

Adjustment and Growth in Sub-Saharan Africa

The Unfinished Agenda

After a prolonged crisis, sub-Saharan African countries have been broadening their reform efforts and enjoying improved economic growth rates. The gains they have made are fragile, however, and to achieve sustained progress they need to strengthen their current reform programs and resolve the serious conflicts threatening the region.


Evangelos A. Calamitsis

SUB-SAHARAN AFRICA seems to have come full circle to a position of real promise in the four decades since most countries in the region attained independence. At independence, there were great expectations of rapid economic and social progress, paralleling the consolidation of the new nation-states. These expectations were broadly realized in the 1960s, when production grew and real per capita incomes increased appreciably. After this initial period of growth, however, most economies stagnated in the 1970s and went into decline in the 1980s. Although a number of countries undertook far-reaching adjustment and reform programs with considerable success, the region's aggregate economic performance remained disappointingly weak, with falling real incomes per capita and increasing poverty throughout the continent. Now, as we approach the new millennium, renewed signs of economic progress and a broader commitment to reform augur well for the future. But sub-Saharan countries' reform efforts need to be sustained and strengthened, while urgent steps have to be taken to resolve the serious conflicts that threaten the continent—if

they are not, Africa's economic prospects will again be dimmed and a great opportunity for durable progress will be lost.

Crisis of 1970s and 1980s

As has been discussed extensively in the literature, both external shocks and domestic factors contributed to sub-Saharan Africa's poor overall economic performance during the last two decades. Indeed, many countries, especially the poorer ones, were hit hard by rising import prices, declining export prices, and severe droughts. Nevertheless, in most cases, the deterioration was due largely to inappropriate economic policies, which led to price distortions (notably overvalued exchange rates), poor investment choices, increasing budgetary deficits, a proliferation of loss-making public enterprises, growing inflationary pressures, and a loss of international competitiveness. There was also a serious deterioration in governance, which was epitomized by a weakening of the legal framework and the judicial system, as well as by corruption in the management of public resources, particularly those involved in the marketing of key crops and minerals. These problems were



compounded by rapid population growth, neglect of human resource development, deteriorating infrastructure, and outbursts of ethnic conflict and political instability. In an effort to shore up their countries' shrinking domestic resource bases, many governments undertook extensive external borrowing for consumption and investment, but, given the very low and declining rates of return on public outlays, their external debt burdens often became unsustainable and arrears accumulated.

Economic turnaround of 1990s

Faced with a deepening crisis, more and more countries began, in the late 1980s and early 1990s, to implement comprehensive adjustment and reform programs, often with IMF and World Bank support. Although there were some initial setbacks in their implementation, these programs gradually began to take hold in most countries as they addressed both the existing macroeconomic problems and the structural constraints on growth. As a result, beginning in 1995, there was a major turnaround in the region's overall economic performance.

According to the latest available data, during the four-year period 1995–98, the real GDP of sub-Saharan Africa is estimated to have grown at an average annual rate of more than 4 percent, or some four times the average rate of the preceding four years; hence, real per capita incomes began to rise perceptibly in many countries. If one excludes the region's two largest economies, Nigeria and South Africa, the average annual growth of sub-Saharan Africa's real GDP was nearly 5 percent during this period, and that of the CFA franc countries as a group exceeded 5 percent, reflecting the sharp recovery of their economies following the overdue devaluation of the CFA franc in January 1994, which was supported by complementary financial policies and structural reforms. At the same time, the average rate of inflation in the region fell sharply, from a peak of 47 percent in 1994 to an estimated 10 percent in 1998. Domestic and external financial imbalances were also reduced markedly through 1997, and they would have narrowed further in 1998 had it not been for the adverse impact of the Asian crisis on world prices of a number of primary commodities, especially oil.

Thus, for the first time in a generation, there are now increasing signs of economic progress in sub-Saharan Africa. Indications are that sound fiscal and monetary policies, pursued with determination, have substantially reduced the underlying macroeconomic imbalances. Moreover, important structural reforms—including the removal of domestic price controls, the establishment of market-determined interest rates, the liberalization of exchange and trade systems, the restructuring or privatization of public enterprises, financial sector reforms, and reforms of investment codes and labor legislation—have contributed to eliminating distortions and improving overall economic efficiency. Many countries have also carried out substantial reforms of their agricultural marketing systems, allowing higher prices to be

paid to farmers and thereby strengthening production incentives. More and more countries are also giving increasing attention to achieving high-quality growth, with their reform efforts focused on reducing poverty, by placing higher priority on public spending on health care, education, and other basic social services. Meanwhile, the implementation of these economic policies has been accompanied by political liberalization and a movement toward participatory forms of government that foster policy consensus between the state and civil society. The progress made could therefore well endure, because it is underpinned by an improved domestic policy environment rather than by fortuitous external developments.

Nonetheless, the region has a long way to go to make up for the ground it lost over the past two decades and to integrate itself fully into the world economy. In particular, economic growth rates are still not high enough to enable sub-Saharan countries to catch up with other developing countries, to create the employment opportunities required to absorb the rapidly growing labor force, and to make a real dent in the pervasive poverty. There is thus a need to raise average real GDP growth rates to 7–8 percent a year on a sustained basis; although relatively high, such rates are within reach, as demonstrated by the recent growth performances of Côte d'Ivoire, Ethiopia, Mozambique, and Uganda. This would entail increasing the share of investment in GDP from the current 17–18 percent to more than 25 percent (similar to that achieved during the periods of sustained high growth in Asia and Latin America), as well as improving productivity. At the same time, since official development assistance is clearly on the decline, African countries will have to achieve substantially higher rates of domestic saving and attract private capital inflows—particularly foreign direct investment—in order to accelerate their growth and development.

Agenda for sustainable growth

In view of the current situation in the region, what policies are needed to achieve more dynamic and sustainable growth in the years ahead? Evidently, each sub-Saharan African country will have to develop a strategy that best suits its specific circumstances. On the basis of experience and research on the key issues, however, there has been an emerging consensus that Africa's policy and reform agenda needs to focus on the following elements.

- *Fostering private sector development as the principal engine of growth.* As has been established in a number of empirical studies, private investment has a much larger impact on growth than government investment; but the growth of private investment, both domestic and foreign, in sub-Saharan Africa has been constrained by the high transaction costs and the perceived large uncertainties of doing business on the continent. It is therefore essential to promote an enabling environment for private investment—one that engenders confidence in the sustainability of appropriate macroeconomic policies; ensures that the necessary

**“SUB-SAHARAN
AFRICA FACES . . .
RISKS POSED BY
SERIOUS CON-
FLICTS IN SEVERAL
PARTS OF THE
REGION.
THEREFORE, AN
IMMEDIATE CHAL-
LENGE IS TO
PROMOTE PEACE
AND SECURITY.”**

infrastructure and qualified labor are available; and creates and maintains a transparent, evenhanded, and efficient regulatory framework and justice system that safeguard property rights and adequately enforce contracts.

• *Promoting all aspects of good governance.* In most countries, this will require redefining the role of the public sector with a view to disengaging the state from directly productive and commercial activities and strengthening instead its core functions, notably the effective delivery of essential public services and basic infrastructure. Most governments will also have to move ahead more decisively in restructuring and privatizing public enterprises in order to reduce budgetary subsidies, expand the scope for private sector activity, and enhance overall economic efficiency. More generally, they will need to ensure full transparency and accountability in the management of public resources, with procurement procedures overhauled and audit reports of budgetary and other accounts scrutinized and regularly published. It will be critically important for government operations to be conducted in an irreproachable manner and for all forms of corruption and cronyism to be shunned.

• *Consolidating macroeconomic stability by continuing to implement sound fiscal and monetary policies, including realistic exchange rates and interest rates.* In particular, fiscal consolidation will be essential, requiring, inter alia, a strengthening of tax and customs administration and the reduction of nonpriority outlays in order to generate more resources for social and development expenditures. In this way, government budgetary deficits and bank borrowing could be reduced further, thereby providing greater scope for bank financing of the private sector, facilitating monetary management, and reducing inflation.

• *Accelerating trade liberalization to enhance the competitiveness of domestic producers and speed up sub-Saharan Africa's integration into the global economy.* Although the process of trade liberalization has advanced throughout the region, trade regimes are still significantly more complex and restrictive than elsewhere. Import tariff rates remain too high and too dispersed, in part because governments are very dependent on this source of budgetary revenue but also because of the prevalence of statutory and ad hoc exemptions. Eliminating these exemptions, preferably in the context of medium-term tax reform programs, would allow tariffs to be reduced more rapidly. The objective here should be to achieve within a period of three to five years a much simpler and more transparent tariff structure—one with only a few rates in the range of 0–20 percent and an average tariff of about 10 percent.

• *Reinforcing economic integration.* In various parts of sub-Saharan Africa, governments are deepening their economic cooperation and coordinating policies in the context of regional organizations. These trends will need to be reinforced with a view to facilitating trade liberalization both regionally and globally. Efficient regional integration would allow many countries to surmount the obstacles posed by their relatively small sizes, permit them to realize greater economies of scale, and enhance their ability to trade on a global basis. It would also provide a framework within which countries could cooperate to develop common infrastructure (in transport and telecommunications, as well as banking and insurance), thereby better equipping them to participate in world trade. Furthermore, the obligations of membership in regional groupings can

help countries to maintain the momentum of adjustment and reform in difficult areas—such as the harmonization of investment codes and tax systems, import tariff reductions, the rationalization of payment systems, financial sector restructuring, and labor market reform. More broadly, African regional organizations will need to foster non-discriminatory multilateral trade liberalization to enable their members to achieve closer integration into the world economy.

• *Enhancing and deepening financial sector reform.* Although many sub-Saharan countries have made significant progress in financial sector restructuring, most of their central banks still lack the necessary autonomy; financial sectors are thin and have difficulty mobilizing domestic savings and attracting foreign private capital; banking institutions are fragile; and intermediation is inadequate. In the period ahead, steps should therefore be taken to ensure the independence and full accountability of central banks; deepen and broaden financial markets; establish or strengthen the institutions responsible for the prudential regulation and supervision of banks; complete the rehabilitation of weak commercial banks and improve loan recovery; open the banking sectors to healthy competition and international best practices in bank management, particularly through privatization; and strengthen the legal framework for banking activities. Furthermore, specialized financial institutions and instruments for mobilizing long-term savings should be developed, and efficient mechanisms for extending credit to the rural sector should be established.

• *Fostering human resource and social development.* This will be critical for sustaining higher growth and reducing

poverty, and will require increasing the quantity and quality of basic health care, education, and other high-priority services with a view to improving social indicators appreciably over the longer term. At the same time, well-targeted social safety nets should be established or reinforced, based on specific social assessments, to mitigate the possible adverse effects of adjustment on the poorest and most vulnerable groups.

• *Building administrative and managerial capacity as an essential step in carrying out the needed reforms effectively.* The formulation and implementation of economic policies is still hindered in most African countries by poor management capacity, as well as by weak institutional and administrative structures. The civil service is often too large and too underpaid to be efficient and to respond promptly to changing circumstances. A critical element of capacity-building efforts should therefore be the development of a leaner, better trained, and more motivated civil service with a performance-based remuneration system. Coupled with increased decentralization and delegation of responsibilities, this would help governments provide essential services efficiently and cost effectively. Capacity building should also extend to the private sector through the development of appropriate institutions, including measures to promote the role of nongovernmental organizations and to enable women to participate fully in the growth process.

Role of development partners

The success of this strategy in achieving higher growth and poverty reduction will depend largely on sub-Saharan Africa's ownership of the reform process and the sustained implementation of sound policies. Reform efforts will, however, also need the support of sub-Saharan countries' bilateral partners and international financial institutions.

Africa's bilateral partners, particularly the major industrial countries, can contribute to Africa's success by pursuing policies that promote world economic growth and financial stability; opening their markets to products in which African countries have, or can develop, a comparative advantage, and phasing out distortionary protective practices; increasing their assistance to countries committed to strong reform programs; cooperating actively in the fight against corruption; and ensuring that international and regional organizations have the necessary resources to carry out their mandates.

The international financial institutions—the IMF and the World Bank—will also have to continue to support Africa's adjustment and reform efforts by providing policy advice, as well as financial and technical assistance. In all these areas, they will have important roles to play. The IMF's future role



Evangelos A. Calamitsis was Director of the IMF's African Department until his retirement at the end of November 1998.

and contributions in sub-Saharan Africa are likely to be advanced by

- maintaining its support of strong programs, especially through the Enhanced Structural Adjustment Facility (ESAF)—the IMF's concessional lending facility—and securing the necessary resources to make the ESAF self-sustaining by the year 2005;

- moving rapidly, together with the World Bank, to fully implement the Debt Initiative for the Heavily Indebted Poor Countries (the HIPC Initiative);

- providing emergency post-conflict assistance to countries that have undergone political turmoil, civil unrest, or armed conflict;

- intensifying its technical assistance and training programs to support capacity building and institutional reform, including improving statistics to conform with international data dissemination standards, as well as to observe best practices in banking supervision and fiscal

transparency;

- pursuing a proactive approach in advocating policies and helping member countries to combat corruption in the management of public resources; and,

- drawing on the lessons from the recent international financial crisis, helping to strengthen the architecture of the international financial system in order to limit the occurrence and intensity of future shocks that would be detrimental to world growth and financial stability.

Conclusion

Sub-Saharan Africa has achieved a major turnaround in overall economic performance in recent years, based largely on improved macroeconomic policies and structural reforms. The situation is still fragile, however, and sub-Saharan Africa faces many risks of renewed crisis, notably the risks posed by serious conflicts in several parts of the region. Therefore, an immediate challenge is to promote peace and security, both through conflict prevention and a prompt resolution of disputes; this would help create an overall environment within which sound economic and financial policies can have the best prospects for success. To achieve higher growth and a durable reduction in poverty, most countries will need to implement with determination a reform agenda focused on fostering private sector development, ensuring good governance, consolidating macroeconomic stability, and accelerating structural and institutional reforms. These objectives should be within sub-Saharan Africa's reach, and if they are vigorously pursued on the basis of a broad national consensus, they should pave the way for increased confidence and progress in the region in the new millennium.