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Why Do Some Economies Adjust More Successfully Than Others?

Lessons from Seven African Countries

Ishrat Husain

A strong, committed, and visionary leadership that places adjustment in the context of the country's long-term development can bond and cement diverse and divergent viewpoints and nurture a shared vision for the future.

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Summary findings

The sustained application of adjustment policies is explicable in terms of two variables — domestic ownership and capacity. These findings carry important implications for the future policies of African governments and their external partners.

There is an urgent need for the African governments to go beyond their limited and small groups of technocratic advisers and civil servants to consult, educate, and inform the representatives of the civil society and opinion-makers in the design and implementation of adjustment policies and institutional restructuring. A strong, committed, and visionary leadership that places these policy reforms in the context of the country's long-term development can bond and cement diverse and divergent viewpoints and nurture a shared vision for the future.

For the international financial institutions and external donors who are supporting African governments, the narrow, short-term, and conditionality-driven enforcement and compliance of agreements needs to be replaced by a medium- to long-term framework of macro, sectoral policy, and investment and institutional changes developed and owned by government — keeping short-term capacity as given constraints, but taking

measures to develop this capacity within the long-term framework. This framework can then be translated into time-bound, specific action programs on various agreed-on changes between the donors and the African governments.

Both the African governments and their external partners have to rethink the measures that will build, save, use, and enhance the capacity of African governments, private sectors, nongovernmental organizations, professional groups, universities, and research institutes. The adversarial relationship between the government and the private sector will have to be transformed into a symbiotic and constructive partnership aimed at achieving the long-term developmental goals. The effectiveness of the present practices of delivering the technical assistance by external donors has been sufficiently questioned, and a new way of delivering this assistance employing capacity building and utilization as the overreaching objective needs to be developed. The transferability of institutions or policies from one setting to another has always proved difficult, but adapting successful practices that have worked elsewhere should be encouraged.

This paper — a product of the Office of the Chief Economist, Africa Regional Office — is based on a recent study on adjustment in Africa. Copies of this paper are available free from the World Bank, 1818 H Street NW, Washington, DC 20433. Please contact Joy Schwartz, room J5-255, extension 32250 (44 pages). October 1994.

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WHY DO SOME ECONOMIES ADJUST MORE SUCCESSFULLY THAN OTHERS?^{1/}

Lessons from Seven African Countries

ISHRAT HUSAIN^{2/}

The World Bank

Introduction

The broad literature on structural adjustment often falls into the habit of making wholesale judgments of the sort: "adjustment does or does not work because..." And, not surprisingly, the vast majority of this writing tends to view adjustment negatively. Not only are we thus subjected to wholistic assessments of structural adjustment, we are also subjected to universalistic explanations. George Ayittey,^{3/} for example, in a recent essay denounces the World Bank for its support of adjustment programs which he claims do not take account of political and social realities in Africa, and embody a host of other evils.

These wholesale views both of the relative success or failure of adjustment policies and of its causes are definitively challenged by the Bank's recent study

1/ A paper presented at the second biennial International Conference on African Economic Issues at Arusha, October 11-14, 1994.

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2/ The author is Chief Economist, Africa Region. The views expressed in this paper are personal and should not be attributed to the World Bank, its Management or the Board of Directors.

3/ Ayittey, G., "Aid for Black Elephants: How Foreign Assistance Has Failed Africa", D. Bandow and L. Vasquez (eds), in *Perpetuating Poverty: The World Bank, the IMF, and the Developing World*, CATO Institute, Books in Brief.

Adjustment in Africa,^{4/} which demonstrates, (1) that there is considerable variation in the economic results of adjustment programs among African countries, and (2) that this variation is explicable in terms of the quality and sustained application of adjustment policies.

This paper moves a step beyond the Bank's adjustment study by undertaking to identify the causal linkages underlying whether or not adjustment policies are sustained. It develops hypotheses which account for why some countries sustain their policies while others do not. In doing so it profits from the extensive literature in politics and political economy. It tests these hypotheses with evidence from seven case studies developed in relation to the Adjustment in Africa^{5/} project.

The Seven Cases

The recent World Bank study *Adjustment in Africa* assessed at some length the extent to which economic policy reforms were implemented in 29 countries that had introduced structural adjustment programs in the 1980s. The study found that the record of implementation was mixed: only six countries had brought about large improvements in macroeconomic policies, nine experienced minor improvement and eleven deteriorated. Among the last group were several CFA countries which have since undertaken a significant devaluation (January 1994). Countries that improved their policies, however, had a pay-off in terms of higher per capita GDP growth, large exports, faster agriculture and industrial sector growth. However, even in the relatively successful countries progress in public enterprise reform, financial sector reform and public sector management has been less satisfactory. The case studies of adjustment experiences in seven African countries—Burundi, Côte d'Ivoire, Ghana, Kenya, Senegal and Tanzania—

^{4/} *Adjustment in Africa: Reforms, Results and the Road Ahead*, World Bank, Oxford University Press, 1994.

^{5/} Husain, I. and Faruqee, R., *Adjustment in Africa: Lessons from Country Case Studies*, World Bank Sector and Regional Studies, 1994.

corroborate these findings but also point to the intermittent, patchy or uneven course of implementation. Only in two countries, Ghana and Tanzania, has there been a steady implementation of reforms. Nigeria had five years of fairly good economic outcomes as a result of adjustment programs, but eroding political support finally led to the abandonment of reforms. Côte d'Ivoire and Senegal were constrained in fuller application of all the policy levers by adverse shocks. Burundi suffered a setback because of unforeseen adverse political circumstances, while Kenya has gotten back on track only after a two-year hiatus. In none of the seven countries is the reform agenda complete or the policy stance adequate; nor are prospects for rapid, sustainable and equitable growth bright.

Three Hypotheses

The key questions which arise therefore are: If these policy reforms are associated with such high pay-offs then why are these reform programs not sustained and implemented consistently? Why are they derailed? Why is the record so different from other low income countries such as in South Asia?

The determinants of sustainability of economic reforms cover a wide range of variables—initial conditions specific to each country; design, content and sequencing of reforms; ownership and political commitment, particularly from a strong, visionary leadership; administrative and implementation capacity; the conditionalities of international financial institutions and external donors; and unanticipated external shocks. In Africa, there are added complications—on the economic side at the time reforms were initiated, output was declining, unemployment was rising, and social services were strained, while on the political side the reforming countries were facing increased pressures for transition to more pluralistic forms of government.

Under these circumstances, it becomes extremely difficult to disentangle the strength and magnitude of each of these factors at work. A more tractable approach is

to group these variables together and analyze the contribution of each group separately assuming that the appropriate functional form of relationships is additive and the interactive terms are at best weak or insignificant. The question of design, content and sequencing of reforms, and the specific initial conditions have been analyzed in the volume on case studies itself and is, therefore, left out of the present paper.^{6/}

This paper therefore focusses on the political economy aspects of sustainability of economic reforms, introduces three basic hypotheses, and presents the evidence of the seven case studies at hand.

The political economy of adjustment has become a burgeoning area of interest in the literature drawing on the inter-disciplinary tools of analysis and cross-country comparative perspectives^{7/}. Several useful insights have been gained through this body of research. The literature on the political economy of economic reforms can be roughly classified within three broad categories or approaches to the sort of questions we have posed.

The first of these focusses on external causes of economic stagnation. Although not inherently a topic of singular interest to the political left, the analysis of external causes sometimes appears to have become the monopoly industry of radical thinkers, many of them drawing heavily on Leninist doctrines. Despite variation in emphasis and approach, writers such as Andre Gunder Frank, Paul Baran, Walter Rodney, and Samir

6/ The impact of the conditionalities of international financial institutions and donors, in respect to adjustment programs, have also formed the subject of research by an independent group of scholars headed by P. Mosley, J. Harrigan and J. Toye, *Aid and Power*, 2 Vols., London: Routledge, 1991.

7/ For the more noteworthy pieces of research in this area see: J. Nelson (ed.) *Economic Crisis and Policy Choice: The Politics of Adjustment in the Third World*, Princeton: Princeton University Press, 1990; S. Haggard and R. R. Kaufman (eds.), *The Politics of Economic Adjustment*, Princeton: Princeton University Press, 1992; Thomas, J. and Grindle, M., *Public Choice and Policy Change: The Political Economy of Reform in Developing Countries*, Baltimore: John Hopkins University Press, 1991; T. Callaghy and J. Ravenhill, "Responses to Africa's Decline" in *Hemmed In*, New York: Columbia University Press, 1993; R. Bates and A. Krueger (eds.), *Political and Economic Interactions in Economic Policy Reform: Evidence from Eighth Countries*, Oxford: Basil Blackwell, 1993; Webb, S. and Haggard, S., *Voting for Reform*, Oxford: Oxford University Press, 1994.

Amin all began from the unquestioned assumption that third world underdevelopment stemmed from the prolongation of imperialist domination, via metropolitan power to manipulate markets and capital flows, into the post-colonial era.^{8/} While the end of the Cold War, coupled with the highly visible success of the East Asian market economies, has cooled the ardor of dependency theorists, a variant of this line of reasoning lives on in a "third worldist" critique of the International Financial Institutions.

As a large number of critics have pointed out, the trouble with theories that place entire causal weight on external factors is that they neglect dynamics *within* developing countries that might account in a very large measure for their growth or stagnation. Thus, a number of analysts have focussed attention on the state and its political motives in guiding national economies toward growth or decline.^{9/}

Yet another major approach in political economy that relates to domestic causes of policy change stems from the pioneering work of Marcus Olson^{10/}. This vein of thought focusses attention on the power and motives of social collectivities, or interest groups in influencing the state in ways that may impede economic growth. Writing in this tradition, Haggard and Kaufman posit that economic policy change is plagued by numerous collective action problems. Stable prices can be viewed as a public good, but individuals and firms can gain from policies that undermine stability and might be reluctant to bear the costs of stabilization if others do not do so as well. Similarly, trade liberalization or state enterprise reforms can generate overall efficiency gains, but individual firms or sectors will lobby to retain particularistic benefits. This literature is less clear on the hows and the process of managing the transition from a state of

8/ There has been a number of able analyses of this school of thought. See, for example D.F. Ruccio and L.H. Simon, "Perspective on Underdevelopment: Frank, the Modes of Production School, and Amin," in C.K. Wilber and K.P. Sameson (eds), *The Political Economy of Development and Underdevelopment*, Fifth Edition, New York: McGraw-Hill, 1992.

9/ Skopul, T. et al, eds., *Bringing the State Back In*, Princeton: Princeton University Press, 1986, and Callaghy, T., *The State Society Struggle in Zaire*.

10/ Olson, M., *The Logic of Collective Action*, Cambridge: Harvard University Press, 1962.

undesirable and distorted economy to a desirable and sustainable path. The uncertainties about the likely impact of various policy actions, and the gaps in information and knowledge about the responses of the diverse groups of economic actors under varying political regimes, make this an extremely difficult task.

We draw on all these schools of thought in formulating the following three hypotheses about the sustainability or otherwise of economic reforms and present the evidence from seven African countries to test them:

Hypothesis 1: Variation depends on a set of initial conditions which precipitate the decision to undertake adjustment programs. These conditions can be systematically identified across countries in the realms of economics, local politics, and the approach of international donors.

- (i) *Whether economic conditions are desperate or not.* When economic conditions have reached a complete collapse, then countries consider that the benefits from adjustment policies are likely to exceed the costs compared to the existing or other alternative strategies. The genuine commitment to initiate reforms in such conditions is expected to be stronger than countries where the economic decline is not perceptible.
- (ii) *Whether economic interests are strongly or weakly organized, and whether they have previously established a degree of leverage over the state in its power to distribute appropriable rents.* Where economic interest groups of a rent-seeking character have such power over the state, then adjustment programs may be implemented superficially, based on negotiations of the sort that Callaghy has referred to as the "ritual dance" of African finance ministers before the International Financial Institutions (IFI's)--but which is not coupled with real commitment to overriding local interests.

- (iii) *Whether leadership is committed to reform.* The quality and devotion of leadership to reform is an overlooked variable, and cannot be reduced to the nostrum "political will." It may prove to be critical whether leaders fully understand the need for adjustment, and whether they feel ownership.

- (iv) *Whether donors are willing to invest their political capital in supporting reform.* The case in point is France's prolonged subvention of the CFA franc, with all its implications for the francophone African countries; however, there are many other examples, such as the continued practice of many donors to provide free technical assistance in spite of its weakening effects on capacity.

Hypothesis 2: Variation depends on the country's sense of "ownership" of the reform process, which may be defined to include two basic elements: (1) Consensus among the social and political organizations that constitute national civil societies; and (2) the presence of a technocratic core group in government that is truly devoted to the reform process.

"Ownership" is presented as a hypothesis separate from that of initial conditions, because it may be possible to develop after the initiation of reforms. Oftentimes, this takes place at the initiative of governments, who hold public discussions and debates involving trade unions, opposition political forces, community organizations, businesses, and so on.

Hypothesis 3: Variation depends on the presence of "capacity" in a given country. Capacity is defined as human capital and the resiliency of institutions. The East Asian economic miracle, as another study by the Bank has recently made clear, shows the utter necessity of having in place the individuals capable of identifying, planning and implementing policy. This implies also strong civil

service institutions, and norms and regulations which prevent political interference in the work of policy units.

The limitations of this paper should be addressed upfront. It does not analyze the nature of governments, regime types, or the nature of political institutions, i.e. a benevolent social guardian or predatory state or the hard and soft character of the state, or the prototypes of autonomous and factional states of the Lal-Myint^{11/} typology. In that typology, autonomous states are all characterized by the relative freedom from overriding influences of particular economic groups, while the factional state is characterized by a coalition of different interest groups. The governing coalition seeks to maximize the well-being of the members of the coalition, subject to attempting to stay in power and retain their governmental budget constraint. We concede that these influences affect the behavior of governments in making economic decisions and these decisions may, in turn, hamper or facilitate the political process itself. However, this kind of analysis, though useful and interesting, falls beyond the scope of the case studies upon which this paper is based.

As outlined above, we also do not examine the question of "conditionality" of the IFI's and the bilateral donors or the enforcement of conditionalities and the bargaining power of the IFI's vis-a-vis the recipient countries--important as they are. Official foreign capital plays a critical role in the initiation and sustainability of reform efforts, policy advice and dialogue with the IFI's and the extent of compliance with loan agreements do make a difference. We do, therefore, investigate whether the IFI's financing was a motivating force behind the decisions by various countries to initiate reforms. Kahler^{12/} has made an interesting analysis of the external influence and conditionality of the IFI's with respect to economic policy reforms in developing

^{11/} Lal, D. and Myint, H., *Poverty, Equity and Economic Growth*. World Bank Comparative Study, Mimeo 1990.

^{12/} Kahler, M., "External Influence, Conditionality and the Politics of Adjustment", in S. Haggard and R. F. Kaufman (eds), *The Politics of Economic Adjustment*, Princeton: Princeton University Press, 1992.

countries. He argues that the IFI's face a difficult problem of adverse selection in those countries that are candidates for assistance, since governments rarely turn to finance coupled with policy conditionality unless their economic plight is critical. Mosley, et al.^{13/} have investigated the phenomenon of conditionality by examining a number of country cases and we draw upon their analysis to shed some light on the discussion of the possible tension between conditionality and ownership. But in our study, we deliberately chose to evaluate the performance and results from the adjusting country's perspective rather than that of the IFI's or the donors. This does not imply that donors had no responsibility in the implementation of these programs. The case studies and the main volume show that there is a substantial gap between the actions "agreed" upon between the IFI's and the recipient countries and the actual policy choices made.

We examine below the seven country case studies to test each of three hypotheses: (a) Why did the countries decide to undertake adjustment programs? (b) How broad-based was the ownership of these programs? and (c) How effective was the capacity to implement?

Why did the Countries Decide to Undertake Adjustment Programs?

The decision to undertake these programs is reached--though not always consciously or deliberately--when the costs of continuing with existing policies exceed the net benefits that can be realized by pursuing adjustment programs. One of the main elements in this calculus is the expectation of external resource availability from the international financial institutions and donors and the prospects of debt rescheduling in future. The net benefits can be conceived to consist of two components--first, the expected external resource availability including debt relief, and, second, the likely improvement in the domestic economic performance such as increased domestic savings, rise in export earnings, substitution of food imports by domestic production, etc. Although the separation may not always be that sharp, this analytical distinction provides

^{13/} Mosley, P. et al. op. cit.

a useful way to examine the questions of ownership and commitment. In countries where the decision to embark upon the program is driven primarily by the considerations of the first component of the benefit stream, the implementation remains highly fragile, adversarial and conditionality ridden. There are two variants of this trend. First, there is a bargaining game in which the recipient country tries to extract maximum amount of resources with as little changes in policies as it can get way with, and the International Financial Institutions (IFI's) and the donors placing as many conditionalities as possible and tranching their releases of fund on pre-specified actions in policy changes. The second variant is that the IFI's themselves take the initiative, on the basis of their own analysis, to persuade and convince the countries about the need to undertake reforms. On the other hand, where the driving force is a genuine desire to bring about some improvement in the domestic economic performance, i.e., the second component of the benefit stream, the chances for sustained progress are much bright. The ownership and commitment in this case are high, while the main tactic under the former case is to substitute adjustment by external resource inflows and delay taking tough decisions which may have negative political repercussions.

The willingness to initiate comprehensive and radical reforms is more likely to surface in countries where the economic system has failed or collapsed and the conditions are desperate. Pre-emptive reforms designed to ward off the disastrous effects of unsustainable fiscal deficits or to raise mediocre rates of growth will encounter greater resistance. The semblance of an orderly and apparently functioning economic system, but ridden deep down with serious distortions, may lull the craving for reforms.

Supply response is also linked to initial conditions. Economic conditions are more likely to improve perceptibly when the economy is already operating well within the production frontier. Thus, countries which have experienced system failures are not only more likely to undertake reforms for the right reasons but also to sustain reform because expectations will be reinforced by better performance.

Van de Walle^{14/} has advanced an interesting hypothesis about the failure of economic reform programs in Africa. According to him, "Government economic policy priorities and implementation in most African states have long been influenced and subverted by the actions of groups and individuals who lack formal representation in the political system but can take advantage of the State's weak capabilities and the clientelist networks that pervade it to pursue individual and parochial interests. Indeed, the failure of economic reforms is sometimes attributed to this type of informal participation."

The reason for the domination of this informal group of actors arises primarily from the lack of commitment to long-term development and the absence of a clear vision by the top political leadership on the direction in which the country should be moving. If there was such a long-term framework and vision of the future, it would become clear that economic reforms are only one of the several elements necessary to attain the long-term development goals. Leaders, who are too pre-occupied with fighting day-to-day crisis situations and have limited horizons, consider economic reforms—quite understandably—as irritants and external impositions without realizing the links with long-term development. For them, the political costs of these reforms are paid upfront when they have the responsibility, while it is not obvious if they would be in power at the time when benefits start accruing. The distribution of the pains of adjustment is always highly skewed. The rent seeking and privileged classes had already accumulated sufficient wealth, taking advantage of policy distortions in the period before adjustment, and, thus, cushioned themselves from the pains. But the rest of the society suffers in the immediate aftermath of adjustment programs as food subsidies are eliminated, imported goods become expensive, real wages decline, and public sector employment is either frozen or cut. Political leaders, whether elected or authoritarians, are hardly able to fathom this situation. This time inconsistency issue has been analyzed in understanding the behavior of economic agents and is equally applicable to political actors. Unless a

^{14/} Van de Walle, N., "Political Liberalization and Economic Policy Reform in Africa", *World Development*, Vol. 22, April 1994.

new domestic constituency in support of the reforms emerges, the pressures from the rent seeking and privileged elites, who are the losers, would remain intense. But there is insufficient understanding as to how new coalitions of the potential beneficiaries of the reforms--small traders and entrepreneurs, informal sector and rural population--can be built.

How did the above factors--economic conditions, strength or weaknesses of the interest groups, the quality of top leadership and the role of external donors--influence the decisions of the countries in undertaking adjustment in the seven African countries, and which one of these factors was relatively more dominant? The case studies shed some light on this question.

In Nigeria, a newly installed government found itself in the midst of an economic decline and a large debt burden that was exacerbated by a precipitous decline in oil prices--the main source of the country's foreign exchange earnings. This reduced the opportunities and the amount available to rent seekers to collect rents through the existing foreign exchange and import allocation system, thus softening their resistance to the reforms. These interest groups witnessed the immediate drying up of the sources of their benefits and privileges when the import licenses issued to them could not be covered by adequate foreign exchange allocations by the Central Bank. Had the export revenues not fallen so drastically, it is not clear if the government would have agreed to such radical reforms, although there was a growing domestic constituency advocating policy reforms. The benefits perceived in this case were primarily debt relief that will relieve pressure on the balance of payments, external reserves and the budget. It would be fair to surmise that the motivation of the rulers for reforms in Nigeria stemmed primarily from finding a solution to external debt problems faced by the country, and the implicit expectation that the increased cash flow obtained through debt relief will free foreign exchange for domestic users. This should not underestimate the role of those Nigerians, who did believe in broader economic reforms to remove the urban bias and various other policy distortions facing the economy and were influential in bringing about a massive

realignment of exchange rate and liberalization of domestic agriculture pricing and marketing. President Babangida not only went along by supporting this domestic reform constituency, but also defused the adverse fall out from the perceived involvement of the IFI's and external donors by organizing a debate and then rejecting the role of the IMF in the Nigerian economy.

In Ghana, the economic free fall was almost complete when the Rawlings Government assumed power in 1982. The *raison d'être* of the revolution was the eradication of wide spread corruption in the economy, and it was soon discovered that the major source of corruption and malpractice were the exchange rate, import licensing system, price controls and the monopolies enjoyed by the state enterprises. It did not take the new regime very long to realize that unless these distortions that were benefitting a narrow class of urban elites and businesses were taken care of, the crusade against corruption would remain ineffectual. The PNDC, after fierce internal debate on ideological grounds, took the decision to embark on the adjustment path and, after having reached an internal consensus, formulated the program and approached the IFI's and the donors for their support. In this case the driving force was the conviction that policy reforms would contribute to an improvement in the economy through elimination of corruption. As the new government was not beholden to the clientelism and, in fact, had assumed power to eliminate their hegemony from the economy, it was able to take and sustain decisive actions.

The interest groups in Ghana had weakened considerably and lost their credibility. They came to be identified with the economic malaise the country had suffered for more than a decade, and therefore were more of a political liability. A popular and untainted leader seized the occasion to discredit these interest groups further, gave free reign to a small group of trusted technocrats to design alternate strategies, eliminated dissident ideological viewpoint within the ruling junta that threatened his advisers' preferred options, and used the IFI's and external donors remarkably well to derive broad-based benefits for the economy.

Like Ghana, the economic conditions in Tanzania had also reached an abysmally low level. The fundamental policy changes which were instituted may have been precipitated by the upsurge in popular resentment which arose in the country. The resentment was occasioned by high rates of inflation, by shortages of many commodities, and by low productivity within the agriculture sector. Attempts to attract financial flows or to increase exports had not been successful and the efforts made to solve the shortage problem by cracking down on traders and other suspected hoarders had been too little or of no avail^{15/}. The change in the top leadership was publicly heralded by an admission that the previous economic policies had not worked and alternative solutions were to be found for arresting the economic collapse. The seeds of the policy change were sown in 1984 when the government allowed the "Own-Funded Import Scheme" under which any one having foreign exchange abroad could bring in certain category of imports without any restrictions. Although Tanzania has received exceptional amounts of gross aid flows during its adjustment period, the volume of these flows in real and net terms adjusted for terms of trade is not significantly different from what Tanzania had traditionally received in the pre-adjustment period. The evidence leads one to infer that the foreign aid flows were not the motivating factor behind Tanzania's decision to pursue this path of adjustment. The virtual collapse of the economy and the apparent failure of the administered system of controls and allocations were the main factors behind the decision. But it does not belie the truth that without an increase in aid flows, Tanzania would have been worse off and the adjustment policy measures would have faltered.

Although there was deep economic despondency in the country and the initial liberalization efforts had demonstrated some "visible" results to a large segment of the population, there was a great of ambiguity among the top leadership of the ruling party--the CCM--about wholesale abandonment of the 1967 Arusha Declaration that provided the basis for the previous set of policies. The fear of the domination of the economy by the more enterprising Asian traders and entrepreneurs to the detriment of the indigenous

^{15/} Wangwe, S., "A Review of Structural Adjustment in Tanzania Since 1986", in *Stabilization and Adjustment*, UNDP, 1991.

Africans loomed large in their minds. Unlike other countries where diverse vested groups operated in the economy, the division in Tanzania ran along the indigenous vs non-indigenous lines. The efforts by the IFI's and the donors to resolve this ambiguity by insisting upon loan conditionalities were not particularly successful, leading them to acquiesce in a more protracted and cautious road of reforms.

Unlike Nigeria, Ghana and Tanzania, the economic decline was not that pronounced or perceptible in other countries. In 1979, Kenya was hit by a sharp fall in the price of coffee as well as by doubling in the price of imported oil. Kenya was thus forced to adopt a stabilization program to reduce the ensuing macroeconomic imbalances. But Kenya never suffered from "urban bias" by which a part of the rural surplus was siphoned off to subsidies on urban consumption and capital formation. The leadership in Kenya originated from the rural sector and remained committed to a remunerative incentive structure for agriculture. To that extent, the political economy of adjustment in Kenya was congruent with the interests of the rural majority and helpful toward efficient food and export production. Kenya decided to undertake structural adjustment in search of finding a solution to ease the cash flow problem when it was faced with serious foreign exchange shortages and payment pressures.

Senegal got into a financial crisis in the late 1970s, and a combination of poor financial and investment policies, worsened terms of trade and successive droughts made adjustment unavoidable. But the need for structural economic changes had become apparent earlier on when Senegal lost its large French West African market and found itself with oversized industries and an excess of highly paid civil servants. Being one of the few democratic systems in Africa, Senegal was able to mobilize substantial external resources over the years obviating the need for fundamental structural changes. To make matters worst, the Government responded to a short-lived commodity boom in the early years of the second half of the 1970s by borrowing heavily from foreign commercial banks in the expectation of turning to more favorable terms of trade. It was not until December 1979 that it announced its medium-term program for economic and financial

adjustment covering the period 1980-84. The decision to initiate structural adjustment was taken by a group of competent technocrats in the belief that financial and economic imbalances faced by the country could be resolved with the aid of financial support from the Fund and the Bank. Along with Kenya and Turkey, Senegal was the first country to receive an adjustment loan from the World Bank in 1980. Non-compliance of the agreed measures, however, led to the cancellation of support by the Bank and the IMF in 1983.

In Côte d'Ivoire, the interplay between external and internal factors led to macroeconomic destabilization, but the Government's own diagnosis was that the crisis was a result of temporary terms of trade deterioration and external financing could tide them over the crisis. The past impressive track record of rapid development and diversification had endeared the country to the donors and external creditors, which allowed it to maintain its previous consumption and investment levels by providing exceptional financing. The initial attempts to liberalize the economy were made in response to attractiveness of the financial packages from the donors and IFI's to ease the cash flow problems rather than any deep conviction about the efficacy of liberalization per se. As subsequent events unfolded and the competitiveness issue became the main stumbling block, the new technocratic leadership took measures to correct some of the distortions, but the exchange rate issue had by then become so overwhelmingly important that the other measures produced only a muted response. Foreign borrowing and aid flows were the main motivating factors, at the initial stage, leading to the decision opting for stabilization and adjustment in Côte d'Ivoire.

Program design and implementation in Burundi suffered from a lack of initial participation and ownership by the Government and other economic actors. As donors were responsible for financing 80 percent of investment in the country, the general approach taken by the Government was passive, and the influence and the role of the IFI's were highly visible in the design of the adjustment programs. The Government's commitment further cooled when the major socio-political groups stiffened the opposition

to the program. The restrictive policy of President Baganza towards individual freedoms clashed with the views of the Catholic church and other groups, turning the political climate of Burundi less than propitious for successful launch of economic reforms. The ethnic violence that erupted in August 1988 had a further destabilizing effect, relegating economic policy considerations to the back-burners of national concerns.

In brief, all the seven countries were hit hard by deep financial crisis when they decided to undertake structural adjustment programs, but in three of these--Nigeria, Ghana and Tanzania--the economic decline was precipitous and the political regimes decided to undertake reforms in order to arrest the decline and also correct underlying distortions. In Ghana, a combination of strong leadership, weakly organized interest groups and careful use of donor assistance, helped initiate and sustained the reforms. Although the Tanzanians also had weak interest groups and enjoyed strong donor support, the difference in the progress achieved by Tanzania is that the same political party that was committed to a state-dominated economy has had to champion its abandonment and lead the move to a market-friendly economy. This explains the slow pace of reform in Tanzania. The case of Nigeria falls somewhere in between Ghana and Tanzania on the one hand, and Senegal and Côte d'Ivoire on the other. The desire for obtaining debt relief in the wake of falling oil revenues was accompanied, at least at the earliest stage, by the attempts to realign the currency and liberalize agriculture pricing and marketing.

The major impetus in the other four countries where the initial conditions were not that desperate was the availability of external financial resources that would help ease the payments pressures without any genuine understanding or desire to remove the underlying distortions. The silent crisis that was going on in everyone of these countries did not evoke the kind of response from the leadership that would address the fundamentals behind the imbalances. The status quo of interest groups was not threatened as was the case in Nigeria, Ghana and Tanzania.

How Broad-Based Was The Ownership of These Programs?

The earlier Bank studies of adjustment lending have concluded that the chances of success are higher if there is ownership of the program by the country. These findings also corroborate Kahler's^{16/} earlier work which showed that prior commitment and policy action (taken before external support is offered) are a good predictor of successful implementation. Successful influence is more likely if governments commit themselves to an adjustment program and only then are supported financially by the IFT's.

The meaning and definition of ownership have, however, remained fuzzy, despite the Bank's OED's attempt to elaborate on the definition of ownership and its application to the Bank's own lending experience for adjustment in Africa.^{17/} There are several other practical problems. First, what is the appropriate time path for strengthening the ownership? If the reforms produce fairly early pay-offs, does this help strengthen the ownership or slow the pace? Neither theory nor evidence provide any guidance to answer these questions. Second, the stability of the Government itself is equally critical. If the governments keep changing rapidly it is difficult to establish ownership. In Africa, the pattern has been frequent changes in the governments that has retarded the movement towards ownership. A third problem is that the economic generosity of the donors, in so far as it results in a soft budget constraint or allows the governments to postpone taking tough decisions, may also slow down the progress towards ownership. Finally, at the intellectual level, there are still remnants of ideological resistance to "market-friendly" paradigm of development which underpins the adjustment policies. The neo-marxian, "dependency" school of thought, anti-colonialists and others, who genuinely believe that the "markets" are anti-social, create inequities, hurt the poor and are repressive, still command considerable influence particularly among the non-economists. There are well-meaning African scholars who fear that integration of Africa in the world

16/ Kahler, M. op.cit.

17/ World Bank, *Adjustment in Sub-Saharan Africa*, OED Report No. 12155, July 1993.

economy is beset with disastrous consequences as Africa cannot compete with the rest of the world. For them, regional integration and intra-African economic relations appear to be the only viable solution.

The extraordinary and more visible influence, or in popular jargon, the "imposition" of the World Bank and the IMF in the conceptualization and design of the policy changes, has also affronted a number of serious Africans and, in some cases, strengthened opposition to otherwise sensible economic policy changes. Many African academics, practitioners and private sector groups may broadly concur with the basic policy thrust of these programs, but they find it annoying that their advice and analyses on the same lines are ignored by their own governments, while the same governments follow the IFI's without any questioning. This group of potentially natural allies for ownership of economic reforms has either distanced itself or joined the opposition. This nationalist sentiment can, in fact, be harnessed to enhance the ownership of the programs rather than leading to alienation.

"Ownership" should not be construed in a very narrow sense, i.e., of the government in power, or, more specifically, the economic team of the government consisting usually of the Finance Minister, Governor of the Central Bank, Adviser to the President and their staff. Ownership should be much more broad-based, with a shared vision and a sense of direction in which the economy is to move. In the absence of clear goals and objectives, the time path required for achieving these goals and the elements of the consensus forged, the mobilization of support from other socio-economic forces in the country such as private businesses, professionals, political parties, NGOs, students and labor unions, would prove difficult. The assumption that external approval from donors or IFI's will persuade or generate a commitment to economic reform is unlikely to prove valid.

Open discussions and debates, communication and interaction among diverse parties and groups are the only feasible ways to enhance the acceptability and

internalization of the programs. Trade Union leaders in particular have often made the point that, if they were duly consulted, explained the rationale and justification for various policy measures, and informed about the likely consequences and objectives, they would be in a better position to make a healthy and constructive contribution to both the diagnosis and the required prescription.

It is also conceivable that ownership and commitment could be associated with some select elements of adjustment programs, while other elements of the programs that are not perceived to have popular support may lack ownership. The implementation capacity may therefore vary under those circumstances, with the non-controversial elements of the package moving forward rapidly while others are being pulled back.

It is also not true that commitment remains unchanged, even by the same regime, throughout the process. The change in the commitment can be sparked by three different factors. First, the losses to rent seekers become much larger than what they had expected and the pressure from this group becomes so intense that it threatens the survival of the regime. Second, the domestic performance remains sluggish despite adoption of policy changes suggesting that either the design or the content or the sequencing of reforms leave much to be desired. Finally, either the level of external resource flows remains below the target or other exogenous shocks create adverse losses that are not duly compensated.

Academic literature, on the issue of participation, seems to make a distinction between the two different stages of the design and implementation of policy reforms. At the first stage, the executive authority must be firmly convinced of the necessity for economic stabilization and liberalization, for without such a commitment, the leadership will be unlikely to forge ahead with stringent recovery programs. As the initial stage usually involves changes in the incentive structure by altering key relative prices—the exchange rate, producer prices, interest rates, price decontrols, removal of quantitative restrictions—these can easily be carried out by a select group of competent and responsive

civil servants. The reforms need to be embedded in solid technical analysis and can therefore be entrusted to a small group of technocrats.

The problem usually arises when the second stage of reforms is proposed for implementation—downsizing the civil service, reducing consumer subsidies, closing down, commercializing or selling public enterprises, restructuring the financial sector, exposing industrial firms to competition, etc. During this phase, broad-based consultation and interaction with those likely to be affected by these measures can result in finding alternative and mutually acceptable solutions, and agreeing on the timing of actions. Listening to the genuine concerns of those who will be potentially hit by the reforms, and taking these into account at the time of designing the program, will facilitate implementation later on.

But the limitations of this participatory and consultative approach should also be recognized. The technical nature of the issues is bound to keep the discussion to a much smaller audience of educated and well informed groups and individuals. It is quite likely that the debate and consultations could end up making concessions to this "participatory" group at the expense of a much larger segment of the population. Public policies have been pro-urban in Africa historically, with only a few exceptions; subsidies intended for the poor have been hijacked by the well-to-do and the political influence of the rentier class has been disproportionately strong. The urban class, media, large private businesses, trade unions and academics still favor rapid urbanization and industrialization at all costs as the preferred model for solving Africa's economic ills, although their rhetoric and justification for this model are couched in terms of helping the poor, the unemployed and the socially-disadvantaged groups.

If this group—the highly dominant participant in the process of debate and consultation—is successful in influencing and determining the nature of the reforms and presents this as a "consensus" the interests of the majority of poor, who live in the rural areas and are not a participant in this process, will certainly suffer. The examples of

continuation of petroleum subsidies in Nigeria--whose beneficiaries are mainly the urban middle and higher income groups--and the high level of stipends to university students in Francophone countries, illustrate the inequality of power relations which will manifest themselves in the "consensus" building process.

Countries in our sample do not seem to have followed the logical formula of consultation and participation in a systematic manner. Two countries had very broad-based open discussions and debates but only when new governments came to power. In Nigeria, the Babangida Administration threw open the debate on IMF loans and conditionality to the general public and the media. It appointed a presidential advisory committee, headed by an eminent economist, to help formulate the adjustment program and consult the opinion makers. As a result, the domestic ownership of the program was strong in the 1986-88 period and policy changes proceeded as envisaged. But the failure to subsequent follow-through with broad-based consultations with the business, labor unions, academia and other influential groups took a heavy toll. Communication from the authorities to the general public became scanty and the "visibility" of the IFI's further weakened rather than strengthened the process. In a country with a free and vocal media, and with an articulate intelligentsia, it would have served well if the Government had carried through with a more intense process of consultation and communication, and used the feedback either to modify the elements of the programs that were resented most or explain the rationale and consequences candidly. It is not always easy to convince the public at large about the need to reduce domestic oil subsidies, but a candid and frank analysis of the beneficiaries and losers from abolition of subsidy would have certainly helped.

At the initial stages, there was a stiff opposition to the introduction of an adjustment program in Burundi. However, following a change in the Government in 1987, the climate of uncertainty and distrust was heightened and it was considered necessary to generate more widespread support for the programs. Groups such as the army, churches, private sector, academics, and labor unions were involved in the

monitoring of the program after 1989 and the difficulties encountered earlier in the implementation were tackled to some extent. The internalization of the program in Burundi was manifested by the Government's active participation in the design of the latest phase of the reforms. This, in turn, made a difference in much steady and unfettered implementation of reforms in the post 1989 period, until the change of the Government. The example of Burundi illustrates that ownership is by no means a static concept and can be transformed over time and with effort from outright rejection and opposition to a fuller participation and active involvement of domestic constituencies.

Sandbrook^{18/} has offered an interpretation of the Ghanaian case, which validates the relevance of broadening the support base for reforms. He believes that rigorous programs of economic stabilization and adjustment in Ghana, that have been sustained for a decade, illustrate the evidence of "ownership". To own a recovery program, a government must have a hand in shaping the pace, sequence and mix of policies. In Ghana, a small group of technocrats had made its voice heard by persuading the IMF and the World Bank to accommodate the Ghanaian Government's views on the pace and extent of devaluation, decontrol of prices, trade liberalization and privatization. While it is conceded that Ghana had a team of competent technocrats who steered the program well and won concessions from the IFI's and donors, the more demanding reforms such as privatization and public sector reforms have been stalled as other socio-economic groups were not fully involved either in the design or at the implementation stage.

Senegal's example in the revision of the labor code provides an interesting illustration of the limitation of the consultation and participation process. In 1990, based on an in-depth study of the labor market in Senegal by the ILO, the Government decided that the labor code should be revised completely. To maximize support for adopting a new labor code, the Government involved the employers and trade unions in designing the new code and informed and educated the public. But the revised code was not

^{18/} Sandbrook, R. "Political Liberalization and the Politics of Economic Reform", USAID Conference Paper, Washington, D.C., 1993.

formally submitted to the National Assembly for ratification. Thus the broad-based process of consultation spread over a two-year period did not culminate in a type of reform that was socially desirable and acceptable to all three groups directly affected by the proposed changes.

In Tanzania, the replacement of President Nyrere, who remained ideologically opposed to an adjustment program by Mywini in 1985, sparked a wave of internal debates on the need for structural reforms and on the issue of seeking assistance from the IMF. A small group of university-based economists took the lead in organizing public debates involving a wide spectrum of society. Such discussions helped to build a consensus on devaluation, on the introduction of greater import liberalization and agriculture sector reforms. Since the initial phase of the reform program succeeded in helping to jump start the stagnant economy, the role of more reform-minded technocrats increased significantly by the late 1980s. But the resistance from the cadres of the ruling political party, whose background, orientation, hardened attitudes and ingrained habits were all opposed to these reforms, diluted the efforts of the technocrats and thus the ownership of the program was not that strong as was the case in Ghana or even Nigeria.

The case study of Kenya documents that the first adjustment attempt (1980-84) was spearheaded by a small coterie of top civil servants and did not enjoy support beyond this small group. In the second period, as some of these civil servants left the scene, the commitment of top officials waxed and waned. This happened in a country which had a fairly stable political climate and a tradition of strong leadership. But the leadership paid insufficient attention to fostering and maintaining financial discipline which, in turn, undermined the structural reforms needed to lift the economy. The redeeming feature in Kenya, of course, was strong support for the agriculture sector and the rural population that kept the overall economic distortions at a lower tier than other African countries. This rarely found convergence of interests among the ruling political party and the majority of small farmers resulted in much less damage to the economy compared to Tanzania, Ghana and Nigeria.

The remaining country case—Côte d'Ivoire—demonstrates a reverse sequence of ownership. At the initial stage, i.e., in the early 1980s, when the country decided to undertake reforms, there was very little support for carrying out the kind of policy changes needed to set the economy back on trails. But in the end, particularly since the assumption of Prime Ministership by Outtara, there was a much greater realization and commitment to make the changes. This commitment was though limited to those in and around the Prime Minister and very little efforts were made to bring in or convince or debate other opinion makers and influential interest groups. The opaque nature of the discussions did not help sort out the legitimate concerns from those which originated from "misperceptions" or lack of proper information about the consequences of the reforms.

The evidence presented here shows a mixed pattern—strong ownership in the case of Ghana and Nigeria (at the beginning) with the latter drifting away during the course of implementation and finally abandoned with the change in the political regime, a moderate ownership in the case of Tanzania, a renewed ownership in the case of Burundi and Côte d'Ivoire and a limited ownership in the case of Kenya, which has been broadened and strengthened more recently. There is sufficient evidence that the degree of success in implementing reforms is closely correlated with the broad-based ownership of the program. Ghana, Tanzania, Burundi in the post- 1987 period, and Nigeria between the 1986-88 period, vividly proved this point. Currently, Côte d'Ivoire is also in the mist of implementing a program that it fully owns. The record of implementation in Kenya has also improved since October 1993 when a new team of economic managers took upon itself to persuade and broadened the support for the adjustment program. But the opposition by the old guard remains strong and therefore the ownership is far from complete.

Another interesting question that needs to be explored in the context of ownership is: Is there tension between conditionalities of external donors and the country ownership of the program?

First of all, why should the donors use conditionalities to enforce implementation of reforms by the recipient countries? The debate on this issue is highly complex, but we will provide one explanation that has been put forward by Collier^{19/}. He thinks that one fundamental change in Africa's external economic relations since 1960 has been the lack of "agencies of restraint"--the institutions which protect public assets from depletion, prevent inflationary money printing, prevent corruption, protect socially productive groups from exploitation and enforce contracts. For such agencies to function effectively, they must be protected from the pressures they are designed to uphold. He hypothesizes that because African presidents typically could not tolerate autonomous centers of power, the donors have become the new agencies of restraint. These agencies use "conditionalities" as instruments of restraint.

A different perspective is provided by Herbst^{20/}, who argues that "There is, in fact, every reason to believe that without dramatic external pressure, poor economic policies in African countries will continue". He worries that "should assorted proposals alleviate the debt burden of even the poorest countries, there may be a strong temptation on the part of African leaders to reduce the pace of economic reforms".

Both these views underpin the donor conditionalities that have been subject of debate and controversy within and outside Africa. The internal sources of demands for policy changes from within the African civil society have begun to assert themselves only recently and that too sporadically. The resurgence of democracy, the increasing demands for transparency and accountability and the emergence of a vocal press in Africa should make the domestic pressures more important than the external agents of restraints and in the ultimate analysis, it may be durable to strengthen the civil society and promote an

^{19/} Collier, P., "Africa's External Economic Relations 1960-90", in D. Rimmer (ed.), *Africa 30 Years On*, London: J. Currey Press, 1991.

^{20/} Herbst J., "Structural Reform and Debt in Africa", in R. O'Brien and I. Iverson (eds.) *Finance and the International Economy*, Oxford University Press, Oxford, 1990.

effective and knowledgeable media and other countervailing institutions outside the government to provide the restraining influences.

The tension between "ownership" and "conditionalities" can arise when the recipient country agrees to undertake actions as part of the conditionalities under the Bank loan and/or the Fund arrangements or donor programs, and the loan conditions are either inappropriate to the economic context of the country or the country has no real intention of complying with those conditions.

Mosley, et al.,^{21/} in their study of nine countries receiving adjustment loans from the World Bank, illustrate this point by matching the commitment of reforms favored by the World Bank with the actual implementation of the loan conditions. The zero or partial implementation indicates low commitment, while full implementation indicates high commitment. But they argue that there are two other cases. First, there are cases where full implementation of a loan takes place but the commitment is low. This is the case where all formal conditions are scrupulously performed, but at the same time, or shortly afterwards, other actions are taken, the effect of which is to neutralize the result of implementing the original condition. The other situation arises when loan conditions are not fulfilled but commitment to reform is high. The authors hypothesize two causes for this deviation. The first concerns trivial conditions—either too broad in scope or peripheral—a matter of detail such as the hiring of consultants, the design of a minor study, etc. Second, when the required conditions are infeasible or improbable. In Ghana, the government agreed to meet an ambitious target of divesting the state enterprises without realizing the depth of the problem of inter-enterprise borrowing and the impediment which the inability to value each enterprise properly would place in the way of divestiture. The failure to implement loan conditions in this case was compatible with commitment to reform.

^{21/} Mosley P. et al., *ibid.*

Does the evidence from these seven countries in our sample shed any light on this proposition? Two cases can be cited in this regard to show that the components of the reform programs which have strong ownership can be implemented without explicit conditionalities of the IFI's, but problems can arise if the conditionalities are not well rooted and enjoy domestic consensus.

Nigeria's program of devaluation, abolition of import licensing market-determined exchange rate, commodity board elimination and liberalizing agriculture trade was very much designed by the Government, implemented and fully owned even before approaching the IFI's for assistance. On the other hand, trade liberalization was more or less conditioned by the IFI's and had little internal support. The Government had to reverse some of the actions taken under the Bank Trade Policy Loan, under pressure from the manufacturing lobby and resort to reflationary budgets from time to time under the influence of some non economic advisers.

In the case of Ghana, most reforms were put in place after fierce internal debates within the PNDC, once the antagonists were removed from the decision making apparatus. The IFI's had conditionalities focussed mainly on cocoa marketing and parastatal reforms. The latter have taken much longer and have not been implemented either fully or at the pace specified in the loan conditionalities.

How Effective Was the Capacity to Implement?

Aside from the interest groups and political economic considerations which we have discussed above, the most critical missing element in most African countries is the implementation capacity not only within the government but, more broadly, within the civil society. The slow accretion of the right skill mix, the dilution and depletion of the stock of already trained and experienced professionals through migration, and the non- and low utilization of existing capacity for professional work differentiate Africa sharply with South Asia. The excessive dependence on foreign technical expertise, the donors'

own disposition to employ outside personnel to design and execute the projects and set up new implementing agencies outside the normal governmental machinery and the penchant of the political leaders to find "loyalists" rather than "competent" among the civil servants, have contributed to the existing state of poor capacity.

Even countries which have political commitment and willingness to reform, find themselves seriously handicapped in bringing about the desired changes due to this capacity constraint. The combination of competent technocracy and reasonably enlightened and popular leadership is rare to find in Africa as was the case in Asia.

As implementation capacity is, by and large, weak in most of the countries reviewed, the distinction between "capacity saving" and "capacity using" reforms becomes important. As we have argued earlier, the first phase of reforms, which alter the relative prices, liberate the capacity of key government officials and, hence, are implemented fairly rapidly once consensus is reached. The other set of reforms that entail more deep-seated change are highly demanding on the limited administrative capacity of the government officials, and broad-based participation of other groups can also help the process of implementation also.

We believe that capacity is also endogenous to the ownership, commitment and a sense of long-term strategic vision and direction on the part of leaderships. In Korea, when President Park, who had a clear vision of the direction in which Korea should move and decided to promote exports, assembled a team of the most competent civil servants and entrusted the task to them. The President personally reviewed and monitored the situation and allocated rewards and penalties on the basis of performance in relation to the agreed targets. This mode of intervention soon had a salutary and positive impact on other civil servants, who wanted to demonstrate that they could also do the job equally well. Capacity building in this case was the direct result of commitment and ownership by the top political leadership in the country.

In our view, implementation depends not only on a set of technocratic measures that can take place by the acts--decrees and orders of civil servants--but also on the capacity to manage the political support for these measures. The upfront identification of winners and losers from the various reforms has to be an integral part of the feasibility of structural adjustment programs. There is a diverse array of subgroups and interests within the government itself that will react differently to various reforms. For example, public enterprise managers would oppose reform if it involves closing down or retrenchment. Ministries charged with revenue collection and fiscal balances would respond favorably if a reform package added significantly to available budget resources. Civil servants might respond negatively to pay scale reform and cut back in employment levels, but they might be deterred from opposition if a reform lessened or removed legal restrictions on their private economic activities. In Nigeria, in the early years of adjustment program, the military government imposed pay cuts on the military itself, thereby establishing a measure of fairness and credibility for the overall program.^{22/} But subsequently, the distribution of gains and losses from the adjustment programs as among the military, the political class and the rest of the society had turned out to be unfair and perceived so widely.

Private sector constituencies might also behave differently. The more competitive industrial concerns, crippled by shortages of foreign exchange and import restrictions, might support trade reform as they did in many of the sample countries: export-oriented farmers that are direct beneficiaries of devaluation, and producers of domestic food crops respond favorably to pricing and marketing reforms. The case studies report that in six out of seven countries, both export and food production rose in response to successful devaluation and liberalization of prices and marketing. Farmers in general benefitted from shift of resources from urban consumers to rural producers. Other poorer urban groups, which had been hit hard by budget cut-backs, could have been supportive if specially targeted programs had provided them assistance at the time such cut-backs were

^{22/} The discussion is drawn from Gulhati, R., "The Political Economy of Reform in Sub-Saharan Africa", EDI Policy Seminar Report No. 8., Washington, D.C., 1988.

implemented. The private sector operators, dependent on the government's discretion to allocate foreign exchange, licenses, etc., do oppose the program.

Industrial enterprises in the modern sector which depend on subsidized imports as raw materials and inputs and had protected domestic markets are certainly the losers under the adjustment program. On the other hand, small and micro enterprises in the informal sector that had no access to foreign exchange allocations are the dynamic force behind expansion.

In Africa there is a basic dilemma. As Haggard and Kaufman^{23/} point out "For governments to reduce their role in the economy and expand the play of market forces, the state itself must be strengthened." On the one hand, economic liberalization, however, entails the curtailment of powers of the state through privatization, deregulation, elimination of central planning and reduction in the work force. The ensuing uncertainty, lower real wages and lack of job security demotivate the civil servants and, in some cases, lead them to leave the public service. On the other hand, the tasks of the government to design, implement and operate myriad components of the structural adjustment program, maintain and operate a framework of macroeconomic policies that provide incentives to the private sector, resolve the infrastructural problems, and mediate conflicts within the civil society, would demand scarce technical and administrative skills. If the civil servants have lost their zeal and motivation, the required technical and administrative skill will not be available to lead the implementation of reforms.

The absence of a strong development-oriented visionary leadership fully committed to economic reforms, and the dilemma outlined above have worsened the implementation capacity problem. The process of reforms should be conceived and presented in the context of long-term development vision. But in absence of such a

^{23/} Haggard S. and Kaufman, R. F., "Institutions and Economic Adjustment", in S. Haggard and R. F. Kaufman (eds.), *The Politics of Economic Adjustment*, Princeton: Princeton University Press, 1992.

vision, the process is overtaken by considerations of political and administrative expediency. Grindle^{24/} argues that because of the absence or weakness of pluralist institutions that mediate between society and the state, the implementation process may be the major arena in which individuals and groups are able to pursue conflicting interests and compete for access to scarce resources. This conflict is finally resolved through the mechanisms of patronage and opportunities of self enrichment in which the civil servants play not a restraining but a facilitating role for the political leaders in power. As Sandbrook shows, the administrative decay in Africa is rooted in the pervasive clientelistic nature of politics pursued by most African "presidential-monarchs," who treat the public administration as their personal property. According to Bendix^{25/}, these public officials, in patrimonial fashion, then "treat their administrative work for their ruler as a personal service based on their duty of obedience and respect". Unless fundamental restructuring and professionalization of the civil service takes place in these countries, the prospects for building implementation capacity will remain bleak despite donors' efforts and external pressures. The whole structure of governance in Africa needs a thorough reexamination and overhaul.

The seven case studies suggest that there is some urgency to put in place measures during the process of implementation that will neutralize the losers from the reforms and find ways to cushion them from abrupt and large shocks. For example, spreading ownership of public enterprises to workers and the middle class could reduce the opposition to parastatal reform. Similarly, involving civil servant groups in civil service reform could win their support. At the same time, the potential winners will need to be mobilized to keep up the pressures for staying on course. Jennifer Widner^{26/} argues that, in East Asia, liberalizing economic reform was a consequence of more or less

^{24/} Thomas J.W. and Grindle M.S., *Public Choices and Policy Change: The Political Economy of Reform in Developing Countries*, Baltimore: John Hopkins University Press, 1991.

^{25/} Bendix, R., *Max Weber: An Intellectual Portrait*, Garden City: Doubleday, 1992.

^{26/} Jennifer Widner, "Reform Bargains: The Policies of Change", in D. Lindauer and M. Roemer (eds), *Asia and Africa: Legacies and Opportunities in Development*, Cambridge, Mass. H.I.I.D., 1994.

explicit "deals" negotiated between leaders, technocrats and the heads of the networks or groups that structure political life. These compromises insulated policy making in the short- and medium-term. But in the multi-ethnic and fragmented politics of Africa, striking such compromises has proved more arduous.

While neutralizing the losers from the reforms is in practice problematic, building coalitions of winners from the reforms is even more difficult. The problem is particularly severe when, for example, as in the case with trade reform, the gainers (e.g. consumers) are many, but each gains a small amount, while the losers (e.g. textile workers) are few, but each loses a large amount. In most other cases of reforms, typically the costs are in the present and very certain, but the benefits are in the future and uncertain. This makes the task of building coalitions of winners arduous.

A further analysis of the seven country cases on the basis of their record of capacity to implement reforms and manage the political support for these reforms reveals very interesting insights.

In the early phase, Nigeria was able to introduce radical changes in the areas of exchange rate, import liberalization, commodity pricing and marketing, interest rate, etc. But the subsequent reforms were either stalled or not fully implemented. This patchy record of implementation in Nigeria arises from several factors. While, the conventional debt rescheduling helped the country in the initial period with cash flow relief, the continuous capitalization of interest in fact worsened the debt stock situation and the debt indicators over the medium-term. The inadequacy of durable debt reduction was one of the reasons for the adjustment fatigue and the consequential stop-go behavior displayed by Nigeria politicians and civil servants in the implementation of the program. Second, the rent seekers lost out heavily by the abolition of import licensing system and they strived to find other devices to compensate themselves. Petroleum subsidy, unbudgeted public expenditures and other leakages from the system were found to be the new sources of rent seeking that gained currency and, finally, contributed to derailment of the

program. Third, the urban middle classes, especially professionals, the army and civil servants, were hit very hard by the losses of implicit and explicit consumer subsidies available in the form of cheap food, imported goods and transportation. Thus, they became the main stumbling block to further reforms in Nigeria. Fourth, the pursuit of political liberalization agenda simultaneously and in parallel with a difficult economic reform agenda may have strained the Nigerian leadership's capacity to deal adequately with both these agendas at the same time and stay on economic course. The administrative and institutional capacity for implementation in Nigeria was thus derailed from the original track due to the combination of these factors.

As the Nigerian government has a disproportionately strong control over the country's foreign exchange resources through its monopoly on oil export revenues, the fragmentation and disarray among the Presidency, the Ministry of Finance, the Nigerian National Petroleum Company and the Central Bank of Nigeria over the control of these resources further accentuated and compounded institutional decay and became one of the main avenue of contests for rent seeking. While these mutually interdependent institutions should have worked together to interlock the policy changes, their chaotic, conflicting and uncoordinated behavior created more tensions and forced the ultimate demise of adjustment program in Nigeria.

In Ghana, the sustainability was aided by the single-mindedness of the regime, the continuity of a team of competent technocrats insulated by political pressures and fully supported by the top leadership and the visibility of favorable results at an early stage. The other distinguishing feature of the Ghanaian case is the general perception that the ruling class participated equally and shared the burden of austerity and hardship just like the ordinary citizens. The losers from the reforms were on the retreat as they were clearly identified with the previous disreputable political regimes and had no clout. These factors softened the intensity of the criticisms against the reforms substantially, and was further helped by the early recovery of cocoa exports and agricultural production in general. But the more deep-seated reform that will encourage private sector investment—

both domestic and foreign--have not yet sunk in. Consultation and involvement with the private sector is just beginning and political stability may help this process. The prospects for sustained long-term development will not improve unless the forces of private initiative and enterprise are unleashed and the state plays a more supportive and facilitating role.

The neglect to involve the whole cadre of civil service in the process of reform, the demoralizing influences of lowering of real wages and downsizing the ranks of the civil service and the mistrust and suspicion of the high ranking and experienced officials by the new regime contributed significantly to the less than satisfactory and slow pace of implementation of the second generation of the structural reforms in Ghana.

Although the reforms have been sustained in Tanzania, the pace has been relatively slow. The early gains in form of increased availability of consumer goods in the market, food availability and agriculture production response provided confidence to the policy makers that other necessary steps could be taken without much risk. The number of winners from these early gains far exceeded the small number of losers and, hence, there was widespread relief. The second stage of reforms are still stuck and the broad consultation and participation by those likely affected such as employees of parastatals have not taken place. The consensus building process is taking much longer in forging agreement on some key elements of the program, such as privatization of parastatals, and the whole attitude towards private sector development has not yet been freed from the suspicions, skepticism and doubts of the socialist era of the 1970s and early 1980s. In the absence of some evident movement on this front, the economic recovery is likely to remain fragile and the dependence on external aid, high. The switch from highly centralized micro management of the economy under the previous socialist system of economic planning to a more decentralized market-based allocation of resources has proved well beyond the capacity of the Tanzanian civil servants who are already strained by the demands of external aid agencies. The institutions that will support and breed such a transition are almost non-existent and this explains, to a large

extent, both the hesitancy and the slow pace of implementation. This "capacity impairment" has been further compounded by almost an unmanageable plethora of foreign-assisted technical assistance and capital projects. These projects put severe demand on the scarce managerial resources of the Tanzanian government without always creating significant enduring benefits for the economy.

Kenya, like Nigeria, symbolizes the case of the resurgence of rent-seekers in defending and regaining their financial interests despite the strong influence of rural producers. Herbst^{27/} notes that Kenya represents the best known example in Africa of how a political system has been able to incorporate agrarian interests. Much of the top leadership has strong personal ties in agriculture. As a result, Kenyan farmers have much better access to infrastructure and good sectoral policies. But the progress in sectors other than agriculture has been intermittent and stymied by the growing influence of the powerful urban-based interests, who used every possible opportunity to expand avenues for personal gains through other vehicles of state controls and patronage. The licensing system for imports and regulations for doing business and the overextended public enterprises proved difficult to dismantle in Kenya for this particular reason. The financial sector was misused by these powerful groups to gain personal benefits creating, in turn, a large unanticipated shock to the economy that derailed the reform program in 1991-92. The growing clientelism in Kenya was, in recent years, a potent force in explaining the nagging implementation of reforms, policy slippages and reversals.

The fairly well-developed administrative machinery and the institutional base of Kenya, supplemented by large inputs of foreign advisers and technical assistance, was manipulated to advance the narrow interests of the ruling elites rather than lay the foundations for a solid structure of a liberal and equitable economy.

^{27/} Herbst, J. in Hemmed In, op. cit..

Senegal's program had been derailed (until January 1994) for the last four years. In the early period of Senegal's adjustment, a core team of influential technocrats was instrumental in the implementation of the reforms by neutralizing the weight of the vested interests. But, once this core group left the scene, the implementation record became much weaker. Game playing between IFI's and Senegal became the order of the day with Senegal wanting to maximize external resource flows by making sure that the form of the program rather than the spirit was adhered to. The IFI's, particularly the World Bank, on the other hand, put heavy emphasis on up-front action. Senegal's membership in the CFA zone also precluded the possibility of using one of the potent policy instruments, i.e., exchange rate and, thus, the full blast of the adjustment policies could not have the desired impact, but the unfettered support by key bilateral donors also obviated the need for bringing the capacity up to full steam to implement the desirable reforms.

But there is a positive lesson in institutional innovation to be learnt from the Senegalese experience. The AGETIP project has successfully carried out an urban program of rehabilitation and maintenance of infrastructure, eased the initial employment costs of adjustment and helped increase the long-term skills of both small contractors and their temporary employees. This experiment freed the "capacity" of the normal government agencies and made an excellent stride in using the under-utilized "capacity" of extra-governmental resources.

Burundi's example is more revealing. In the case of Burundi, the wholesale dominance of the public sector, the heavy juridico-regulatory environment, the inadequacy of the banking sector, the weak expertise of management in the private sector and poor information services, have combined to produce a muted response to policy changes. For example, increased export earnings from successive devaluations were absorbed almost entirely by agroindustrial public enterprises as the output prices of exports crops were administered and kept at low level. Thus it was not the inadequacy

of institutional capacity that should bear the brunt but a myriad of other factors described above.

A strong, committed military leader embarked on reforms of political and economic systems simultaneously, overcame some of these constraints. The initial record of implementing economic reforms under Buyoya was not too bad but the electorate rejected him at the polls and thus interrupted the ongoing process of reforms. The resulting political chaos and confusion, including the assassination of the newly elected President, sparked mainly by underlying ethnic tensions, did not permit the continuation of reformed economic policies. The question that can be raised with the help of hindsight is: whether Burundi, with its peculiar ethnic configuration, proceeded too rapidly in its political liberalization attempt without putting in place an apparatus that would have counter-railed or neutralized the ethnic divisiveness.

The case of Côte d'Ivoire is more difficult to interpret. This was one of the few African countries that had succeeded in bringing about a structural transformation of the economy in the 1960s-70s. Like in Kenya, the administrative capacity and the institutional framework evolved remarkably well over time and were aided by the French resident experts. But twelve years of austerity, hardships and declining living standards and increasing indebtedness, fatigue had set in among those who had been sacrificing already while the urban elites were remarkably comfortable and cushioned from the crisis. The recognition of "problem" among the Ivorian leadership dawned when other neighboring adjusting countries started flooding their markets with their goods and showing resurgence in growth. This contagion effect may therefore partly explain the motivation for Côte d'Ivoire's change of heart towards devaluation in January 1994.

It was not lack of implementation capacity but lack of political conviction about the efficacy of policy measures themselves (to be reversed much later in the day) that contributed to the dysfunctional state of the Ivorian economy in the 1980s.

The evidence from the seven countries suggests that implementation capacity, though highly critical to the success of reform programs, was not always a binding constraint in every single case. Only in Tanzania did it proved an unequivocally strong factor, but in other countries the fragmentation of executive authority (Nigeria), the convergence of interests among the bureaucrats and the ruling political party (Kenya), the lack of conviction about the efficacy of reforms themselves (Côte d'Ivoire), the substitution of efforts by donor financing (Senegal) and a host of structural weaknesses (Burundi), were relatively more important. This does not, however, deny the fact that the institutions and the human resource-base needed for rapid, equitable and sustained development are weak in Africa and need to be strengthened. Our case studies only suggest that other factors intervened well before the capacity to implement could be adequately tested.

What Useful Lessons Can Be Drawn?

The broad lessons that can be drawn from the management and political economy aspects of adjustment in these seven countries can be summarized as follows:

- (a) The design of the programs should usually follow two phases. In the initial phase when changes are sought in the incentive structure by altering relative prices such as exchange rates, interest rates, tariffs and taxes, producer prices, public utility prices, etc. a team of competent technocrats insulated by political pressures can be more effective in introducing and implementing these changes. At the second stage, when more far reaching changes are the objective such as public enterprise reforms, downsizing of civil service, de protection of manufacturing sectors, etc., widespread consultations and discussions with affected groups and economic actors are helpful in clarifying issues and building consensus.

- (b) The political commitment to the program will be strengthened if the economic reforms generate recovery and supply response in the earlier years of the program, thus mobilizing the potential beneficiaries, otherwise a sense of fatigue and cynicism creeps in eroding the commitment. Foreign inflows in the right amount and right time and favorable prices for Africa's major commodity exports can help reinforce the commitment, but the positive results early on are the only solid basis on which further reforms can be built upon. In a sequenced approach to the reforms the more difficult reforms can withstand resistance only if the earlier reforms had shown some positive results. Open communications and education of the population at every stage of implementation are the sine qua non for the success of the program. As more and more countries are embarking upon a parliamentary form of democracy, early sensitization and involvement of the parliamentary groups in the design and supervision of the program may prove helpful. The challenge is how to convert the widespread populist sentiment of the elected leaders to a more prudent management of scarce economic resources for the larger benefit of the society rather than themselves or their allies.
- (c) The general finding from the successful examples of adjustment—Ghana, Nigeria and Tanzania—is that the urban bias of the past was largely reversed as the population in the rural areas benefitted substantially, while key urban groups shouldered a large share of the cost. However, new coalitions of beneficiaries were not created in any of the countries which could support the reform programs. As a consequence, powerful urban groups—trade unions, middle class professionals, and students—came to form the main opposition to certain reform policies and programs. In Nigeria, the challenge to mobilize the diffused rural support, without antagonizing a better organized urban population, proved difficult to tackle.

It is important to neutralize the losers from reforms, such as vocal middle classes of professionals, army, civil servants, journalists, students, labor unions, industrialists, universities, etc., who are likely to be adversely affected by the liberalization and ensuing competition. It is not enough to either ignore them lightly as vested interests or repress them. They are important potential contributors to development process and also have a tremendous influence in organizing and mobilizing public opinion. Those who are truly committed to their professions will either withdraw from the scene and emigrate thus depriving the country of valuable skills. Although this challenge of neutralizing the losers is daunting, the involvement of professional associations, opinion makers and other interest groups, and consultations with these groups in the design and implementation of policies affecting them, will be helpful in understanding their view points and concerns and arriving at mutually acceptable solutions. The current practice of "secrecy" and inadequate communication and consultation accentuates the feeling of mistrust and suspicion.

Others will still try to destabilize the program and create opposition and hindrances in the implementation by magnifying the harmful effects and the hardships. Some meaningful way of accommodating their interests and neutralizing the adversity imposed upon them will eventually enhance the consensus building and facilitate implementation of the program.

- (d) Unlike East Asian countries where a "strong" executive authority played a critical role in implementing reforms, the "weakness" and "patrimonial" nature of the state in African countries proved to be a hindrance. The "unsure" and "insecure" leaders could not always persevere in face of adversity and hostile opposition. The only exception was Ghana with a "strong" leader and a "technocratic" team insulated from political

pressures. The distinction between commitment and capacity is not always clear cut. Where the executive authority is fully behind the program, on the basis of its own internal conviction rather than external pressure, it does make sure that the execution and implementation do take place with due diligence and at the requisite speed to achieve results within the given time frame. The leadership assigns this task to the most competent individuals and most efficient groups and institutions, then monitors the progress and results from time to time and rewards and punishes the individuals concerned on that basis.

- (e) Flexibility and agility in responding to exogenous and unanticipated shocks and surprises--either external or domestic--differentiate those who have succeeded in keeping the reform process on course from those who failed to stop the derailment. In Sub-Saharan Africa, external donors play a major part in reinforcing the willingness of the policy makers to make the appropriate and timely decisions. Their own response to the specific situations should be equally prompt and adequate. The performance criteria negotiated originally should be modified and contingency financing mechanisms triggered of immediately without waiting to determine whether the shocks are transitory or permanent in nature. The protracted discussion on the question as to whether or not the response to these should be through further adjustment or additional financing can potentially disrupt the reform process. The example of response to drought in Southern Africa during the course of the adjustment period provides powerful corroboration.

Implications for Policy

The evidence presented in this paper strongly suggests that the sustained application of adjustment policies is explicable in terms of two variables--domestic

ownership and capacity. These findings carry extremely important implications for the elaboration of future policies for the African governments and their external partners.

There is an urgent need for the African governments to go beyond their limited and small groups of technocratic advisers and civil servants to consult, educate and inform the representatives of the civil society and opinion makers in the design and implementation of adjustment policies and institutional restructuring. A strong, committed and visionary leadership that places these policy reforms in the context of long-term development path of the country can provide the bonding and cementing of diverse and divergent viewpoints and nurture a shared vision for the future.

For the IFI's and external donors, who are supporting African governments, the narrow, short-term and conditionality-driven enforcement and compliance of agreements need to be replaced by a medium- to long-term framework of macro, sectoral policy and investment and institutional changes developed and owned by government, keeping the short-term capacity as given constraints, but taking measures to develop this capacity within the time horizon of the long-term framework. This framework can then be translated into time-bound, specific action programs on various agreed upon changes between the donors and the African governments.

Both the African governments and their external partners have to rethink on the measures that will build, save, utilize and enhance the capacity of African governments, private sectors, NGO's, professional groups, universities and research institutes. The adversarial relationship between the government and the private sector will have to be transformed into a symbiotic and constructive partnership aimed at achieving the long-term developmental goals. The effectiveness of the present practices of delivering the technical assistance by external donors has been sufficiently questioned and a new mode of delivering this assistance employing capacity building and utilization as the overreaching objective needs to be developed. The transferability of institutions or

policies from one setting to another has always proved difficult, but, at least, adaptation of successful practices that have worked elsewhere should be encouraged.

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