

SOME REFLECTIONS ON COUNTRY EXPERIENCES WITH STRUCTURAL ADJUSTMENT

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1 STRUCTURAL ADJUSTMENT: WHAT RESULTS?

Structural adjustment programmes, and structural adjustment lending from the World Bank, the IMF, and other donors, are now more than a decade old, having begun in 1980. In recent years there have been numerous efforts both within the World Bank and elsewhere, to assess the results of structural adjustment programmes (SAPs). These attempts have encountered serious conceptual and data problems and the findings have sometimes been highly controversial. There are such issues as whether the analyst is attempting to measure the before vs. after situation or the with/without situation for a country or for a group of countries, to compare adjusting with non-adjusting countries, to compare African with non-African countries, to attempt other comparisons. And whose definition of adjusting or non-adjusting should be used? What of countries (e.g. Botswana) which have not needed a formal adjustment programme and those which have completed (graduated from) one (e.g. Mauritius)? How can allowance be made for strong or sustained vs. weak or on and off adjusters? How are countries to be treated that embark on a structural adjustment track but then abandon it? What about the time frame, i.e. lags and the fact that for any given five or ten year period some countries are adjusters (or non-adjusters) for only part of the period? Surely responses cannot be expected immediately when a country embarks on a SAP, but what is a reasonable delay before results could be expected? Clearly some degree of subjectivity is involved. Despite all these questions and caveats, it is important that efforts continue to access the impact of structural adjustment in Sub-Saharan Africa (SSA).

The most recent effort at assessment of the impact of adjustment in SSA is reported in the World Bank paper 'Adjustment in sub-Saharan Africa: progress, payoffs and challenges', Policy Research Department, June 1993. The approach in this report

is essentially a before/after comparison for 29 adjustment countries in SSA, contrasting economic performance in the pre-adjustment period (1981-86) with the period in which adjustment programmes were being implemented (1987-91).

The report indicates that there has been some turnaround in GDP growth for these countries in 1987-91 as compared with 1981-86. However, the turnaround was positive for only 14 out of the 29 countries in the sample and negative for another 14. Clearly, the performance overall of these adjusting countries has been below expectations. No country has moved onto an accelerated growth path.

SSA as a whole displays similar characteristics. The most positive result has been a fairly strong improvement in the growth rate of exports, (in 1987-91 exports of SSA grew by 3.4 per cent per annum), but the average growth rate of GDP, as well as average savings and investment ratios (to GDP), were not up to the desired levels. Investment rates have remained low, having declined on average from 21 per cent in the 1970s to 18-19 per cent in the 1980s. Domestic savings rates are far too low, having fallen to only 9 per cent average in the late 1980s. And these disappointing results have occurred despite the fact that SSA has continued to receive a much higher level of donor assistance than other developing regions, equivalent to approximately 8 per cent of GDP in the 1980s.¹

2 WHY WEAK GAINS?

The study addresses various hypotheses which have been advanced to explain the weak response of SSA countries to SAP reforms. These are:

- a that the policy reform effort in SSA has so far been uneven and insufficient;
- b that the reforms have been undertaken but the response of SSA economies has been weaker than in

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¹ One issue which the report examines, but without reaching firm conclusions, is whether the high level of dependence on external aid inflows (i.e. on foreign savings) may have had a negative impact on the domestic savings rate.

other regions because of weak institutions, more limited human resources, deficiencies in infrastructure or similar constraints of a structural nature;

c that the medicine was entirely wrong for SSA, not only because of the constraints suggested in b., but also because of an adverse and steadily deteriorating external environment which required structural adjustments but of a different type than those actually attempted.

Perhaps it is not surprising (for a World Bank report) that the authors, while acknowledging the relevance of points b) and c) come to the conclusion that point a) is the principal reason behind SSA's relatively poor record to date in economic recovery. In short, policy is central, and differences in policy reform performance can explain most of the difference in the results from SAPs.

3 A TYPOLOGY OF POLICIES

What are key policies and for which has the record of performance in SSA been weaker or stronger? Turning away from the report for a moment, I would like to present my own assessment of structural adjustment policies according to the difficulty of implementation and the length of time required to put such reforms in place and to see results. I have divided reform policies into three categories: a) those which are relatively easy to introduce² and which require a minimum time to carry out; b) those which are more difficult to put in place and which require more time for implementation, and c) those policies which experience has shown are most difficult to commence and which also take the most time to carry out.

a Policies which could be put in place relatively easily and quickly.

- move to market determined exchange rate.
- eliminate quantitative restrictions (QRs) on imports, reduce tariff barriers.
- decontrol import licensing and access to foreign exchange.
- decontrol domestic producer and consumer prices.
- decontrol interest rates.

b Policies which are more difficult to adopt; require more time for implementation.

- fiscal reforms – impose greater discipline on ex-

penditures, reorient spending and improve the effectiveness of government expenditures, improve revenue performance.

- liberalize agricultural pricing and marketing.
- deregulate other sectors of the economy.
- reform financial system, eliminate directed credit, reform and rehabilitate distressed financial institutions.

c Most difficult/longer term.

- public enterprise (PE) reform – privatizing PEs; reforming strategic PEs.
- civil service reform – quantity, quality, remuneration.
- strengthening public sector institutions.
- reorienting social, human investment and economic climate policies toward poverty reduction.

The Report reaches conclusions which are quite consistent with my categorization. In analysing the experience to date of adjusting countries in SSA, the report finds that:

a There has been substantial progress in removing exchange rate distortions and some progress in liberalizing external trade regimes more generally. This finding is consistent with the fact that the greatest improvement in the economies of adjusting countries was in the export sector. The report concludes that getting the exchange rate 'right' is the top priority for restoring growth.

b There has been limited progress in reforms in the agricultural sector. (The report argues that pre-adjustment policy regimes were more biased against agriculture in SSA than in any other developing regions.) More liberalization has occurred in export crop marketing than for primary food crops, although 13 of the 29 adjusting countries have removed some restrictions on primary food crop marketing (only Kenya and Zimbabwe have made no significant changes in extensive single channel marketing regimes).

c None of the adjusting countries has achieved a sustainable macroeconomic balance; even the best performers in SSA cannot match the improvement in macroeconomic balance of the best performers in other regions. One statistic which illustrates the problem is that for fiscal deficits – on average they

² By easy I mean not posing great problems of data, formulation or administration not necessarily easy in terms of political costs or immediate social consequences.

have remained at 8.6 per cent of GDP (before grants) through the 1980s although the record is mixed. In addition, financial sector reforms have been inadequate. Finally, in no case does a viable pre-grant current account external balance appear to have been achieved.

d There is no convincing evidence that the public enterprise sector has been significantly reduced in size, or that its financial performance has improved. Furthermore, there has been little improvement in the performance of strategic public enterprises.

This World Bank report did not overlook the external obstacles to successful adjustment and restoration of growth, e.g. the debt overhang, declining term of trade, and the 'adding up problem', that is the problem of possible oversupply in world markets if several countries simultaneously expand production of a commodity for which demand is inelastic. Analysis has shown that this problem is significant for cocoa producers, of lesser significance for sisal, coffee, tea and tobacco,³ but not important for other primary agricultural product exports of African countries. In assessing the relative importance of these external factors the report comes to the firm conclusion that domestic policies were the most important determinant of performance.

4 THE KENYA CASE

Kenya – one of the countries reviewed at length in preparing their report – presents an interesting case study in several respects. Kenya was both an early and a late adjuster, having undertaken an initial, relatively unsuccessful effort at structural adjustment in 1980-83, and a second, more sustained – albeit with periods of slippage – but still not fully successful effort beginning in 1986.

The Kenyan economy had performed reasonably well in the first 15 years following its independence in 1963. Growth of GDP averaged 5-6 per cent per annum during this period. However, little effort was made to adjust the economy to the first oil shock of 1973, and the Government's response to the 'boom' in coffee and tea prices in 1976-77 was to increase public spending sharply, a pattern which proved exceedingly difficult to reduce once coffee and tea prices fell after 1977. With only one two-year

reversal terms of trade have tended to stagnate or fall in real terms for over 15 years. The resulting strain on the fiscal position, the balance of payments and the economy in general led to the widespread introduction of price controls and of QRs on imports. It was these macroeconomic imbalances, and the non-sustainability of the controlled regime, as well as the need progressively to deregulate the agricultural sector, which the early structural adjustment programme addressed. Kenya, in 1980, was the first country in SSA to receive a structural adjustment loan from the World Bank, and a second loan followed in 1982. However, these early efforts at structural adjustment foundered on the reluctance of the Government to push through a genuine liberalization of the agricultural sector, especially for maize, and on the slower than anticipated pace of trade liberalization.

Following a hiatus during 1983-85, the Kenyan Government returned to the adjustment path in 1986 with the endorsement by the Parliament of Sessional Paper No 1 of 1986. This paper sets out the guidelines for Kenya's economic policy reforms and development strategy over the medium term. It still remains the basis for economic management. The donor community through 1991 strongly supported the Kenyan adjustment programme: the IMF with first a SAF and then an ESAF programme, the World Bank through six sectoral adjustment credits (two in agriculture and one each in industry, the financial sector, export development and education), several bilateral donors and the African Development Bank with adjustment loans and credits.

5 MIXED RESULTS AND SLIPPAGE

Any assessment of Kenya's reform effort and economic performance since 1982 would have to conclude that the record has been mixed. The economy recovered from the slump experienced in the first half of the 1980s, achieving an average GDP growth rate of 5 per cent in 1986-90. Efforts to reduce both the fiscal deficit and the rate of inflation were moderately successful. Exchange rate management was relatively good, preventing a severe overvaluation of the Kenyan shilling until 1991/92. Decontrol of domestic prices (except for agricultural commodities) proceeded slowly but steadily.

³ Admittedly, these account for well over half of SSA's agricultural exports.

However, after 1990 there was a marked deterioration in economic management and performance virtually across the board. GDP growth fell to slightly over 2 per cent in 1991 (well below the population growth rate estimated at 3.5 per cent), to virtually zero growth in 1992, and to negligible or negative in 1993. Fiscal deficits increased to reach 7 per cent of GDP in FY91. Within the budget civil service salaries and interest payments absorbed a larger and larger share of expenditures, leaving a wholly inadequate margin for operating and maintenance expenditures. The performance of the public enterprise sector⁴ was deteriorating and increasingly the Treasury was being called upon to meet PE debt service payments. After experiencing a banking sector crisis in 1986, the Government took steps to address problems in the monetary sector (supported by a World Bank Financial Sector Adjustment Credit) but these initial steps did not deal with all aspects of the financial sector problems with management and loan quality deteriorating sharply over 1990-93 leading to a second round of crises in 1993. Liberalization of the agricultural sector was proceeding at an extremely slow and halting pace and overvaluation had become severe by early 1993.

Despite growing donor dissatisfaction with the pace of economic reforms, and in particular with the reluctance of government to address the excessive civil service wage bill and to act on the need for public enterprise restructuring, donor aid to Kenya, and in particular quick disbursing balance of payment funding in support of structural adjustment, continued to rise steadily during the second half of the 1980s and the early 1990s, reaching a commitment level of over \$1 billion per annum in 1990 and 1991. All of this changed, however, at the end of 1991 when the donor community, acting in complete unison, decided to withhold further balance of payments support from Kenya until the Government demonstrated greater

commitment to, and concrete actions, on the economic policy reform agenda. In addition to demanding an accelerated pace of economic policy reforms the donors also made it clear that they wished to see an improved climate of **governance**, by which they meant reforms in the political process as well as improved transparency and accountability in the management of the public sector (i.e. addressing the problem of corruption which was perceived to be growing at all levels.

6 TOWARD RENEWED ADJUSTMENT – FIRST STEPS

Donor quick-disbursing aid was withheld throughout 1992 as the pace of economic policy reforms was still seen to be insufficient. The Government's attention was almost entirely focused on the political process and the build-up to multiparty elections in December 1992. Fiscal imbalance and money supply control deteriorated sharply. From the beginning of 1993 the Government concentrated more attention on economic reforms, presumably in part to persuade donors to restore balance of payments support. 1993 saw substantial progress in liberalization of the trade regime, decontrol of domestic prices (including even prices of certain agricultural commodities), and steps to address the serious fiscal and monetary sector imbalances which had destabilized the economy, pushing the inflation rate to over 40 per cent on an annual basis.

On the basis of these actions and a dialogue on future policy balance of payments, support was restored at the November 1993 Consultative Group Meeting. Early in 1994 substantial liberalizations of the exchange control regime were carried out while control over the money supply was regained. Inflation had been cut by at least half and interest rates had begun to be reduced to levels compatible with expansion of productive investment.

⁴ Despite its image as a predominantly free enterprise economy, Kenya had over 250 public enterprises in 1990, the great majority in the commercial and manufacturing sectors.

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