

Are Structural Adjustment Programmes an adequate response to globalisation?

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1. The African roots of SAPs: the historical background

This article relates the debate on Structural Adjustment Programmes (SAPs) to the latest cycle of globalisation,¹ and their impact on human development. In so doing it uses Africa, sub-Saharan Africa in particular, as a case study for the difficulties of integration in world economic trends. The article first presents the historical background of SAPs including its birth, application, and the changing context in which it operates. It then explores the effectiveness of the SAPs' prescriptions and questions the so-called shining examples of SAPs. It also compares the differences between the Washington and the emerging Copenhagen consensus and examines the way SAPs have been adopted and advocated, questioning their standardised approaches in solving global problems. Finally, the article examines measures that are required for a socially responsible adjustment.

The Structural Adjustment Programme has its genesis in Africa. The concept was first born in response to the economic crisis in sub-Saharan Africa during the 1970s. The growing debt crisis in developing countries hit the continent during that decade, provoking acute financial distress. The situation was aggravated by declines in export earnings due to the fall in

commodity prices, and by the OPEC oil curtail that led to the global crisis in 1974. After growing at an average of 2.6 percent a year between 1965 and 1974, the GDP per capital stagnated thereafter in most sub-Saharan countries (World Bank 1994). Africa's average per capita growth between 1965 and 1985 was the lowest among all developing regions. The grim picture of the continent led Elliot Berg in his famous 1981 report for the World Bank to attribute 'structural

factors as the root cause of the economic stagnation in Africa during the 1960s and 1970s. His report points out that 'the internal structural problems and the external factors impeding African economic growth have been exacerbated by domestic policy inadequacies' and recommends the introduction of a new approach for development in Africa (Lopes 1994).

Despite the equally significant role played by external factors in aggravating Africa's economic crisis during this period, the World Bank singled out poor domestic policies, emanating from the Marxist development paradigm, as the main factor behind this stagnation. Such policies included overhauled exchange rates, heavy government spending, and inward-looking trade policy (World Bank 1994). It was on this notion that the concept of SAPs was introduced, specifically to tackle structural and macro-policy problems in Africa. The new concept attempted

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to 'reduce the state's role in production and in regulating private economic activity ... [and] assigned more importance to exports, especially those from the much-neglected agricultural sector ... [and] placed more emphasis on maintaining macroeconomic stability and avoiding overvalued exchange rates' (World Bank 1994). Consequently, the economic structural adjustment programmes were introduced in many African countries in order to 'restore confidence'. Remarkably, although SAPs were intended to revamp the declining economies in sub-Saharan African countries, they have been adopted throughout the developing world as a general prescription for a variety of economic problems.

The perceptions of SAPs' effectiveness vary. The proponents of the programme, primarily the World Bank and the IMF, have until recently insisted that the programme is an effective mechanism to counter economic decline. In a policy research report, the World Bank (1994) painted a bright picture of the structural adjustment programmes. Ironically, the same report admits that no African country has achieved a sound macroeconomic policy, and proposed an accelerated implementation of SAPs in a more vigorous manner.

Criticism of SAPs has been vocal. According to a UNICEF report, most of the 36 countries studied had deteriorated in their capital accumulation, public investment, direct foreign investment, and industrial and export growth. Interestingly, only 21 out of 241 programmes implemented in sub-Saharan Africa were abandoned or terminated before the deadline while 75% of all programmes met the conditions set by the World Bank (Lopes 1994). This finding has weakened the usual excuse given by the proponents of SAPs who claim the programmes did not work because the adjusting countries did not fully implement the reform package (Lopes 1994).

In the '90s while the African countries under strict conditionalities imposed by the World Bank and the IMF were busy adjusting to their 'made-for-Africa' adjustment programmes, the world has moved on to embrace globalisation and economic integration. Global integration and SAPs became mutually reinforcing, as the adoption of reform measures in turn encouraged the thrust towards increasing

economic interdependence. Although globalisation is now an irreversible force, there are indications that its benefits accrue unequally, resulting in polarisation of income between the rich and poor. SAPs' inability to counter such a trend, and to mitigate other side effects of globalisation, has been a ground for attack.

The most acute criticism comes from a former IMF advisor, Jeffrey Sachs (1998), who openly criticised the Bretton Woods Institutions (BWIs) for their incompetence in stabilising global financial markets and their arrogant use of aid conditionalities in developing countries. The Trade and Development Report 1998, by UNCTAD, also criticises IMF policies. With reference to the Asian crisis the Report shows out that 'the international policy response has contributed to the severity of the crisis by failing to appreciate the full gravity of the situation and by placing too much faith in conventional policy prescriptions'. A UN report (1999) recognises the ineffectiveness of the current international financial system in safeguarding the world economy from financial crises arising from rapid globalisation of financial portfolios and proposes reforms. The Chief Economist of the World Bank has called for 'a total demolition of the Washington consensus' and sought to provide an alternative paradigm. Even at 1998's World Economic Forum in Davos, criticism was rampant on the effectiveness of the role of international financial institutions in tackling financial crisis.

2. How does the recipe translate into the pudding?

One may identify three distinct generations of SAPs (Lopes 1994). The initial policy package was aimed at stabilising economies through short-term demand management. Soon it became clear that such policies caused considerable losses of output without removing the underlying balance of payments disequilibria. By the mid-1980s, these policies gave way to a second generation of more comprehensive policy packages designed to 'structurally adjust'. The third generation acknowledged the importance of social factors as well as the need for structural governance change and long-term

sustainable growth. SAPs generally contain the following ingredients in their prescriptions:

- Get macroeconomic policies right by keeping budget deficits small, avoiding overvalued exchange rates, and keeping inflation low.
- Liberalise markets and avoid price control, reduce subsidies and the protection of industry.
- Encourage competition through domestic deregulation, trade reform, and the privatisation of public enterprises.

A central tenet of adjustment has involved 'rolling back the State'. Arguably, drastic reductions in State expenditures may be a response to fiscal crisis. However, this solution has failed because the cognitive framework within which it is derived is faulty. 'Downsizing' the civil service in Africa has been concomitant with declining real wages, and uncertainty even for those that remain on the payroll. Consequently, the public sector's capacity to provide basic social services is severely compromised. The cutback in public expenditures, intended to improve the fiscal discipline, resulted in a decline in investment in basic physical, institutional and standard scientific and technological infrastructures required by local and foreign investors, provoking a reduction in the level of private investment. There is evidence that the anticipated SAP-induced supplier response has been particularly weak in Africa.

Another key SAP tenet is liberalisation of domestic markets, encouraging greater private sector activity. Impressive double-digit annual growth in the private sector in several Asian and Latin American countries was noted during the 1980s. However, even in these former 'success story countries', greater freedom for entrepreneurial activity has led to extortionate pricing, wild swings in exchange rates, growing unemployment induced by unfair competition, collapse of basic social service systems and growing poverty. While sustained growth of exports of developing countries is due to private enterprises, liberalisation of trade has also led enterprises to close down. Newly privatised or incorporated enterprises have been required to rationalise their production methods, thereby shedding workers and increasing the pool of unemployment.

The world financial markets have taken advantage, in every way possible, of the

deregulated financial environment arising from the globalisation process. As long as enormous profits can be made from wild swings in the exchange value between currencies, the volume of international transactions will continue to grow. Extreme volatility of markets has become an obvious and dangerous phenomenon, since the frantic intensity of their activities leads to unpredictability and economic instability. Ironically, the experiences in Asia, Latin America and Africa show that the one bulwark against these disasters is government. Consistently, it has been government that has intervened to extinguish fires inadvertently lit by the markets' misguided enthusiasm.

One of the positive outcomes of market liberalisation has been an increased level of foreign investment globally. Foreign direct investment and other types of foreign collaboration can help improve competitiveness, particularly in the manufacturing sector. But while almost all developing countries can point to a few such projects, many African countries are disappointed in the low level of interest shown so far by foreign enterprises. Despite liberalisation, foreign investors have not been enticed, because of high transaction costs and inherent risks of investment coupled with weak and inexperienced local partners. Sub-Saharan Africa has been below the 6% mark on global foreign direct investment (FDI) in the last five years.

Many African countries have not returned to the socio-economic standards that they enjoyed in the 1970s. In some countries, even with upward trends, growth rates are below what is needed to make a dent in the accumulated problems of unemployment, marginalisation and poverty that began before the introduction of SAPs. There is sufficient evidence that adjustment policies have not countered, but have contributed to a significant redistribution of income and wealth from the poor to the rich both nationally and internationally. According to the UNDP Human Development Report (1998), inequality in income distribution at the international level worsened between 1970 and 1989: the countries with the richest 20 percent of world population increased their share of global GNP from 73.9 to 82.7 percent. The countries with the poorest 20 percent of world population saw their share fall from 2.3 to 1.4 percent. Over the same period, the ratio between

the average incomes of the two groups of countries rose from 32 to 1 to 59 to 1 while the Gini coefficient, a measure of overall inequality, rose from 0.71 in 1970 to 0.87 in 1989, a figure far in excess of anything seen within individual countries.

These purported income distribution changes are bound to have differential effects on social groups as the burden of adjustment in most developing countries has fallen largely on the low and middle-income strata of society. Urban workers have been hit especially hard, while certain categories of highly skilled persons have been more successful in preserving their incomes. Available information indicates a shift of income in favour of capital, especially in services and manufacturing engaged in international transactions. In Africa, the fall in income is not confined to unskilled and semi-skilled persons but extends much further up the skill hierarchy. The losers include those producing for the shrinking domestic markets previously protected from foreign competition, pensioners, holders of fixed interest bonds and other assets which failed to keep up with accelerating inflation.

Concurrently, the processes of adjustment and liberalisation have profoundly affected relative prices. Policies such as removal of trade barriers, foreign exchange controls, state subsidies, price fixing, labour market flexibility, deregulation and privatisation, all contribute towards unsustainable rates of inflation supposed to be countered by SAPs.

For the African region, trends in per capita income, employment, real wages and government expenditure all point to an increasing incidence of poverty in the late 1970s, 1980s and more intensified in the 1990s. In its report on poverty, the World Bank (1990) noted that 'with few exceptions, the evidence supports the conclusion that poverty in sub-Saharan Africa is severe and has been getting worse'. It can be deduced that growing incidences of poverty in different parts of the developing world are related to the above-mentioned changes in the pattern of income distribution. Policies of stabilisation and adjustment may have contributed significantly to decline in economic activity. Effects on incomes and welfare were magnified, by net resource transfers to industrialised countries through increased debt burden,

deteriorating terms of trade, declining flows of private capital and accelerating capital flight.

The prescribed adjustment remedies have, in most cases, failed to stimulate growth with sustainable human development. If we accept that the proof of the pudding is in the eating, then there is a need to revisit our reading of SAP outcomes.

3. All that glitters is not gold?

Strong interest on the debate on the effectiveness of 'structural adjustment' policies in promoting equitable and sustainable economic growth in Africa is demonstrated by the United States Congress review of adjustment in three selected countries—Ghana, Senegal and Côte d'Ivoire (US Congress 1989).

Ghana and Senegal were then regarded as models of the structural adjustment approach favoured by the BWIs and USAID. The study revealed that while adjustment led to rising per capita growth, it produced little enduring poverty alleviation. In fact, certain adjustment policies worked against the poor: real per capita income of the overwhelming majority stagnated, adjustment-related fiscal constraints reduced public social expenditure in basic social services, privatisation failed to fulfil its promise, and unemployment grew due to harsh liberalisation. In both cases, there is strong evidence to suggest that overall political stability and sustainability of adjustment was at risk from weak performance and rising political expectations.

The case of Zimbabwe also demonstrates the premature assumption of a SAP success. After its independence in 1980, Zimbabwe adopted extensive economic controls and heavy investment in social services such as health and education. However, the high levels of public spending became unsustainable and in 1991, the government embarked on the Economic Structural Adjustment Programme (ESAP). Under the programme the policy environment was improved and the BWIs repeatedly asserted that it was on the right track, until 1995. However, the actual economic and social effects of the programme were far from positive. During the 1990s, Zimbabwe witnessed a decrease in



Watering a market garden, Burkina Faso. José Mayans/ Cifre

income levels, a contraction in social expenditure, and low levels of economic growth. Most macro-economic targets were missed, inflation accelerated, and unemployment and poverty increased. Overall, economic performance has deteriorated, falling behind that of the sub-Saharan region as a whole, as demonstrated by a sharp fall in GDP growth per capita that fell from 4.6% during 1985–1990 to 1.8% during 1990–1996. As a result of trade liberalisation, average real manufacturing wages fell by more than a third, while 6% of the total number of workers employed in the manufacturing sector lost their jobs. Whereas manufacturing output grew at almost 5%, employment increased 3.6% and real wages improved 1.5% annually during the protection regime in 1965–1990, all three indicators declined under the SAP (UNDP et al. 1998).

In terms of social progress, the results were even more unsettling. During the same period, public spending on education declined to 30% of the government's total budget while health

expenditure declined from 18% of the government budget in 1990/91 to approximately 15% in 1994/5 (World Bank 1996). The Zimbabwe Human Development Report 1998 identified two main factors to justify these developments: the failure to complete the reform programme; and serious flaws in the content and the sequencing of the programme.

Although projecting a different picture, the same adjustment impact trend appears to be emerging in Asia. In several Asian countries the proportion of people living in poverty has declined. The incidence of poverty declined from 50 to 43 percent in India (1977–1983), from 28 to 17 percent in Indonesia (1984–1987), from 15 to 14 percent in Malaysia (1984–1987) and from 21 to 20 percent in Pakistan (1979–1984), although it rose in Thailand from 20 to 26 between 1981 and 1986 (World Bank 1990). However, income distribution seems to have worsened.

The message of the need for change in a fast-evolving global environment is gaining

momentum! A recent survey by the World Bank (1998) itself revealed that most donors appreciate the many changes the Bank is undertaking to enhance its effectiveness on the ground but want the institution's staff to 'adapt to the new image'. Aimed at improving the Bank's client focus, quality of partnerships and capacity to achieve results in the field, this survey demonstrates the growing pressure on the BWIs to transform. The failure of the Bank adequately to address the social dimensions of reform in a manner consistent with local conditions and situations, is cited as one of the areas of least donor satisfaction. Donors expressed their dissatisfaction with Bank policies and procedures: perceived inflexibility and failure to adapt knowledge to each country's needs. Interesting is the similarity in the discontent expressed by donors and other clients (such as developing countries). Donors surveyed have the perception that the Bank is prescriptive and tends to impose its views on clients and other donors, resulting in a lack of ownership.

4. Washington Consensus versus Copenhagen Consensus

The world economy has changed significantly since the design of the BWIs in the 1940s. These institutions have changed too—but many argue not enough. While the world economy is now considered more integrated and free-market based, the burning question is whether this system is sustainable at all. Sachs (1994) argues that 'today the world is closer than ever before to the global, co-operative, free-market arrangement championed by visionaries who met at Bretton Woods 50 years ago'. Pushed together by technology and the collapse of previous regimes, the world economies are now integrated not merely through trade in goods, but also through trade in services, finance and multinational production.

The World Social Summit held in Copenhagen in 1995 ushered in an alternative approach to dealing with the adverse effects of adjustment and encroaching globalisation. But does the Copenhagen Consensus provide an alternative to the Washington Consensus? The

Copenhagen Summit clearly conveyed the message that SAPs have failed to tackle the critical issues of poverty and underdevelopment. This is a clear acknowledgement of the fact that the process of facilitating globalisation (the present mode) is too passive and undermines global public responsibilities. The Social Summit concedes that directive globalisation would be too ambitious, because market forces are too strong to be planned or controlled. In any event it is recognised that steering the process, countervailing the negative globalisation forces, giving weight to motives other than fast profit maximisation, demarcating the spheres of life within which market forces can play, strengthening the voice of those who feel excluded or stamped by these forces, all remain public duty.

Gains by financial markets appear to be a genuine threat for the world today. On the threshold of the 21st century, there are increasing signs of the inherent fragility of the system of international economic relations. When the world moved from the fixed exchange rate to the floating exchange rate system, this was supposed to increase countries' policy autonomy. It is now clear that even the most powerful countries are losing their policy autonomy and the democratic power of parliaments to set economic and, in particular, fiscal and monetary policies has been usurped by the financial markets and rating agencies.

5. Standard solution to global problems?

The sorry state of the adjustment programmes in Africa remains. The intensity of the state's role in economic reform varies greatly from one regime to another. In the sad experiences of Africa, the failure of SAPs has compelled even the most dogmatic institutions to recognise the positive role the state can play beyond acting as a 'night watchman'.

When a uniform model, and policies based on that model, are sold to countless countries without regard to individual country conditions, they are bound to fail as they have. Economists seem usually not to be intellectually equipped and often not philosophically predisposed to

analyse the unique feature of a society, in order to advocate changes that fit well into the existing structures.

A larger part of Africa has been left untouched by the forces of global economic integration. According to Sachs (1994), Africa is the most formidable challenge facing the BWIs, in the next decade, one that will be best met by reforming the institutions' approach to reforms. 'The backlash against globalisation and neo-liberal economics is very much a factor that its protagonists are being forced to recognise, but are unable to deal with'. Here, the problems are considered political, though this term has come to be misconstrued. An alternative view suggests that the solutions to the African continent's quagmire lie in the realm of political economy of nations and the world, and not simple structural adjustment. Sachs further points that 'economists who have driven politics out of economics, in their own thinking, are unable to grapple with this'.

6. Towards socially responsible adjustment

On the eve of the Social Summit + 5 meeting a feeling of doubt is looming within and outside the Washington Consensus. As demonstrated throughout this article, SAPs in sub-Saharan Africa have failed rather miserably in tackling the root cause of poverty. Even in countries where growth was accompanied by rising standards of living and falling poverty, it was mainly as a result of other complementary policies and favourable initial conditions that created an environment conducive to human development. A few explanations can be outlined here as to why in most cases SAPs failed to achieve their objectives and did not contribute towards social progress.

SAPs' expansion throughout the developing world was done out of context. SAPs were developed for a specific region during a specific period of time and could not possibly cater for all countries with different social, economic and political problems. Similarly, its standardised approach did not work because the causes of poverty vary by country and by social structure. SAPs often faced a lukewarm reception and lack of commitment by

the host countries. The top-down approach of development practitioners clearly did not work. There is a need for a more socially responsible structural adjustment, the key components of which are outlined below.

First in order to ascertain the ownership by the programme country itself, and for the adjustment package to be country-specific, genuine participation from national stakeholders, including government, private sector and civil society, has to form an integral part of the programme formulation and implementation processes. The traditional IMF style missions, characterised by closed-door meetings, will have to be replaced by transparent and open negotiations. The scope of the reform has to go beyond the conventional prescriptions of economic policy adjustment. The adjustment programmes have to be multi-dimensional, taking into account a larger national development framework encompassing social, political and economic factors that affect the country's long-term development process. In a number of countries, national policies and/or strategies were formulated following global conferences on poverty, gender, and environment, among others. Such strategies and/or policies have to be clearly integrated and recognised in SAPs.

Second, growth has to be pro-poor. Economic growth is a necessary but not sufficient condition for poverty alleviation. The quality and structure of growth determine the extent to which it contributes towards poverty reduction and human development. Investment priorities should be biased towards the poor over other productive capital. In sub-Saharan Africa, where the majority of poor people live in rural areas and depend on subsistence or small-scale agriculture, reform in favour of small-scale farmers as well as timely land reform holds the key to poverty alleviation. Policies should promote micro-enterprises in which the income-generating activities of the poor are concentrated, through technical support and equitable access to low-cost institutional credit. Such policies can further strengthen pro-poor growth if they facilitate stronger linkages between formal and informal sector activities. Investment in public goods such as roads, communication and housing must be enhanced to provide a business-friendly environment targeting local entrepreneurs. Finally, investing in social

services such as education and health must be a priority area for government intervention.

Third, stronger and effective, not necessarily large, states are required to better manage the countries' economic activities in the new era. Globalisation requires governments to take a more active role in national economic affairs, not as a comptroller but as a facilitator. For instance, governments have to be equipped to manage trade and capital flows effectively. Policies of liberalisation should be carefully crafted in a way that opens up opportunities for local entrepreneurs, rather than providing free-for-all markets for powerful multinationals that tend to squeeze them out. Public service reform that undermines the effectiveness of a government to provide basic social services will contribute to economic decline in the medium to long term.

Fourth, different measures are warranted at the international level to shift towards socially responsible development. The international community can contribute greatly towards

sustainable human development through debt relief. According to the Human Development Report 1998 (UNDP), relieving annual debt repayments and redirecting the funds for social investments, would save the lives of about 21 million of Africa's children by 2000 and provide 90 million girls and women with access to basic education. UNDP in the same report estimates that the provision of universal access to basic social services and transfers to alleviate income poverty would cost roughly \$80 billion a year, for a period of 10 years. \$30 billion could come from national budgets, while an additional \$50 billion in aid is needed to achieve the goals of the Social Summit. According to the OECD, Official Development Assistance (ODA) stands at close to US\$60 billion a year (Michel 1997). Simple arithmetic tells us that it is possible to finance socially responsible development if the funds are targeted effectively. The challenge lies in the political will of the recipient countries as well as the willingness of the donor countries to provide more flexible and focused support.

Notes

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1. Globalisation as understood today, is a process characterised by rapid and pervasive diffusion around the world of new productive

and consumption patterns, increased flow of investments and trade in goods, services, capital and technology. Probably the most pronounced but also unsettling feature is the enhanced role of financial markets, which have become virtually timeless and borderless, functioning around the clock and around the world. Advancement of information technology has no doubt contributed towards this trend,

providing a new basis for fluid exchanges of vast amount of information around the globe. Propelled by neo-liberal economics, globalisation has facilitated an unprecedented spread of market liberalisation that far outpaces the ability of societies and their political systems, especially in developing countries, to adjust to the change.

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