Results of Adjustment in Africa: Selected Cases

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SUB-SAHARAN Africa's economic decline, although modestly reversed in some countries, is deeply worrying. A World Bank case study of seven countries pinpoints the need for consistent and unfettered implementation of reform policies, along with investments in infrastructure and human resources, to lift these countries out of poverty.

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. (See "Africa's Quest for Prosperity: Has Adjustment Helped?" in this issue.) 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 examined in depth seven countries—Burundi, Côte d'Ivoire, Ghana, Kenya, Nigeria, Senegal, and Tanzania—that undertook adjustment programs during the mid-1980s. 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 programs 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 tradables, and inefficient public services.

How far have these countries come in reforming their policies? To assess the extent of reform, the study looked at the five questions that are raised most frequently in connection with adjustment programs: 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?

The results of this study confirm the findings of the main World Bank Report *Adjustment in Africa: Reforms, Results, and the Road Ahead.* Those countries that have pursued adjustment programs in a consistent and sustained manner, such as Ghana and Tanzania, have shown positive results in terms of a resurgence in growth. But 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 dent in poverty alleviation.

Higher growth

All the countries studied, except for Côte d'Ivoire, had 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 percent a year—a strong improvement compared with an average growth rate of 1 percent during the crisis (1981–86).

Burundi and Kenya, which had fairly good initial conditions, maintained their previous growth rates. The biggest turnarounds during 1986–91 were registered in Nigeria (8 percentage points), Ghana (8.8 percentage points), and Tanzania (4 percentage points). 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 return to its pre-crisis rate primarily because of its exchange rate problems (see Chart 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 into a new period of higher growth.

Supply response

The most important contributor to domestic supply and output in the region is the agri-

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Africa after adjustment

Chart 1
Real average annual GDP growth rate

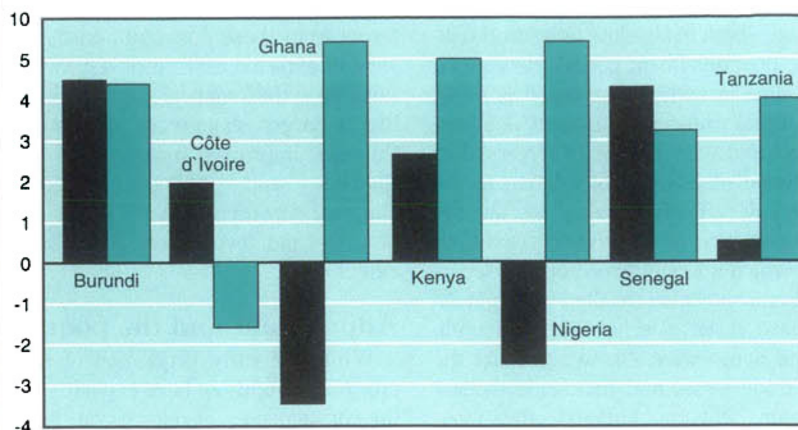


Chart 2
Export growth

Annual average growth rate

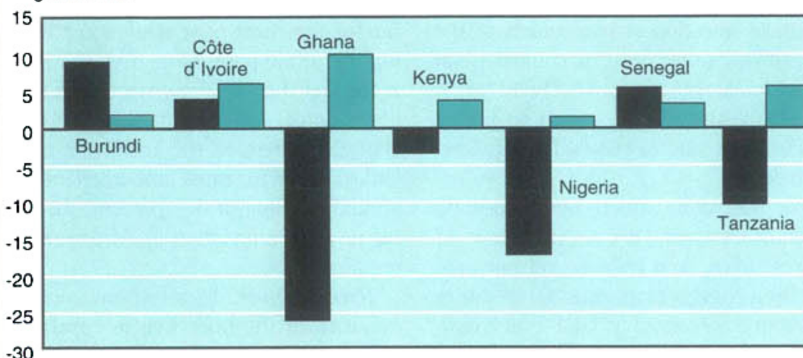
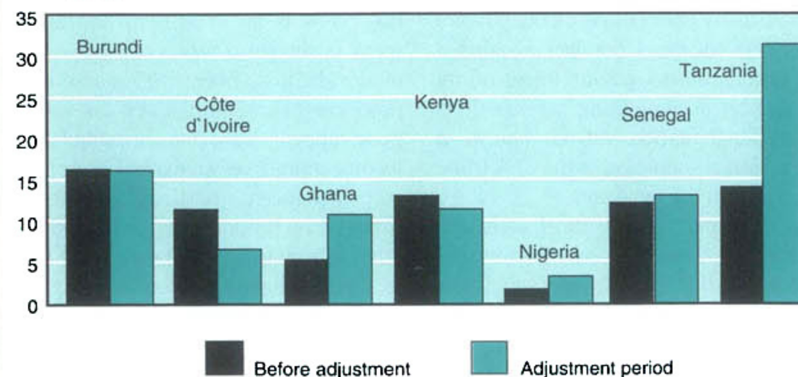


Chart 3
Investment

Ratio of investment to GDP



■ Before adjustment ■ Adjustment period

	Before adjustment	Adjustment period
Burundi and Nigeria	1980-85	1986-91
Tanzania	1981-85	1986-91
Côte d'Ivoire	1981-86	1987-91
Kenya	1980-84	1985-91
Senegal	1982-85	1986-91
Ghana	1979-83	1983-91

Source: World Bank.

cultural sector, followed by the export sector, which relies heavily on 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 except Tanzania, where the data are inconsistent—food imports and 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 30–60 percent 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 nontraditional 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 behavior 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 Chart 2).

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 neighboring countries is fragmentary, preventing any definite conclusion. But unlike 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 exports replacing cocoa as the number one export. Today, at least 20 percent of Ghana's export earnings come from products other than cocoa, gold, and timber, compared with 8 percent a decade ago. Tanzania shows the largest documented rise in nontraditional 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 show no persistent trend. Burundi is the only country among the seven to show continuing heavy reliance on coffee; its diversification efforts, though started, have been negligible.

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Investment responds slowly

Despite increased inflows of foreign savings, public investment has fallen in relation to GDP in all seven countries, recovering to pre-crisis levels only in Tanzania (see Chart 3). 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 to reduce budget deficits and cut uneconomic projects) is bound to depress the overall investment ratios unless there is a compensating rise in private investment.

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 programs, 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 1 percentage point of annual growth in the crisis period but close to 5 percentage points in the adjustment period.

A crucial issue is how long it will be before private investment picks 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 have yet to be convinced that African economies offer good investment prospects. 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 toward 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 principal mechanisms through which the external economic environment affects African countries are (1) the terms of trade, (2) the debt-service burden, and (3) 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 relative to the pre-adjustment period. How much of this decline in external income was 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, which not only wiped out the terms of trade losses but also 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 (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. And because net resource transfers from Nigeria to its external creditors equaled about 5 percent of its GDP every year, its growth would have been higher if it had not been 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 crunch by not paying (most of) its creditors and by accumulating arrears. It is hoped that this situation will change as a result 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—all four have been hurt by terms of trade losses. The gross flows appear large in each one of these cases but, when they are adjusted for the debt service paid and terms of trade losses, the "net external resource availability" indicator is not 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 both during "normal" periods and during times of crisis. 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. 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 temporarily and, even then, only to a limited extent.

Adjustment and the poor

While the early generation of adjustment programs might not have explicitly addressed the consequences of reforms 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 percent, the prospects for poverty alleviation in Africa are likely to remain dim.

Rural poor. In all seven countries, the majority of the poor live in rural areas, are self-employed smallholders, 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, particularly nontraditional 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. Those 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 in these countries 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 are better off since adjustment. As consumer goods have become available,

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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) in 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 are 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 are better or worse off.

Chance for progress?

The implementation of adjustment policies in these countries has been uneven, mixed, and intermittent. A straightforward comparison of policy progress and turnaround in per capita GDP growth shows that Ghana, Kenya, Nigeria, and Tanzania had positive turnarounds along with policy progress. Burundi and Senegal had moderate policy progress with a small turnaround in per capita growth. Côte d'Ivoire clearly had negative per capita growth with little policy progress and also experienced a decline in external income. Often, the short-term political costs of adjustment, especially to the privileged groups, have been enormous and have led to slippages and reversals.

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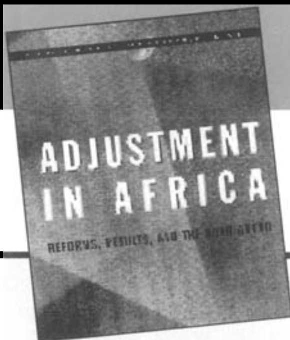
Already, since these case studies were completed, there have been significant developments in some of these countries. Côte d'Ivoire and Senegal, as part of the CFA franc zone, have significantly devalued their currency. Burundi, which was doing rather well, has witnessed a bloody *coup d'état* and the assassination of its elected president, and Nigeria has experienced macroeconomic backsliding, as the new military government abandoned its adjustment policies and reverted to its pre-1986 regime. These drastic changes in the political and economic environment have created uncertainty for some about the future direction of economic policies, but have renewed impetus for growth for others.

In sum, there is no doubt that consistent and unfettered implementation of adjustment policies will improve the outlook for growth in these countries. Adjustment is necessary, even if it is bound to work slowly. But for it to work at all depends upon the strong commitment of countries' leaders to sustain reform policies in the face of adverse and harsh external circumstances and internal pressures. It is equally clear, however, that adjustment policies, by themselves, will not be able to lift African countries out of poverty. These countries still need to improve investment in human resources and infrastructure, accelerate privatization, enhance the role of governance, strengthen institutional capacity building, and, most important, maintain national solidarity and social cohesion. ■

This article is based on Adjustment in Africa: Lessons from Country Case Studies, *edited by Ishrat Husain and Rashid Faruquee, World Bank Regional and Sectoral Studies.*



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