# EVOLUTION OF STRUCTURAL ADJUSTMENT POLICY IN AFRICA

Kodjo Evlo

Université de Lomé

Accra, 20 July 2015

# Outline

- Introduction
- Macroeconomic Performance and Economic Policy in Africa
- Structural Adjustment Policy: Background, Strategy and Results
- Structural Adjustment Programs et the Policy Debate in Africa
- Conclusion

# Introduction

- Over the past five decades, African economies have been outpaced by economies of other regions of the world.
- Virtually all macroeconomic and human development indicators have followed trends that have not put Africa in an enviable position compared to other regions of the world.
- Most of these indicators suggest an unfavorable divergence of African countries from countries in other regions.
- The situation can be linked to a combination of several factors that include history, structural realities, development policy, national socioeconomic environment, international economic environment, influence of external powers, etc.
- In particular, the development policies implemented by African governments have not been successful, as they have failed to engender sustained long-term growth and prosperity.
- Such policies are largely influenced by imported paradigms and ideologies. Often, they lack vision and are rarely based on long-term strategies that properly integrate national socioeconomic realities.
- Most policy actions that are implemented are designed to react to specific short-run situations instead of being carried out within the framework of well-thought development strategies.

# Macroeconomic Performance and Economic Policy in Africa

## A poor economic performance

- African countries have experienced economic stagnation during the forty years following independence in the 1960s.
- The high hopes for rapid economic growth and development have been dashed by exogenous and policy-related factors and a socioeconomic environment that is not so enabling.
- Such a situation has left the Continent with a “profoundly unsettling record” (Ndulu et al., 2008) as other regions of the world have consistently outperformed the African region since 1960:
  - real incomes fell by 35% relative to incomes in other developing regions;
  - real income per capita stagnated, income inequality and income poverty increased sharply;
  - by 2000, Africa’s cumulative progress was insufficient to reach the levels of human development the rest of the developing word had already attained in 1960

- In other words, African economies have gone through a ***growth tragedy*** (Easterly and Levine, 1997; Artadi and Sala-i-Martin, 2003) as compared to the ***miracle*** experienced by East Asian countries.
- Roughly, three sub-periods characterized the forty-year stagnation:
  - 1960-1973: moderate growth;
  - 1974-1994: economic decline;
  - 1995-present: return of (a timid to moderate) growth.

# Macroeconomic Performance and Economic Policy in Africa

## A poor economic performance (cont'd)

- Africa's share of global GDP and world trade is weak and has been declining since the 1960s.
- In many countries, indicators of macroeconomic stability deteriorated profoundly after 1974:
  - high inflation was common place, especially in most non-Franc Zone countries;
  - foreign exchange markets did not function properly, leading to development of parallel markets in some non-Franc Zone countries;
  - fiscal deficit was on the rise and reached crisis proportions by the end of the 1970s when, as a consequence, public external debt reached unsustainable levels;
  - Current account deficits were large and the overall balance of payment situation became fragile and highly unstable.

# *Figure 1* Africa and World GDP (millions of US dollars)

Source: UNCTAD

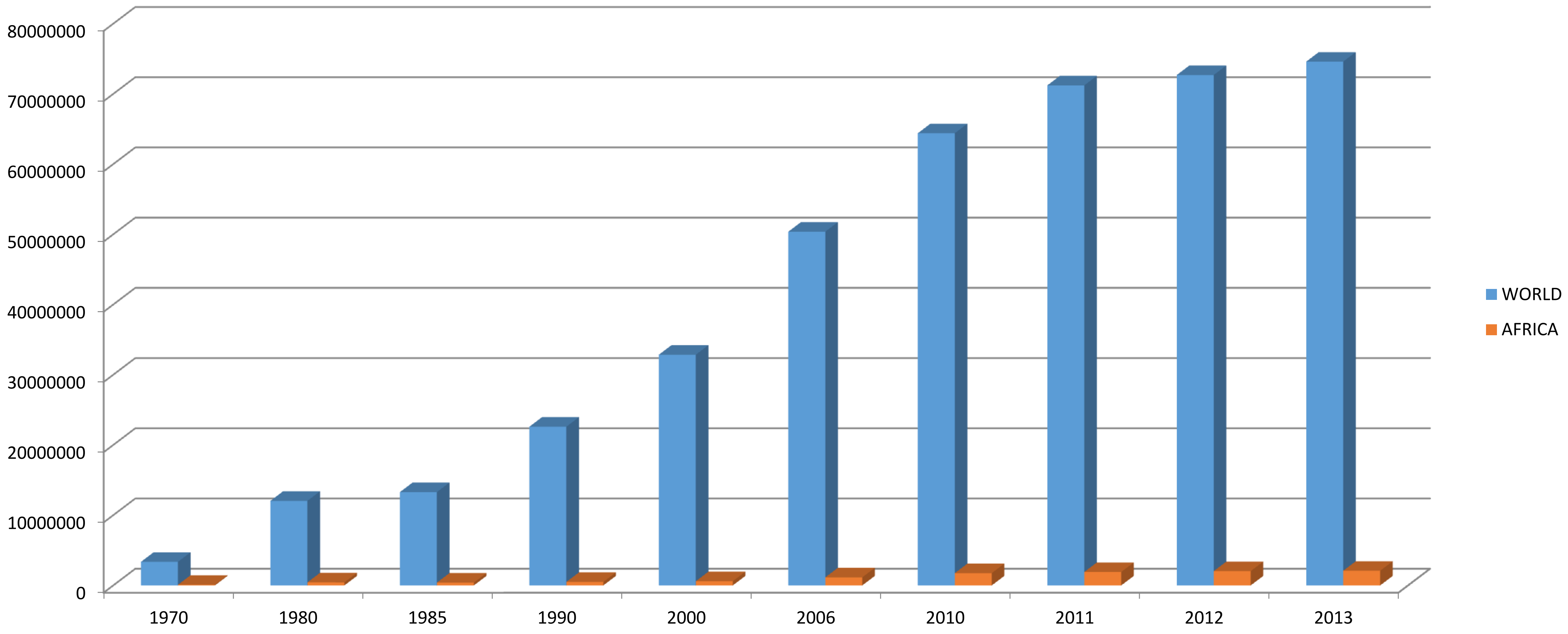

*Figure 2* Africa’s share in World GDP

Source: UNCTAD

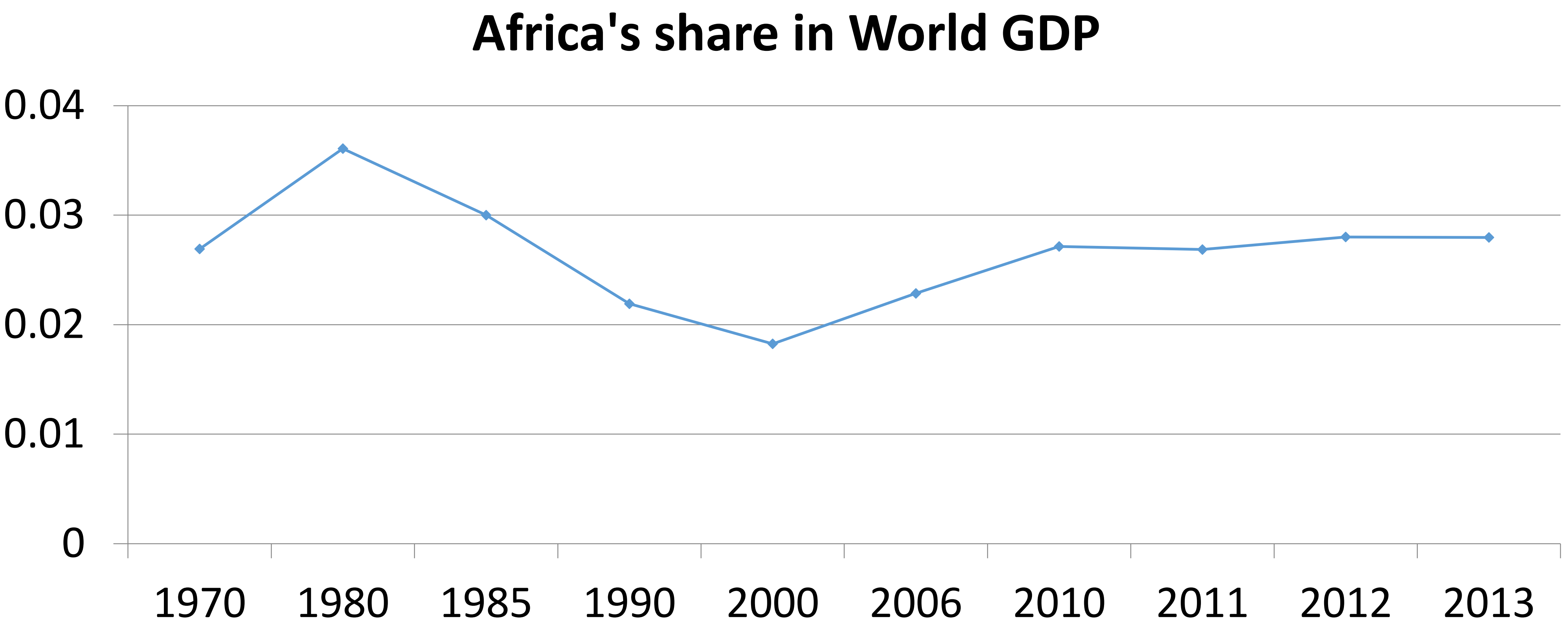

*Table 1* Africa’s Share in World Trade (%)

Source: UNCTAD

| | 1980 | 1990 | 1995 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Exports | 5.9 | 3.2 | 2.2 | 2.0 | 2.3 | 2.2 | 2.3 | 2.4 | 2.5 | 2.9 | 3.2 | 3.1 |
| Imports | | 2.9 | 2.5 | 2.2 | 2.0 | 2.1 | 2.1 | 2.2 | 2.2 | 2.3 | 2.3 | 2.2 |
| Total | 5.3 | 3.0 | 2.3 | 2.1 | 2.1 | 2.2 | 2.2 | 2.3 | 2.3 | 2.6 | 2.7 | 2.7 |

*Figure 3* Africa's Share in World Merchandise Trade

Source: UNCTAD

# Macroeconomic Performance and Economic Policy in Africa

## Development Policy

- The causes of the decline are multiple and can be linked to:
  - poor or ill-conceived development policies often based on shifting ideologies or development paradigms;
  - insufficient capital accumulation;
  - weak productivity growth;
  - limited structural transformation;
  - weak or non functioning institutions;
  - poor infrastructure;
  - poor market systems;
  - poor governance;
  - unstable political environment or, generally, unstable  socioeconomic environment;
  - unstable international economic environment.

# Macroeconomic Performance and Economic Policy in Africa

**Development Policy** (Cont’d)

- After independence, African governments did try to promote rapid economic growth, and improve the wellbeing of their populations.
- They engaged in development policies that were guided
  - theoretically by the Harrod-Domar model that stresses the role of domestic investment in economic growth, and
  - Ideologically by
    - the Prebish-Singer hypothesis of long-term decline in primary goods’ terms-of-trade that advocated for import-substitution industrial policies.
    - the belief (sometimes referred to as the socialist approach) that the governments had a leadership role to play in capital accumulation and production

# Macroeconomic Performance and Economic Policy in Africa

## **Development Policy** (Cont’d)

- The Harrod-Domar Model

- African governments adopted and applied the conclusions of western-style development models such as the Harrod-Domar model.
- However, the socioeconomic environment was not propitious for successful application of such models.
- Indeed, the long-held view that insufficient capital accumulation is the essential constraint on development (Lewis, (1954) led African countries to indulge in inappropriate national investment policies that failed to generate expected results.
- Low worker productivity, inappropriate market structure and unfavorable socioeconomic environment were among the factors that caused the divergence of Africa’s situation from the situation of other developing countries.
- As a result, most of the investment programs have led to capital flight and external indebtedness instead of growth.

# Macroeconomic Performance and Economic Policy in Africa

## 2. Development Policy and Socioeconomic environment (Cont'd)

- <u>Import-substitution Policy</u>
- Convinced that that development requires structural transformation, African governments focused on industrialization as the engine of economic development.
- The prospects for primary commodity exports were considered poor while the desire to reduce dependence on imports of manufactured goods was widespread (Heidhues and Obare, 2011)
- To reduce dependence on manufactured imports, import-substitution industrialization was promoted based on an inward-oriented strategy supplemented by widespread use of tariff and non-tariff barriers to reduce external competition, mainly in manufacturing.
- In this process, agriculture was ascribed a secondary role of supplying raw materials and providing tax revenues to finance development in other sectors (Acemoglu et al., 2001).
- This protectionism turned out to be an unfortunate policy choice, because competition increases productivity while trade restrictions increase input prices and the cost of capital, choking growth.
- In particular the export sector was overlooked—if not neglected—in the process, which did not help to fight Africa's long-term loss of efficiency and competitiveness.
- The import-substitution strategy was viewed by critics as an inferior development strategy compared to the export-promoting strategy that was adopted by East Asian countries and that said to have contributed to the Asian miracle.

# Macroeconomic Performance and Economic Policy in Africa

## Development Policy (Cont'd)

- Furthermore, the African leadership believed that the private sector was too weak and that government had to play the dominant role.
- This belief translated into the socialist approach to development in which all aspects of economic development were primarily government-driven (Heidhues and Obare, 2011).
- Guided by this approach and with donor support, governments drew up comprehensive five-year plans, invested in large state-run basic industries, and enacted comprehensive regulations to control prices, restrict trade, and allocate credit and foreign exchange (OWUSU, 2003).
- Initially, much was achieved with this approach: the number of trained people increased substantially, major investments were made in infrastructure (roads, ports, telecommunications, and power generation), and health and education improved significantly.
- However, macroeconomic performance started to deteriorate, starting with the adverse shock of the oil crises of the 1970s.
- By the middle of the 1980s, most African economies were facing fundamental problems of macroeconomic instability, high population growth rates, low levels of investment and saving, insufficient use of resources, weak institutions and human capacity and general decline in income and living standards.
- In reaction to the crisis, African governments asked for help from the donor community. Some of this help come with the adoption of the International Monetary Fund (IMF) and World Bank-backed Financial Stabilization Programs (FSPs) and Structural Adjustment Programs (SAPs).

# Structural Adjustment Policy: Strategy, Objectives, Implementation Conditions and Results

## Strategy and Objectives

- Structural adjustment programs (SAPs) were the response of the International Monetary Fund (IMF) and the World Bank (WB) to the African economic crisis of the 1970s. They started to be implemented in the early 1980s in some countries (such as Togo), but their application was generalized after 1985.
- Essentially, they consist of loans provided by the IMF and the WB to countries that were experiencing economic crises. Specifically, they address issues such as:
    - Weak management of the public sector, with a particular emphasis on the parastatal and public enterprise sector;
    - Macroeconomic instability especially inflation, fiscal and external imbalances;
    - Price distortion especially through price controls, subsidised credits, overvalued exchange rates;
    - Distortionary commercial policies.
- SAPs are conceived with the goal of reducing the borrowing country's fiscal imbalances in the short and medium term in order to adjust the economy to long-term growth. The bank from which a borrowing country receives its loan depends upon the type of necessity. The IMF usually implements stabilisation policies and the WB is in charge of adjustment measures.
- SAPs are supposed to allow the economies of the developing countries to become more market-oriented. This then forces them to concentrate more on trade and production so it can boost their economy.

# Structural Adjustment Policy: Strategy, Objectives, Implementation Conditions and Results

## Implementation Conditions

- The two Bretton Woods Institutions require borrowing countries to implement certain policies in order to obtain new loans (or lower interest rates on existing ones).
- Some categories of countries are limited to IDA loans and conditions, and are prohibited from borrowing from expensive or commercial sources.
- Beneficiary countries are required to implement "free market" programs and policy.
- These programs include internal changes (notably privatization and deregulation) as well as external ones, especially the reduction of trade barriers.
- Countries that fail to enact these changes may be subject to severe fiscal discipline.
- To continue receiving the IMF and WB support, beneficiaries have to show they are making progress with respect to the changes required
- The conditionality clauses attached to the loans have been criticized because of their effects on the social sector.
- Critics argue that the financial threats to poor countries amount to blackmail, and that poor nations have no choice but to comply.

# Structural Adjustment Policy: Strategy, Objectives, Implementation Conditions and Results

## Results

The SAP results are mixed and vary from one country to another and from one policy goal to another.

Generally, the programs did not succeed in boosting growth in most countries. Rather the situation deteriorated in a good number of countries after a decade of implementation of the programs. As a result of sow growth,

- Employment fell in the structured/modern sector, resulting in a higher rates of unemployment;
- Household income fell resulting in an increase in income poverty;
- Social sectors (especially education and health) were underfinanced, which hurt their development and lead to deepening poverty.

SAPs are also criticized for hampering industrialization in Africa as it led to the end of import-substitution initiatives but has not succeeded promoting the export-led growth seen in East Asian countries

# Structural Adjustment Policy: Strategy, Objectives, Implementation Conditions and Results

## Results (Cont'd)

On the other hand, did have achieve some of its objectives and, therefore, made adjustment effective in a few areas and made the economies restart on "healthier bases" in those areas. In particular they helped get rid of distortions in many cases. notably,

- distortionary price controls have been eliminated or reduced significantly in some countries;
- exchange rate controls have been reduced and the issue of currency overvaluation addressed, in particular in the CFA franc area;
- significant progress has been made in many countries with regard to fiscal and external imbalance issues, often in accordance with convergence criteria defined within regional economic communities (RECs) in which the various countries participate;
- employment has been rationalized and inefficient public enterprises have been closed, privatized or restructured

# Structural Adjustment Policy and the Policy Debate in Africa

- There is no consensus about the effects of the SAPs on the performance of African economies.
- Ever since their introduction in the early 1980s, controversies about their relevance to the African conditions and effectiveness in achieving stated and desired growth and development objectives have dogged the process.
- It is generally agreed, however, that some form of “adjustment” or “structural transformation” of the African economies was needed in response to the numerous economic crises that plague Africa’s development.
- Thus, one major area of apparent consensus among most analysts is that what countries do or do not do in matters of policy responses to internal and external shocks will have great implications for their growth and performance.
- The IMF and the WB defend the policy in general while others tend to criticize it.

# Structural Adjustment Policy and the Policy Debate in Africa

- The World Bank has published numerous performance evaluation reports and the verdict is the same: countries that have tenaciously and consistently implemented SAPs are experiencing growth and improved economic performance (World Bank, 2000, 2001). The Bank's view is echoed by the Central Bank of Nigeria (1993:121) which notes with satisfaction that "On balance, the gains of the SAP have been so overwhelming that it is difficult to imagine what the Nigerian economy would have looked like without it."

- On the other hand, performance assessment by individuals and other agencies have produced results that are as varied as the number of assessments. The results range from those which are cautionary with mooted success stories at best, to ones that are downrightly critical-pointing to the deteriorating economic crisis and thus to the irrelevance or inappropriateness of SAPs (Mkandawire and Soludo, 1999).

# Structural Adjustment Policy and the Policy Debate in Africa

- For example, a view widely credited to the former Executive Secretary of the ECA (Prof. Adedeji) and shared by many analysts, is that the 1980s was Africa's lost decade and that SAP did more harm to the continent than all the decades of colonialism put together.
- The Bank countered this view by arguing that the results depended on how the policy was implemented.
- They argue that the issue of whether the overall disappointing performance of SAPs in Africa is due to incomplete and half-hearted implementation, inappropriate policy components of the SAPs, or adverse external factors lies at the heart of the debate.

# Structural Adjustment Policy and the Policy Debate in Africa

- It is certainly true that there was incomplete, half-hearted, and “stop-and-go” implementation (WORLD BANK, 2001), that there were deficiencies in the sequencing of measures, lack of coordination of policies and inappropriate policy design (CORNIA and HELLEINER, 1995; WORLD BANK, 2000), and that the markets for primary products deteriorated in the 1980s and 1990s (MKANDAWIRE and SOLUDO, 1999).

- Most other United Nations agencies, notably the UNICEF, UNDP, UNCTAD, and the General Assembly have expressed strong reservations about several aspects of the SAP. **The core criticism is the program’s neglect of human development issues.**

- Of note is the outcome of the extraordinary session of the UN General Assembly, 1986, summoned to discuss Africa’s acute economic crisis.

- The resulting strategies embodied in the United Nations Program of Action for African Economic Recovery and Development (UNPAAERD) and the follow-up program under UN-NADAF go far beyond the SAP policies to commit the international community to certain responses in order to ensure sustainable development.

# Structural Adjustment Policy and the Policy Debate in Africa

- Several scholars and non-governmental organizations, notably, OXFAM, have equally been largely critical of the SAP framework and propose various alternative perspectives that at every level contradict the SAP policies.

- Even the World Bank has shifted significantly from an earlier position that SAP also promotes long-term development. In its 1994 Report (World Bank 1994), it admits that “Adjustment alone will not put countries on a sustained, poverty-reducing growth path. In another report (World Bank 1989), the Bank acknowledged the need for human-centered development as advocated by UNECA (1989), but nevertheless emphasized it commitment to structural adjustment and export led development
-
- 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.

# Structural Adjustment Policy and the Policy Debate in Africa

- Indeed, most researchers and policymakers agree that some sort of adjustment is necessary. Several suggestions have been made and continue to be made.

- For example, Mkandawire and Soludo (1999) argue for the necessity for African countries to adopt market-oriented development strategies and compete in the global economy, not only on the basis of comparative advantages but also through a modified version of import-substitution.

- They also made the case under such arrangement, African governments would have better been able to nurture high-value added labor-intensive industries producing manufactured export goods (Heidhues and Obare, 2011)

# Conclusion

- SAPs have greatly influenced Africa’s development over the past four decades.

- While it is generally accepted that adjustment is necessary, there is no consensus on how this adjustment should be effected.

- In addition, tere is no consensus about the effects of the SAPs on the performance of African economies.

- Africa still need development strategies that work
-

- Thank you for your attention