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A WORLD BANK POLICY RESEARCH REPORT

MARCH 1994

ADJUSTMENT IN AFRICA

REFORMS, RESULTS, AND THE ROAD AHEAD

SUMMARY

A Note to the Reader

This booklet summarizes the main points of *Adjustment in Africa: Reforms, Results, and the Road Ahead*. It includes the foreword to the report, the overview chapter (with minor modifications), and an explanatory box about the countries and the time period studied. The complete table of contents for the report is also reproduced.

The full-length report is available both in English (published by Oxford University Press for the World Bank) and in French. To order copies, please use the order form provided at the back of this booklet.

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Foreword

A BROAD-BASED PATTERN OF RAPID ECONOMIC GROWTH IS vital to reducing poverty in Sub-Saharan Africa. Many African countries have undertaken structural adjustment programs to reverse the economic decline of the 1980s and accelerate growth. GDP per capita growth remains low, however, raising troubling questions about the extent and efficacy of the policy reform efforts. For this reason, the Development Economics Vice Presidency conducted a study to assess how much policy reform has taken place in Africa, how successful it has been, and how much more remains to be done. This report, *Adjustment in Africa: Reforms, Results, and the Road Ahead*, summarizes the findings of that research. A companion report, *Adjustment in Africa: Lessons from Country Case Studies* (Husain and Faruqee 1994), documents reform efforts in seven countries.

Adjustment programs are necessary but not enough to raise economic growth. As discussed at length in *Sub-Saharan Africa: From Crisis to Sustainable Growth* (World Bank 1989), investments in human capital and infrastructure, efforts to build the economic institutions necessary to a well-functioning market economy, and initiatives to increase technical capacity must also continue apace. This report, with its focus on adjustment, is intended to complement other World Bank publications dealing with the various facets of Africa's long-term development strategy.

Adjustment in Africa reviews the policy reforms typically included in African adjustment programs during the second half of the 1980s and analyzes their relation to economic performance. The evidence shows that progress has been mixed, and that in every African country, key reforms are still incomplete.

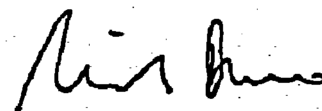
There are rewards to adjustment, however, as countries that have come the furthest in implementing good policies—particularly good macroeconomic policies—have enjoyed a resurgence of growth. But the level of per capita growth, even among the countries that have adjusted the most, is still below what is needed for rapid poverty reduction.

Where do adjustment programs go from here? The report concludes that in the macroeconomic, trade, and agricultural sectors, the major task is to move forward with the current approach to policy reform. In the financial and public enterprise sectors, some rethinking of strategy is called for. This report highlights the role that adjustment needs to play in improving the policy environment for the provision of basic social services and protecting the environment.

Government ownership of an economic reform program is a prerequisite for its success. But ownership must not stop with the government. Political leaders must build a broad-based consensus on the need for reform so that adjustment programs are not derailed by powerful interest groups. One of the major challenges for the next generation of adjustment programs is for governments and donors alike to find ways of widening ownership and building consensus.

This study is the second in a series of Policy Research Reports, which are intended to bring to a broad audience the results of World Bank research on development policy issues. As reports on policy issues, these books should help us take stock of what we know—and what we do not know. While remaining accessible to nonspecialists, they should contribute to the debate among academics and policymakers about appropriate public policy objectives and instruments for developing economies. And as research documents, these books may also provoke debate, both within the Bank and outside, concerning the analytic methods used and the conclusions drawn.

Adjustment in Africa is a product of the staff of the World Bank, and the judgments made herein do not necessarily reflect the view of the Board of Directors or the governments they represent.



Michael Bruno
Vice President Development Economics
and Chief Economist
The World Bank

Overview

IN THE AFRICAN COUNTRIES THAT HAVE UNDERTAKEN AND sustained major policy reforms, adjustment is working. But a number of countries have yet to implement the reforms needed to restore growth. And even among the strongest adjusters, no country has gone the full distance in restructuring its economy.

Of the twenty-nine countries studied in this report (and listed in the box on page 17), the six with the most improvement in macroeconomic policies between 1981–86 and 1987–91 enjoyed the strongest resurgence in economic performance. They experienced a median increase of almost 2 percentage points in the growth rate of gross domestic product (GDP) per capita, bringing their median rate of growth up from a negative level to an average 1.1 percent a year during 1987–91. The increase in their industrial and export growth rates was even more striking. And agricultural growth also accelerated in the countries that taxed their farmers less. By contrast, countries that did not improve their policies saw their median GDP growth fall to a level of –2 percent a year, in all likelihood increasing the number of the poor.

Policy reforms have been uneven across sectors and across countries. The countries studied here have generally been more successful in improving their macroeconomic, trade, and agricultural policies than their public and financial sectors. Almost two-thirds of the countries managed to put better macroeconomic and agricultural policies in place by the end of the 1980s. Improvements in the macroeconomic framework also enabled countries to adopt more market-based systems of foreign exchange allocation and fewer administrative controls over imports.

However, reforms remain incomplete. No African country has achieved a sound macroeconomic policy stance—which in broad terms

means inflation under 10 percent, a very low budget deficit, and a competitive exchange rate. In a third of the countries, macroeconomic policies actually deteriorated over the decade. Furthermore, countries are still taxing their farmers heavily, through marketing boards and/or overvalued exchange rates. Most countries have further to go in eliminating nontariff barriers and adopting a moderate, tariff-based level of protection. Social spending, while not showing an overall decline during the adjustment period, is misallocated within the health and education sectors. And the politically difficult reform of the public enterprise and financial sectors lags well behind.

Moreover, there is considerable concern that the reforms undertaken to date are fragile and that they are merely returning Africa to the slow-growth path of the 1960s and 1970s. At the same time, there is hope that Africa, like East Asia thirty years ago, will move onto a faster development track. For that to happen, more progress will be required in macroeconomic reform—to provide a stable environment in which economic activity can flourish. Much more progress in trade, agricultural, and regulatory reform will also be needed—to create a favorable climate for business so that Africa can join the world economy. And growth with equity will call for strong political resolve to tackle money-losing public enterprises and bloated bureaucracies—to free up the resources needed to improve basic health and education services for the poor.

Adjustment alone will not put countries on a sustained, poverty-reducing growth path. That is the challenge of long-term development, which requires better economic policies *and* more investment in human capital, infrastructure, and institution-building, along with better governance. But development cannot proceed when inflation is high, the exchange rate overvalued, farmers overtaxed, vital imports in short supply, prices and production heavily regulated, key public services in disrepair, and basic financial services unavailable. In such cases, fundamental restructuring of the economy is needed to make development possible. The objective of structural adjustment programs thus is to establish a market-friendly set of incentives that can encourage the accumulation of capital and more efficient allocation of resources.

This report addresses three questions: How much did adjusting African countries change their policies? Did their policy reforms restore growth? And what is the road ahead for adjustment? In answering these questions, the report advances the debate on adjustment by providing the most comprehensive data so far on policy changes in Sub-Saharan

Africa. It takes a careful look at whether reforms are paying off, and it identifies the areas where the adjustment strategy needs to be redirected. The report shows that African countries have made great strides in improving policies and restoring growth, but that they still have a long way to go in adopting the policies needed to move onto a faster growth path and reduce poverty.[1]

Policies Are Getting Better

THE TWENTY-NINE AFRICAN COUNTRIES EXAMINED HERE drew up adjustment programs in the 1980s—programs intended to improve the poor policies that were the primary cause of the 15 percent fall in Africa's GDP per capita between 1977 and 1985. The outcomes? Macroeconomic reforms have spurred external competitiveness while keeping inflation low. Trade reforms have increased access to the imports needed for growth. And the reduced taxation of agriculture has helped the poor while encouraging production and exports.

- On the macroeconomic front, six of the adjusting countries had a large improvement in policies, nine a small improvement, and eleven a deterioration.[2] As a whole, they cut their budget deficits (by a median of 1.9 percent of GDP between 1981–86 and 1990–91) and reduced inflation to moderate levels. And the countries with flexible exchange rates (those outside the CFA franc zone) depreciated the real effective exchange rate by 50 percent and reduced the premium on the parallel market for foreign exchange (from a median of 60 percent during 1981–86 to 25 percent during 1990–91).
- In trade, many countries have substantially reduced the number of imports subject to nontariff barriers and begun to rationalize the tariff structure. Most of the flexible exchange rate countries have moved to more automatic systems of granting foreign exchange licenses.
- In agriculture, two-thirds of the adjusting countries are taxing their farmers less. Despite huge declines in real export prices, policy changes have increased real producer prices for agricultural ex-

porters in ten countries. Of the fifteen governments that had major restrictions on the private purchase, distribution, and sale of major food crops before adjustment, thirteen have withdrawn from marketing almost completely.

For public enterprises and financial enterprises, however, there have been few policy changes.

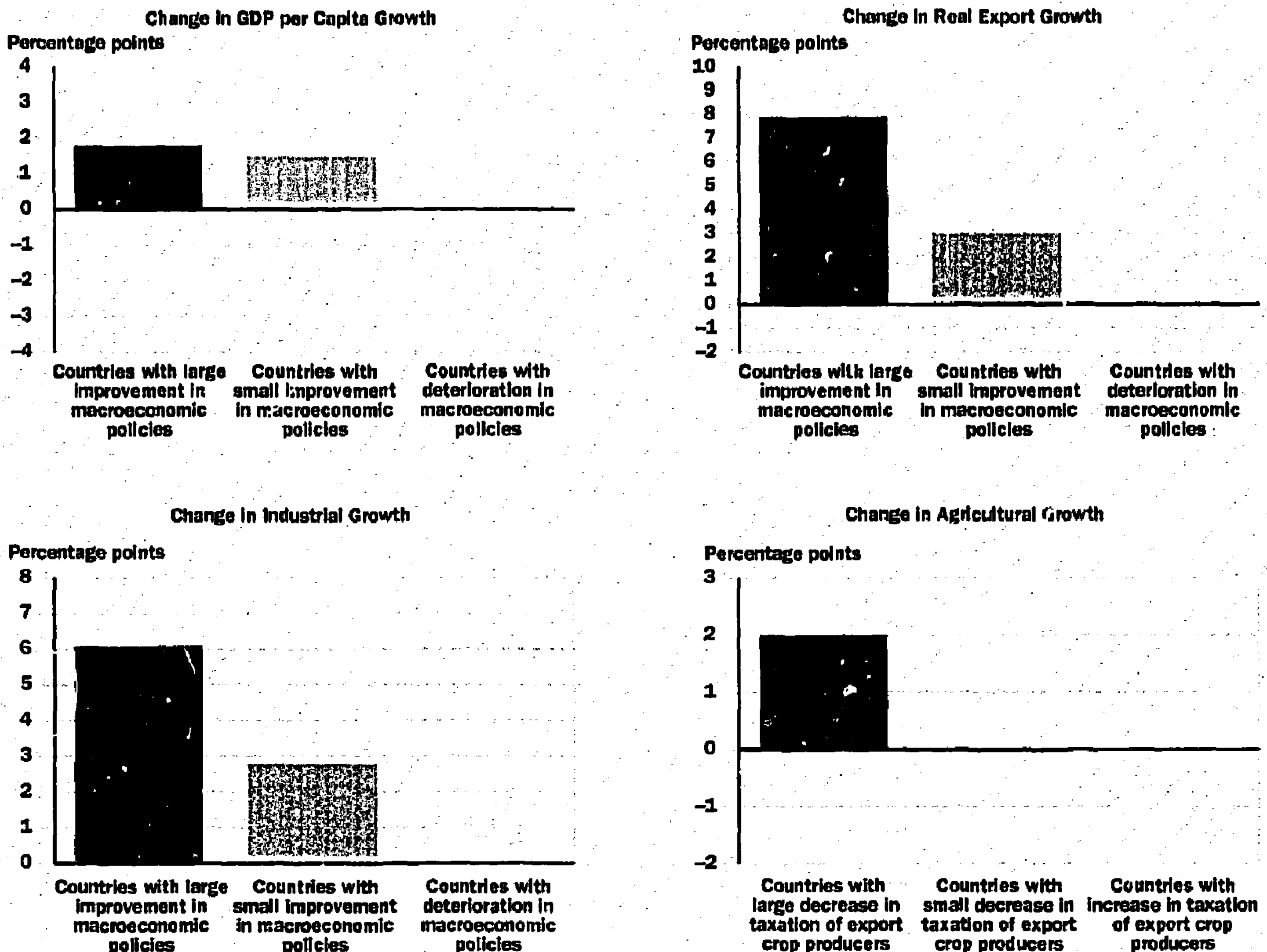
- African governments have sold off only a small share of their assets. The value of privatizations in Nigeria between 1988 and 1992 was less than 1 percent of that in Argentina, Malaysia, or Mexico, even after adjusting for Nigeria's smaller GDP.[3] Explicit and implicit financial flows to public enterprises are still high. But one encouraging trend is that governments have stopped expanding their public enterprise sectors.
- In most African countries, the financial sector, despite reform efforts, is still heavily burdened by public sector demands for credit—with the central government alone (excluding public enterprises) absorbing more than 30 percent of domestic credit.

Better Policies Pay Off

THERE HAS BEEN MUCH TALK ABOUT THE COSTS OF ADJUSTment, less about the substantial benefits. Most countries that improved their policies have returned to positive rates of GDP per capita growth. This turnaround shows that adjustment policies work when implemented properly. And although GDP per capita growth rates remain low, it is unreasonable to expect that African countries would quickly match the rapid rise of the best performers in Asia and elsewhere. Even before the macroeconomic crisis of the early 1980s, Sub-Saharan Africa was growing more slowly than other regions.

As we have noted, the six adjusting countries with the most improved macroeconomic policies had a median increase in GDP per capita growth of almost 2 percentage points between 1981–86 and 1987–91 (figure 1). That compares with an increase of 1.5 percentage points for those countries with less improved policies and a decline of 2.6 percentage points for those with a deterioration in policies. The median increase in

Figure 1 Median Changes in Average Annual Growth Rates of Adjusting African Countries between 1981–86 and 1987–91



Note: See source tables for a listing of countries in each group.
Sources: Table 5.1 and appendix tables A.19, A.21, and A.22.

Policy reforms paid off in higher growth rates in income, exports, industry, and agriculture.

export growth was almost 8 percentage points for countries with the most improved macroeconomic policies, while in countries with policy deteriorations, export growth declined 0.7 percentage points. For the best performers, industrial growth accelerated by more than 6 percentage points, compared with 1.7 percentage points in countries with deteriorating policies. And countries that substantially reduced the taxation of export crop farmers increased median agricultural growth by 2 per-

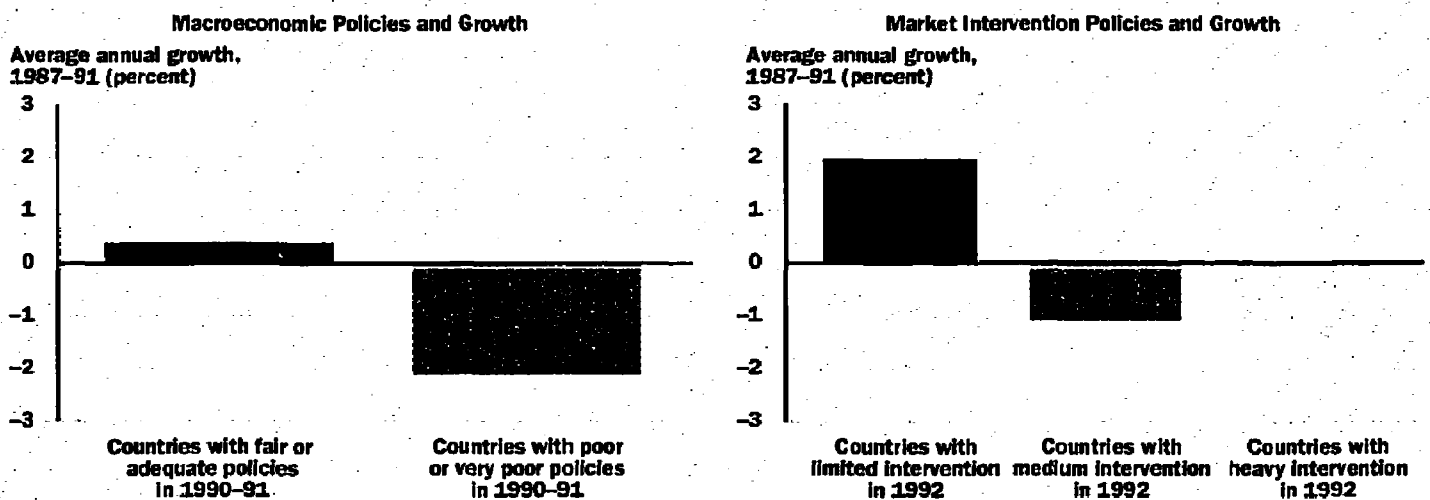
centage points, while countries that taxed farmers more saw growth fall by 1.6 percentage points.

Policy packages to address the adverse external shocks and severely overvalued real exchange rates of the early 1980s had high payoffs. Countries that brought about a real depreciation of 40 percent or more between 1981–86 and 1987–91—all of them with flexible exchange rates—had a median increase in GDP per capita growth of 2.3 percentage points. Countries that had appreciations—all of them with fixed exchange rates—suffered a median decline of 1.7 percentage points.

These results demonstrate the payoffs to improving policies. What about the payoffs to good policies? Countries that maintained or ended up with fair or adequate macroeconomic policies during 1987–91 did better than countries with poor or very poor policies (figure 2). The median rate of GDP per capita growth in countries with the better macroeconomic policy stance was 0.4 percent a year between 1987 and 1991—low but at least positive, and a turnaround from annual declines of about 1 percent a year in the early 1980s. By contrast, in countries with poor or very poor macroeconomic policies, median GDP per capita growth fell 2.1 percent a year on average. The extent of government intervention in markets also made a difference in growth. Countries that limited their intervention in markets had median GDP per capita growth of almost 2 percent during 1987–91, compared with declines of more than 1 percent for the countries that intervened more extensively.

Countries with better policy stances had faster GDP per capita growth.

Figure 2 Policy Stance and Median GDP per Capita Growth in Adjusting African Countries



Note: See source tables for a listing of countries in each group.
Sources: Table 5.1 and appendix table A.13.

External Transfers Helped

Increases in external transfers (a median rise of 2.4 percent of GDP between 1981–86 and 1987–91) also contributed to faster growth. Sixteen countries benefited from higher external transfers. Countries with increases in external transfers (a median increase of 0.6 percent of GDP) had a median increase in GDP per capita growth of 1.2 percentage points. Those with reductions (a median decrease of 0.6 percent of GDP) suffered a small slowdown in GDP per capita growth. External transfers relieved import constraints, financed investment, and smoothed consumption—just what they are intended to do. But overall, policy reforms were more strongly associated with increases in growth rates than external transfers were.

The Impact of Adjustment on the Poor and the Environment

In African countries that have undertaken some reforms and achieved some increase in growth, the majority of the poor are probably better off and almost certainly no worse off. The poor are mostly rural, and as producers, they tend to benefit from agricultural, trade, and exchange rate reforms and from the demonopolization of important commercial activities. As consumers, both the urban and the rural poor tend to be hurt by rising food prices. But adjustment measures have seldom had a major impact on food prices in either the open market or the parallel market, which supplies most of the poor. Where rationing was widespread, as in Tanzania, real prices for key consumer goods have even fallen. Similarly, the layoffs of public sector employees, who are among those hardest hit by adjustment, have not generally added to the number of poor people. Many of those who lost their jobs were able to find other work, often by returning to rural areas.

The absence of empirical studies makes it difficult to document any clear and specific link between adjustment reforms and environmental changes in Sub-Saharan Africa. To the extent that policy reforms have encouraged sound pricing of energy, fertilizer, and water resources, they have reduced wasteful distribution and consumption. Not all distortions have been eliminated, however, and there is still much room for progress in instituting appropriate systems of natural resource pricing and taxation.

Policies Are Not Good—Yet

DESPITE THE EFFORTS TO IMPROVE THE MACROECONOMIC environment, open up markets, and strengthen the public and financial sectors, most African countries still lack policies that are sound by international standards. Even Africa's best performers have worse macroeconomic policies than the newly industrializing economies in Asia. Few besides Ghana come close to having adequate monetary, fiscal, and exchange rate policies. And Ghana lags behind other adjusting countries elsewhere—Chile and Mexico, for example—in trade and public enterprise reform.

In trade, many African countries have, by eliminating extensive import controls, returned to the regimes they had before the crisis—helped in many cases by successful exchange rate depreciations that restored competitiveness. Other countries that never experienced a severe macroeconomic crisis, such as Kenya and Zimbabwe, have moved slowly toward import liberalization. The current policy stance in countries with flexible exchange rates is free of the heavy administrative controls that characterized the period before adjustment, but most African countries still have some nontariff barriers and high and dispersed tariffs.

The policy stance for agricultural pricing and other price controls is more difficult to quantify. Most countries have eliminated price controls and restrictions on the marketing and pricing of food staples, and many have eliminated costly subsidies for fertilizer (with no apparent reduction of fertilizer use) and liberalized its distribution. But governments continue to intervene heavily in the marketing of export crops.

The scarce evidence on public enterprise reform suggests that there has been no significant reduction in financial flows to public enterprises or in the volume of assets held by the government. Nor has there been a sustainable improvement in the efficiency of enterprises remaining public. The paucity of data partly reflects institutional weaknesses, but it probably also reflects the lack of government commitment to results.

Financial reform lags behind as well. The financial position of the banking sector is weak because of poor macroeconomic management, which induces the monetization of fiscal deficits through the banks. It is also weak because of the slow pace of reform in the public enterprise sector. And it reflects continuing government interference in the management of the financial sector. A large share of bank lending still goes to the public enterprise sector, making it more difficult for the private sector to borrow.

Although public spending on health and education did not decline in the adjustment period—an achievement given the fiscal problems of African countries—there is little evidence of an increase in that spending. Nor is there much evidence that public spending within those sectors is being reallocated away from costly tertiary programs and toward the basic services most likely to reach the poor.

The Road Ahead for Adjustment

DRAWING ON SUCCESSFUL EXPERIENCES ELSEWHERE AND taking Sub-Saharan Africa's circumstances into account, three principles can guide African governments undertaking reform programs.

- **Get macroeconomic policies right.** Keeping budget deficits small helps in controlling inflation and avoiding balance-of-payments problems. Keeping a realistic exchange rate pays off in greater international competitiveness and in supporting convertible currencies.
- **Encourage competition.** Competition means higher productivity, and firms forced to compete are more efficient than those with privileged access to credit or foreign exchange. A top priority for reform in Africa is to increase competition through domestic deregulation, trade reform, and the privatization of public enterprises.
- **Use scarce institutional capacity wisely.** Because most African countries have limited capacity to govern well, high priority should be given to reforms that minimize unnecessary government involvement in markets. For example, marketing boards should be abolished, public enterprises privatized, and import restrictions replaced by tariffs.

Many African countries are moving in the right direction with their macroeconomic, agricultural, and trade policies, and most policymakers agree on what still needs to be done. But there has been little progress in reforming public enterprises and the financial sector, and there is much less consensus on how to proceed. Reform in these sectors is particularly difficult because of the powerful vested interests that have been created through government intervention. A strong social consensus on the need to improve governance is thus a prerequisite for progress.

Moving Forward Where There Is Consensus

Getting macroeconomic policies right. Countries should continue with the current strategy: avoiding overvalued exchange rates and keeping inflation and budget deficits low. Good macroeconomic policies have paid off in East Asia, and they will pay off in Africa, too—indeed they are already starting to do so.

Most countries in the region still need to cut budget deficits and indirect fiscal losses (those covered by the banking system) in order to lessen the need for inflationary financing or additional external financing. There is little scope for cutting overall public spending in many countries, although the composition of spending can and should be improved. Increasing tax revenues is thus the best avenue for reducing deficits, but the increases should come by levying broad-based taxes that do not unduly penalize businesses and by granting fewer exemptions that favor the politically well-connected.

Domestic savings, which are low in Africa relative to other developing regions, must increase to finance investment. Eliminating large negative real interest rates is a crucial first step. But given the complexity of devising additional policies to encourage private savings, raising public savings is the best option in the short run. The surest way to increase savings in the long term is to boost growth, because growth and savings reinforce each other in a virtuous circle, with high growth leading to high saving and to higher growth.

Taxing agriculture less. In agriculture the main task is to continue reducing the taxation of farmers by liberalizing pricing and marketing and by reducing the protection of industry. Progress has been made, but countries need to do more to help farmers, and the elimination of agricultural marketing parastatals, particularly for export crops, must be high on the agenda. Liberalizing markets so that private agents can compete with parastatals and linking producer prices to world market prices may be useful transitional mechanisms in the near term. These reforms can help farmers reap the full benefit of the exchange rate depreciations, which might otherwise merely shore up the financial profitability of parastatals.

Care must be taken not to undermine market liberalization efforts with restrictive licensing procedures and other interventions that give marketing parastatals an undue competitive advantage. Traders often face a thicket of regulations for licensing, transportation, the movement

of goods, trading hours and locations, and weights and measures. Eliminating these burdensome obstacles is essential for increasing profitability and production in agriculture. Simultaneous progress in the development agenda is also important. Improving the quality of public spending for transport networks, rural infrastructure, and agricultural research and extension will enhance the payoffs to improving agricultural policies.

Putting exporters first. Because exports are so beneficial for growth, countries should consider the needs of exporters carefully and apply an "exporters first" rule. One easy way for government to help exporters is to remove unnecessary policy impediments—by providing automatic access to foreign exchange, eliminating export monopolies, and facilitating access to intermediate inputs and capital goods. Governments also need to welcome foreign participation, because foreign firms can bring the contacts and production knowledge needed for penetrating global markets. But governments and international agencies should abandon the practice of trying to pick "winners"—that is, pushing particular exports—because they have consistently made poor choices in the past. Export processing zones have seldom been more effective than simple free-trade zones and bonded production areas, so it is important to find other mechanisms to help exporters avoid administrative, regulatory, and tariff impediments. A high priority is developing workable schemes to provide exporters access to duty-free inputs.

The potential for export growth is great, because African countries are starting from a very low base. Even modest success in increasing their share of world markets will translate into tremendous growth. The future is in nontraditional exports, but traditional exports still need to be part of an outward-oriented strategy. Gaining just a very small foothold in the world market for such traditional, labor-intensive goods as clothing and footwear would substantially increase the region's exports. But this does not mean that Africa should neglect its traditional export of primary commodities, even those that face limited world demand. Although the region already has a large market share in a handful of agricultural commodities, notably cocoa, it is possible to expand that share further. Good policies and investments in infrastructure and research and extension activities can help to raise the productivity of African producers and displace higher-cost producers elsewhere (as Indonesia and Malaysia have demonstrated).

Rationalizing import barriers. There has been progress in liberalizing imports, but most countries have gone only halfway. African countries should continue to eliminate nontariff barriers (NTBs) to rationalize the trade regime and increase transparency. The focus should be not on fine-tuning tariff levels but on establishing a credible schedule for substituting tariffs for NTBs. Even very high tariffs, if imposed only for a clearly limited period, can support the objectives of adjustment. The next steps on the agenda are to simplify the tariff structure, reduce the highest rates to more moderate levels, and institute a minimum tax—so long as effective systems are in place to provide exporters duty-free access to imports. These reforms can often generate enough revenue to offset a fairly substantial overall lowering of tariffs, while leading to a more competitive environment and productivity gains. Beyond that, further progress toward a low and completely uniform tariff structure should not sacrifice fiscal revenues.

Rethinking Adjustment Where There Is Less Success—and Less Consensus

Privatizing public enterprises. The efforts to privatize state corporations and to improve their performance have yielded meager results so far. African governments have resisted privatization, especially of the most important public enterprises. But the alternatives—imposing hard budget constraints, granting the enterprises greater autonomy, and putting them on a commercial footing—seldom work.

Countries elsewhere are getting around the obstacles to privatization, and their experience might be useful in Africa. Some of these countries have fostered broad-based ownership by giving private citizens vouchers for shares in public enterprises, or reserving shares for employees. Others are using various types of private investment and holding companies to improve corporate management. Nonasset divestiture—through leasing, concessions, and incentive-based performance contracts—can increase private sector management of the public utilities and other natural monopolies and improve their productivity.

Prudent financial reform. The overall approach to financial development is on target, but reforms have suffered from too much faith in quick fixes. African countries need to continue with a three-part strategy of reducing financial repression, restoring bank solvency, and improving financial infrastructure. But adjustment programs have

been overly hasty in cleaning balance sheets and recapitalizing banks in an environment where institutional capacity is weak and the main borrowers (the government and public enterprises) are financially distressed. Many programs were based on the assumption that banks could improve their performance simply by removing the bad loans from their balance sheets, replacing managers, and injecting new capital to bring assets up to international standards. This usually was insufficient for several reasons: reforms were not accompanied by needed macroeconomic and structural changes, bank managers continued to be exposed to political interference, and regulatory and supervisory capacities were inadequate and could only be developed over time.

A more prudent strategy to restore bank solvency involves downsizing publicly owned banks, privatizing them where possible, and encouraging new entrants. Because most African countries lack the capacity to regulate and supervise, the challenge is to devise a financial system that offers extra cushions against risk—by setting higher-than-normal capital-adequacy ratios, relying more on foreign banks, and limiting entry to reputable banks with a solid capital base. Countries must strike a balance between the need to increase competition and the need to ensure the solvency of financial institutions.

Improving public sector management remains a major challenge for the road ahead—but one that probably extends beyond what adjustment-related policy reforms alone can accomplish. Perhaps the biggest challenge is to build a more effective civil service to provide the elements necessary for a well-functioning market economy, including a sound macroeconomic and legal framework and a system for providing basic social services consistent with the development objective of growth with equity. There is increasing recognition that adjustment programs, with their focus on containing civil service costs, have had limited success in tackling the more fundamental problems of the public sector, such as the lack of accountability and transparency, civil service employment and pay practices that are unrelated to technical competence and productivity, regressive patterns of resource mobilization, expenditures that conflict with development priorities, and the limited capacity for policy analysis. Broader approaches that address the difficult tasks of strengthening the administrative structure and creating the conditions for improved governance are thus called for.

More Adjustment—Not Less—Would Help the Poor and the Environment

Findings from Brazil, Côte d'Ivoire, and Peru show that the lack of adjustment is what most hurts the poor and most increases their number. Addressing the fundamental policy distortions that inhibit growth is thus an essential part of a strategy to reduce poverty.

The poor will benefit more from an increase in growth if spending programs to develop human resources are protected during the adjustment process, and if the policy package eliminates the distortions in labor, land, and output markets that disadvantage the poor. More could have been done, and should have been done, to reduce poverty in the context of adjustment programs. This has been changing in the past few years, as adjustment programs strive to improve public expenditure in the social sectors. But the fundamental development challenge of improving Africa's human resource base requires more than policy change—it also requires sustained investment and institution-building.

In addition to reducing poverty, adjustment programs in Sub-Saharan Africa can promote judicious use of natural resources by instituting policy reforms that affect the pricing of agricultural and forest outputs, petroleum products, energy, and so forth. But macroeconomic and broad sectoral policies are very general and cannot substitute for specific environmental interventions. Designing effective systems for environmental protection when institutional capacity is limited is no simple task. It may be preferable to give firms and communities incentives to protect the environment rather than to depend on governmental regulatory and enforcement capacity. As with poverty, many environmental problems require a combination of policy reform, investment, and institution-building.

Aid and Growth

Aid to African countries must be structured in ways that speed, rather than impede, growth. Higher income generates greater domestic savings and, in time, reduces the dependence on foreign savings. But today's large volume of aid poses dangers: it could soften budget constraints and thus finance the postponement of public sector reforms. Expanded aid flows should therefore be linked to strong reform programs and better governance. In financing country-specific adjustment programs that

have a good probability of yielding substantial reforms, a key issue is to design transfer mechanisms and to allocate aid across countries and sectors so that it supports a policy and investment framework for high accumulation of capital and rising public savings. Another key issue is to design aid so that it supports reforms without adding distortions in foreign exchange or labor markets and so that it builds institutions up instead of wearing them down. One of the major challenges on the road ahead is finding ways to help governments promote widespread ownership of adjustment programs and muster support among the interest groups that have the most to gain from reforms.

Efforts by donors to bring Africa's stock of debt down to sustainable levels can, when linked to strong adjustment efforts, help countries realize the benefits of policy reforms. The debt burden of many African countries is huge, and many will have too much debt even under the very favorable debt relief proposals under consideration. So far, aid flows and concessional lending have more than offset debt service payments. But in the medium and long term, as countries adopt better policies, the debt overhang is likely to deter private investment. And the debt service burden threatens to eat away at increased export earnings and domestic savings that might otherwise be used in pursuit of long-term development objectives. For countries undertaking comprehensive and sustained policy reform, reducing the debt stock burden to a manageable level would improve their development prospects. This means rethinking the current debt relief strategy, which still leaves many countries with debt service requirements beyond their capacity to pay. The focus should be on reducing the stock of debt to sustainable levels, even if that means differences in treatment across countries.

Even with transformed policies, higher savings, and better investments, Africa will still require exceptional external assistance for at least another decade. But countries cannot expect an increased flow of foreign resources without undertaking the economic reforms necessary for growth and poverty reduction. And such economic reforms will probably not take place until the conditions for good governance are established.

Adjustment is the necessary first step on the road to sustainable, poverty-reducing growth. But adjustment programs in Sub-Saharan Africa have been burdened with unrealistically high hopes, driven in part by awareness of the real poverty that economic growth can help al-

leviate. Some proponents of adjustment thought that it could quickly put African countries on a much higher growth path than before. Too often there has been little effort to determine whether Africa's disappointing economic performance in the aggregate represents a failure to adjust or a failure of adjustment. Opponents have wrongly cast and criticized adjustment as an alternative to measures supporting long-term development. The resulting confusion has sometimes led to sterile debate about the efficacy of adjustment policies. More important, it has risked creating undue pessimism among African countries and donors. That pessimism is unwarranted, for there has been progress. The turnaround in growth shows that adjustment—even incomplete adjustment—can put African countries back on the road to development.

Notes

1. Schadler and others (1993) examined similar issues for the group of countries benefiting from the International Monetary Fund's Enhanced Structural Adjustment Facility. They used a different methodology but reached broadly similar conclusions.

2. Complete macroeconomic data were available for only twenty-six countries.

3. Data on the value of privatizations come from Schwartz and Lopes (1993).

Country Coverage and Time Frame of the Study

THIS STUDY FOCUSES ON TWENTY-NINE COUNTRIES in Sub-Saharan Africa that were undergoing structural adjustment sometime between 1987 and 1991 (see the table below). We excluded the very small economies, some of which had adjustment programs, because there is less information about them and because external aid disproportionately affects their macroeconomic performance. We also excluded countries that did not have adjustment programs between 1987 and 1991, either because they experienced great social unrest or civil war during most of those years or because—mainly in the case of countries in the South African Customs Union—they had a tradition of better policies and were less affected by the external problems of the early 1980s. Mauritius was also excluded because it "graduated" from adjustment in the mid-1980s.

The text refers to 1987–91 as "the adjustment period," although individual country experience does not always conform precisely to this definition. We used 1987 as the starting point because more than half the countries had initiated reform programs by then. We made 1991 the cutoff point because macroeconomic data for all countries were available only through that year. A few countries in the sample, such as Ghana, Kenya, and Malawi, actually launched their adjustment programs in the early 1980s and had already implemented some durable reforms by 1987. Other countries, including Côte d'Ivoire and Zambia, started adjustment in the early 1980s but later reversed important reforms; later still, they adopted new programs. Several other countries, such as Burkina Faso, Rwanda, Sierra Leone, and Zimbabwe, did not initiate reforms until very late in the adjustment period.

Classification of Countries

Countries in the study sample (adjusters during 1987–91)		*Countries not in the study*		
		Small countries[a]	*Countries with civil unrest*	*Other countries*
Benin	Madagascar	Cape Verde	Angola	Botswana
Burkina Faso	Malawi	Comoros	Ethiopia[b]	Lesotho
Burundi	Mali	Djibouti	Liberia	Mauritius
Cameroon	Mauritania	Equatorial Guinea	Somalia	Namibia
Central African Republic	Mozambique	São Tomé and Principe	Sudan	Swaziland
Chad	Niger	Seychelles	Zaire	
Congo	Nigeria			
Côte d'Ivoire	Rwanda			
Gabon	Senegal			
The Gambia	Sierra Leone			
Ghana	Tanzania			
Guinea	Togo			
Guinea-Bissau	Uganda			
Kenya	Zambia			
	Zimbabwe			

a. With populations under 500,000 in 1991.
b. Ethiopia recently ended its civil war and embarked on a wide-ranging reform program.

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