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Structural Adjustment Programmes in Sub-Saharan Africa

As a result of a donor conference staged by the World Bank in Paris on 3rd and 4th December, 1987, donor countries and international organizations now intend to make $6.4 billion available in the form of a special programme to highly indebted, low-income African countries to carry out structural adjustment programmes during the period 1988-1990. This sum includes approximately $3.2 billion of additional funds which donor countries wish to provide in support of such programmes on a co-financing or parallel financing basis together with the World Bank. This article offers an initial assessment of the proposed special programme, the possibilities opened up, the risks involved, and the necessary conditions for its success.

During the 1970's, optimism regarding future trends in export earnings formed the basis for development planning in most African states, especially after the vast increases in the prices of oil, sugar (1974/5) and coffee (1977/8). Typical of the developments in many countries were ambitious investment programmes both in industry and infrastructure, the expansion of governmental activities and the relative neglect of rural areas.

The negative effects of mistaken industrial, trade and exchange rate policies on the development of productive potential in Africa were concealed, until the beginning of the 1980's, by an ample supply of international liquidity and low interest rates.

The consequence of this, however, was that most countries, and sub-Saharan Africa in particular, were badly prepared for the tailing off of international economic activity and the decline in raw materials prices during the 1980's. As international donors became less and less willing to supply still more resources to protect development processes largely financed from abroad, vigorous efforts to adjust to the new situation became urgently necessary. Since then, 22 low-income African countries have either carried out or introduced adjustment programmes in cooperation with the World Bank.

However, slow growth in the industrial countries and the continuing falls in raw materials prices during the 1980's have not provided favourable external conditions for placing more emphasis on export earnings to ensure that the necessary adjustment measures are carried through. These difficulties have been further aggravated by the drastic fall-off in the flow of private investment and restrictions on bank lending and export credits for highly indebted countries at the same time as publicly funded overseas development aid (ODA) only held its existing level.

Against this background, the World Bank identified a new priority target group of countries in 1987 for the international donor community's development policy activities, namely the low-income, debt-distressed countries of sub-Saharan Africa which are carrying out structural adjustment programmes.[1] According to the Bank's estimates, additional funds of approximately $2 billion annually are required between 1988 and 1990 to ensure that urgently necessary economic adjustment programmes are carried out. The World Bank's idea is that these sums should be made available by way of

- ☐ additional funds arising from the intended increase to the International Monetary Fund's structural adjustment facility,
- ☐ restructuring of the current International Development Association budget (IDA-8) to favour this target group,
- ☐ easing the debt burden,
- ☐ additional rapidly deployable funds to finance the import demand arising as an essential part of the adjustment measures.

International donors came to a mutual agreement at a World Bank donor conference staged in Paris on 3rd and

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[1] The indicators for the fulfilment of these criteria are: that the country is entitled to receive IDA loans (i.e. annual GNP is less than US $ 790 per head at 1984 prices), that the debt service ratio is at least 30%, and that a formal agreement is entered into with the World Bank and/or the IMF.

4th December, 1987, that they would provide approximately $3.2 billion of additional aid funding as part of this special programme. These monies will be supplemented by $2.9 billion which the World Bank intends to make available via the IDA. The countries receiving the funds will use them to carry out structural adjustment programmes which each of them will have separately agreed with the World Bank. The central elements of these programmes are

□ measures to restore equilibrium in external trade (especially exchange rate adjustments),

□ the elimination of distortions in the domestic price structure,

□ putting government finances into better order, both by cutting public expenditure (reducing the number of state employees, reducing subsidies, and privatization) and by raising government income (tax reforms).

Unfortunately, past experience has demonstrated that it is not only the structures of the African economies concerned which are in need of adjustment, but also those of the programmes themselves if these African economies are to be properly prepared for the 1990's. Critical points arising from the execution of structural adjustment programmes up to now primarily fall within the following three areas:

□ the absorptive and implementational capacities of the governments concerned;

□ the social implications of structural adjustment programmes;

□ conflicting objectives and structural rigidities.

Administrative Capacities

Past events have shown that, in many cases, the implementation of structural adjustment programmes is beyond the administrative means of the governments involved. To put such programmes into operation frequently requires institutional, legislative and behavioural changes (in the management field, for example), for which public administration in the individual countries is not qualified. It is therefore essential that the aspect of financial cooperation in structural adjustment programmes should be complemented by a further component of technical cooperation in order to raise the implementational capacity of the participating governments.

The World Bank's structural adjustment programmes were introduced in order that better account could be taken of developing countries' medium and long-term growth needs (as distinct from the IMF's programmes, which are chiefly concerned with macroeconomic stabilization). Yet it is apparent that the structural adjustment programmes backed by the World Bank have considerable social implications. The programmes' costs and benefits are not evenly distributed among the various population groups.

Social Implications

In principle, the newly established incentive structures contained in the programmes (especially in Africa) are aimed at providing a greater stimulus to production and incomes in the rural sector relative to the urban areas. Given that, in Africa in particular, the large majority of the population lives in rural areas, such programmes ought to contribute to satisfying basic needs and achieving a more balanced distribution of income in the long run. In addition, sections of the urban population can also be expected to gain in the medium term from those elements of the adjustment programmes which are intended to raise the efficiency of the public sector and the services it provides (education, health care etc.).

Hence, broad sections of the population would derive direct benefit from adjustment programmes of this kind, and this ought to ensure that they have a broad social appeal.

However, weighing against the programmes' positive medium and long-term effects are short-term losses of income in all sections of the population. Those directly affected are public-sector employees who will either suffer a pronounced drop in income or indeed lose their jobs altogether. Indirect income losses occur as a result of subsidies for public services being dismantled during the adjustment programme, examples of the areas affected being water and electricity supplies, basic foodstuffs and transport. Poorer population groups are particularly severely hit by these changes as they do not have the means available to pay for alternative services or to pass on the extra costs incurred. This applies especially to the sections of the population who have to make their living in the informal urban economy (especially trading and services). Others with equally little to gain from changed incentive structures are rural households which predominantly earn their living from non-agricultural activities.

Past experience, though, has shown that politically effective resistance to adjustment programmes tended to come rather from the urban middle classes whose access to state services was above average and who were therefore more greatly affected by cuts in services and/or the dismantling of subsidies in such areas.

Conflicting Objectives and Structural Rigidities

A third problem area comprises possible conflicts between the actions prescribed by the adjustment programmes and other development policy goals in the participating countries. This is frequently accompanied by the existence of structural rigidities in the participating countries which present an obstacle to the immediate implementation of the measures provided for in the programmes. An example of this is provided by the structural adjustment programme in Malawi. To ease the existing external trade disequilibrium, the national currency was substantially devalued. In addition, a bid was made to increase export production by raising agricultural producer prices for export commodities (in this case, peanuts). In order to reduce the domestic budget deficit subsidies were cut, and one of the products affected was fertilizer. The interplay of all these measures, each of which was thoroughly justified when viewed in isolation, had fatal consequences as far as food production was concerned: the improved price incentives for producing food for export meant that the attractiveness of growing maize for domestic consumption declined; the cuts in fertilizer subsidies made it impossible for many small farmers to continue planting high-yield hybrid maize, and they had to return to using lower yielding, traditional varieties of maize; the rise in the fertilizer price resulting from the subsidy cuts was only aggravated by the effect of the currency devaluation.

The reaction of the Malawian small farmers to this combination of effects was certainly an economically rational one: they devoted relatively less effort to growing maize for one thing, and to add to that, they switched from planting high-yielding hybrid maize back to the more traditional varieties with their lower fertilizer requirement, but also of course with a lower yield.

The example demonstrates that the interplay of macroeconomic measures aimed at stabilization and adjustment can lead to undesired microeconomic consequences (unfavourable incentive structures for hybrid maize production) and ultimately also to undesired macroeconomic ones (a fall in maize production).

Malawi also provides a good example for the significance of structural factors. Because Malawi's traditional transport routes through Mozambique are heavily impeded, insurance and transport costs now account for 40% of the cost of imports into the country. Owing to its small size, Malawi is not in a position to pass back these increased costs to the foreign exporters. Conversely, however, Malawi's export commodities face strong competition from suppliers in other developing countries, so Malawian exporters are unable to pass increased transport costs on to their customers abroad. This gives rise to a structural deterioration in Malawi's balance of payments which cannot be compensated for by using traditional stabilization measures for the external balance such as currency devaluations.

The problem of possible conflicts between adjustment programmes and other development policy objectives often in fact comes down to a matter of properly coordinating different measures over time. In this regard, it is especially important that policies on pricing, subsidies and exchange rates should be in accord with trade policies if domestic industries are not to be faced with insoluble tasks once liberalization measures have been implemented. An example of this problem occurred in the Ivory Coast, where comprehensive and rapid liberalization of imports led to many enterprises having to close down.

A final conflict of objectives – and one which may be especially serious – directly concerns the substance of the planned special programme: the restructuring in the budgets of bilateral and multilateral donors away from traditional project aid and in favour of rapidly deployable programme aid. The special programme's main aim is to provide for the minimum import capacity necessary to carry out economic reforms while continuing to pursue certain growth targets. A proportion of the funds set aside for this purpose by international donors has been reallocated: they were originally intended for "traditional" development projects but have now been switched over to act as rapidly deployable funds to finance import programmes. The fear must be that at least some of the improved availability of rapidly deployable funds will be generated at the expense of projects which would have been at least as important for the adjustment programmes' success as the guaranteed import capacity. Projects which particularly come to mind here are those intended to improve the infrastructure or promote agricultural production which, in the medium term, would provide just the increase in export supply elasticity which is essential if the ultimate objectives of the policy reforms are to be achieved.

Implications for the Programmes

What, then, should be done to ensure that the structural adjustment programmes the World Bank and international donors are financing as part of their special programme really do lay the foundations for a return to self-supporting growth processes in sub-Saharan Africa? It is absolutely essential that the intended structural adjustments should be politically enforceable and that they then should indeed be implemented. These essential requirements have implications for the operational shape given to the programmes and for the amount of funds made available.

The first requirement is that the "social dimension" of adjustment programmes should be properly heeded, as the World Bank, the International Monetary Fund and the international donor community have by now expressly recognized. The important point is therefore to integrate components to this effect into the structural programmes. One need which especially comes to mind, for example, is the maintenance of basic social services in fields such as health care and education. In many cases it will only prove possible to keep up such services via the flexible granting of budgetary aid by international donors, but this is an instrument many international donors do not have at their disposal at present, and the introduction of which encounters domestic resistance in most countries.

The second requirement is for "social early-warning systems" to be set up, thus enabling unforeseen social consequences of adjustment programmes which might call the very programme into question to be recognized sufficiently early and then to be alleviated by specially targeted supplementary measures. A major contribution to this can be provided by continual supervision of changes in social indicators during the adjustment programme, and by regular consultation on this point between donor countries, the World Bank and the recipient country.

Thirdly, if structural adjustment programmes are to be successfully carried out, improvements are necessary in the spheres of planning and implementation in recipient *and* donor countries alike. From the point of view of the countries undergoing adjustment, it will be essential to use targeted technical cooperation programmes to increase their planning and implementation capacities. Fulfilling this particular task of development policy will require great delicacy of touch, as many African countries even now regard the conditions laid down by the World Bank and International Monetary Fund as a constriction of their national sovereignty; yet when it comes to foreign experts giving policy advice on the implementation of structural adjustment programmes, this might well impinge upon still more sensitive areas.

Improvements in planning and coordination are also necessary on the part of donor countries. "Traditional" financial and technical cooperation projects should be concentrated mainly upon key sectors in the structural adjustment process; only then can there be any guarantee that improved policy incentives will actually generate the appropriate supply responses.

As a final caveat, adjustment programmes are not only under threat from dangers associated with unforeseen social consequences, but also from unforeseen changes in external economic conditions. An example of this is the case of Zambia, where the structural adjustment programme got into difficulties during 1987 due to lack of foreign exchange, ultimately leading to the breach of the country's agreements with the IMF and the World Bank. The essential underlying cause was the sharp fall in copper and cobalt prices on the international markets which brought a pronounced decline in foreign currency earnings and resulted in Zambia's "resource gap" growing well beyond the extent which had been estimated at the beginning of the adjustment programme. Inadequate coordination among the international donor community and a lack of willingness to put up additional funds in order to continue the adjustment programme meant that the reforms had to be temporarily broken off and ultimately increased the costs of carrying through the adjustment process.

Reactivation of Private Capital Flows

Flexibility and, above all, the willingness of international donors to provide additional funds to alleviate unforeseen external effects on the adjusting countries if the situation demands, are essential prerequisites for the credibility of the reform programmes proposed for the period 1988-1990: not only in the eyes of politicians and populations in the adjusting countries, but also in those of private investors and lenders in the industrial countries whose reduced activity in Africa in recent years (albeit for understandable reasons) had no small part to play in the African crisis' coming to a head. The reactivation of private capital flows to Africa in the wake of successful structural adjustment programmes would be more than just a welcome side-effect of such programmes; in fact it is a vital precondition which must be fulfilled if the growth in sub-Saharan Africa which can be reasserted by structural reforms is also to be secured over the long term. This point is all the more telling in as far as one essential question of the present has yet to be answered: as international donors provide funds for the special programme by reallocating and by accelerating the flow of money actually planned for later years, will this give rise to a new "policy-created resource gap" after 1990?