ESSENTIALS FOR AFRICAN ECONOMIC TRANSFORMATION

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1 STRUCTURAL ADJUSTMENT AS AN OBJECTIVE NECESSITY, BUT NOT A SUFFICIENT CONDITION

For as long as one can remember, Africa has been in a state of virtually permanent economic and social crisis: colonialism and initial decolonization (1950s and 1960s), planning and state intervention (1970s), external debt burden (1980s), good governance and environmental suitability (1990s). Given its historical perspective as the last development frontier plus its increasing economic and technical lagging behind the rest of the world, efforts at transformation have been compounded by: rising import dependency married to exports based on a narrow range of largely ill performing exportables (essentially primary commodities), enormous and rapid compression of import capacity as export earnings fall and population growth together with urbanization surges, sticky consumption patterns anchored on foreign tastes (e.g. the wheat trap), deteriorating infrastructure parallel to growing budget deficits policy instrument patterns not erected on domestic resource base or flow constellations, substantially non-productive external borrowings and non-sustainable resource using responses to temporary booms (followed by prolonged declines) of export earnings which generate 'Dutch-Disease' and 'Double Dutch Disease' syndromes.

But how come that successive attempts at policy reforms by most African countries have tended to a) further deepen the structural problems, and b) are now assuming all the characteristics of 'a tale of false hope'? Also, how come that corrective measures are still rarely taken in time and even when they are taken, are mostly only taken under pressure from external donor agencies? How has Africa managed to corner itself in a helpless position to be tossed to and fro by resource transferring creditor countries which continue to press their own world view and policy agenda? Why should there be so much difference in donors' attitudes to Africa compared to Asia, Latin America and Central Europe?

The key to those sets of questions lies in the fact that while structural adjustments are conceptually universal and a permanent feature of any historical development process, the key element (and missing link in the African case) is the capacity of peoples to manage change in a dynamic world: to understand ongoing changes in the world, predict as yet unexperienced future changes and to respond flexibly, effectively and in good time to them. In other worlds, the key lies in a country's ability to write its own agenda for social action. Many African countries seem to lack adequate (and continuous) intellectual self-confidence compared with other underdeveloped regions – to write and sustain their own agenda; and in particular to negotiate successfully over a long haul with multilateral and bilateral agencies. This in itself is probably only symptomatic of a faulty appreciation by most African countries about what development is really about; namely the continuous enhancement of a people's capacity to design and implement responsive policies – not just projects and financial flows.

It may therefore be stated that in any national economy going through enormous resource pressures and with severe performance bottlenecks (as is the objective condition of most African countries), structural adjustments become an inevitable and normal policy challenge. But necessary and inevitable as structural adjustments may be, they are not a sufficient condition for getting a country beyond the stabilization phase reducing fiscal deficits and approaching temporary balance of payments equilibrium). Often they are not effective in restoring output growth or domestic savings and, by themselves, rarely if ever succeed in addressing the socioeconomic fundamentals of a country's development process.

Even without considering the long-term fundamentals (Transformation), medium-term (Adjustment) and short-term (Stabilization) programmes are more likely to fail when a stable macroeconomic

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framework is not in place, even when the adjustment package focuses mainly on microeconomic and sectoral policies. The macroeconomic situation will be supportive of the adjustment programme when

a the inflation rate is low and predictable;

b real interest rates are appropriate (which means not excessive as well as not negative);

c the real exchange rate is competitive and predictable;

d public-sector saving rates are compatible with the resource, mobilization requirements of the programme; and

e the balance-of-payments situation is perceived as viable.

Thus, on an empirical level, some structural adjustment programmes may not succeed in restarting and sustaining economic growth and development. By the same token a macro frame with no structural nor micro articulation may very well not be adequate to boost output growth or even to prevent its continuing decline. The framework is – as the World Bank puts it – enabling and conducive but that may not be the same as causing or empowering.

2 INTERPHASING OF STRUCTURAL AND CONJUNCTURAL POVERTY

A sensitive social issue of great policy relevance is the effect of Structural Adjustment programmes on the poor and vulnerable groups – sometimes called the social dimensions of adjustment. The policy challenge here is that even if the structural adjustment programmes had been rated more successful in restarting growth, need they have worked in the interim against the poor by increasing their numbers or increasing the depth of the poverty and destitution?

Some of the factors that may – and probably did – lead to such a consequence, in a number of African countries, include

a The interplay between stabilization and growth; in that an increase in poverty can occur, even in the absence of growing inequality, if output (and GDP) decline substantially.

b The duration of adjustment by attrition (as opposed to restored growth) becomes problematic when the external imbalances turn out to be protracted.

c Even with constant or increasing output, poverty can still increase if part of this output is exported without an inflow of goods and services to offset the outflow (negative capital flows resulting from debt service and/or the reduction of an initial trade gap).

d Increased domestic output that is largely directed to additional tax revenue (to reduce deficits) and expanded fixed investment (to restore infrastructure) even though both are important, does not raise household consumption now.

e All those effects can be further compounded by income distribution changes in the process of adjustment – for example when the poverty vulnerable groups are placed at greater risk by the shift of resources from non-tradable to tradable goods and services for the purpose of restoring the foreign account balance. Lower-income groups are likely, in the African context, to have a higher non-traded content in the budgets on both income and expenditure sides since the largest share of their consumption and, for rural households, cash incomes consist of low-quality staple foods. Therefore, to the extent that resources are shifted to enable not so poor households to produce more tradables, the real incomes of the lower-income groups would decrease.

However it is important to note that there are factors in the structural adjustment process that could operate in directions that may favour the poor:

a Price liberalization may favour agricultural commodities whose prices have been depressed, albeit empirical evidence in respect to this is very mixed, perhaps because observers, like officials, suppose price controls and single channel marketing to have been effective even if the former challenge their efficiency in a different sense.

b To the extent that the poor are net producers of food as opposed to net consumers (which is not the case for all of them) they tend to benefit, if food prices at grower (not just retail) level rise relative to consumer prices of other goods. (And lose if food prices fall unless they can raise output rapidly and sustainably.)

c A crucial distinction needs to be made here between the rural and the urban poor. There tends to be some evidence that the first group – at least sometimes – gains in the process of adjustment. The second can hope to do so only if urban output – and employment/self employment – growth is very rapid. In the past decade or so in a number of African countries, there is a significant evidence of – increases in peri urban farming activities by urban enterprise workers, self-employed, informal employees and operators and unemployed persons and even by low-middle income group households.

d Because their consumption is usually less import-dependent, devaluation may hurt the poor less than the higher-income groups.

Concern for the transitional costs of adjustment, especially those falling on the poor in Africa has been seriously expressed by UNICEF, ILO and has been addressed by World Bank, UNDP, ADB and bilateral donor initiatives. It is recognized that the transitional costs of the vulnerable groups in the population often arise from:

- reduction in real incomes engendered by tighter monetary and fiscal policies;

- increased unemployment resulting from lags in supply responses and from price adjustment in product and factor markets;

- reduced availability of social services following the contraction of public expenditures;

- problems of transition to new occupations (or crops), for those pushed out of activities adjusted downwards.

To address transitional cost issues, a clear distinction therefore needs to be made between the conjunctural (vulnerable and hit by adjustment) poor and the structural (long-term) poor and between the immediate stabilization costs and the longer term underlying poverty impact of adjustment. It is not the same as focusing on poverty, *qua* poverty, independent of its origins. This is especially true because:

a The traditional remedies for poverty, in terms of growth in general and both asset creation among the poor and an increase in asset productivity are still valid for the long-run except for those households whose basic problem is a very high ratio of mouths to feed to able bodied hands to earn or produce.

b The short-run transitional costs of adjustment to the vulnerable groups, may have to be addressed a different fashion, e.g. by safety net programmes.

The analytical and operational problems which have arisen in the process of addressing those transitional costs of adjustment relate to

a *ex-post* redress by trying to put in place poverty-alleviation programmes; and even more so in

b *ex-ante* integration of 'poverty-friendly' components of programming. The implication of the distinction is that poverty prevention measures are more economical than restoration interventions, but also harder to design and to implement. Experience so far with the SDA programme has, however, shown not only that there are many analytical and conceptual problems at the operations level (not least in identifying conjunctural victims beyond retrenched public sector employees); but also that once structural adjustment drags on over a long period, it becomes more difficult and even futile to seek to distinguish between preventive and restorative remedies and structural and conjunctural poverty.

Indeed it can be argued that beyond compensation and retraining for loss of employment and preventing deterioration of poor peoples' access to basic health, education and water services, building poverty reducing elements into main macro and sectoral initiatives is frequently more efficient than small supplementary projects targeted at ill defined, overlapping groups.

3 IMPACT ASSESSMENT METHODOLOGY AND A REPORT CARD ON STRUCTURAL ADJUSTMENT PROGRAMMES

The SDA programme has shown that, at least for Africa, macro-modelling is too rough a tool for specific targeting of a socioeconomic group that might otherwise join the poverty ranks (e.g. secondary school teachers laid off as a result of budget cuts despite the Banks' emphasis on expanding secondary education). The issue at that point is which compensatory policy components could be introduced into a structural adjustment programme in order to ease the poverty blow?

More generally the macro-links consist of markets, infrastructure and institutions while transmission of intervention shock depends on how the meso-links work. For example:

a Markets, can be perfect or imperfect, formal or informal, white, grey or black, complete or incomplete (e.g. subject to clearing at an equilibrium price or systematically operating with public or private rationing or internal fragmentation and access barriers).

b Infrastructure is not only physical; it also includes human capital, such as health, education and nutrition.

c Institutional patterns inevitably enter the picture. For example, a largely self provisioning (subsistence) household operating under the extended family system is insulated against macroeconomic shocks to a different extent from a market-linked, nuclear household, or from a rural woman-headed household. Expenditure patterns from increased – or decreased – incomes also differ between rural and urban households and on intra household budgets and earning patterns. All those issues, unfortunately, still remain largely uncharted waters in economics at least for Africa and even more for African economic policy makers and World Bank consultants.

Evaluating the impact of SAP, like evaluation of any policy intervention, is methodologically compounded by the problem of the counterfactual. What would have happened in the absence of the intervention programmes? This could assume either continuation of prior policies or alternative intervention measures. The issue of analytical procedures for counterfactuals is more indirect and speculative than direct and empirical.

In terms of broad report cards to date, it would generally appear for the adjusting African countries that:

a The record of growth rates is a mixed one. Compared to the counterfactual of the pre-adjustment period the number of the negative rates of growth is decreased; but growth rates show no marked upward trend. The per capita data also show a generally weak picture, especially if expressed in real terms and purchasing power parties.

b The most general conclusion in the literature is that the proportion of investment in the GDP has declined since the pre-adjustment period largely because (intended) public sector cutbacks have not been replaced (as anticipated but not delivered) by private sector increases.

c There has been a vigorous increase in exports for most adjusting countries, and even more so when expressed in volume terms without accounting for the terms-of-trade deterioration effect. This suggests that early easy increase in exports from restoration has already happened and incremental gains will be more difficult to come by because they rely on new production often of new products. Furthermore, while enhanced exports can pay for imports, they can be (and often have been) absorbed into fuller external debt servicing.

d While the debt service ratio of actual payments to exports seems to have decreased this is deceptive because service paid by African countries is only part of what is due – about one half. The debt stock has dramatically increased compared with the early 1980 despite reschedulings and marginal writedowns.

e Statistical indicators which show some improvements in child mortality rates, per capita calorie consumption and literacy rates may be true; but they may well also be contingent on the quality of data or on the lag when trends are projected. From those recorded between the last two available censuses, such trends should be seen against the background of the systematic decay of statistical services in Africa in recent years. Such 'improvements' go against some people's intuition and in the case of infant mortality against some UNICEF country office findings.

It can be said therefore that inevitable as structural adjustment has been, and successful as it may yet become, the engagement with poverty in Africa is going to be a long-term affair:

- If growth has not started, the reverse of trickle-down applies, jeopardizing the most vulnerable groups in the population.

- Even if growth has started, the important commitment of foreign exchange, and thus of exports earnings, to debt service and fiscal deficit reduction could imply that the sum of goods and services available to household economies may not be

increasing. In that case trickle-down would be unlikely to work even in the absence of pump up movements in income distribution.

The socioeconomic problems, and even the crises, of Africa may not be due to structural adjustment since they predate it – by up to three decades in some cases. They may not even be due to debt in a fundamental sense. They preceded massive external debt though they are certainly exacerbated by it. Therefore it is true that, until the debt-burden is pared down the Region's economic crisis is bound to continue. The 1993 Over-view Study of Africa's SAPs undertaken by the Policy Research Department of the World Bank; offers three plausible candidates for explaining the rather disappointing results of years of adjustment:

a Several African countries have never really taken the medicine. More generally, few public enterprises or financial institutions have been divested. Budget deficits remain stubbornly high at an average 9 per cent of GDP. Trade regimes remain restrictive by international standards. Government continues to play a controlling role in many sectors. Many reforms have been taken under duress with little commitment.

b In other cases the medicine was taken and much of the adjustment agenda is now complete. Countries have opened up their economies to international trade. A number have achieved substantial depreciation of the real exchange rate. Inflation has been kept under control and interest rates liberalized. Yet, because of long-run development issues, such as weak institutional and human resource base, or exogenous events such as drought and export price falls, the payoff to reform is less than in other continents. Countries need to shift attention away from the 1980s adjustment agenda to such long-run issues in the 1990s.

c The medicine was wrong. Many countries did what the International community, led by the IMF and the World Bank, advised, and it didn't work (just as a number of the policies and institutions targeted by structural adjustment were 1960s and 1970s World Bank and bilateral fashions). GDP per capita declined in 21 sub-Saharan African countries during 1987-91, per capita growth was negative on average in 1990 and 1991, investment and industrialization have fallen while, poverty has risen. There is a need for a new strategy, that pays more attention to the adverse external economic environment and designs development more suited to African conditions in the global as well as African context of the end of the 20th century.

The Study, however, argues that while all the three sets of explanation have elements of truth, all are substantially wrong. All the international experience indicates that it is inappropriate to draw a distinction between an adjustment and development agenda; and that the whole purpose of adjustment is to put in place a policy framework for long-term development and should be assessed in that light. In that context, the general evidence would suggest that:

a There have been significant policy changes; but these have generally fallen short of the scale of reform undertaken by reforming countries in other parts of the world (in a wide variety of settings, including established reforming countries such as Mexico or Indonesia, and recent reformers, including Peru and Vietnam). Policy reform has also been uneven, both across sectors, across countries and over time; with some adjusting countries making substantial progress in certain areas (particularly macro, trade, and agricultural policies) but others not.

b Where policy reforms have improved macroeconomic conditions, reduced taxation of farmers and liberalized trade, there has been a positive turn around in growth, similar in magnitude to the turn around in growth rates of adjusting countries in other regions.

c Achieving adequate levels of long-run growth has required a combination of two things, namely deepening reform in some of the core macroeconomic and incentive areas; redesigning policy reform in some problematic areas (especially in the public enterprises and financial sectors) likely to involve more radical action in some areas, but also experimentation with alternatives.

d long-run success will, however, involve tough choices that go to the heart of current African problems; including institutional weakness, severe government failures, and secure participation of non-indigenous enterprises in a manner that does not rock the boat politically. (Uganda, Zimbabwe present illustrations of the different costs of lack of security and lack of space for indigenization.)

4 STRUCTURAL AND POLICY INTERACTIONS AND HORIZONS FOR FUTURE ACTION BY AFRICAN COUNTRIES

It is now clear that SAPs promised more than they were able to deliver, both in terms of the expected time for structural corrections and the socioeconomic sacrifices required to do so as well as in devising contextually effective means to implant most of their general goals. Since the IMF and World Bank have been widely perceived as the originators of most of those reform policies, the disenchantment and disillusionment – if not outright anger – of African countries against those institutions as well as against the reform measures are understandable even if sometimes misplaced.

Nevertheless, Africa really has little choice, even for its own internal reasons, other than to press on with reforms – economic as well as political. Nor realistically can it afford a breakdown of relations with the World Bank and bilaterals or – so long as it holds a veto over their approval – the IMF. It needs substantial net resource transfers - new and via debt write downs. But it should now do so under its own steam, intellectually and operationally. And, it can only do so if its policy analysts develop a better handle on the real challenges ahead and appreciate the limited options available. African countries must simultaneously:

a Make poverty reduction the core of their reform programmes and pursue poverty sensitive policies.

b Move on the political front to encourage grassroots, people – oriented participation in policy-making; create strong commitment to the democratic spirit (content, not simply form) in governance; and set examples of leadership style that foster transparency, accountability, frugality and provide for orderly popular verdicts on and – where the result is rejection – orderly changes of administrations.

c Recognize that there is no strong or complete social science paradigm (as is being shown in contemporary post-Soviet Russia and Eastern Europe whose variants of ultra liberal through cosmetic capitalist structural adjustments are on balance more costly and no more generally successful than those in Africa) to guide such a process. Success will depend not just on economic science, but also on the arts of social understanding lending to sensitive engineering, judgement, good luck, accumulated experience, and intellectual humility.

d If international creditor community agreement to massive write down of the external indebtedness, thus affording Africa the opportunity for a new beginning, is achieved, African governments owe it to their own people to avoid repeating the excess accumulation of external borrowing.

e Insist that the international financial institutions and donor agencies recognize that they have long erred by not seriously pursuing African countries' participation in the design of their own development and financial programmes (as opposed to drafting identikit proposals from donor guidelines and drafts). In this connection the very basis for justifying technical assistance has been undermined by relying so heavily and for so long on foreign experts, and especially by bypassing qualified Africans. The limited institutional capacities of African countries which have constituted a major cause of the region's socioeconomic crises over the past three decades in part represent the sidelining of national expertise and the fragmentation and repression of domestic institutional capacity by the overuse (or even imposition) of short term, externally accountable resident professional staff and of flying consultants.

f Avoid the mistake of placing all the blame and, more especially, all (or even most) future expectations on the doorsteps of international financial institutions and bilateral donors. Africa must develop its own intellectual self-confidence, professional competence and negotiating skills to make the most of all potential resources available on the international scene, in much the same way the some Asian and Latin American countries have done. It must develop and strengthen the capabilities to write its own agenda, convince outside parties (as well as domestic investors) of its validity, and accept the major responsibility for its socioeconomic performance in the years ahead.