Structural Adjustment Policies and Africa – A Reply to Shantayanan Devarajan

Carlos Lopes, the Executive Secretary of the Economic Commission for Africa, disputes the claim that structural adjustment programmes are responsible for Africa's success story.
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Addis Ababa, Ethiopia's bustling urban centre. Photograph by DfID.

In an interview with Think Africa Press earlier this year, the outgoing Chief Economist of the World Bank's Africa Division, Shantayanan Devarajan, credited Africa's robust economic performance in the past 10 to 15 years to Structural Adjustment Programmes (SAPs) policies. SAPs, he claimed, "delivered economic growth and poverty reduction."

In response to these claims, I would like to argue that SAPs were in fact not successful in achieving their desired objectives of increasing investment efficiency or reinvigorating growth. Rather, SAPS imposed serious socio-economic problems on the continent.

Contrary to Devarajan's claims, the recent growth in Africa and the lessons drawn from other emerging countries suggest we need to look beyond macroeconomic fundamentals. For example, Africa's recent economic growth has been underpinned by a commodity boom and the emergence of development-oriented political regimes that helped many African countries deal with pressing structural transformation issues and construct the necessary institutional reforms that have won the day.

The real effects of structural adjustment

The SAPs, adopted by many African countries in the 1980s and 1990s, were meant to help address mounting internal and external economic imbalances arising from a confluence of factors such as: the 1974 global oil crisis; the subsequent global debt crisis which provoked financial distress in Africa; a decline in export earnings due to falling commodity prices; and rising interest rates in OECD countries, particularly the US, which increased the debt burden of poorer countries.

The main theoretical premise of SAPs was that government interventions were inefficient because they distorted market signals. Long-term development planning was therefore abandoned and industrial policies became neglected in most African countries. In their place, governments focussed on macroeconomic stability and institutional reforms to protect property rights and ensure contract enforcement. These policies, however, lacked coherent strategies to address inherent market failures and externalities, and these actions ended up constraining investment, growth and economic diversification.

According to the World Bank, during the 1987-1991 period, 29 sub-Saharan African countries were implementing SAPs with mixed results. And it had become clear after 15 years that SAPs in Africa had neither accelerated growth nor reduced poverty, while there was a notable lack of ownership or resistance to conditionality from recipient governments. “Adjustment programmes were often unresponsive to country conditions and changes in external circumstances,” wrote the World Bank, which led to a lack of shared vision between the Bank and recipient governments as to the aim of the programmes.

In 2011, the Economic Commission for Africa (ECA) noted that in the SAPs era, Africa recorded the lowest growth rates in its post-independence history. According to recent World Bank data, the continent’s average annual growth rate declined from 4.7% in 1961-1970 to 2.7% in 1980-2000 before rising to 4.6% in 2001-2012.

The negative impact of SAPs was particularly visible in the manufacturing sector whose share of aggregate output continued to decline from its peak level in the 1970s throughout the 1980s and 1990s and beyond. This reflects the failure of liberalised markets to attract much needed investment for African countries to diversify their economies and compete especially with emerging economies. In East Asia, for example, government interventions to address market failures saw the share of manufacturing in GDP hovering over 31% in the last three decades, during which labour-intensive industries induced high and sustained growth and helped lift hundreds of millions of citizens out of poverty.

In the 2013 edition of the Economic Report on Africa, the ECA and the African Union Commission further highlighted the failings of the SAPs, finding that the policies "did not raise productivity, boost manufacturing export performance or enhance value addition.” In fact, the report argues that SAPs hurt technological capability and skills, arguing that "Today, the weak African industrial structure still has to move out of the shadow of those interventions – a task made more onerous by the new international context."

Under SAPs, effects on income and welfare were also magnified by an increased debt burden, deteriorating terms of trade, declining flows of private capital, and accelerating capital flight. While Asia was investing, African governments were slashing expenditure on basic infrastructure and social services at the behest of SAPs, according to whose theory these steps were thought necessary to reposition African economies. Problems of unemployment and poverty across the continent were accentuated, with skewed redistributional effects in favour of the rich. And the experiences in Africa of SAPs’ economic reforms highlighted the serious consequences of declining state involvement in public service provision. Inadequate access to public services was coupled with a reduction in quality as a result of privatisation and deregulation policies. Meanwhile state retrenchment, most notably in health and education, stimulated a two-tiered system whereby those who could afford it often paid, while public services provided by the state suffered.

Even in countries such as Ghana and Senegal, regarded by the World Bank as success stories in terms of growth, there was little enduring poverty alleviation. And it was observed that growth in some of these countries, such as Uganda and Ghana, relied mostly on notional anti-SAPs policies in the form of increased government spending. In 1990, the World Bank itself acknowledged that, with a few exceptions, the evidence supported the conclusion that poverty in Africa was severe and getting worse.

As many country examples in Africa demonstrate, the implementation of SAPs compromised government capability to design and put into action long-term development strategies. Some prominent World Bank chief economists, such as Nobel Prize winner Joseph Stiglitz, or Justin Lin, correctly argued that Africa needs to move in the direction of transformation and demonstrated the need for a stronger state role.

In a recent interview with New African, the Director of the IMF Africa Department, Antoinette Sayeh, also acknowledged that the IMF has learned from its mistakes of the 1980 and 1990s. "Some of that criticism is justified, but we have learned from those experiences and adjusted our programmes at the IMF to make sure they are more effective," she said. "One way to do this is not to include any structural performance criteria any more."

The real reasons for Africa's growth

Since the turn of the 21st century, a number of African countries have experienced economic growth. This has been fuelled by a range of factors including their endowment with commodities at a time of surging prices, improved political environments, prudent macroeconomic management, rising domestic consumption, investment, strong public funding on infrastructure, and increasing economic ties with emerging economies such as China, India and Brazil.

Revenue streams from commodity exports and rising investment, as well as additional aid flows from Africa's emerging and traditional partners, have helped build roads, hospitals, railroads, and other infrastructure, reducing the continent's dependence on conditional financing. Thanks to more focussed strategies as well as improved economic governance, inspired by more development-oriented governments, Africa has emerged from the past few decades with renewed optimism and international headlines these days often proclaim 'Africa Rising'.

However in this range of factors, there is little evidence to suggest that Africa's current growth can be explained by SAPs, and to reinforce and buttress economic performance over the coming years, it is important for the continent to move in the direction of a more comprehensive transformation agenda than the one suggested by structural adjustment.

Changes in development thinking over the last two decades have essentially occurred in response to a wide range of concerns over the serious impact of structural adjustment. The shift to poverty reduction strategies and the emergence of quasi-planning frameworks such as the World Bank's Comprehensive Development Framework (CDF) in 1999, the Millennium Development Goal (MDG) framework, and the Poverty Reduction Strategy Paper (PRSP) approach, reflects a move away from SAPs towards a more strengthened role for the state, and a clear human development focus.

In 2000, the current President of the World Bank, Jim Yong Kim, co-edited the book Dying for Growth in which he questioned the truth that "as long as you focus on the macroeconomic fundamentals everything else would fall into place." Justin Lin, borrowing the term often used by the late Ethiopian Prime Minister Meles Zenawi of the "facilitating state", stressed that developing countries cannot ignore harmful market failures in the fear of government failure.

SAPs left behind, bright future ahead?

The failure of SAPs to achieve growth and poverty reduction has led to a continued search on the continent for an alternative strategy to address Africa's developmental challenges. This search has also been fuelled by the success of emerging economies in fostering industrialisation. The recent global economic crisis has lent more support to the current thinking in Africa about the dangers of unregulated markets and has evoked renewed interest in the active role and nature of the state in development.

To keep the continent on the rise, ECA is arguing for governments to be actively involved in developing their industrial base and transforming their economies, rather than just adopting a narrow focus on macroeconomic fundamentals.

The recent experiences of Ethiopia, Rwanda, Nigeria and Morocco, among others, show how well-designed and effectively-implemented state interventions to address market failures can help invigorate growth and diversification. Indeed, if Africa could leverage its primary commodities to industrialise through value addition and succeed in linking the commodity sector to the rest of the economy, the 21st century could very well be Africa's.

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1. **Original article by Shantayanan Devarajan, "Structural Adjustment Programmes Worked in Africa"**
2. **Shantayanan Devarajan rejoinder to Carlos Lopes, the Executive Secretary of the Economic Commission for Africa**