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AFRICA'S ADJUSTMENT AND GROWTH IN THE 1980s; THE WORLD BANK AND THE UNDP; CHARLES HUMPHREYS AND WILLIAM JAEGER & CO., 31PP., MARCH 1989

1. **Introduction**

Due to the phenomenal increase in export earnings, export prices (especially from oil) and the negative real interest rates in the 1970s in the international capital market, most countries of Sub-Saharan Africa increased their public consumption and investment and hence imports. As a result, some of the countries, resorted to borrowing in the international market to finance imports and when the boom ended, borrowing continued. This retarded development in the region. The World Bank report of 1981, identified structural and institutional problems as being responsible for the region's poor performance in the 1980s. The United Nations in a special session of the General Assembly in 1986, adopted the United Nation's Programme of Action for African Economic Recovery and Development 1986–90 (UNPAAERD), which recognised the need for African countries to embark on policy reforms that will help economic recovery and the revitalization of genuine development.

The paper, "Africa's Adjustment and Growth in the 1980s" was written by a team led by Charles Humphreys and William Jaeger of the World Bank. They reviewed on Sub-Saharan Africa's economic experience in the 1980s from a new perspective as against that which was generally perceived as one of crisis and decline caused largely by hostile external factors. The paper was divided into six parts. Part one is an overview of the causes that led to the region's current problems. Sections 2, 3 and 4 analytically discuss the developments in trade and commodity prices, the international community's response with more aid and debt relief packages. Section 5 assesses the progress made so far in reforming domestic policy, while section 6 examines the impact of policy reforms.

2. **Domestic Performance**

Sub-Saharan Africa's Gross Domestic Product (GDP) which grew by 2.3 per cent per annum between 1985 and 1987 was lower than the region's population growth rate of 3.0 per cent but much better than the 1.1 per cent decline recorded over the preceding four years. The region's per capita GDP was 15 per cent below what it was a decade earlier.

When Sub-Saharan Africa's GDP was valued at 1980 prices, Nigeria's share was nearly 50 per cent but at 1987 prices, it constituted less than 20 per cent of the average GDP for the period under review. Applying this new weight, the GDP growth rate of the region for the period stood at 2.9 per cent per annum. Using any of the weighting methods, it was found that if Nigeria was excluded, the GDP growth rate was positive and relatively stable since 1980. In either case however, Sub-Saharan Africa continued to lag behind other developing countries.

The GDP of the five oil exporting Sub-Saharan African countries (Nigeria, Gabon, Angola, Congo and Cameroon) recorded an average decline of 2.3 per cent in 1986–1987 as against an average annual growth of 2.7 per cent during 1985–1987 achieved by the poorest 34 Sub-Saharan African countries, with more than a third of them attaining over 4.0 per cent growth per annum. In 1988, the real GDP growth rate for the region was estimated at about 5 percentage points over the preceding year's level. This substantial improvement was attributed to the adoption of far-reaching policy reforms by many Sub-Saharan African countries (Nigeria included).

On a sectoral basis, agriculture, manufacturing and services shares of GDP grew by 3.9, 4.6 and 2.2 per cent respectively, while mining recorded a decline of 1.0 per cent due to the fall in petroleum production especially in Nigeria. Real consumption for the region declined during 1986 – 1987. In 1987, real consumption of the oil exporting countries declined by 5.4 per cent but rose slightly in the poor (IDA recipient) countries. The domestic savings rate for the region was only about half the rate for other developing countries. Also, gross domestic investment declined in real terms by about 3.5 per cent a year in 1986 and 1987 with the decline greatest for the oil exporting countries.

Balance of payments showed that export earning in nominal terms which dropped by about 40 per cent in the first four years of the decade, rose slightly in 1984 and 1985 but declined in the following two years. Imports fell by about the same percentage between 1981–1985 but increased by about 3 per cent thereafter. The marginal increase in exports and the reduction in imports in 1985 reduced the region's current account deficit to the lowest in the 1980s. The expansion in the deficit in 1986 emanated from the huge current accounts deficit of the oil exporting countries while that of 1987 was due to the deficit in the accounts of the 40 non-oil exporting countries as a result of the increase in oil prices.

3. **The External Performance**

Except for oil, the volume of exports grew on the average by 10 per cent during the period 1985–1987, thereby reversing the trend in the earlier fifteen years. About nine out of 45 countries in the region recorded export growth rate of over 20 per cent in 1986 and 1987. The region's share of the world trade of non-oil exports which declined between 1970 and 1983, rose by about 30 per cent in the following three years, due to good rainfall and the devaluation of African exchange rates. The authors claimed that if African countries had maintained their 1970 market share of non-oil exports, that their export earnings would have been $9–10 billion a year higher in 1986–1987 and that shortfall was similar in magnitude to total debt service payments or donor assistance. The export prices of the primary commodities did not perform well. For instance, the prices of these commodities fell drastically in 1982 and by 1986, the average unit value of agricultural export rose by 27 per cent above the 1982 level. However, when the primary commodity price was deflated by the price of manufactured imports it was found that there had been a general decline. They also stated that since 1975, the decline

in the composite index for non-oil commodities exported by the region was only half of the decline in the composite index for all primary commodities exported all over the world, due to the fact that a greater proportion of the region's export are tropical beverages.

In real terms, according to the authors, prices of some commodities had remained constant since 1960 while some others had declined substantially. Viewed from a long term perspective however, they said that studies by two different groups[1] showed that contrary to the general belief, the prices of non-oil primary goods relative to those manufactured since 1920, had been on the decline while the second group found that since 1900, there had been an upward trend in the prices of tropical beverages.

The authors advocated a long term perspective of the region's terms of trade. For example, the 30 per cent decline in the terms of trade between 1981 and 1987 should be viewed in relation to the 74 per cent increase between 1972 and 1981. According to them, despite the current decline, the region's terms of trade was still 15 per cent above the 1970s level. Also, the 34 poorest countries of the region which had persistent decline in their terms of trade from 1970–1981, levelled off thereafter, except in 1987. They however, agreed that the instability in the export earning for the region is traced to fluctuating commodity prices and concentration on few primary commodities.

4. **Capital Flows and Debt**

The authors attributed the region's severe financial squeeze between 1982 and 1985 to reduced international liquidity, the global debt crisis, depressed economic growth and export earnings. At $13 billion in 1987, the total net flow in real terms remained about 15 per cent below the 1980–1983 average. The region's outstanding and disbursed debt increased from $6 billion in 1970 to $129 billion in 1987, thereby constituting 100 per cent of its GNP and 350 per cent of its exports. On the other hand, the debts of other developing countries remained at less than half their GNP, although the region's debt to private creditors is 37 per cent compared with 54 per cent for other developing countries. Capital flows to Sub-Saharan Africa in the 1980s were constrained as it became increasingly difficult to gain access to commercial funds. There was also recognition that the region needed more international concessional assistance.

The gross disbursement of private long term lending to the region averaged $3.3 billion in 1986–1987 and of this 40 per cent was not guaranteed by African governments. Greater proportion of this was given to the six middle income non-oil exporting group and an insignificant amount to the IDA countries. This indicated that the region was not internationally creditworthy. The decline in private lending and the high debt service of private credit (about $3.8 billion in 1986–1987), mostly obtained at very high interest rates in the early 1980s meant that the region had been transferring capital to foreign private creditors since 1984. The implication is that the new official flows are indirectly utilized for servicing private debts. Official non-concessional loans declined since 1984, while bilateral agencies reduced their loans to the region. The multilateral agencies, other than the IMF, increased their official non-concessional loans since 1982 (notably the IBRD and ADB) thereby compensating for the decline in direct bilateral loans. The purchase from the IMF's regular facilities which are provided on non-concessional terms, rose by about 70 per cent between 1980–1983. It has been on the decline since then. The repurchase from the region to IMF has resulted in net capital export averaging about $0.5 billion per annum in 1986 and 1987.

For countries that have embarked on various economic reforms, several special initiatives, such as Special Facility for Africa (SFA) and the Special Programme of Assistance (SPA) – for low income, debt-distressed Sub-Saharan African countries – were set up to help the region. For example, the SFA in three years (1985–1988) was able to increase adjustment financing and mobilised about $2 billion through the World Bank's Joint Programme of Action for the region. The SPA among other things, was to increase IDA disbursement as well as credit from the IMF Enhanced Structural Adjustment Facility.

The IMF Structural Adjustment Facility (SAF) was to offer the low-income countries more access to concessional IMF resources disbursed about $0.4 billion to the region in 1986–1987 and by 1988, $1.3 billion had been approved for 22 Sub-Saharan African countries. In late 1987, the IMF established the Enhanced SAF called ESAF, hoping to provide new resources totalling $8.4 billion. Five countries have benefited from ESAF. Resources from both SAF and ESAF were expected to reverse the negative net financial flows from the region to the IMF. Furthermore, in order to coordinate financial assistance to the region, the UNDP-sponsored roundtable conferences and the World Bank-sponsored consultative group meetings were set up in 1985. A total of 10 round table conference and 16 consultative group meetings had been held.

Debts

In 1987, 54 per cent of the region's $129 billion debt was owed by 34 IDA countries, 32 per cent by 5 middle-income oil-exporting countries and 14 per cent by 5 middle-income oil-importers. The IDA countries owed debts equivalent to 100 per cent of their GNP and 500 per cent of exports. Out of this, 43 per cent comprised long term debts at market interest rates. However, more than 50 per cent of their capital inflows is made of grants. The debt service ratio for this group is high at 49 per cent while that of Sub-Saharan Africa as a whole is 36 per cent in 1987.

About 12 out of the 45 Sub-Saharan African serviced their debts regularly, while others tried to reduce their debt burden through multilateral rescheduling arrangements and/or the accumulation of arrears.

About 11 OECD, DAC countries have converted about $1.6 billion concessional debts to grants from 1978–1987 and more countries were beginning to take initiatives to eliminate the ODA debt to many countries of the region. The debt service paid on non-concessional debts, which constituted about 85 per cent of the region's actual debt service payments in 1987 is the region's burden. About 40 per cent of this is on multilateral debt and ineligible for rescheduling. Between 1980 and 1987, about $30 billion

[1] "Cuddington and Urzua" and "Grilli and Yang".

bilateral and private debt were rescheduled.

A special programme of assistance has been put in place to reduce the region's debt burden. As such, seven leading industrial countries at a meeting in Toronto in 1988 agreed that individual creditor nations would "within a frame work of comparability" choose from the following three options: (a) forgiveness, (b) longer maturities and (c) lower interest rates on non-concessional debts. These have already been applied to the low income countries, but there is no special programme for the middle income countries. It was suggested that the countries should be considered on a case-by-case basis. In general, the authors concluded that despite the efforts at rescheduling and in implementing various policy reforms the expected economic recovery has failed to substantially materialise.

5. **Policy Reforms**

The World Bank advised that countries with structural and sectoral distortions should undertake reforms. By 1988, 18 African countries had undertaken structural adjustment reforms while 14 had borrowed to support sectoral reforms. A greater proportion of the policy measures taken were in the areas of public finance, public enterprises, agriculture and the exchange rate. Other areas included government wage and employment restrain, market liberalisation, price decontrol and improved investment programmes.

(i) **Exchange Rate Reforms**

The authors noted that inflation had been higher in Sub-Saharan African countries than those of its major trading partners and that the domestic currencies (especially in the West African countries) were over-valued. They gave the indicators of over-valuation as (a) the difference between official nominal and parallel market exchange rates and (b) the real effective exchange rate index. They observed that both increased in the 1970s and that by mid 1980s, the index was 25 per cent higher than it was in the past decade as against a decline of similar magnitude in other developing countries. They claimed that devaluation had helped to offset some of the past high inflation and appeared to be compensating for the high inflation in the region.

(ii) **Agriculture**

The authors pointed out that government's liberal marketing and pricing policies enhanced agricultural output. As a result of the policy reforms, real producer prices for the major export crops increased by 16 per cent between 1983 and 1986 in contrast to 30 per cent decline in the earlier seven years. But in 1987, the trend changed due to the fall in international prices of the commodities and the high domestic inflation which eroded the purchasing power of the producer's income.

Also, when the Nominal Protection Co-efficient (NPC) is used to assess the effect of the current agricultural reforms, it was found that an increase in the nominal producer prices have always raised the NPC but instead of the expected effect, it was found that nominal devaluation and rising international commodity prices lowered the NPC and vice-versa. It was also pointed out that emphasis was shifted from food crops to cash crops because of the favourable prices.

(iii) **Government Finances**

Most of the reforms undertaken were aimed at increasing revenue and reducing expenditure. Since 1984 however, revenue as a proportion of the GDP has generally stagnated or declined, while foreign official budgetary support increased. Government expenditure as a proportion of GDP also increased slightly. Interest payments increased by about 300 per cent thereby forcing governments to reduce their wages and salaries (e.g. Ghana and Uganda), other purchases of goods and services and capital spending. Despite efforts aimed at reducing fiscal deficit relative to the GDP since 1984, the deficits remained quite substantial. It has not succeeded because of poor revenue performance, constraints in reducing government spending (such as declining real GDP) inability to implement policy reforms and relatively large foreign concessional lending and grants in 1987.

(iv) **Public Enterprise Reform**

In Sub-Saharan Africa, Public Enterprises contribute significantly to output, investment and employment and hence a lot of public finance and domestic credit are expended. The reforms are aimed at rehabilitation (financially and physically), divestiture of small enterprises, and institutional changes such as improving the accounting and auditing system. As a result, growth in the number of public enterprises declined while many of them were scheduled for privatization or liquidation. It was agreed among other things, that inappropriate pricing policies contributed to the poor performance of the public enterprises. Financial flows from government to public enterprises were always high and constituted in some cases 10 to 15 per cent of government deficit financing. Public Enterprises also incurred a lot of debt (locally and externally).

6. **The Impact of Reforms**

The authors stated that it was difficult to draw general conclusions about the performance of the region as a whole because of the severity of distortions, the varied impact of external shocks and the structural rigidities existent in Sub-Saharan African countries. The reforms however, induced better performance in the region. Countries with strong reform programmes have recorded declines in their export prices, export earning and terms of trade since 1980 but export prices and terms of trade have fallen more rapidly since 1985, while countries without reforms have benefited. The main benefits enjoyed by countries with reform programmes have been financial flows from bilateral and multilateral agencies. Imports were high in countries with reforms than those without. The support provided by World Bank and other international donors to countries with policy reforms goes to demonstrate better performance in many areas.

Even though substantial devaluation has taken place, inflation rates are lower in reforming countries than in the early 1980s. Such countries were able to reduce their real effective exchange rate. Central Bank's real discount rates, though still negative, have increased. Fiscal deficit and real expenditure have been reduced. Agricultural price policy has favoured farmers by increasing producer prices for export crops and reduced agricultural taxation as

measured by NPC. They have improved their investment performance even though this was financed by foreign assistance. The GDP growth rate appear to be on the increase in contrast to declines in non-reforming countries.

Comments

Generally, the paper is well written. It makes for easy reading and brings out the salient points vividly. One can not but agree with the authors that structural and policy problems, such as poor public sector management (particularly inconsistencies and non-continuity of policy), rapid population growth, wars and other internal disturbances contributed to the relatively poor economic performance of Sub-Saharan African countries. However, I do not share the authors' views that hostile external factors were not largely responsible for the crisis and decline in the region's economy. Indeed, the most destabilizing factors were the external shocks contrary to the authors' assertion. For instance, while analysing the external performance of the region, they stated that if Sub-Saharan African countries had maintained their 1970 market share of non-oil exports that they would have earned an amount equal to their total debt service payments. Did the authors assume stable commodity prices during this period? Would not these prices have collapsed and been blamed on over-production as in the case of oil? It is certain that the region's poor performance will persist as long as Sub-Saharan African countries remain primary producers. According to them, when primary commodities prices were deflated by the prices of manufactured imports, it was found that they had generally declined since 1975. However, the authors were silent on the magnitude of the decline, perhaps to make it appear less serious.

The authors claimed that many of Africa's primary products did fairly well in the international market because they were mostly tropical beverages. This implies that the region has an edge over many countries in the production of these beverages but despite this, it is still the buyers market rather than the producers market. Assuming that it is true that the prices of the primary commodities have been constant since 1920 as they claimed, would a huge export of these commodities have benefited the region as implied? If it is also true that prices of tropical beverages had been on the increase since 1900, can these be compared with the rate of increases in the manufactured beverages imported by the region? Also, the authors did not see anything seriously wrong with the current decline in the region's terms of trade as long as it was higher than 1970 level. The terms of trade for 34 countries in the region which are mainly primary commodities exporters have been consistently declining between 1970 and 1981 and had remained far below the 1970 level ever since. This implies that Sub-Saharan Africa has been worse off, because they had remained exporters of primary products. A pragmatic export promotion policy should encourage the processing of primary commodities before they are exported. The report showed that other developing countries performed better than the Sub-Saharan African countries because of stronger industrial base. This should rightly be the focus of Sub-Saharan Africa.

The creditor countries also contributed to the huge build-up of external debt by Sub-Saharan African countries because they allowed the region to borrow beyond its international resources, such that it accumulated debts amounting to 100 per cent of its GNP and to 350 per cent its export earnings. The recent finding by the Federal Government of Nigeria, that $4 billion of her own debt is dubious, is a pointer to the possibility that a substantial proportion of the region's debt may be unfounded.

It may be a little premature to fully assess the gains achieved by countries with reform programmes but what the authors claimed as gains to these countries is still very suspect. For instance, between 1986–1987, net private capital flow stood at $3.3 billion while debt service of private capital stood at $3.8 billion. This means that part of the new official flows are being used to service private debts. If nothing drastic is done to reverse this trend, Sub-Saharan African countries economies will remain depressed for quite sometime to come.

If 70 per cent of the region's total debts is at market rate and if 37 per cent of this is owed to private creditors, then efforts by multilateral agencies through Special Facility for Africa (SFA) and the Special Programme of Assistance (SPA) may not produce the desired effect unless the private creditors are ready to make sacrifices by taking meaningful steps to reduce the region's debt burden. The Toronto agreement by seven leading countries is in the right direction because if the Sub-Saharan African countries fail to improve, there will be a contracted market for the products of the developed nations. If the industrialised countries are genuinely interested in the region's economic recovery, then partial forgiveness should be adopted in general for Sub-Saharan African countries. The current case-by-case approach extended to the middle income countries is ineffective and unacceptable. Finally, if the economic reforms are not having the expected effects, the implication is that the measures so far taken may not be the appropriate prescription for Sub-Saharan African countries economic problems.

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