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STRUCTURAL ADJUSTMENT IN AFRICA

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Structural adjustment of the economies of tropical African countries was triggered by debt crises in the early 1980s. Governments had borrowed heavily abroad, and had followed expansionary fiscal policies, on the strength of easy credit terms and favourable trends in the external terms of trade. They were slow to react when the trends in relative prices were reversed and when commercial credit ceased to be cheap. Burdens of external debt service then became insupportable, and succour had to be sought from the IMF, which stipulated conditionalities with reference to budget deficits, credit creation and exchange rates.

The World Bank, in the Berg Report of 1981 (*Accelerated Development in Sub-Saharan Africa*), had already identified weaknesses in African economies more fundamental than external liquidity crises. Evidence of these weaknesses included losses in export market-shares (later said to be of one-half between 1970 and 1983 in primary products other than oil), failures to diversify exports and increased import-dependence.

Discriminatory tax and subsidy policies were blamed. Some subsidies were met through public expenditure, as in the maintenance of unprofitable state enterprises, or by forgoing public revenue, as in holding down the prices of petroleum products; while others were implicit in the official fixing of prices for foreign exchange, credit, crops and industrial inputs - and were necessarily accompanied by implicit taxes. Whichever the case, comparative advantage had been sacrificed and resources diverted from their socially most productive uses. The tenor of policy had been anti-growth.

The remedy was deregulation. When the Bank began lending for structural adjustment, and bilateral donors were induced also to provide balance-of-payments support for reform, the conditionalities went beyond monetary stabilisation and the closing of deficits in the budgets and external payments. They called also for economic liberalisation: for the removal of import licensing and of price controls, the winding-up or privatising of parastatals, the releasing of market forces and freeing of private enterprise. They required that resource allocation be determined more by the economic criteria of market-determined costs and returns, and less by politics.

The conditionalities then became much more numerous. Those attaching to the Bank's loans increased more than threefold on average during the 1980s; in Kenya the total reached 150 by 1991. Most were not precisely quantified, and many not even clearly defined. They were therefore difficult to monitor, and in any case the resources available for checking compliance were always inadequate. Hence whether governments were observing or breaching the adjustment conditionalities has often been uncertain. And, for reasons that are perhaps obvious, the Bank and other aid agencies have not been anxious to discover borrowers in breach of borrowing agreements.

The object of structural adjustment was to recover growth in the African economies. The means to this end were the shifting of income and assets away from the more parasitic economic actors and towards the more productive. There would therefore be losers as well as gainers from adjustment. The gainers would be those whose

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enterprise, efficiency and output were no longer constrained by bureaucratic controls. The losers would be those whose livelihoods had previously been nurtured and protected by statutory monopolies, protection against imports, cost subsidisation, fiscal subventions and political office or influence.

Such was the pattern of subsidisation and protection in the unadjusted economies that the losers were to be found more in the towns than in the countryside, and, within urban society, were especially concentrated in the upper strata. Deregulation was opposed, therefore, in just those places and among those people where opposition could most readily and effectively be organised, while popular support for the reforms, from those they benefitted, lacked both organisation and public expression. This asymmetry partly explains the weakness of the adjustment in many countries.

African critics of adjustment nevertheless claim that the pains of adjustment have been felt most severely by the poorest and most vulnerable members of society. This belief is certainly unfounded. If it were true, much less would have been heard by way of complaint against adjustment policies. In contradiction of it, the World Bank argues that 'the poor' have benefitted, or, at least, have been made no worse off than they were before. Both criticism and rejoinder miss the point of structural adjustment, which was neither to penalise nor to benefit the poor but to shift resources toward those economic actors who could use resources more productively. Admittedly, because the internal terms of trade in the unadjusted economies were rigged against the rural areas, there was overlap between those who were poor and those who were potentially more productive. But not all those who were poor could realistically be expected to exploit the opportunities presented by deregulation.

Structural adjustment in Africa now has a record of some fifteen years, though in very few countries has a serious reform effort been sustained for anything like so long. The World Bank has more than once tried empirically to show its effectiveness: those countries judged to have adjusted most, also having performed best economically. For methodological reasons, these demonstrations are bound to be less than totally convincing. More importantly, they fail to show great success. Thus in the latest demonstration (*Adjustment in Africa: Reform, Results and the Road Ahead*, 1994), which is focused on the period 1987-1991, the pay-off that is claimed from making large improvements in macroeconomic policy entirely depends, according to the criterion principally used, on three countries - Ghana, Tanzania and Nigeria - in the last of which the adjustment programme did not survive beyond 1991; and on average the half-dozen countries credited with making large improvements gained little more than the larger number that had made only small improvements.

One reason for the absence of dramatic results is that not a great deal of adjustment has been achieved in practice. Even the three 'strong adjusters' mentioned above appear in another World Bank report (*Adjustment in Africa: Lessons from Country Case Studies*, 1994, edited by Ishrat Husain and Rashid Faruqee) to have been in several respects recalcitrant. And strong adjustment has been rare. The majority of African governments following adjustment programmes has done so partially, fitfully and without real commitment. The Bank claims progress in the narrowing of fiscal deficits and establishment of more realistic exchange rates, but acknowledges that little has been achieved in improving public-sector management, privatising state enterprises and reforming financial systems. The physiognomy of African economies has not been greatly altered. State institutions and political control have proven intransigent in the economic life of the region. As Husain and Faruqee ruefully concluded, 'The global wind of change that is redefining the role of the state has not yet swept these countries'. The Bank therefore suggests the disappointing economic performance of most African countries in the last decade to be attributable less to 'the failure of adjustment' than to 'the failure to adjust'.

A second reason for the absence of dramatic results is that domestic economic policies are not the only determinant of economic performance, even in the short term. Pre-adjustment experience in Africa provides the evidence, if any were needed. Policies then became increasingly perverse, price relationships increasingly distorted, yet until 1980 or thereabouts the economies mostly expanded, briskly so in some countries and at some times. The failings of policy were evidently more than compensated by exogenous factors like expanding world markets, improving terms of trade, the ready availability and cheapness of external credit, capital inflows in mining and manufacturing, and the favourable rainfall of the 1950s and 1960s.

These exogenous factors subsequently turned sour. Droughts reappeared from the early 1970s. The momentum of world economic growth was checked in the mid-1970s. By about 1980 the terms of trade had shifted adversely. External credit became no longer easily available, nor cheap. These negative changes exposed policy mistakes. But changing the

policies - so far as they were changed - could not restore the palmy external conditions of the early years. Structural adjustment could not, for instance, produce a new boom in African export prices. Indeed, through increasing the volumes of African commodity exports, it tended toward the opposite effect, as has often been pointed out, unless the increased production were to displace supply from elsewhere in the world.

Nor could the Washington agencies deliver inflows of foreign direct investment and fresh commercial credit, though there was perhaps some expectation that such flows would come as a reward for adjustment. In the early 1990s there did indeed occur an increase in private investments in developing countries so marked as to call into question the need for public development agencies. But the share of tropical Africa in these investment flows was not more than a few per cent, and, such as it was, it was directed very largely to oil mining in Nigeria and Angola. Even the International Bank for Reconstruction and Development (IBRD) - the World Bank proper - has shrunk from lending to governments in the region, and, as will be shown below, nearly all the support from the World Bank group has been provided in recent years through the highly concessional International Development Association (IDA).

The principal factor deterring foreign investment is lack of confidence in African governments, both in the continuity of their policies and in their ability to provide a legal and administrative framework sufficiently enabling of business enterprise. Another factor is the costliness of production in Africa relative to other places, which is partly the result of having to make good deficiencies in publicly-provided infrastructure. A third deterrent is the debt overhang. So long as the obligations of African governments remain greatly in excess of their ability to pay, so long there will be uncertainty that exchange transactions will remain free enough, or exchange rates stable enough, for foreign investors to remit profits and repatriate capital. A final composite factor is shortage of investment opportunities, a shortage temporarily exacerbated by such steps toward stabilisation and adjustment as have been made.

Investor confidence has mostly been lacking even in Ghana, where adjustment has been pursued with some consistency ever since 1983, and which the Bank represents as Africa's 'front runner' in reform. (An exception is in gold mining, the output of which is climbing back to the level achieved a generation ago). Ghana has also suffered a weakness characteristic of adjustment programmes in Africa. This is the inability to avoid deficit financing of the budget, as a result of which the exchange rate against the national currency may be free but cannot be stable, following instead a depreciating trend.

Other supposed winners have been identified from time to time. Nigeria was lauded as a successful adjuster in the later 1980s. But by 1992 the IMF felt obliged to withdraw its endorsement of the country's policies, and in 1994 even the pretence of adjustment was abandoned (though liberalisation has been promised anew in 1995). Zimbabwe acquired credibility following the start of a reform programme in 1991, but the trust of external supporters of the programme was wearing thin by 1995. The situation was aggravated by the enforced retirement of the astute Finance Minister Chidzero due to ill health last year. Adjustment in the thirteen countries that use the CFA franc was strongly obstructed by the fixed rate of exchange between that currency and the French franc whose own exchange value was appreciating against the French franc early in 1994. It would not be surprising if the latest winners from adjustment were found among the CFA countries - among which Côte d'Ivoire is the most likely.

Husain and Faraqee found African governments to be 'not yet much better at managing market economies than they were at managing economies through heavy intervention'. A parallel observation might be made of the World Bank, which gave powerful support to the bureaucratic control of economic life in the days before it took to designing market economies in Africa. As has been suggested above, one reason for failure is to be found in the politics of the would-be adjusting countries. Another is that the planning of adjustment programmes has been faulty, particularly in the sequencing of reforms. Commonly measures of market liberalisation have preceded the institutional reforms needed to improve administrative efficiency and remove rigidities in supply. The explanation is not, as might be alleged, an unthinking application of neo-classical economic doctrine. It is rather that in practice markets can be liberalised more easily than institutions can be reformed and economic structures made more flexible.

Structural adjustment in Africa has disappointed expectations of what could be achieved and how quickly it could be achieved. The question is sometimes asked whether the external development agencies will in consequence lose interest in the region.

For the World Bank, Africa continues to matter. While sub-Saharan Africa accounted for only

13.5% ($2.808 billion) of its total loan commitments in 1994 ($20.836 billion), a different picture is given by the figures of net disbursements during the same period. Here Africa ($2.079 billion) accounts for 44% of the global total ($4.379 billion). The reasons for this contrast are that globally net disbursements were made exclusively from the IDA in 1994, those from the IBRD being negative, and that the African governments have become predominantly borrowers from the IDA. The proportion of IDA commitments in total African borrowing from the World Bank group has risen, in fact, from 64% in the fiscal years 1985-89 to 84% in 1990-94 and 97% in the last two of the latter years.

Along with South Asia, Africa is keeping the World Bank in being as a development agency. Without the outlets for IDA funding in these regions, the case for retaining the Bank would be much weaker, since creditworthy governments in the 'old' Third World are now able to secure their credit needs mostly from private sources. Africa's need of the Bank is therefore matched by the Bank's need of Africa.

Since, however, loans from the IDA are long-term (50-year maturities with a grace period of 10 years) and heavily subsidised (an interest charge, or 'service-fee', of only 0.75%), the Association's funds require periodic replenishment by grants from bilateral donors. There is also such a need of replenishment from the same sources in the Extended Structural Adjustment Facility of the IMF, which provides credit over 10 years at 0.5% interest, and which has become the major form of support for African governments by the Fund. Other concessional multilateral resources, such as the African Development Fund - for most African governments the only 'window' of the African Development Bank to which they currently have access - are similarly dependent on continuing bilateral support.

Ultimately, therefore, the continuation of the multilaterals' interest in Africa depends on the bilateral donors, which is to say on the effectiveness of the aid lobbies in the domestic politics of those donor countries and on preferences as between multilateral and bilateral aid delivery. Currently, adherence to the multilateral aid cause is especially doubtful in the United States. If, as a result of a weakening in international support for aid, the resources available in the IDA and other soft windows becomes less, more stringent selectivity in the allocation of those resources is to be expected. Countries would be more severely tested by the quality of their governance. A likely outcome would be a shift in resources away from the sub-Saharan countries addressed in this article and in favour of South Africa.

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