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Lessons from Structural Adjustment Programmes and their Effects in Africa

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Abstract

After independence around 1960, African countries started with high hopes for rapid growth and development. Whereas the initial performance was remarkable, economic development slowed in the 1970s and stagnated in the 1980s. In response, the states' attempts to reinvigorate economic growth through state-led investments and import substitution industrialisation strategies were unsuccessful. The World Bank, the International Monetary Fund and Western donors developed and advocated Structural Adjustment Programmes (SAPs), which emphasised macroeconomic stabilisation, privatisation and free market development. The SAP approach has generated considerable debate within African countries and development circles. While proponents argued that the reforms were essential and without alternatives, critics charged that SAPs paid insufficient attention to the social dimension of development and to the institutional weaknesses of developing countries. The debate continues. This paper discusses the pro and contra arguments of the debate, presents lessons learned, and draws conclusions for future policy priorities.

Keywords: Africa, economic development, agricultural policies
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1 Historical Perspectives: 1960-1980

Most African countries became independent in the early1960s. At independence, these countries had high hopes for rapid growth and development. New energies were released and African leaders' minds were focused on catching up with the developed world. "Africans must run while the others walk" captures the spirit of those early years. The donor community shared this optimism and provided substantial support.

African leaders, influenced by the prominent Prebish-Singer hypothesis of an enduring long-term decline of international terms-of-trade in disfavour of primary products,

notably food, adopted strategies that focused on industrialisation as the engine of economic growth. The prospects for primary commodity exports were seen to be poor and the desire to reduce dependence on manufactured imports was widespread. To reduce the countries' dependency on manufactured imports, state-driven development through Import-Substitution Industrialisation (ISI) was promoted. Agriculture was ascribed a secondary role of supplying raw materials and providing tax revenues to finance developments in other sectors (ACEMOGLU et al., 2001).

Furthermore, the African leadership believed that the private sector was too backward 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. 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. Annual economic growth in Sub-Saharan Africa averaged 3.4% between 1961 and 1980 while agriculture grew by about 3% per year over the same period. However, in the early 1970s the growth engine in African countries began to slow down and by the mid-1970s, economic performance was lagging behind that of other parts of the developing world. This performance was reflected in poor growth of the productive sectors, a declining level and efficiency of investment, waning exports, mounting debt, deteriorating social conditions, and an increasing erosion of institutional capacity. These developments led to high budget and balance of payments deficits and significant public debt (HEIDHUES et al., 2004). By 1980, output was actually declining. By the end of the 1980s, Sub-Saharan African countries were facing fundamental problems: high rates of population growth, low levels of investment and saving, inefficient use of resources, weak institutions and human capacity, and a general decline in income and living standards.

In reacting to the crisis, African leaders and the major international financial institutions recommended different remedies to reverse the negative trends of the late 1970s. The first set of policies became known as the Lagos Plan of Action (LPA) and the Regional Food Plan for Africa (AFPLAN). The LPA and AFPLAN can be traced back to the Bandung Conference of 1955, whose aim was to build a bourgeois national state within the Third World with a capacity to make progress in solving the problems of underdevelopment. The LPA emphasised continuation of state driven development through ISI. This process enabled leaders to continue maintaining inefficient domestic

industries and a bloated public sector. Those countries that tried to pursue the LPA and AFPLAN strategies ran into numerous difficulties in implementing these plans. This was primarily due to institutional weaknesses of African states, as well as the rejection by the World Bank (WB), the International Monetary Fund (IMF) and western donors of any calls for an adjustment of the international economic order, outside of the capitalist system, to meet the development needs of developing countries. The donor community received the mentioned plans reluctantly, or gave half-hearted support at best.

Arising from the relative failures of the LPA and AFPLAN, and the denial of donor support, a second set of policies was initiated. These policies were based on the neo-liberal understanding of economic development that was held by donors and international institutions at the time and which found expression in the WORLD BANK's Berg Report (1981) *Towards Accelerated Development in Sub-Saharan Africa*. The report argued that the failure of African economies to take a satisfactory development trajectory was attributable to their governments and the policies that they were pursuing. In particular, gross resource mismanagement, faulty exchange rate policies, excessive state intervention and, especially, the protection of inefficient producers, the unnecessary subsidisation of urban consumers, extraction of high rents from rural producers and general corruption were cited as the major causes of stalled development. The central recommendation of the report was for governments to refrain from intervention in their economies and to liberate market forces by freeing foreign trade and currency exchange from controls. Steps of this kind were made a precondition for structural adjustment loans and sectoral adjustment loans, commonly referred to as Structural Adjustment Programmes (SAPs); they had far reaching effects on developments in Africa and will be the focus of this paper.

2 Structural Adjustment Programmes (1980-1999)

SAPs and their associated stabilisation policies are among the most important policy frameworks of the last century that have greatly influenced both strategies and programmes for agriculture, food and nutrition security in Africa and therefore overall economic development. As already mentioned, the SAP approach was the response of the WB and the IMF to the African economic crisis of the 1970s. The SAPs were introduced across Africa in the 1980s and continued to operate throughout the 1990s. During this period, the WB and the IMF closely worked together, with the IMF heavily involved in setting the macroeconomic development and policy agenda, while the WB provided structural adjustment lending.

SAPs were conceptualised to address the perceived key problems of African countries' economic development. These included weak management of the public sector that resulted in loss generating public enterprises and in poor investment choices (Africa's investment and operating costs were typically 50 to 100% above those in Southern Asia), and in costly and unreliable infrastructure. Price distortions, especially through overvalued exchange rates, price controls and subsidised credits, resulted in inefficient resource allocation (WORLD BANK, 1981). Furthermore, wage costs were high, relative to productivity (particularly in the former French colonies which had pegged their common currency, the Communauté Financière Africaine (CFA) franc, to the French franc), even though real wages fell by a 25% on average across Africa in the 1980s. All of these factors added heavily to the cost of doing business, and discouraged local and foreign investors.

The main elements of the SAPs were their classical/neoliberal features. They emphasised anti-inflationary macroeconomic stabilisation policies and pushed for private sector and free market development, controlling budget deficits, privatising public sector companies and services, dissolving parastatals, eliminating subsidies and cutting public support for social services. A typical SAP called for devaluation and trade liberalisation to improve the country's balance of payments and control its foreign indebtedness; debt rescheduling and stricter debt management were regularly part of the prescribed policy set (HEIDHUES et al., 2004).

Given this background, the SAPs and the neo-liberal policies, often called the "Washington Consensus", have continuously generated considerable debate within African countries and development circles. Supporters argued that the reforms were essential and that they should be implemented sooner rather than later. Critics charged that the Washington Consensus paid insufficient attention to the social aspects of development and the institutional weaknesses of developing countries.

One argument in the debate centred on the conceptual backing of the SAPs and their neo-liberal background. For instance, in its 1989 report on *Sub-Saharan Africa: From* Crisis *to Sustainable Growth,* the WORLD BANK (1989) acknowledged the need for human-centered development as advocated by UNECA (1989), but nevertheless emphasised its commitment to structural adjustment and export-led development (see also PARFITT, 1993). This was further accentuated in its calls for a market friendly approach to development (WORLD BANK, 1991). MKANDAWIRE and SOLUDO (1999) have countered this approach with a systemic critique of structural adjustment by arguing for the necessity for African countries to compete in the global economy, not only on the basis of comparative advantages, but also through a modified version of import substitution. They make the case that under this arrangement, African governments would have better been able to nurture high value-added, labour-intensive

industries producing manufactured exports for the world market. Furthermore, the authors also blame the adjustment policies to have failed to take into account the political implications of reform and the risks that these policies posed for the stability of developing countries. From this perspective the Washington Consensus development was seen as an apolitical, overly economic approach, characterised by excessive conditionality as well as the absence of genuine ownership by the countries concerned (see also Hoeffler in this issue).

The impact of SAPs on Africa also remains a matter of intense debate. Early on, the WORLD BANK (1994) claimed that "adjustment is working" in countries that followed its prescriptions, both in agriculture and industry. Many empirical studies have concluded that with some exceptions (Ghana and Uganda), SAPs have typically had a negligible effect on growth in Africa (MOSLEY et al., 1995; EASTERLY, 2000, and the literature cited therein; KLASEN, 2003). Some studies (such as WORLD BANK, 2000; CHRISTIAENSEN et al., 2001) have argued that SAPs induced growth and reduced poverty in those African countries where they were successfully implemented. However, as KLASEN (2003) has pointed out, these results have not clearly been linked to SAP-related macroeconomic policies.

The SAPs implemented in African countries were expected to ultimately reduce poverty by fostering economic growth and by shifting relative prices in favour of agriculture and rural areas where most of the poor live (WORLD BANK, 1981). To the extent that SAPs failed to promote growth, no improvement in poverty can be expected from growth effects. The impact on poverty and food security arising from the shifting of relative agricultural prices has been mixed. The winners have been net surplus producers of agricultural products among rural households, particularly those with export crops, while the losers have been net consuming poor households and the urban poor (CHRISTIAENSEN et al., 2001).

Of particular concern for poverty and food security are the fiscal measures implemented as part of the SAPs. While there is wide consensus that low budget deficits are essential for achieving macroeconomic stability, there is intense debate regarding how to achieve them, that is, on the proper mix between tax increases and expenditure reduction. In many SAPs, particularly the early ones, the expenditure side of the budget had to bear the main burden. There was little room for raising tax revenues, for example through import duties, without coming into conflict with the trade liberalisation objective. Because of this emphasis on expenditure cuts, public support for infrastructure, education, social services, as well as for research and extension, suffered and rural areas, with their high proportion of poor people, were particularly hard hit (HEIDHUES et al., 2004).

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. A review of the available studies suggests that in most cases a combination of these three factors is at work. 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).

Therefore, it seems that, although SAPs and stabilisation policies were widely adopted in Africa, their impact on both economic development and food and nutrition security is debatable. The implementation of the policies was poor - only stop-and-go and half-hearted in most countries - and there has been a lack of ownership and political will to implement these policies, despite the financial support and conditions connected to that support by their promoters, mainly the WB and the IMF.

3 Lessons learned

Largely in response to criticism from African countries, the Organisation of African Unity, the Economic Commission for Africa, many Non-Governmental Organisations and scholars, SAPs started to integrate the lessons learned and shifted towards a more flexible and gradual approach to budget cuts, with greater tolerance to short-term deficits during stabilisation (KLASEN, 2003; ADAM et al., 2001; CORNIA and HELLEINER, 1994). At the same time, there has been increasing recognition of the role governments should play in providing the necessary support for education, health care, research and extension, most notably in agriculture, rural credit and institutional development. It has also been realised that scarce public funds need to be focused more on the needs of the poor so as to increase their access to these vital services (ADAM et al., 2001). Thus, as the 1990s approached, there were increasing calls for "adjustment with a human face", which implied paying more attention to the social dimension of development and the role of the state in this process.

This broader view of development was reinforced by a series of UN conferences throughout the 1990s that dealt with such issues as gender equality, human rights, population, social development and the environment. An initiative of the International Food Policy Research Institute (IFPRI) in the early 2000s called "A 2020 Vision for Food, Agriculture, and the Environment" was instrumental in focusing research and development policy attention on a broad approach to the three critical issues of securing future world food needs, reducing hunger and poverty, and protecting the

environment. It aimed at developing a shared vision and a consensus for taking action. The summary of an international consultation process identifies five priority areas for action: i) focus on inclusive growth; ii) improve access to assets and markets; iii) phase in social protection; iv) accelerate investments in health and nutrition programmes; and v) include the excluded (VON BRAUN and PANDYA-LORCH, 2007). It also emphasises the need for countries to take charge of their own future, to overcome conflict and instability, to improve governance, accountability and the reliability and fairness of their legal systems, to create broad-based support for action through participatory processes, and to improve institutional capacity to implement programmes. While the consensus for taking broad action is shared worldwide, it is particularly relevant for Africa.

The failure of SAPs, as originally designed, to effectively address the development challenges in Africa have effectively resulted in rethinking the approach. Yet, it has not been completely abandoned; it has been repackaged in a form and manner to make it attractive to stakeholders in development in appealing to the inclusiveness, ownership, accounting for country resource heterogeneity, and more importantly addressing the most current issues, such as the Millennium Development Goals (MDGs). It is in this context that the Poverty Reduction Strategy Papers (PRSP) can be seen as the repackaged form of an SAP, with modifications in social content and emphasis on the issues of national ownership and consultation. Nevertheless, ADEJUMOBI (2006) has argued that the content of PRSP, its ideological underpinnings, and the global context in which it is situated seem to involve contradictory impulses for national ownership, governance and poverty reduction in Africa. This argument, in a way, questions the adequacy of PRSPs as instruments for development in Africa (see also ZACK-WILLIAMS and MOHAN, 2005).

4 Conclusions

The neoliberal approach, on which SAPs were purely founded, while theoretically sound, was fraught with pitfalls and failures to effectively address challenges to economic development in Africa. It is most doubtful that a development strategy which is purely designed along this approach can be effective in addressing the poverty and under-development prevalent in the region. Markets and the private sector have to develop to a level where they not only meet the necessary, but also sufficient conditions for development in Africa.

Institutions play a key role in directing and fostering development. For example STEIN (1994) argues that SAPs, as promoted by the WB and the IMF as a result of their neoclassical roots, were basically a-institutional and therefore ill-equipped to promote

market and institutional development in Africa. The assumptions of 'state abstinence' underlying the models based on neoliberalism were generally not fulfilled in the African context. Furthermore, while SAPs continued to emphasise the benefits of unimpeded markets for all societies, they also demonstrated a lack of understanding of how particular markets work and how culture and habits of thought shape 'African markets' to operate differently from 'Western markets'. The then President of the WB admitted that the WB had ignored the basic institutional infrastructure, without which a market economy simply cannot function – thus, "the World Bank has been consistently surprised by cases in which people do not respond to incentives in the predicted manner, when an understanding of local institutions would reveal these responses to be quite consistent with local culture and habits." (WOLFENSOHN, 1998: x).

A model of institutional development, when understood in the broader context of property rights, rules and financial institutions; prices and markets; firms and industrial organisations; and market organisation and functions, requires that states need to be encouraged to play a vital role in their support and development. Yet one of the critical preconditions for this model to work effectively is for 'good governance' mechanisms to be built-in in state functions and operations from the outset, recognising that the state is a critical player in a country's economic development endeavours. Whereas corruption, rent seeking and inefficiencies tended to thrive in privatisation processes (see CALLAGHY, 1986, and KLITGAARD, 1990, for some examples of how government officials are able to co-opt aid programmes for their own purposes), the focus now should be more on reform and transformation rather than the wholesale abandonment of the concept of intervention, which was embedded in the SAP approach (see also Hoeffler in this issue for more details). The debate over the direction of policy in Africa needs to be based on understanding the institutions, and their needs and potentials for development.

It is apparent that for SAPs and their derivatives to be effective in leveraging development in Africa, the respective states would need to build up and strengthen capacities and institutions (broadly defined) to promote reform. More crucially, the issue in the political economy for successful adjustment should not be to reduce the role of the state in the naive hope that markets will develop to take its place, but to restructure its activities so that it becomes a facilitator of, rather than an obstacle to, development (BROMLEY, 1995). For example, where inadequate competition exists, governments will have to intervene in the market; where food insecurity exists, they will have to do more than simply "get prices right" to get farmers to increase output. All of this geared towards productive independence. East Asian countries have employed a combination of guarantees, credit flows, subsidies, ownership and discipline to encourage movement up the technological ladder. However, liberalisation there only occurred after firms were already competitive (CARMODY, 1998).

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