In contemporary Africa few topics elicit a sharper debate than the effects of Structural Adjustment Programmes (SAPs) on economic development. Of the 183 structural adjustment and sectoral adjustment loans granted since 1989, sub-Saharan Africa (SSA) accounted for 84. The World Bank/IMF configuration and the supporters of free market policies often describe the success of SAPs in glowing terms: the progress with trade liberalization, privatization, institutional reform of the public sector and the reduction of the role of the state in the economy. According to this group of analysts SAPs have been instrumental in the achievement of higher rates of economic growth in developing countries — a view bitterly disputed by the critics of SAPs.

The critics of SAPs argue that these programmes have not succeeded in achieving their objectives; or have done so in a very limited way. According to the latter view, the economic crisis in Africa has deepened during the past decade, and owing to falling per capita incomes living standards have deteriorated even further during the latter period. In short, Africa is the only continent where poverty is expected to increase during the 1990s, while open unemployment in the cities, the staggering debt of the continent, the aids pandemic, food shortages, agricultural reforms notwithstanding, and the reduced flow of resources to the continent point to increasing marginalization and delinking from the rest of the world. The biggest concern of the above group of analysts is the effect of cutbacks in spending on human development. These cutbacks threaten to undermine the progress that has been made in the field of human development since the 1960s.¹

This article reviews the rationale for implementing SAPs, the objectives of SAPs, the experience with SAPs to date, the policy responses to SAPs and presents the case for both structural adjustment and transformation within the African context. The view is presented that much of the criticism levelled against SAPs has been focused on the orthodox SAPs introduced in the early 1980s and that very little recognition is given to the policy developments brought about by the World Bank/IMF and the donor community since then. On the other hand, it is argued that SAPs have not come to grips with the specific sociopolitical and economic conditions in Africa.

The reasons for implementing SAPs

Controversy exists regarding the prime reasons for the need to implement SAPs in SSA and other developing countries. Some observers regard the domestic economic woes and economic mismanagement of these countries as the main problems underlying the economic crisis. Others regard the external economic shocks as the main cause of their economic predicament.² A third opinion is that Africa's economic problems are the result of both external and internal
problems, but that the internal problems seem to predomi­
nate. The lastmentioned view is increasingly supported by
pre-eminent Africa scholars. ³ A fourth view is that Africa
has very deep-seated socioeconomic and political problems
and that nothing short of a total transformation will elevate
Africa to higher levels of development.

However, it was primarily the economic and financial
crisis of Africa that led the World Bank/IMF to embark on
SAPs. The external shocks that led to the implementation
included the declining prices of the major export commodi­
ties of developing countries, the increase in real interest
rates across the world and the fact that international capital
flows, and especially the commercial ones, came to a virtual
standstill in the early 1980s, which in turn had a direct bear­
ing on the debt situation of developing countries. The effect
of these shocks was threefold: lower commodity prices and
higher interest rates reduced disposable income; the cost of
borrowing increased and the scarcity of foreign exchange
rose; and inflation increased as a result of the inflationary
financing of public debts. The external debt of SSA and
some Latin American countries therefore increased to
unmanageable proportions.⁴

The debt crisis in Latin America and Africa, following
the oil crisis in the 1970s and a period of low economic
growth internationally, plunged many developing countries
into an economic crisis towards the end of the 1970s. In
Africa per capita incomes (and living standards) started
falling, food production declined and the first signs of dein­
dustrialization became visible as prices of primary com­
mmodities fell and output declined. Overvalued exchange
rates encouraged imports and discouraged exports and the
terms of trade deteriorated, thereby causing increasing bal­
ance of payments problems. In some countries inflation
soared in the wake of the higher oil and grain prices and the
inflationary financing of public deficits.⁵ Macroeconomic
imbalances arose from overly expansionary fiscal policies
made possible by external borrowing before the economic
crisis and distorted incentive systems.

The debt-burdened countries turned to the IMF and
World Bank for assistance. These institutions realized that
the debt problems were just the tip of the iceberg and there­
fore designed SAPs in an attempt to correct macroeconomic
distortions and imbalances.

Orthodox Structural Adjustment
Programmes: Their objectives and contents

The objectives of orthodox adjustment policies are as fol­
lows:⁶ to stabilize the economy, improve the allocation of
resources and to thereby raise the level of output and
income; and to achieve a higher level of savings and a more
efficient use of capital in order to raise the rate of produc­
tion growth. Streiten⁷ cites the objectives of structural
adjustment as the reduction or elimination of balance of
payments deficits; the resumption of higher rates of eco­
nomic growth; and the achievement of structural changes
that would prevent future payments and stabilization prob­
lems. It includes a reassessment of the medium-term invest­
ment programme, diversification of exports (and hence
reform of the trade regimes), a reduction of the bias against
exports, a reduction of import protection, domestic resource
mobilization, the introduction of price incentives and the
improvement of the efficiency of resource use.

Structural adjustment is directed at reducing internal and
external deficits, increasing efficiency in the economy, and
reducing government expenditure. The following typical
measures are included under structural adjustment:⁸ Changing
the exchange rate to make exports more profitable and
imports more expensive; reducing government payrolls;
privatization of government-owned enterprises that are bank­
rupt or inefficient; raising agricultural prices closer to world
markets to encourage agricultural production; and reducing
subsides both on consumption items and to producers.

The shift from project lending to structural adjustment
lending was mainly due to the World Bank experience
regarding the importance of the policy environment for
development projects and programmes and the importance
of avoiding financial constraints. Structural adjustment
lending is non-project lending aimed at bringing about policy
and institutional change to modify the structure of the economy
so that it can promote sustained growth and maintain balance
of payments stability. It therefore includes institutional
reform to support economic reform, to reduce the role of
the public sector, to rationalize or privatize state owned enter­
prises and to reduce fiscal deficits. As a policy instrument it
was positioned between the IMF short-term financial stabi­
lization programmes and policy instruments such as interest
rates, tax policy, subsidies exchange rates and incentives that
focused on demand management and the long-term project
lending of the World Bank. Whereas the initial SAPs were
mainly aimed at macroeconomic reforms, the scope was
broadened very soon to include sectoral reform policies to
give effect to the above objectives of SAPs.

The experience with, and critique on, SAPs

SAPs and economic growth

The contribution of SAPs to promoting economic growth is
by no means certain. Onimode⁹ notes that in Africa the
growth rate of per capita GDP has fallen from 3.03 per cent
in 1978 to 0.88 per cent between 1978 and 1988, while the
investment ratio has declined from 25.2 per cent to 15.5 per
cent over the same period. By the end of the 1980s the GDP
growth was expected to decline even further to reach levels
of 0.9 per cent and 0.7 per cent in 1996 and 1997 respec­
tively. With population growth still at 3.0 per cent per annum, per capita income is expected to decline to −1.7 per
cent during the period 1990–1992 and −2.4 per cent during
the period 1993–1996, while the resource gap in Africa is
expected to rise from 13.9 per cent to 15.2 per cent.

A recent World Bank study¹⁰ on the contribution of SAPs
to economic reform is illuminating. All the countries in SSA
and all low-income countries were divided into three
groups: the early intensive adjustment countries (EIAL) that
received structural adjustment loans before 1986; the other adjustment lending countries which received loans after 1985 (OAL) (they received only a few loans before that time); and those countries that did not receive structural adjustment lending (NAL).

It is interesting to note that the SSA countries in the first two groups (EIAL and OAL) entered the 1980s with weaker economies than NAL countries – they had higher inflation rates, higher debt burdens and lower rates of economic growth. In the early 1980s (1981–1984) both the GDP growth and investment ratio of the EIAL and NAL countries deteriorated and the growth rate for the OAL countries stagnated.

Analysis of the EIAL countries for the periods before and after World Bank adjustment programmes started (ie comparisons of the periods 1981–1984 and 1985–1989) respectively showed improvements in real GDP growth, export to GDP ratio, saving to GDP ratio and a fall in inflation. In the OAL and NAL countries GDP growth, investment to GDP growth and export to GDP ratio fell between the above periods. The NAL countries experienced a substantial increase in saving to GDP ratio and a large fall in inflation.

Since the above analysis does not give an accurate picture of the contribution of the World Bank adjustment programmes, an econometric methodology, which includes a modified control-group statistical framework, was used to determine the marginal contribution of World Bank structural adjustment to economic performance. In the case of countries in SSA there is a strong indication that the SAPs have contributed to improving exports in a significant way, which is not surprising given the emphasis of most countries on exchange rate and trade policies reform. However, SAPs have not significantly affected economic growth and have led to a statistically significant drop in investment ratio.

Included among the reasons for the less than desirable impact of SAPs on economic performance, cited by the World Bank study, are: the time needed for factors of production, after years of distortion in relative prices, to identify more productive opportunities and to make the shift; the below average success with the implementation of conditions and the possibility that SAPs had been too ambitious and included too many conditions; and the possible decline in capacity utilization induced by import compression, precipitated by fiscal and monetary retrenchment required by the programme.

The above study also concludes that more explicit consideration should be given to the initial conditions of SSA countries in the design, emphasis, and scheduling of adjustment programmes. A redefined and more important role for governments in reforming African economies is called for. Fiscal and monetary retrenchment is regarded as “still indispensable”, but it is critical that more public investment in infrastructure, human capital, and agricultural technology, to generate supply response, takes place. Policy reforms should also be made more credible to the private sector and programme implementation should be improved. Governance and political stability are regarded as critical in influencing the adoption, implementation, sustainability and credibility of SAPs.

SAPs and social development
Considerable progress has been made with human and social development in developing countries since the 1960s. However, the decline in economic growth in the late 1970s, the debt burden and the cutbacks in social spending under structural adjustment regimes had a pronounced effect on human development in the 1980s. Between 1972 and 1983 government expenditure on education and health in low-income developing countries declined from 15.2 per cent to 4.2 per cent and health from 6.1 to 2.7 per cent. In Africa unemployment and under-employment increased persistently in the 1980s and open unemployment became pronounced in the cities. Emmenj1 concludes that adjustment has been heavy on education, less important for health, and significant on public investment. He also points out that it is not only the “soft sectors” that have been hard hit, but also physical investments.

For most of Africa and Latin America the 1980s were a development disaster. In many parts of Africa poverty worsened and development goals gave way to the economics of survival, with the emphasis on debt servicing, domestic cutbacks and austerity. Living standards in Africa are currently about 75 per cent below their 1980 level, while unemployment among school leavers is about 60 per cent. The growth rate of school enrolment fell from 8.7 per cent in 1975 to 2.9 per cent in 1987 and primary school enrolment declined in many countries under structural adjustment programmes. Onimode16 therefore states that

... the human toll of structural adjustment programmes on women, children, and the vulnerable poor in both rural and urban areas has been absolutely catastrophic .... These grim statistics of patent failure belie the claim that adjustment generated growth in Africa during the 1980s.

Some general criticism of SAPs
The most fundamental criticism of SAPs came from the authors of the African Alternative to Structural Adjustment Programmes (AFSAP) at the Economic Commission for Africa. They questioned the rather narrow economic and financial focus of SAPs and cited the following as some of the underlying causes for Africa’s social and economic crisis:

• A production structure which produces commodities that Africa does not need, while it depends on other people for the production of its own needs.
• The predominance of subsistence activities.
• A base for producing goods that is very small, that has no linkages within it, that uses backward and unscientific methods and has no modern machinery or technology.
• The existence of a large informal sector.
• The degraded environment.
• Lop-sided development caused by the urban bias of public policies.
• The fragmentation of the African economy into small markets.
• The openness and excessive dependence of the economies, including the dependence on external factor inputs.

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• Weak institutional capabilities.
• The social structures of Africa with its deeply rooted social differentiation.
• The political environment – basic rights, individual freedom and democratic participation are often lacking in African countries.
• Social and political weaknesses have often led an acute crisis in Africa, with a breakdown of institutions, closure of institutions, lack of accountability and a failure to maintain profitability.

Given the above multidimensional nature of the African development problem, AFSAP called for a long-term strategy of structural transformation.

SAPs are also criticized by others for their lack of consistency and timing in implementation. Keny is pointed to as an example of a country that turned to SAPs, but apparently did not go far enough in implementing them. It is argued that Kenya may in future again have to turn to the World Bank/IMF for assistance, but that by that time the crisis may be much worse. If the World Bank were to apply its strict measures regarding countries with large budgetary deficits, neither Zambia nor Zimbabwe would have qualified for lending.

**Policy responses to SAPs**

**Adjustment with a human face**

In his 1985 Barbara Ward Memorial Lecture in Rome, Richard Jolly presented the case for "adjustment with a human face". He argued that malnutrition assumed crisis proportions in the early 1980s and that falling living standards in large parts of the world, and both international and national factors which were at work, compounded the downward pressures on living standards and welfare services.

According to Jolly, the protection of nutritional status and other basic human needs could be monitored and considered as much a part of the objectives of adjustment as the balance of payments, inflation and economic growth.

The economic returns to investment in human resources was emphasized, while he could not be led to believe that economic dynamism can be restored when an important part of a country's workforce remains malnourished. Not every cutback in expenditure could be regarded as counter-productive, but if it is reduced below a certain level, "an adjustment process becomes absurdly counter-productive to the economic process, let alone to the political and human viability of a country".

The "adjustment with a human face" approach as put forward by Unicef in 1987 presented the case for including the protection of the poor and the vulnerable as part of adjustment policy. Adjustment along these lines includes five distinct elements:

• More expansionary fiscal and monetary macroeconomic policies aimed at sustaining levels of production, employment, and general human needs satisfaction over the adjustment period, which should be lengthened from 5 to 10 years.
• The introduction of meso- and targeted policies to ensure that a fair share of the inputs for economic growth is channelled to the poor on equitable conditions.
• A restructuring of production to give greater emphasis to generating income and productive employment for the poorer sections of the population – especially to benefit small-scale farmers, and the landless, urban informal workers, and women.
• A restructuring of government expenditures on health in favour of greater cost effectiveness and expansion of services for the poor.
• Special support programmes – often of limited duration – to protect the basic health and nutrition of the most vulnerable low-income groups during adjustment. Public works programmes and food subsidies are examples of such policies.

The above approach also makes provision for the involvement of a broader group of national and international analysts and policymakers in making decisions regarding adjustment; a broader approach to the monitoring of adjustment, including the monitoring of the human situation; and a longer time over which the adjustment programme is planned, implemented and supported internationally.

**The World Bank, adjustment and the poor**

The World Bank also became aware of the harsh effects of rationalization and cutbacks in expenditure under SAPs: "people thrown out of work are suddenly poor, and people living at the margin of poverty are forced below the line as food prices and other living costs rise."

They therefore convened a symposium on "Poverty and Adjustment", involving some 17 countries, the IMF, development agencies and researchers.

At the above symposium five options to reduce poverty under SAPs were identified:

• **Increasing access of the poor to productive assets.** The most significant way to achieve this objective is to make institutional credit available to the self-employed, small-scale enterprises and farmers. In some countries the access of the poor to assets has been improved through land reform.
• **Increasing the returns on assets held by the poor.** Increasing output prices and productivity or reducing input costs are regarded as ways to increase output and to reduce poverty. The development of infrastructure in agricultural areas, extension services and the availability of inputs and marketing facilities are other factors determining the success of small farmers in developing countries.
• **The creation of employment opportunities.** This includes an increase in occupational and geographic mobility; the promotion of self-employment through improving access to credit; training to improve productive skill and to promote self-employment; and special employment schemes such as public works programmes.
• Maintaining human capital through nutrition schemes for children and improving access to health services.
• Increasing income and consumption transfers. Here it depends on the pre-adjustment strategy being followed by a country — whether social services had been weighted before adjustment and international trade strategies had been adopted prior to adjustment. Governments are often faced with difficult policy choices between expenditure on the productive and economic sectors and on social services and targeting for the poor.

The African Alternative to Structural Adjustment Programmes (AFSAP)

The AFSAP proposals25 posed four basic questions:
• To what should African countries be adjusting? They suggested that a long-term view be taken to increase productive capacity, the production of indigenous factor input; and the promotion of sustainable self-reliant development.
• What should African countries adjust? This touches on almost all aspects of the political, social, cultural, environmental and economic setting. It includes adjustment to the forces in African society that affect people (systems of government, private sector, etc), the different ways and means of African countries to produce what people need and the goods and services vital for the welfare of the people.
• How to adjust? Adjustment should take place in such a way that human welfare is improved and that economic transformation can continue.
• Adjustment for whom and by whom? AFSAP advocates adjustment with transformation which involves access of the poor to basic factors of production; creation of employment opportunities; and improving the way national wealth is distributed throughout the population.

Policy measures to give effect to the AFSAP proposals include:
• Strengthening and diversifying Africa’s production capacity through inter alia multiple exchange rates; processing of raw materials; development of human resources; scientific research to promote biotechnology; promotion of small-scale production in the informal sector; promotion of food self-sufficiency; investment in rural infrastructure and land reform.
• Improving the level of income and its pattern of distribution through resource mobilization, reduction of financial leakages, increasing government spending on human development to 30 per cent of the total expenditure and privatization that will benefit national businessmen and women.
• Adjusting the pattern of expenditure for the satisfaction of vital needs. Expenditure switching is proposed, away from the military to social services and the pooling of financial resources to put a number of projects in action.
• Providing institutional support for adjustment. This could include support for old institutions and establishing new ones. This kind of support includes clear legislation on property ownership, financial institutions for self-help programmes or for small farmers or cottage industries, supervised food production credit and indigenous non-government organizations.

The road ahead

The above debate and the experience with SAPs in SSA has shown that Africa is facing an economic crisis of major proportions and the danger of marginalization and delinking. The crisis is the result of both external factors (the decline of the international economy) and domestic causes (mismanagement of the economy and erroneous policy options).

It is also clear that the mistakes have been made on both sides: There is clear evidence of mismanagement of the economy in Africa, but it is also clear that orthodox SAPs have aggravated human suffering by undercutting the progress that has been made in the field of human development since the 1960s. Objective analysis shows that SAPs have achieved mixed results — they have promoted export growth in SSA countries, but have not succeeded in bringing economic growth to the desired levels. The criticism of the AFSAP group is also valid — SAPs have concentrated heavily on the economic and financial dimensions of the crisis in Africa, thereby underestimating the complexity of the political economy of Africa, the social setting and the institutional framework which has evolved in the post-colonial era.

The issue at stake during Africa’s transition to political and economic democracy is not whether it should be structural adjustment or transformation. Both are required. Economic reforms are still desperately needed to make the economies of Africa more efficient, productive and wealth creating. On the other hand, SAPs have failed to address the human dimensions of development sufficiently in SSA, notwithstanding the attempts to broaden the framework of structural adjustment in the 1980s. It is believed that these lessons are very relevant for the South Africa of the 1990s and beyond.

South Africa: The debate has commenced

A cursory glance at the economic and developmental problems of South Africa reveals that, despite its middle-income and medium human development status and the resource endowment, technological advances, well-developed infrastructure, research capacities and management competence at its disposal, the country is saddled with many of the same problems as those African countries which implemented SAPs.26 South Africa has experienced declining economic growth rates since the 1960s and negative per capita income growth in the 1990s. Savings are not sufficient to sustain a 4–5 per cent growth rate; and the gross domestic investment...
to GDP ratio declined to 16.3 per cent in 1991.27 Foreign borrowing is therefore needed to finance higher rates of economic growth, but the scope of foreign borrowing is limited by the ability to service debt.

Higher economic growth has often led to higher imports of capital and intermediate goods resulting in balance of payments problems and attempts by the monetary authorities to manage growth to prevent the latter problems arising. The high rate of inflation in South Africa affected the country’s international effectiveness, and although inflation has started to decline in recent months, it is still high compared to South Africa’s main trading partners. The authorities have therefore been reluctant to give preference to growth rather than combating inflation.

The declining level of economic growth has been accompanied by an increase in capital intensity in mining and manufacturing. Both the capital and incremental capital-output ratio have increased significantly in South Africa between 1960 and 1990.28 The change in the pattern of growth of the South African economy in turn has had a pronounced effect on employment creation. The average labour absorption capacity of the South African economy has declined dramatically and only some 7 per cent of the new entrants into the labour market are at present absorbed in the formal sector of the economy, compared to 74 per cent some 20 years ago.

Unemployment has, in turn, among other factors, aggravated the skewness of income distribution and the socioeconomic imbalances and backlogs in South Africa. Although the per capita income of blacks has grown faster than those of the whites in the past decade or more, the gap remains large. The challenge posed to a future government by the huge backlogs in housing, education and social welfare is also daunting. Many of these problems have become visible in and around the major cities following the rapid process of urbanization since the mid-1980s. The rapid growth of informal settlements (some 7 million people in South Africa are living under informal conditions) and the demand for infrastructure and services created by these developments will bring additional pressures to bear on the treasury.

The transition to a new political dispensation involves finding a political solution (ie addressing the legitimacy issue); attending to stability issues (ie combating violence) and creating the conditions supportive of long-term economic growth and development.29 This illustrates that South Africa faces both structural economic problems, calling for structural adjustment to gear the economy to meet the challenge of the postapartheid era, and some very deep-seated socioeconomic, political and security challenges that require nothing short of a sociopolitical and economic transformation to a new dispensation. What is needed is a new framework that will integrate adjustment and transformation within the limits posed by financial constraints, that will set realistic targets and that will present the country with a realistic time-table to undertake the above transition. Prudent political leadership and sound policy choices will be crucial in achieving the latter objectives.

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