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Debt, adjustment and economic liberalization in Africa by E. Wayne Nafziger: review

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"Debt, Adjustment and Economic Liberalization in Africa"

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A review of the article "Debt, Adjustment, and Economic Liberalization in Africa" is imperative now that Nigeria is beset with a heavy debt burden, declining economic growth and other socio-economic and political problems. For about a decade now (1986 - 1995) since the Structural Adjustment Programme (SAP) was introduced, the country has continued to face many socio-economic and political problems ranging from a cut in government expenditure for the provision of welfare schemes to high rates of unemployment, juvenile delinquency, crimes, inflation, persistent depreciation of the naira, budget deficits, low level of investments by both indigenous and foreign entrepreneurs, capital flight, to balance of payments deficits. Thus, a review of this article on adjustment lending (AL), structural adjustment programmes (SAPs) and the role of the Bretton Woods institutions would be useful to policy makers in sub-Saharan Africa, Nigeria inclusive, in formulating and executing economic reform programmes.

In this paper, the author highlights sub-Saharan Africa's debt profile, economic growth, and the genesis and impact of SAP, citing experiences from Ghana, Zambia, Tanzania, Kenya, Senegal, and Nigeria, among other countries.

Without rescheduling, chronic external imbalances would be corrected by macro-economic stabilization and structural adjustment imposed internally or financed through external adjustment lending or sectoral policy loans. The author classified adjustment lending (AL) from the World Bank and the International Monetary Fund (IMF) into two, viz: sectoral adjustment loans (SECALS) and structural adjustment loans (SALS). World Bank's SECALS, according to him, emphasize trade, agricultural, industrial, public enterprise, financial, energy, education or other sectoral reforms, while Bank/Fund SALS support sectoral, relative price and institutional reform to improve efficiency in the overall drive to improve supply.

The author asserts that since 1979, nearly all sub-Saharan African countries have undertaken International Monetary Fund/World Bank-assisted structural adjustment programmes. However, the ratio of sub-Saharan debt to GNP was higher than for any region in the world. Also, the 1990 scheduled debt service (interest and principal payments) of the region was 22 per cent of GNP and 65 per cent of export earnings, while the actual debt service paid was 24 per cent of export earnings.

The annual real growth rate in GNP per capita in sub-Saharan African countries was virtually zero compared with positive growth in other LDCs between 1965 and 1992. Similarly, both the region's commodity terms of trade and export earnings (purchasing power) declined by 47 per cent between 1970 and 1990, while the balance on goods and services, which has been negative since 1977, exceeded 20 per cent of exports after 1987.

By 1988, 33.8 per cent of SALS and SECALS, totalling $19.9 billion of the IMF and World Bank's lending, went to the low income sub-Saharan countries. Sub-Saharan social spending and child welfare (nutrition, literacy, primary school retention, immunization, and survival) deteriorated between 1980-85 due to the World Bank/ IMF adjustment. According to the author, UNCTAD maintains that Africa's overall growth during the 1980s was only 0.4 per cent, a low rate largely influenced by the poor performance of countries with strong adjustment programmes. Moreover, the ECA's analysis of World Bank data indicated that Africa's GDP growth, investment rates, budget deficits, and debt service ratios declined after SAPs. The author believes that though price controls, exchange rate misalignments, and budget deficits contributed to Africa's crisis, the immediate liberalization of market and contraction of spending could not resolve the disequilibrium.

The problems that Fund and Bank stabilization and adjustment policies tried to resolve persisted as a result of inappropriate policy prescriptions, including inappropriate sequencing, the undue burden on the poorest segment of society, creation of a new class of nouveau riche, escalation of prices, the export trap due to uncompetitive exports and adverse terms of trade from rapid opening up of the economies of LDCs. The policies pursued by the Bretton Woods institutions fell short of those required to turn around the productive sectors in the debt-distressed economies of LDCs, especially sub-Saharan Africa. The author's criticisms of adjustment lending include insufficient coordination among recipient countries and their creditors, too much policy dominance by the Bank/Fund, neglect of both external factors, such as terms of trade, and local conditions, too little attention to poverty abatement, nutrition and education, too little consideration of how conditionality may undermine a political leadership's legitimacy, among others. Emphasis on employment, growth and maintenance of social programmes would be preferred by African policy makers, if adjustment is to be given a human face. The author thereafter suggests that:

(1) SAPs should be long-term and based on national consensus. Policy makers must rely more on national planners and local institutions for policy analysis rather than on foreign advisers and organisations.
(2) Africans must direct, as the Meiji Japanese did, their development to capture technological learning gains.
(3) Successful trade and exchange liberalization depends on the domestic ability to restrict imports and produce goods previously purchased overseas. Thus, countries must produce and intensify the export of products that will enhance

their export earnings in spite of the devaluation of the domestic currency. Ghana's cocoa export was cited as an example by the author.

The World Bank, creditor governments, and commercial banks rely on an IMF "seal of approval," usually based on borrower austerity, before arranging loans or debt write-offs. As such, the author urges African countries to strengthen and patronize independent financial centers, the UN, and other international agencies. Moreover, Africa would benefit from harnessing its own economic reforms and from Developed Countries' (DCs) loans based on the financial capacity of the borrowers, rather than on a seal of approval for national economic policy. These changes, along with DC debt write-downs, DC trade liberalization and increased foreign aid, he believes, can facilitate Africa's economic development.

While the Bank/Fund approach emphasizes the phasing out of state owned enterprises under a privatisation programme, phasing out of subsidies and rapid introduction of trade liberalization, a more logical sequence favoured by the author involves liberalization of imports of critical inputs, devaluation of domestic currency to a competitive level, promoting exports, holding foreign exchange to restore infrastructure for increased production, removing controls to achieve positive interest rates, reducing public sector deficits, liberalising other imports and abandoning external capital controls. This alternative strategy is favoured by the author because World Bank financial flows have shown negative correlation with growth, while the Fund's stand-by credit has been negatively correlated with sub-Saharan growth. Although compliance with World Bank conditions showed positive correlation with growth, the overall position showed persistent deterioration as a result of the strong negative effects of financial flows.

Finally, the author argues that political conflict or blatant corruption may preclude effective capital use in some African countries. He then suggests that a major international effort can stabilize political institutions and improve mass economic welfare in Nigeria, Ghana, Cote d'Ivoire, Senegal, Benin, Zimbabwe, Zambia and Tanzania.

The standard of this technical paper is quite high. It provides a framework for resolving the debt problems of sub-Saharan African countries through alternative prescriptions based on a critique of the traditional or orthodox approaches. The paper represents a critical assessment of Bank/Fund adjustment policy prescriptions. It opines that the policies are defective in addressing the problems facing the LDCs and sub-Saharan Africa in particular. The author seems to favour a radical bend from orthodoxy in addressing Africa's adjustment problems. The prescription of alternative policy framework with less emphasis on wholesale economic de-control is particularly interesting. Some externally prescribed policies cannot resolve Africa's debt and structural problems. The fact that the problems facing policy makers have remained the same, even with the implementation of SAPs, points to the need for caution by sub-Saharan Africa in implementing economic restructuring programmes as prescribed by the Bretton Woods institutions. As a result, some of the existing economic reform policies in Nigeria need to be reviewed in line with the peculiar situation facing the country. However, the fact that some low-income African countries had enjoyed "debts cancellation" and foreign aid should not encourage others to pile up debts without making serious efforts to settle them.

A very important lesson that is worthy of note for Nigeria from the revelation in this article is that since not all the 50-plus conditions for her during the 1986 SAL (Structural Adjustment Loan) mattered, the administration could choose its priorities while ignoring some unwanted conditions. It is pertinent to note that compliance with World Bank conditions which showed positive correlation with growth indicates that, contrary to the author's strong position that the Bank/Fund policy measures are counter productive, the Bank/Fund policies could be desirable in certain circumstances. Undesirable results from adjustment measures could occur from policy design and inappropriate sequencing of implementation. Thus, both the prescriptions and implementation rather than prescriptions alone are responsible for the less than optimal policy performance.

In conclusion, the article is really enlightening and it is recommended to all those interested in Africa's adjustment and economic liberalization programmes.

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