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AGRICULTURAL COMPETITIVENESS: MARKET FORCES AND POLICY CHOICE

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*The Macroeconomics of Adjustment in
Sub-Saharan Countries: Results and Lessons*

After a prolonged period of economic stagnation, many African countries committed themselves in the mid-1980s to a series of structural reforms and adjustment policies aimed at restoring economic growth. Now, almost a decade into adjustment, Africa's economic climate still remains unclear and uncertain, with the overall results modest relative to original expectations.

Although some countries have enjoyed a resurgence of growth, the economic performance of the region as a whole has been disappointing, raising troubling questions about the extent and efficacy of policy reform efforts. Previous studies of structural adjustment have focused on cross-sectional and aggregate performance of a group of countries that have taken adjustment loans from the World Bank and the IMF. Few empirical studies have actually measured the extent to which policies have, in fact, been implemented by the countries themselves and then related changes in policies to subsequent economic performance.

To fill this gap, a recent World Bank study (Husain and Faruquee, 1994a) examined in depth how much adjustment has taken place and how successful it has been in African countries. This Africa Adjustment Study (AAS) compares the policies and performance of 29 sub-Saharan African countries during two periods: from 1981 to 1986, when most African countries were in economic crisis, and from 1987 to 1991, when these countries adopted structural adjustment programmes. The analysis was supplemented by case studies of seven countries, Burundi, Côte d'Ivoire, Ghana, Kenya, Nigeria, Senegal and Tanzania, which undertook adjustment programmes during the mid-1980s (Husain and Faruquee, 1994b). The period covered by these case studies ends, for most countries, in 1991. The countries were chosen to capture a variety of characteristics and initial conditions. In all seven countries, adjustment programmes addressed such distortions as an overvalued exchange rate, high current account and fiscal deficits, low factor mobility, restrictions on domestic and foreign trade, distorted pricing for tradeables and inefficient public services.

The AAS asks the question whether it is the failure of adjustment policies that has resulted in such disappointing results for Africa, or is it the failure to

*World Bank, Washington DC. The views expressed in this paper are personal and should not be attributed to the World Bank, its management or the Board of Directors. Paper presented by Kapil Kapoor.

adjust, with the countries not implementing these policies consistently and vigorously.

EXTERNAL VERSUS INTERNAL FACTORS

Before answering the question just posed, the study revisited the issue of the main contributory factor for Africa's economic decline. If the main cause of the decline is external shocks, then adjustment policies cannot be an effective answer to the problem. But if domestic policy weaknesses are the main culprit, then altering these policies should make a difference. The debate on the relative weight of the factors explaining the poor performance of sub-Saharan Africa has been going on for the past 15 years. The Berg report of 1981 argued that the domestic policy failures of African governments were mainly responsible for the continent's continuing decline, while the ECA and many other observers blamed the hostile external environment as a significant source of Africa's malaise.

The AAS acknowledges that the terms of trade decline from the early 1970s to the mid-1980s had an unfavourable influence on the economic growth of the African countries but accounted for a relatively small part (10 per cent) of Africa's decline in the growth rate. A similar result was derived by El-Farhan (undated) who applied an OLS regression model to cross-sectional data on 32 SSA countries over the period 1960–86 in order to test for various influences on GDP growth in sub-Saharan Africa. According to her study, changes in the commodity terms of trade had the expected positive sign but were not found to be significant. The strongest explanatory variable was the growth of export volume. An analysis of SSA export performance by Svedberg (1991) found terms of trade movements (up or down) to be the main influence on export earnings only in 11 out of 33 countries in 1970–85. Pickett (1990) assessed the effects on GDP growth of long-run terms of trade for a sample of 20 SSA low-income countries over the period 1966–86. In all the 20 countries he examined, the income effects of the terms of trade were negative, but in most cases the effect was quite modest.

The income loss from the decline in the terms of trade for the region (excluding Nigeria) was around 10 per cent of GDP between 1965–73 and 1987–90. Though large, the loss was spread over 20 years. Adding Nigeria to the picture reduces the 20-year loss to just 3.6 per cent of GDP or 0.2 per cent a year. The reason for such an insignificant contribution of terms of trade losses can be found in the composition of exports. In terms of the composition of Africa's exports, there are three major commodity groups that account for the bulk of the exports: oil and gas (40–45 per cent), metals and minerals (20–25 per cent) and agriculture (20–25 per cent). At this disaggregated level, the impact of the terms of trade has been uneven and not necessarily in the same direction for oil exporters, mineral exporters and agriculture exporters. Between 1970 and 1990, oil exporters enjoyed improvements of more than 100 per cent, while mineral exporters were hardest hit, their terms of trade falling by around 50 per cent. Agriculture exports suffered a decline of 34 per cent, and the more diversified exports 30 per cent. Thus, at an aggregate level, the

picture for the whole of sub-Saharan Africa does not look as dismal as at the individual country level because the positive movements in one commodity group neutralize the negative movements of the other groups.

At country level, the situation is more differentiated. Several countries which derive their export revenues from coffee, cocoa and copper, whose prices were severely depressed over the decade of the 1980s and whose real prices had, in fact, dropped to historically low levels in the second half of the 1980s, were badly hurt. The AAS, therefore, concluded that poor economic policies played a bigger role in explaining economic decline except in a few cases. The task of adjustment was, however, made more difficult by larger terms of trade decline recorded in the period 1986–91. The outcomes would have been much more positive if the commodity prices had not fallen so precipitously, debt burden had been reduced and Southern Africa had not faced a terrible drought.

THE EXTENT OF POLICY REFORMS

The major contribution of the AAS was a careful measurement of the extent to which six sets of policy reforms (macroeconomic, trade, agriculture, public enterprise, financial sector and public-sector management) were implemented in the 29 countries in the period 1986–91.

- Constructing an index of macroeconomic policy reforms for each country by using changes in inflation, exchange rate and fiscal policy in the pre-adjustment and adjustment period, it was found that only six countries had recorded a large improvement in macroeconomic policies, nine a small improvement and 11 a deterioration. Taken as a whole, countries in the Communauté financière d’Afrique (CFA) zone were the ones that had seen a deterioration in their policies.
- Many countries have substantially reduced the number of imports subject to non-tariff barriers and have begun to rationalize the tariff structure to encourage greater efficiency. Most of the countries with a flexible exchange rate have moved to more automatic systems of granting foreign exchange licences.
- Two-thirds of the adjusting countries are taxing their farmers less. Despite huge declines in real export prices, policy changes increased real producer prices for agricultural exporters in 10 countries. Of the 15 governments that had major restrictions on the private purchase, distribution and sale of major food crops before adjustment, 13 have withdrawn from marketing almost completely.
- Less progress has been made in public-sector reform. The pace of privatization has been slow, with African governments selling off only a small portion of their assets. Financial flows to public enterprises are still high, and overall performance has not improved. One encouraging trend, however, is that governments have stopped expanding their public enterprise sectors.
- In the financial sector, there has been progress in rationalizing real interest rates and in increasing private-sector ownership in commercial

- banks. Efforts to restructure and recapitalize banks have been less successful, however, as banks have continued to lend to unhealthy public enterprises, undermining the sustainability of the restructuring efforts.
- Civil service reform, which was the main plank of public-sector management reforms, has not made much headway in improving the efficiency and productivity of the civil service, and retrenchments and reduction in the size of the force have been carried out in only a few countries.

To sum up, progress has been satisfactory in the areas of macroeconomic reforms, trade policy and agriculture pricing and marketing. 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.

As regards public enterprises, the financial sector and public-sector management, there have been few policy changes. African governments have sold off or liquidated only a small share of their assets. Financial flows to public enterprises are still high but there has not been any sustainable improvement in their efficiency. The financial sector is still heavily burdened by public-sector demands for credit crowding out the private sector. Civil service efficiency and productivity have not shown any perceptible improvement.

The study found that, despite these efforts to improve the macroeconomic environment, open up markets and strengthen the incentives for production and exports, 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. The credibility of these policies has not yet been established, the ownership and political commitment is just beginning to emerge and fiscal stability is still fragile.

RESULTS OF POLICY REFORMS

The results of the study show that those countries which have pursued adjustment programmes in a consistent and sustained manner have shown positive results in terms of resurgence of growth (Husain, 1994). Yet it is equally clear that many structural reforms have yet to take place; consequently, economic recovery is still fragile and economic growth rates are still insufficient to make any progress in poverty alleviation.

The group of countries that instituted the most extensive macroeconomic reform policies between 1981–6 and 1987–91 enjoyed a median increase of GDP per capita growth of almost two percentage points. By contrast, countries that did not improve their policies saw their median GDP growth decline by 2.6 per cent. A similar pattern is evident for export and industrial growth (Figure 1). As for agriculture, countries that taxed their major export crops less experienced a jump of two percentage points in the growth of total agricultural value-added, while countries that penalized their farmers more saw agricultural growth rates fall by 1.6 percentage points.

To the extent that macroeconomic policies matter (and they do) getting the exchange rate right is one of the top priorities for short-term growth. Countries that significantly reduced the black market premium (by devaluing) and adopted realistic macroeconomics policies enjoyed the biggest pay-offs (for example, Ghana, Nigeria and Tanzania). Countries that brought about a real depreciation of 40 per cent or more between 1981–6 and 1987–91 (all of them with flexible exchange rates) had a median increase in GDP per capita growth of 2.3 percentage points (for example, The Gambia, Mauritania and Sierra Leone). Countries that had appreciations (all of them with fixed exchange rates) suffered a median decline of 1.7 percentage points (for example, Cameroon, Côte d'Ivoire and Gabon).

There were pay-offs not only to improving policies, but also to maintaining good policies. Countries assessed as having adequate or fair macroeconomic policies had a median rate of GDP per capita growth of 0.4 per cent a year during 1987–91 – low, but at least positive. By contrast, in countries ranked as having poor or very poor macroeconomic policies, median GDP per capita growth fell by 2.1 percentage points a year on average. The extent of government intervention in markets also made a difference in growth. Countries with limited intervention had median GDP per capita growth of almost 2 per cent during 1987–91, compared with declines of more than 1 per cent for the countries which intervened more extensively.

These countries' economic policies have continued to evolve, of course, since the study was completed. The recent devaluation in the CFA franc zone countries provides a unique opportunity for a rapid and appreciable rebound in growth. Success, however, largely depends on whether (1) the devaluation is accompanied by supporting fiscal and credit policies to ensure that it is not eroded by large increases in domestic prices, and (2) the benefits of the higher prices for tradeable goods are passed along to agriculture producers, so that exports can become a dynamic factor and energize growth. Other countries have also taken steps to improve their macroeconomic policies since 1991, notably Mauritania, Mozambique, Sierra Leone, Uganda and Zambia. But policies have worsened in Burundi and Nigeria, while Kenya has exhibited both backsliding and improvement.

The above results represent the average or median tendencies of a large and heterogeneous group of SSA countries. The case studies of seven countries were used to explore, in depth, five questions that are raised most frequently in connection with adjustment programmes. How far have these countries come in reforming their policies and what pay-offs have they earned by implementing these reforms? To assess the extent of reform, and the associated outcomes, the study looked at the five questions that are raised most frequently in connection with adjustment programmes: Has growth been adequate? Has the supply response been strong? Do investment to GDP ratios show improvement? What role has been played by external financial flows? And have adjustment policies hurt the poor?

Higher growth

All the countries studied, except for Côte d'Ivoire, experienced positive per capita GDP growth during the adjustment period 1986–91. The average growth rate of the six countries over the adjustment period was 4.5 per cent a year, representing a strong improvement compared to an average growth rate of 1 per cent in the preceding period.

Burundi and Kenya, which had fairly good initial conditions, maintained their previous growth rates. The biggest turnarounds during 1986–91 were registered in Nigeria, Ghana and Tanzania. Even Senegal registered a small turnaround in growth despite the handicap of an overvalued exchange rate. Côte d'Ivoire, which once had an impressive growth rate, could not revert to its pre-crisis rate primarily because of its exchange rate problems (see Figure 1). A large devaluation of the CFA franc took place in January 1994, removing one of the principal obstacles to the full interplay of policy instruments required for adjustment in CFA franc zone countries. It is hoped that Côte d'Ivoire and Senegal, which have been adversely affected by the overvaluation of the CFA franc since 1985, will enter a new period of adjustment.

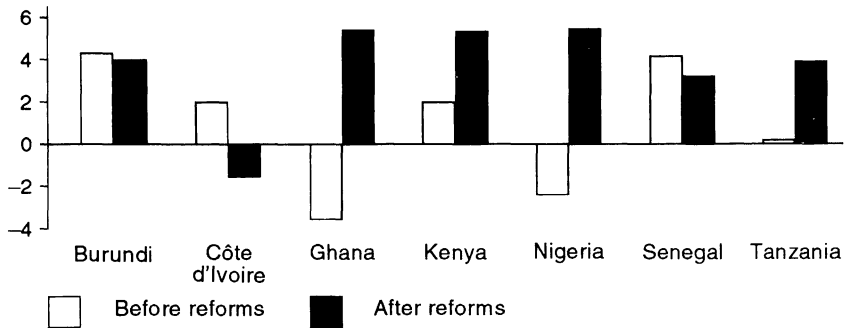


FIGURE 1 Real GDP growth rate

Source: Africa adjustment case studies.

Supply response

The most important contributor to domestic supply and output in the region is the agricultural sector, followed by the export sector, which relies heavily on the agricultural commodities, mining and petroleum.

Agricultural sector All seven countries showed significant output increases, a trend corroborated by evidence on prices, food imports and food production. The index of per capita food production rose in almost all countries (see Figure 2) the exception is Tanzania, where the data are inconsistent: food imports and

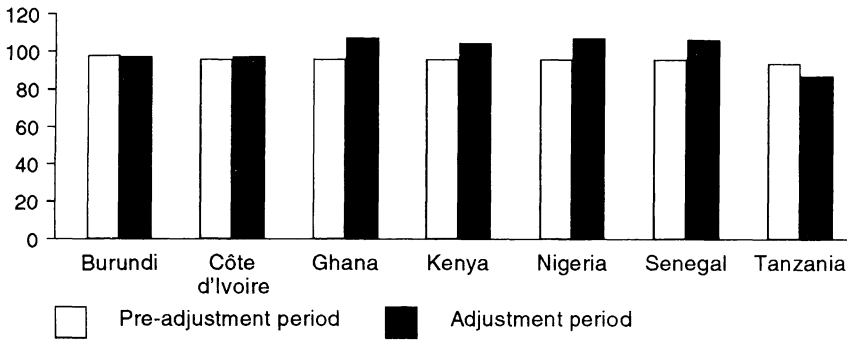


FIGURE 2 *Food production per capita (index average 1979–81 = 100).*

Source: Africa adjustment case studies.

food prices both show a decline. In Burundi, per capita food production seems to have stagnated, but at least kept pace with the population growth rate during the 1980s. Food prices in real terms declined in Nigeria. Average food imports declined by 30 per cent to 60 per cent in Burundi, Kenya, Nigeria and Tanzania, and remained the same in Côte d'Ivoire, Ghana and Senegal. The volume of cash crop exports grew rapidly in Burundi, Ghana, Nigeria, Senegal, and Tanzania, but declined in Côte d'Ivoire. New non-traditional agricultural exports have emerged in almost every country in this group, although the amounts are still modest.

Export sector Another good indicator of the supply response is the behaviour of total exports. The most consistent finding that emerges from this study (which is corroborated by other studies) is that export growth has been remarkably high despite declines in terms of trade: exports have not only recovered from the crisis period but have also surpassed their pre-crisis level (see Figure 3).

The country case studies also investigated whether there was any diversification in exports from traditional commodities. Oil still dominates Nigerian exports, and even the anecdotal evidence on Nigerian unofficial exports of manufactured goods to neighbouring countries is fragmentary, preventing any definite conclusion. But, unlike the situation in the early 1980s, Nigerian goods are now competing with other imports in the West African markets. Despite a sharp fall in cocoa prices in the world market, Ghana has more than doubled its exports in the past seven years, with gold replacing cocoa as the number one export. Today, at least 20 per cent of Ghana's export earnings come from products other than cocoa, gold and timber, compared with 8 per cent a decade ago. Tanzania shows the largest documented rise in non-traditional exports; its unrecorded exports are estimated at about \$400–500 million a year. Côte d'Ivoire, Kenya and Senegal have export bases that are among the most diversified in Africa, but changes during adjustment have been minor and

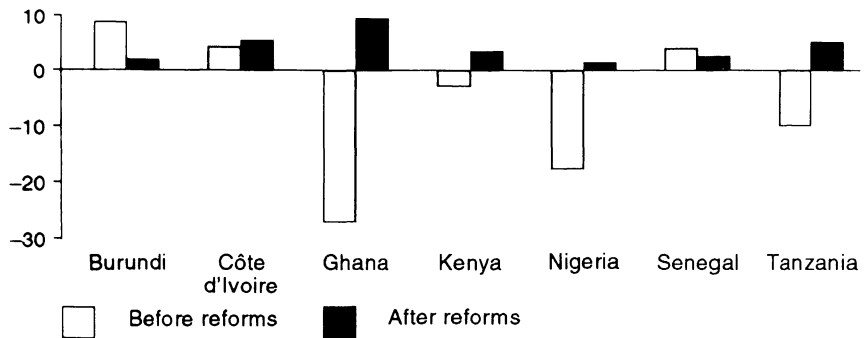


FIGURE 3 *Export growth rate (volume)*

Source: Africa adjustment case studies.

show no persistent trend. Burundi is the only country among the seven to show continuing heavy reliance on coffee; its diversification efforts hitherto have been negligible.

Investment responds slowly

Despite increased inflows of foreign savings, public investment has often fallen or remained static in relation to GDP, recovering to pre-crisis levels only in Ghana and Tanzania (see Figure 4). The conditions needed to encourage private investors have generally been lacking, so this slow response is understandable. In the short run, the slowdown in public investment – in an attempt

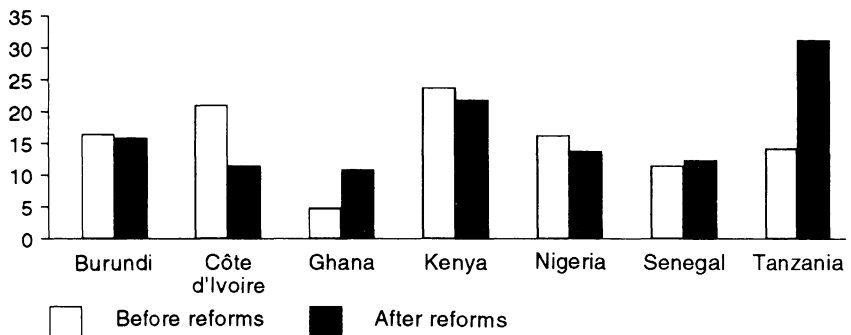


FIGURE 4 *Investment/GDP*

Source: Africa adjustment case studies.

to reduce budget deficits and to cut uneconomic projects – without a compensating rise in private investment, would result in depressing overall investment ratios.

The relatively low investment rate is not a major obstacle to restoring growth in the short term as long as the efficiency of investment compensates for the low levels. After all, despite much higher pre-crisis investment rates, these countries did not grow faster because of the poor quality of the investments. ‘White elephant’ projects, inflated contracts, flight capital and other associated ills became rampant before, and eventually contributed to, the crisis in each case. A major aim of adjustment programmes, therefore, has been to weed out these undesirable investments (particularly in the public sector) and to improve overall efficiency. Indeed, roughly similar investment ratios generated one percentage point of annual growth in the crisis period but close to five percentage points in the adjustment period.

A crucial issue is how long it will be before private investment will pick up the slack caused by this slowdown in public investment. The evidence so far is not reassuring. Domestic investors have been deterred in the short run by changes taking place as a result of restrictive monetary policies, high interest rates, devaluations (which increase the cost of imported inputs) and trade liberalization. Foreign investors appear yet to be convinced that African economies offer good investment prospects. The country studies confirm the vital importance of the stability, continuity and credibility of policies for providing the appropriate signals to domestic and foreign investors. Of the seven countries, Ghana and, until recently, Kenya came closest to meeting this objective, but could have achieved more. If the Ghanaian authorities’ general attitude towards the private sector in the past had been less ambivalent, Ghana no doubt would have seen a greater revival of private investment. In Kenya, the lack of transparent policies and the general perception of poor governance discouraged potential investors, even though Kenya had a more stable economic environment than other countries in this sample.

External flows

The three main mechanisms through which the external economic environment affects African countries are the terms of trade, the debt-servicing burden, and external resource transfers. Six of the seven countries studied had a decline in the terms of trade during the adjustment period, both in absolute terms and also relative to the pre-adjustment period. How far was this decline in external income offset by net external transfers (aid flows, debt-servicing relief and accumulation of arrears) during the period of adjustment relative to the earlier period? Tanzania was by far the largest beneficiary of positive net external transfers that not only wiped out the terms-of-trade losses but resulted in a significant increase in net external flows. Burundi, Ghana and Kenya were able to neutralize the terms-of-trade losses and had some modest overall gain. Nigeria suffered the most through terms-of-trade losses compounded by net negative transfers. Côte d’Ivoire and Senegal also incurred net declines in external flows.

The central question is how much of the renewed growth of the adjusting countries can be ascribed to external factors such as aid and terms of trade changes, and how much to policy reform. The case studies reached the following conclusions:

- Nigeria has done much better despite terms of trade losses and net negative flows of external resources. Since net resource transfers from Nigeria to its external creditors equalled about 5 per cent of its GDP every year, its growth could have been even higher if it were not so heavily burdened with debt.
- Côte d'Ivoire has been hurt by terms of trade losses and a relative decline in external flows, as well as by poor policies. Côte d'Ivoire is also severely indebted but has avoided a cash flow crisis by not paying all its creditors and by accumulating arrears. It is hoped that this situation will change because of the 1994 devaluation of the CFA franc and the accompanying measures.
- Burundi, Ghana, Kenya (until recently) and Senegal are among a select group of African countries that are fully servicing their debt, though all four have been hurt by terms of trade losses. The gross flows appear large in each one of these but, when they are adjusted for the debt service paid and terms of trade losses, the 'net external resource availability' indicator does not appear large. Kenya's growth record reflects some positive impact of adjustment. Clearly, Ghana's growth turnaround was due far more to better policies than to the other changes.
- Tanzania's growth can be attributed to factors other than aid. Generally perceived as highly dependent on external donors, Tanzania has received very large sums of aid historically. But once debt-servicing and terms of trade losses are accounted for, the real external resource flows to Tanzania during its adjustment are no different in absolute terms from those during its crisis. However, this high level of external assistance is clearly not sustainable in the long run. Tanzania has to mobilize a larger volume of domestic savings through improved management of public finances and financial intermediation. External resources can fill in the gaps but temporarily, and then only to a limited extent.

Adjustment and the poor

While the early generation of adjustment programmes might not have explicitly addressed the consequences of reform on the poor, the subsequent awareness of these issues has changed the approach of adjustment efforts. An important finding of the study is that adjustment has generally improved the welfare of the rural poor while most likely hurting the urban poor. More disturbing, however, is the fact that the growth attained thus far as a result of adjustment policies is still not enough to reduce the incidence of poverty. Unless growth rates are accelerated to an annual average of 6–7 per cent, the prospects for poverty alleviation in Africa are likely to remain dim.

Rural poor In all seven countries, the majority of the poor who live in the rural areas are smallholders and self-employed, and derive their incomes from producing and marketing both food and export crops. Because six of the countries (Côte d'Ivoire in the second half of the 1980s is an exception) had an improvement in the rural terms of trade (as a result of devaluation, liberalized marketing, higher producer prices and lower taxes) the rural poor appear to have benefited from real income gains over an extended period. Export crop producers, and particularly non-traditional export crop producers, have gained more than other agricultural producers. Real food prices to farmers have declined in many countries, but the marketed output has increased, replacing food imports in many cases. The real income gains to food producers have varied. Producers in Ghana, Nigeria and Tanzania seem to have benefited the most. Burundi and Kenya have been self-sufficient in food and, therefore, the food crop farmers there have not gained much. The situation in Côte d'Ivoire and Senegal is still unclear.

Urban poor The impact on the urban poor has been mixed. In Ghana and Tanzania, the urban poor have been better off since adjustment. As consumer goods have become available, real food prices have declined and informal sector activities have expanded. To the extent that the urban poor were buying their essential goods (including food) on the black market before adjustment, there has been no change in the welfare of this group. In Côte d'Ivoire and Senegal the urban poor were worse off. This would also seem to be the case for the unemployed, fixed-income earners and minimum wage earners in Nigeria. Because there are no data on Burundi and Kenya, it is unclear whether the real incomes of the urban poor in those countries have worsened or improved.

LESSONS LEARNT

Why have some countries among the adjusters been more successful than others facing identical circumstances and similar constraints? It would be foolhardy to make generalizations, but there is sufficient accumulated evidence to suggest a few answers. First, the 'ownership' and 'commitment' of the government and the population of the country to the programme, including the willingness to sustain the policies in the face of pains and transitional costs, are positively related to the successful outcomes. Any amount of outside interference, coercing or coaxing by foreign donors and international financial institutions will not help in the absence of internal consensus. A number of countries have not fully committed themselves to reforms and have adopted a stop-go stance. This half-hearted and haphazard implementation of reforms, without having arrived at a broad internal consensus, is not likely to create any positive durable effects. Adjustment programmes should be owned by the adopting government and not perceived to be imposed by outsiders. Adjustment programmes usually involve 'up-front' costs to many groups in society and the benefits usually take time to emerge. This complicates the tasks of many governments in securing a domestic constituency.

But to be effective, reforms must be followed through and sustained despite the short-term transitional costs they impose upon some vocal segments of the society. Reversing or switching gears in mid-stream also reduces the credibility of subsequent adjustment efforts. The lack of credibility and continuity in government policies has been more harmful than if adjustment policies had not been put in place in the first instance, as uncertainty among economic agents and investors paralyses the initiation of new economic activity.

Second, achieving macroeconomic stability, that is avoiding overvalued exchange rates and keeping inflation and budget deficits low is essential for reviving growth and attracting investment. Progress in maintaining realistic exchange rates has been satisfactory, but 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. More needs to be done to increase savings. Eliminating large negative real interest rates is an important step; however, given the difficulty of obtaining rapid growth in private savings, raising public saving is the best option in the short run.

Third, adjustment policies, if effectively implemented, are a necessary but not sufficient condition for accelerated growth. Growth in Africa requires the same incentives for efficiency and productivity growth as elsewhere, though special support is required for the development of human resources and strengthening of institutions. The level and efficiency of investment and changes in institutions and administrative capacity should improve substantially, either accompanying or closely following the policy changes. Equally true, investment projects will yield poor results if the policy climate is highly distorted. The interaction between an undistorted policy regime and successful investment projects is an important lesson. In countries where macroeconomic stability has been achieved, supply response will occur if investment levels are raised, composition of investment is rightly targeted and efficiency of investment is improved.

Fourth, discrimination against the agriculture sector is inimical to both growth and poverty alleviation. Although implicit and explicit taxation of farmers has been reduced in a large number of countries, the scope for continuing reforms in this sector is still large. Liberalizing pricing and marketing of export and food crops has not made headway in several countries. In many cases there is no clear rationale for agricultural marketing parastatals, and they can be eliminated as barriers to private-sector entry are removed. These reforms can help farmers reap the full benefit of the exchange rate depreciations, the additional earnings from which might otherwise be used to shore up the financial position of parastatals. The rising incomes in the rural sector can provide a durable basis for industrial growth.

Fifth, export promotion has not been given sufficient attention as yet. Countries should seek to remove unnecessary policy and administrative impediments that hinder export competition. Providing exporters with automatic access to imported foreign exchange, eliminating export monopolies and facilitating access to intermediate inputs and capital goods would reduce bias against exporters. Direct government promotion of particular exports or exporters is

not indicated, given the difficulty of insulating technocratic decisions from political considerations.

Sixth, the enabling environment for private-sector development is not yet in place in many adjusting countries. Preferential treatment for parastatals, labour market rigidities, regulatory barriers, financial sector inefficiencies and the hostile attitude of the governments towards private profit maximization have not changed significantly. The credibility and continuity of macroeconomic policies are seriously questioned and therefore do not provide much comfort to prospective investors.

Seventh, and most important, protecting the poor in the transitional stages of the reform process should be an explicit objective of the adjustment programme. Improvements in macroeconomics and agricultural sector policies in sub-Saharan African countries should help to foster a more broadly based labour-intensive pattern of growth beneficial to the poor, the vast majority of whom live in the rural sector. However, reforms that have improved producer incentives have sometimes had negative consequences for those consumers who benefited from food subsidies and cheap imported foodstuffs. While evidence of these studies is limited, indications are that subsidized foodstuffs were often highly rationed and did not extend to the poor, limiting the potentially harmful impact of these reforms.

Eighth, Africa needs debt stock reduction. As countries adopt better policies, the debt overhang is likely to deter private investment. Further, 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. Even the proposed debt relief strategies under consideration would leave some countries with an unsustainable debt burden. Instead, the focus should be on reducing the stock of debt to sustainable levels for countries that are undertaking comprehensive and sustained policy reform programmes, even if that means differences in treatment across countries.

UNRESOLVED ISSUES

The progress made so far has been uneven and mixed, but the future agenda is even more difficult owing to the existence of several unresolved issues. There are a number of concerns that characterize the future course of adjustment programmes, a number of trade-offs and difficult choices that need to be made by the governments, several tensions that need to be defused and, therefore, a whole host of challenges that have to be faced. There are at least four tough challenges that involve these trade-offs and choices.

The first and most formidable challenge is to have the respective roles of the state and private sector clearly defined and demarcated, not left ambiguous, as before. There is a need to strengthen the role of the government in Africa to carry out the basic functions of maintaining social harmony, political cohesion, security of life and property, and macroeconomic stability. The state apparatus has, by and large, become weak and ineffective as it has neglected these core functions which no one else can perform, and has assumed responsibilities for

production, distribution and trading in goods and service which the private sector can do much better.

The propensity among African governments to guide resource allocation with administrative measures rather than leave it to market mechanisms is still much stronger and politically attractive, despite the evidence that the results of direct government allocations have been dismal in most African countries. As Herbst (1990) argues, overvalued exchange rates, excessive state intervention and inefficient parastatal companies were not irrational 'distortions' for those who were intent on staying in power, only for the development of the population as a whole. Direct state intervention is used to enable resources to flow to constituencies important to the politicians' continuing in office. There is not much evidence, as yet, that this propensity has been checked or is on the decline.

The recent debate about the causes of the success of the East Asian countries has renewed the call by a group of intellectuals and NGOs for greater government interventions in directing credit, subsidies and foreign exchange in promoting industrial development. The misery and failure this strategy has caused during the last 25 years do not seem to have sunk in. This tension between the direct role of the state and the indirect and supportive role in the allocation of resources remains a thorny issue.

The second challenge, related to the first, is to develop better administrative and institutional capacity in order to deliver essential social services, maintain and operate infrastructure facilities, protect the environment and alleviate poverty. A greater participation by the other segments of the civil society will be of considerable help in achieving this objective. Civil service reform undertaken in several African countries for fiscal and budgetary reasons has not yet enhanced the productivity or efficiency of the civil service in discharging the important functions assigned to it. The dilemma facing the countries is how to trim the civil service while, at the same time, improving the incentives and motivation for them to perform better.

The third challenge is to resolve the tension between the fear of domination by ethnic minorities and the urge to attract new private investment for expanding the productive base, creating job opportunities and reducing dependence on external official aid. Other developing countries have successfully resolved this tension and Africa should be able to find some politically viable and economically feasible solutions. In several non-African countries, the first thing that has been done is to remove the barriers for entry to newcomers, enforce a hard budget constraint and create a 'level playing field' for private and public firms. But in Africa, implicit subsidies and differential privileges for public enterprises have been maintained to protect employment. A choice is to be made as to whether these enterprises should be restructured or shut down if they cannot compete with private firms in the same sector of activity. On the other hand, private firms will not become profitable and, hence, not invest unless the preferred treatment of public enterprises ceases to exist.

Fourth, the quality of growth, that is, broad-based equitable growth, will very much depend on whether the governments are able to allocate scarce public resources increasingly to appease a small privileged group of the population that benefit from the rent-seeking opportunities and contacts with the

political and bureaucratic leadership, or redirect these resources to a much larger segment of the poor, for primary education and small and micro enterprises. The powerful lobby groups, such as university students or trade unions, who benefit from the existing pattern of allocation of government expenditures (stipends and subsidies to public enterprises) can, in fact, destabilize the governments if their perceived interests are hurt. On the other hand, the likely beneficiaries of the pro-poor expenditure pattern will emerge in the next generation and not in the present period.

CONCLUSIONS

Despite satisfactory performance on the part of several intensely committed adjusting countries, and particularly successful results in agriculture and food production, it must be conceded that the overall results of adjustment achieved so far have been modest relative to original expectations. Adjustment has not yet succeeded in raising the rate of growth to levels needed to make major inroads into poverty. Across the region, economic recovery is still fragile, although there is a great deal of variation in outcomes. Currency depreciation and inflationary pressures have not yet been fully subdued in several countries, owing to persistence of underlying expansionary fiscal and monetary policies. Many countries still rely exclusively on external grants and concessional financing to close their fiscal gaps. Per capita consumption remains stagnant and private investment has not yet revived. Unemployment rates, particularly in urban areas, are still high and poverty is on the rise. When there is civil strife, adjustment has, of course, not worked.

There is a general consensus that consistent and unfettered implementation of adjustment policies and attainment of macroeconomic stability do improve the outlook for growth in these countries. However, the record of implementation is mixed and uneven in Africa. Adjustment is necessary even if it is bound to work slowly. But for it to work at all depends upon strong commitment by the leadership of the countries to sustain reform policies in the face of adverse and harsh external circumstances and domestic political pressures.

What is less clear, and thus provokes substantial controversy, is the speed, timing and sequencing of various components of adjustment programmes. As each reform has a differential impact on the various segments of the population, creating winners and losers, the process of mediating among these conflicting claims is highly political. No technocratic solutions or 'quick fixes' can be found to provide satisfactory solutions. No amount of external assistance can help in this process. Consensus building and open communication, consultations and debate among the various groups and reaching compromises will bring about durable results. But in practice this path has proved difficult.

It is equally clear that adjustment policies, even when they are put in place after reaching internal consensus, will not be able, by themselves, to lift African countries out of poverty. The agenda of policy reforms should be considered as part of the broader long-term development strategy of each country. This strategy should aim, not only to change policies, but also to improve investment in human resources and physical infrastructure, accelerate

opportunities for development of the private sector, enhance the quality of governance, strengthen institutional capacity and, most importantly, maintain national solidarity and social cohesion.

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