"Structural Adjustment in Africa: How Can We Do it Better, How Can We Improve It?"

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INTRODUCTION
Economic Structural Adjustment Programmes (ESAPs) have generated hot debate since they commenced. In most cases they started in mid-1980s. There has been a tendency by some observers to associate ESAPs with the International Monetary Fund (IMF). Sometimes it is associated with both the IMF and the World Bank. This is because of the role which these two bodies play in the programme design. The IMF usually assists restructuring developing countries with macro-economic stabilisation policies package. The World Bank normally assist in devising actual structural reform policy measures. The IMF has supported implementation of agreed policies with funds from Structural Adjustment Facility (SAF) and later from the Enhanced Structural Adjustment Facility (ESAF). The World Bank lend support with loans to enable implementation of structural policy measures. Yet there can be independently designed and implemented ESAPs. Nigeria and Zambia did try their own ESAPs albeit for a very short period and without much success. Most ESAPs in Sub-Sahara Africa involve a partnership among the host government, the IMF, the World Bank and other cooperating partners.

On the one side of the debate are those who think that ESAPs were the only remedy that could be devised and given in the face of deteriorating economic situation in Africa and elsewhere. They advocate continued pursuit of these programmes. There is a growing number of those who agree with this view but advocate some adjustments in design and approach to the standard package, due to lessons of experience gathered during implementation of these programmes over the years.

On the other extreme are those who advocate scrapping of ESAPs altogether and trying a different approach. Suggested alternative route has, somehow, never been articulated convincingly.

It should be noted from the start that all countries in the world, including developed industrial countries, have and still are adjusting their economies although words used and approach adopted many differ. It is because of successful adaptation that their economies have continued to grow. Economies must be enabled to cope with ever changing situations in the world. Some countries have been able to pre-empt problems or to at least react appropriately very early, thus obviating or at least minimising the cost of adjustment. In this paper, however, focus will be on SAF and ESAF supported ESAPs.

In this paper focus will be on Sub-Saharan Africa. North Africa has broken ranks economically and joined the lot of rapidly growing developing economies.

2. HOW DID AFRICAN ECONOMIES END UP WITH ESAPs?

After Independence there was a slow economic growth. In the 1970s and 1980s, at different times and rates, most economies deteriorated. Heavy borrowing ensued. Some countries fell into a debt trap while others remained heavily indebted. What were the causes of this predicament?

Observers differ in attributing root causes of the apparent drastic economic
deterioration. Some recognise only external factors and to some degree natural phenomena. Others accept only internal causes.

External factors, to which other developing countries that continued to experience high rate of growth were also subjected and had to face them (that is, these external causes were not selective), were; among others:

a. deteriorating terms of trade against primary commodity producing countries. Primary goods prices fell while those of manufactures and imported services rose. Most Sub-Saharan African countries rely heavily on the export of at most very few of primary commodities;

b. the oil price shocks were another adverse factor;

c. some cite difficult access to the markets of developed industrial countries;

d. others attributed high failure rate of externally funded developed projects to unrestrained intervention and constraining conditionalities which deprived projects of domestic ownership and drive, the two essential elements for project’s sustained success;

e. Cold War led to the external support of incompetent and corrupt regimes which mismanaged the economies.

Again some argue that other developing countries in Asia, Caribbean, Latin America, Pacific and Middle East, faced these same circumstances. Some of them were able to cope with the situation. Therefore they contend, these cannot be considered to be the whole story.

Natural phenomena covers such disasters as prolonged and severe drought in the early 1980s. As agriculture contributed most to the Gross Domestic Product (GDP), this had a devastating effect on growth. Malawi, Mozambique, Sudan and Swaziland sustained hurricane destruction and floods.

Internal factors are attributed to the behaviour of authorities in African countries.

a. Macro-economic management left ample room for improvement to say the least. In-advisable fiscal, monetary, exchange rate and incomes policies were pursued. Wage rates were unrelated to productivity. Macro-economic environment was unstable.

b. Medium to long-term development strategies and tactics adopted either bore little or no fruit. In some instances they made matters worse. Priorities were not well chosen. As a result human resources development was retarded; agriculture was strangulated by controls and regulations; infrastructure, physical and institutional remained poor and unmaintained. Unsuccessful industrialization and trade policies were followed. Civil service grew rapidly in size but equally rapidly grew in inefficiency and ineffectiveness. Increasing role of government in
e. economic activity merely led to slower economic growth or to decline.

c. elements of corruption and nepotism set in. Corruption led to misuse of resources; nepotism to under-utilisation of human resources available and demoralization.

d. Repression resulted in violation of human rights and denial of civil liberties. Initiatives was dampened and brain drain and demoralization were the result.

Ensuing poverty and worsened inequitability in the distribution of income and wealth resulted in the socio-political strain that led to political instability. Ill-prepared dictatorships emerged. Matters only got worse as more policy mistakes were made.

Economic effects of these developments were adverse. Macroeconomic environment became unstable. This was caused by growing fiscal deficits which reached unmanageable levels, unrestrained money supply, over-valued currencies, and mismanaged price and wage controls (or incomes policy). The result were high rates of inflation, balance of payments problems, crowding out of the private sector in the domestic money markets, growing internal and external debt, distorted relative prices in the market and numerous regulations and controls mainly attempting to deal with symptoms rather than the core problem.

On the supply side real growth either slowed down further, stagnated or declined. Investment, both public and private, internal and external, slowed down. Consequently production fell (declined value added per year). Poverty increased. A vicious spiral had commenced. Investment in human resources in the form of delivery of social services (health, education and training) suffered a set-back. Institutional capacity building could not be continued. Government bureaucracy became overweight, incapacitated and undisciplined. Physical infrastructure could not be maintained. The formal sector shrunk while the informal sector grew as people seek alternative means of livelihood.

Quite clearly both external causes, which in Africa were not addressed the same way as in East and Southeast Asia, and internal causes, should be recognised. The impact of either should not be exaggerated.

As a way out of this quagmire of heavy indebtedness, balance of payments problems, raging inflation, declining real per capita growth and spreading poverty, resort to ESAPs was made.

3. E.S.A.P. SUPPORTED BY S.A.F. AND E.S.A.F.:

Due to lack of financial resources and in many cases due to lack of capacity to design economic restructuring programmes, Brettonwoods institutions were involved.

At first financial support for macro-economic stabilisation came from the high interest rate, shorter-term repayment window meant for middle income developing countries. Soon a special soft window was devised, it was called Structural Adjustment Facility
It was to be followed by Enhanced Structural Adjustment Facility (ESAF) which has now expired. Since April 1994, successor to ESAF has commenced operations. About 78 countries are designated as eligible to ESAF successor.

Prescriptions under SAF and ESAF supported ESAP are quite standard. There are two aspects. There is the macroeconomic stabilisation aspect. There is also the structural adjustment and reform component. In the former it is the IMF that features. The World Bank assists with the latter.

Macroeconomic stabilisation policy measures usually include:

- Reduction of fiscal deficit to manageable levels or preferably its total elimination;
- Properly managed money supply as well as demand for money by way of guided domestic credit and interest rates;
- currency exchange rate regime aiming at realistic levels (that is, reflecting the true market value of the currency);
- foreign exchange control deregulation;
- liberalisation of interventionist incomes policy.

Expected results from these policies are subdued inflation, improved external current account balance, increased share of the private sector in domestic credit, and improvement in the management of public debt, both internal and external.

Actual structural adjustment and reforms on the supply side of the economy usually involve:

- public finance reform;
- financial sector reform;
- mobilization of financial resources for investment (that is, savings)
- deregulation of the factor market;
- privatisation of state enterprises and commercialization of strategic natural monopolies;
- institution of incentives to attract both domestic and foreign private investment;
- other country specific measures aimed at facilitating increased production;
- liberalization of trade (in the product market);

The expected outcome from both macroeconomic stabilization policy measures and structural adjustment and reform measures is to set a stage for a strong and sustained real economic growth with improved equity. These policies merely lay ground for growth. Other prudent economic development policies still have to be designed adopted and pursued in order to actually realize real growth. The private sector usually thrives in this type of environment. It could take the lead in growth if allowed to operate freely.
4. SUB-SAHARAN AFRICA: PERFORMANCE UNDER E.S.A.P.s.

Performance of Sub-Saharan African countries varied widely. On the overall performance was not good. There are a number of reasons underlying poor track record:

a. A number of countries delayed considerably in acknowledging existence of a monumental economic problem. Extensive economic damage was allowed to occur before any reaction. Consequently rather drastic and often painful measures have had to be taken to rectify the situation.

b. In many countries there was a failure to involve interest and pressure social groups in the programme formulation stage. Education of the general public about the programme (informing the public about the nature and extent of adopted policy measures, reasons underlying chosen line of action, and results that may be expected) was not undertaken in many cases. Perhaps incumbent governments feared what they considered to be self-criticism. With involvement and adequate public education, programme ownership would have been elicited and there would have been more patience and tolerance in the face of short-term hardships brought about by E.S.A.P.s. This opportunity was missed.

c. Lack of genuine commitment to the programmes both at political and executive levels was another setback. This led to:

- delayed application of policy measures. Procrastination resulted in a worsening situation. Parameters on which policy measure was based changed in the meantime. Effect of the policy was dampened.

- partial implementation of policy measures. The economy was denied appropriate full dose of the remedy. These half-measures bore little or no fruit;

- erratic and intermittent policy implementation reversals (that is, go-stop-go approach) created credibility problems for the programmes.

- selective execution of policy measures, choosing only those considered to be less contentious, instead of applying the entire package; was yet another setback. Complementarity, synergies and consistencies, inbuilt in the package were thus destroyed. An example are runaway fiscal deficits paired with very tight monetary policy.

- missing proper sequencing of policy measures created more problems than it solved.

- reluctance or failure to follow-up and monitor implementation of policies often resulted in inaction.

d. Some argue that problems arose at design stage of the programme. Some policy measures were stated in generalities leaving details to the restructuring
authorities. Sometimes details worked out were not in favour of the spirit of the programme. An example is cut in government expenditure. Left to governments to choose areas to be cut, some reduced spending on essential social areas such as education, health and delivery of services to the poor. Overweight and ineffective bureaucracies and other unproductive activities were retained.

e. Due to still undeveloped institutional infrastructure in many instances, especially as it applies to still to be attained financial sector reform and development coupled with yet to be realized financial deepening, transmission mechanism of policies does not work well. Consequently policy measures, particularly monetary policy, failed to trigger expected reactions to the extent desired.

Saving, investment, smooth privatization process, and trade were all frustrated to some degree due to inadequately developed financial and capital markets.

f. The still low institutional capacity and the still inadequately developed human resources impeded progress on all fronts of the programme. Capacity to execute policies has been low.

g. Socio-political stability, which is so essential (that is, a necessary but not sufficient condition) for increased private domestic and foreign investment, still elude many African countries. Consequently investor confidence remains low.

h. Lip service aside, women are still not fully accorded their rightful place in the development effort. By so doing adjusting countries are denying themselves use of all human resources at their disposal.

i. Good governance, respect for human rights and permission of civil liberties, have not yet permeated to all Sub-Sahara African countries. In fact there has been relapses in some countries. Yet these attributes do set a stage for creativity, initiative and entrepreneurship as well as high morale, all of which are direly needed for brisk economic activity required for economic growth.

What emerges is that it is erroneous to blame Sub-Sahara Africa’s economic hardships on ESAPs. For full effect ESAP have to be followed closely. Matters would have been worse without ESAP.

On the side of the IMF and the World Bank, a number of points are noteworthy:

a. time allocated for effecting very fundamental structural reforms is often not long enough given the deep rooted traditions and inherent sensitivities and rigidities in developing countries. Heavy pressure is usually brought to bear on authorities to produce quick results on matters that can only take time to accomplish successfully;

b. on the whole financial resources being allocated to support ESAPs are not adequate. As a result, undue strain remains during the adjustment process;
c. there has been instances where Brettonwoods institutions displayed inadequate sensitivity to fragile situations such as policy measures that can trigger sociopolitical unrest;

d. In the earlier days of ESAPs the IMF had a tendency of being somewhat overly doctrinaire in its approach. Pure principles of economics were followed strictly without taking into account the fact that some of the tacit assumptions underlying those principles do not necessarily hold true in the still underdeveloped economies of Sub-Sahara Africa. One example is the expected response to positive real interest rates on deposits. Lack of alternatives and long distances to bank branches and poor transportation and communication services could frustrate expected response.

e. Focus of the recommended programme is usually on the formal sector. Yet the informal sector grew during economic hardships and it remains large, continuing to provide livelihood for a large number, usually majority, of households.

f. Focus on the poor, protection of vulnerable social groups, and provision of safety nets were brought into ESAPs as an afterthought, mainly as a reaction to world public opinion. Initially the tendency became that of treating such needs more as an appendage rather than an integral part of the programme.

g. In developing ESAPs policy mix, quest for closer regional economic integration was not accommodated. Some of the adopted policies conflicted with the spirit of regional economic integration.

The Brettonwoods institutions, however, have shown that they have been listening carefully and learning through experiences. One has observed definite willingness to accommodate all these considerations increasingly over the last six years. This is encouraging.

With regard to other cooperating partners, adjustment process has been frustrated by:

a. mild but welcome debt relief. Heavily indebted countries have had their burden only marginally lightened. External debt of a number of countries is still at unsustainable levels. They are still unable to spare some resources for growth and development. Debt servicing absorbs large portions of value added. Capital inflows are not enough to offset this outflow.

b. Access to the markets of the OECD countries has not been easy for a number of Sub-Saharan African countries. Trade liberalization under ESAP has not been reciprocated abroad.

As a result of all these obstacles, Sub-Saharan Africa performance on ESAPs has been a mixed bag. Some countries performed fairly well; others poorly, to varying degrees. By and large there was little progress on macro-economic stabilization policies (fiscal, monetary, exchange rate and incomes policies). There was hardly any progress, in many cases, on the structural reforms front. There was sluggishness in reforming public
enterprises. (privatisation, commercialization or trimming down of parastatals), financial sector reform and in public service reform. There is still need to complete liberalization process in agriculture and trade.

5. **SUB-SAHARAN AFRICA AND SOUTHEAST ASIA:**

It is fashionable to examine possibility of drawing some lessons for Sub-Saharan Africa from those rapidly growing economies of Southeast Asia, namely, Indonesia, Malaysia and Thailand.

Singapore, Taiwan, Hong-Kong and South Korea do not provide as suitable comparisons as the former group because they started growing rapidly three decades ago and were faced with a different international economic and political climate.

The idea is to compare Southeast Asian three at the time before take-off with Sub-Sahara of today in order to see if some of the policies that brought about success could be replicated.

a. **Agriculture:** Southeast Asia three, although they have relatively less arable land than the average in Sub-Sahara Africa, the soils are more fertile, and the rainfall is more reliable.

b. **Population:** Population size on the average has been higher in Southeast Asia than in Sub-Saharan Africa. This made domestic markets viable.

c. **Labour:** Labour productivity and discipline tended to be higher in Southeast Asia three than in Sub-Sahara Africa.

Beyond these, differences become hard to come by. It is similarities that become glaring. Quality of human resources at the time of independence was about the same. Physical infrastructure and institutional capacity were comparable. Mineral and fossil fuels deposits endowments are not that different.

Both regions faced the same international economic and political environment. Yet one managed to achieve strong and sustained growth while the other experienced economic decline.

Differences seem to be mainly in the manner in which external factors were addressed. The design of developmental policy packages and strategies adopted and implemented differed. Those of Southeast Asia worked. Those of much of Africa did not bring success. In Southeast Asia ESAPs were undertaken early before considerable economic damage was done and were resolutely executed and closely adhered to, thus bringing about expected results. In much of Africa, as already observed, there was delayed action. When action did come it was only half-hearted. (Peter B. Robinson and Somsak Tambunlertchai; World Bank Policy Research Report).
7. WHAT IS THE WAY FORWARD FOR SUB-SAHARA AFRICA?

a. There is emerging convergence of views among some of the earlier opponents of ESAPs, the Brettonwoods institutions and African governments. Scope for consensus exists. This opportunity should be seized. ESAPs should be refined and not scrapped.

b. Genuine commitment of the authorities in adjusting countries, both at political and executive levels, is imperative if ESAPs should be resolutely implemented. This creates necessary credibility (Maruping, World Bank Policy Research Report).

c. Interest and pressure social groups should be involved at the formulation and design stage of the ESAPs. This way ownership that will bring with it drive, cooperation and tolerance, will be elicited. Members of the public should be adequately educated about the content of the programme, reasons behind it and expected outcome. This will broaden support for the programme. (Ishrat Husain, World Bank Policy Research Report, Maruping).

d. Action should be taken early. Preferably problems ought to be pre-emptied. This way the cost of adjustment will be kept to the minimum. Extensive damage should not be allowed to gain ground. In order to do this capacity to recognize opportunities and identify problems early, formulate appropriate policies, negotiate effectively, implement meticulously, monitor and evaluate competently, is needed. This calls for capacity building. It would also be helpful if each country could develop its own macro-economic model to assist in accurate forecasts. Collection, compilation and analysis of punctual, adequate and accurate data is imperative for enlightened macro-economic management.

e. Proper design of the programme is important. Comprehensive, complementary and consistent policy mix is to be ensured. The right pace should be set. Proper sequencing of policy measures should be struck. All these depend on state of the economy, at the time of design, structure of the economy and unique circumstances of each country, as well as all that seems practical and logical. Designers should be mindful of the administrative capacity for programme implementation. There should be sufficient detail to avoid ambiguities that leave room for different interpretations later on to be used as excuses for justifying slippages. (OXFAM, ECA, World Bank Policy Research Report).

The policy mix package should at least include the following, when it comes to structural measures:

- human resources development and maintenance through increases in real terms of expenditures on education and health;
- institutional capacity building;
- civil service reform yielding a slim but efficient and better motivated as well as
user friendly government machinery;

- conscientising the work force to the importance of increased productivity (There should be productivity awareness campaign); Botswana and South Africa have already started.

- poverty alleviation should be the integral part of the programme. This can be approached by focusing on:
  - rural development, as most of the African poor live in rural areas,
  - agriculture, again as the majority of the poor in Africa eke their living in subsistence farming,
  - urban community development targeted to the poor sections of urban populations,
  - nurturing the informal sector in general as it supports the majority of the people.

- diversifying production, especially products meant for exports, so as to be able to absorb external shocks,

- financial sector reform and financial deepening.


Financial sector development and financial deepening are pivotal in that once accomplished:

- effectiveness of monetary and exchange rate policies will be enhanced,
- mobilization of financial resources will be facilitated,
- savings, investment, trade, privatization and commercialization, all tend to progress well where the financial sector is well developed and functions well.
- the private sector thrives where financial and capital markets operate reasonably well.

Capital markets should also be developed to facilitate investment. Only 14 countries in Africa have functioning stock exchanges. Other countries should follow this lead.

g. In implementing policies, for better results, it will be important to:

- introduce each policy measure punctually. Timing should be accurate. Procrastination can result with the change in parameters on which the policy measure was meant to work on, thus calling for a different dose or remedy. Economic phenomenon is dynamic,

- policy measures should be applied decisively and to the fullest extent. Adequate dosage is essential for yielding expected results,
• resolute action, manifesting commitment and determination, is imperative for generating credibility of policies. Intermittent policy applications reversals breed the following problems:

- policy measures in question will fail to elicit desirable reaction as key players will be expecting usual back-tracking sooner or later,
- policy measures themselves will fail to take effect as economic variables will continue to change in the meantime, rendering adopted policies irrelevant.

• adhere to adopted sequencing in order that earlier policy measure pave the way for subsequent ones as planned,

• keep to the agreed pace of implementation for effectiveness.

h. There is need to provide longer and therefore more adequate time within which to achieve results, especially with regard to structural measures. Rigidities and sensitivities inherent in developing countries, especially in Sub-Saharan Africa, have to be recognized and accommodated.

i. There is need to provide more financial resources to support ESAPs in Sub-Saharan Africa. More financial support would help reduce strain in the society which might cause socio-political unrest; the weak and poor can be adequately cushioned against harsh measures; it would enable effective implementation of affirmative policy measures; cost of quick structural reforms would be minimized as was the case with Egypt (Sebastian Edwards).

j. Debt relief of heavily indebted developing countries should be revisited if progress in economic reform is to be made. Debt servicing drains considerable resources generated thus frustrating capital formation, overshadow economic restructuring and in many cases in outright demoralizing. More debt relief is called for. Improved debt management in its broad context will also prove most helpful in minimizing costs associated with debt servicing. Hence institution of the Eastern and Southern African Initiative in Debt and Reserves Management (ESAIDARM) project is a welcome development. It seeks to build capacity in debt and reserves management in Eastern and Southern Africa. It is the product of governors of central banks in Eastern and Southern Africa.

k. Structural adjustment programmes ought to be within the context of national medium to long term development plans. Proper development planning should not be abandoned in the face of jointly prepared Policy Framework Papers (PFPs). The national plan and PFP must be in harmony. ESAPs merely seek to set the stage for strong and sustained economic growth. Beyond that it is still necessary for authorities to adopt and pursue prudent and effective development policies.

l. ESAPs should accommodate regional economic integration efforts of adjusting countries. [OXFAM, ECA, Maruping].
m. Developed (OECD) industrial countries ought to reciprocate when it comes to trade liberalization so that products of the adjusting countries can find markets (OXFAM, Maruping).

n. Economic activity does not operate in a vacuum. It operates in a socio-political and physical setting. Therefore, in addition to all economic policies recommended so far, it is also essential to maintain the following in order to achieve a reasonable measure of success:

- there should be empowerment of the masses through democracy,
- political stability is imperative,
- human rights should be protected and civil liberties allowed,
- governance should be improved. This includes accountability, transparency, predictability, competence and the rule of law,
- meritocracy should be practised in the public service; it leads to competence and efficiency in running public affairs of the country,
- devise and maintain development friendly legal framework,
- contain high population growth,
- use all human resources at the disposal of the country optimally. That implies recognizing and facilitating legitimate role of women in development,
- in the process of stabilization, structural adjustment and economic development, the environment should be protected to ensure sustainability. (OXFAM, World Bank).

CONCLUSION

The foregoing arguments clearly reveal that a large share of criticism levelled against ESAPs is not well directed. Often adjusting countries themselves are culprits for not adhering to the adopted policies fully. Admittedly there is scope for programme refinements, thus reaping the benefits of hindsight. Instead of discarding ESAPs altogether it is advisable to improve them at design and implementation stages.

Convergence of views on ESAPS has been developing for some time. That process must be continued in order to build up a consensus on this crucial matter. It has been a long way since 1985-88 when differences of opinion were wide and passions ran high in international fora.

ESAPs are necessary to prevent economic collapse of unstable and deteriorating economies. How best to refine the design and implementation of the programmes should be a subject of continuing research and open discussion. With more open and objective dialogue based on well researched reports functional consensus should emerge and gather strength.

Strive to stabilize the economy and to properly adjust its structure are ongoing processes. It is true that very drastic steps of stabilizing and restructuring have had to be undertaken in Africa in the 1980s and will most probably continue for a few more
years to come. This has been largely due to delayed action followed by half-hearted attitude of some authorities in tackling the problem headlong. Even after successful stabilization and restructuring have been eventually accomplished it will be necessary to maintain vigilance. Economies have to be kept stable and still need to be periodically adapted to changing situations in this dynamic world.

At present there is a widening gap in growth between economies of the rest of the world and Africa. Africa is falling behind. Africa should strive to narrow, and eventually close, that gap. A stable macroeconomy, properly adjusted structure and well grounded development policies are the means to that end.

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