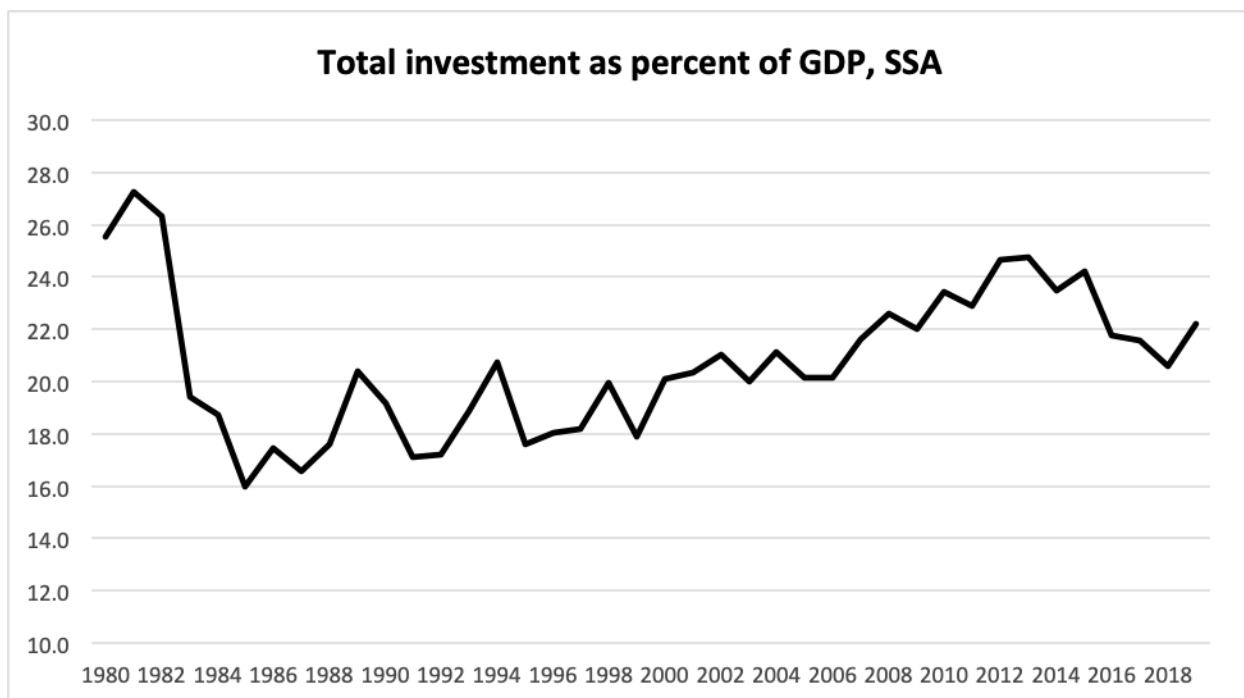


Figure 3: Total investment as a percentage of GDP in SSA, 1980-2019. Source: IMF and UNCTAD

Table 2: Reforms and changes in median per capita real GDP growth (%)

Reforms	Type	1980-1999	2000-2019	Difference
	All countries	0.2	1.6	+1.4
Fiscal reforms	Reformers	-0.3	1.5	+1.8
	Non-reformers	1	1.8	+0.8
Domestic market-oriented reforms	Reformers	-0.6	1.5	+2.1
	Non-reformers	0.2	1.6	+1.4
Trade-openness	Reformers	0.8	1.9	+1.1
	Non-reformers	-0.2	1.1	+1.3

Notes: See text for details. For fiscal policy reform, we treat a country as a fiscal reformer if the average primary fiscal balance in 1995 to 1999 is higher than -0.7 percent of GDP, which is the median for the region. For domestic market reform, we treat a country as a reformer if the cumulative number of privatizations deals from 1988 to 1999 is greater than or equal to six, which is the median for the region. Finally, for openness we treat a country as a reformer if it was open to trade, as defined in Sachs and Warner (1995), for at least five years from 1980 to 1999. They classify a country as “open” to trade if it does not have any of the following: average tariff rates in excess of 40 percent; non-tariff barriers that cover more than 40 percent of imports; a socialist economic system; the state has a monopoly on major exports; and a black market currency-trading premium in excess of 20 percent. GDP growth rate data based on median per capita real GDP growth rates across groups and time periods. Median annual growth in constant per capita GDP figures from World Bank data.

Table 3: African countries by debt relief (HIPC) recipient and commodity-dependent status

HIPC countries	Non HIPC countries	Commodity-dependent countries	Non commodity-dependent countries
Benin	Angola	Benin	Cape Verde
Burkina Faso	Botswana	Burkina Faso	Comoros
Burundi	Cape Verde	Burundi	Djibouti
Cameroon	Djibouti	Cameroon	Kenya
Central African Republic	Equatorial Guinea	Central African Republic	Lesotho
Chad	Gabon	Chad	Liberia
Comoros	Kenya	Congo, Dem. Rep.	Madagascar
Congo, Dem. Rep.	Lesotho	Eritrea	Mauritius
Eritrea	Mauritius	Ethiopia	Niger
Ethiopia	Namibia	Gambia	Sao Tome and Principe
Gambia	Nigeria	Ghana	Senegal
Ghana	Seychelles	Guinea	South Africa
Guinea	South Africa	Guinea Bissau	Swaziland
Guinea Bissau	South Sudan	Ivory Coast	Togo
Ivory Coast	Swaziland	Malawi	Uganda
Liberia	Zimbabwe	Mali	
Madagascar		Mozambique	
Malawi		Congo, Rep.	
Mali		Rwanda	
Mozambique		Sierra Leone	
Niger		Somalia	
Congo, Rep.		Sudan	
Rwanda		Tanzania	
Sao Tome and Principe		Zambia	
Senegal		Angola	
Sierra Leone		Botswana	
Somalia		Equatorial Guinea	
Sudan		Gabon	
Togo		Namibia	
Uganda		Nigeria	
Tanzania		Seychelles	
Zambia		South Sudan	
		Zimbabwe	

Notes: See text for details. Debt relief countries are HIPC countries as classified by the World Bank. Commodity dependent countries are as classified by the IMF and defined as countries where commodities account for $\geq 80\%$ of merchandise exports. The designation of HIPC and commodity dependent categories is using 2016 data. While the categories change over time there is a strong positive correlation between HIPC and commodity dependent designation in the 1980s/1990s and as of the most recent data we use here, so the categories using the most recent data available are informative for our study (Djimeu, 2018).

Table 4: Reforms and changes in median per capita real GDP growth (%) by debt relief recipient status

Type	Reforms	1980-1999	2000-2019	Difference
All countries		0.2	1.6	+1.4
Non debt relief		1.7	2	+0.3
Debt relief	All beneficiaries of debt relief	-0.3	2	+2.3
	Fiscal reformer	-0.4	2.2	+2.6
	Fiscal non-reformer	0.4	1.6	+1.2
	Market reformer	-0.1	2.5	+2.5
	Market non-reformer	-0.3	1.8	+2.1
	Openness reformer	-0.2	2.2	+2.3
	Openness non-reformer	-0.7	1.8	+2.6

Notes: See text for details. Beneficiaries of debt relief refer to HIPC countries. GDP growth rate data based on median per capita real GDP growth rates across groups and time periods. Median annual growth in constant per capita GDP figures from World Bank data.

Table 5: Reforms and changes in median per capita real GDP growth (%) by commodity dependent status

Type	Reforms	1980-1999	2000-2019	Difference
All countries		0.2	1.6	+1.4
Non commodity dependent		0.4	2.2	+1.9
Commodity dependent	All dependent countries	0.4	1.8	+1.4
	Fiscal reformer	-0.1	1.5	+1.6
	Fiscal non-reformer	0	1.6	+1.7
	Market reformer	0	2.5	+2.5
	Market non-reformer	0.1	1.5	+1.4
	Openness reformer	0.5	1.9	+1.4
	Openness non-reformer	0.2	1.3	+1.1

Notes: See text for details. Commodity dependent countries based on IMF data classifications. GDP growth rate data based on median per capita real GDP growth rates across groups and time periods. Median annual growth in constant per capita GDP figures from World Bank data.

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