Adjustment in Sub-Saharan Africa

Adjustment lending was introduced by the World Bank in 1979. Since then, it has accounted for roughly one-third of all World Bank lending in Sub-Saharan Africa. To date, OED has evaluated 68 adjustment operations in Africa, of which 57 percent were rated satisfactory (see Box 1). A recent OED study*, drawing on the findings from evaluations, reveals fundamental factors that contribute to successful adjustment programs, including the need to: coordinate structural reforms with other reforms; limit the scope and complexity of efforts; use quality economic and sector work as a basis for lending, and as a means to assess impact and implications throughout project duration; and ensure sustained policy progress through development and promotion of institutional capacity and borrower ownership.

Program design and implementation

Structural reforms, while clearly needed in many African countries, are usually not sufficient to generate a strong supply response. Successful adjustment programs require macroeconomic stability as a precondition, including sustainable levels of external debt, and complementary measures to develop the private sector (basic infrastructure, business support systems, legal reform) as well as long-term institutional reform. In general, because private sector and institutional reforms take much longer to implement than policy reforms, they are better addressed through longer-term lending instruments.

The policy reform programs themselves tend to be more successful when the objectives and the timeframe for implementation are realistic, and when the programs are well-focused and emphasize a few key policies. In Mozambique, for example, the Second and Third Rehabilitation Credits set out a program of partial steps phased over several years, in deference to the government’s wishes. The program was then successfully implemented.

Many of the audits on African adjustment operations do not deal explicitly with the question of sequencing of structural reforms. Those that do suggest that it is difficult to derive general lessons that are not linked to the political and economic conditions of the specific country. Nevertheless, some of the experience, consistent with the findings of earlier OED studies, may be relevant to other countries.

For example, export promotion takes precedence over import liberalization, but the two must be closely coordinated in order to avoid the anti-export bias of protectionist policies. The pace of import liberalization must be manageable. Furthermore, structural reforms are unlikely to be effective unless accompanied (or preceded) by internal competition policies to reduce distortions in domestic regulations and factor markets. Finally, adjustment in the real sector, to generate productive investment opportunities, should normally precede financial sector liberalization. Ineffective real sector adjustment operations in Kenya failed to generate productive investment opportunities and demand for quality credit. It was therefore not surprising that a subsequent financial sector adjustment credit did not meet its main objective of increasing the allocation of credit to productive endeavors.

Well-prepared loans, based on high quality economic and sector work, lead to improved design, better implementation, lower cost, and less work. It is better to spend

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* "Adjustment in Sub-Saharan Africa: Selected Findings from OED Evaluations," Report No. 12155, 1993. OED reports are available to Bank Executive Directors and staff from the Internal Documents Unit and from Regional Information Services Centers.
Evaluating Adjustment Operations

This study is based on a review of 63 PARs and five PCRs of adjustment operations in 29 countries in Sub-Saharan Africa. OED audits of individual adjustment loans (ALs) consider the whole of the adjustment process, including achievements under previous operations, as applicable, and attempt to determine whether satisfactory progress was made towards the operation's objectives and towards sustainable growth. A caveat is that the lessons drawn may not reflect the current situation in all countries, because many recent loans have yet to be audited.

As shown below, only 57 percent of the ALs reviewed were rated satisfactory, similar to the outcome in Latin America, but well below the outcome in other parts of the world. This compares with a 67 percent success rate for investment operations in the region approved during the 1980s. A breakdown of OED ratings of adjustment operations in Sub-Saharan Africa over time, i.e., by Board approval date, shows no discernible trend.

<table>
<thead>
<tr>
<th>PAR/PCR Ratings of Adjustment Operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Region</td>
</tr>
<tr>
<td>--------</td>
</tr>
<tr>
<td>Africa</td>
</tr>
<tr>
<td>East Asia &amp; Pacific</td>
</tr>
<tr>
<td>South Asia</td>
</tr>
<tr>
<td>Europe &amp; Central Asia</td>
</tr>
<tr>
<td>Middle East &amp; North Africa</td>
</tr>
<tr>
<td>Latin America &amp; Caribbean</td>
</tr>
<tr>
<td>TOTAL</td>
</tr>
</tbody>
</table>

Source: OED database.

more time getting the program right than to lend prematurely. Successful programs are based on a realistic and careful assessment of the expected outcomes, potential effects of external shocks, and major risks facing the program. Supervision and monitoring play a key role in keeping programs on track and in responding to unexpected developments. The satisfactory outcome of several adjustment operations in Ghana owes much to thorough preparatory work, realistic assumptions and economic projections, and good supervision.

There is no doubt that adjustment lending can play a valuable role in supporting country efforts to adjust to external shocks and improve economic management. But, without sustained progress on the policy front, the provision of balance of payments support can be counterproductive. The end result will simply be higher levels of debt, weakened policy credibility, and a much more difficult task of adjustment in the future. Under these conditions, more attention should be given up front to developing the institutional capacity and borrower ownership needed to sustain reform. Until this is in place it would be prudent to offer a lower level of adjustment assistance, with more funds targeted to specific sectoral programs or investment projects (e.g., basic infrastructure, social programs). Côte d'Ivoire is a good example of a country where large inflows of relatively expensive balance of payments support were given before an appropriate amount of policy reform was undertaken, thus making the adjustment task much more difficult and costly.

Borrower ownership and political economy issues

Borrower ownership stands out as a primary determinant of program success (see Box 2, and Précis Nos. 32 and 40). The greater the borrower participation in designing and implementing the program, the greater the ownership, and hence the greater the likelihood of a successful outcome. The very low degree of borrower ownership of the adjustment operations in Côte d'Ivoire explains much of the unsatisfactory outcome of the program. But even when borrowers' commitment appears strong, as in Ghana, it can still be weakened by a tradition of mistrust between the government and the private sector, and the heavy costs that reform can entail for powerful political groups (civil servants, parastatals, urban consumers). Frequent policy changes will quickly undermine policy credibility and the confidence of the private sector.

The Bank needs to strengthen its understanding of political economy issues. In particular, economic and sector work should include a regular assessment of the impact of adjustment policies on various constituencies and the effect this might have on the momentum for reform. The Bank also needs to support efforts to bring the private sector and other social/political groups into the process. Caution

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Borrower Ownership in Adjustment Operations

OED devised a classification scheme in which ownership is treated as a four-dimensional, independent variable. The four dimensions are: locus of initiative, level of intellectual conviction among key policymakers, expression of political will by top leadership, and efforts towards consensus-building among various constituencies. For each of these dimensions, four levels reflecting their intensity were defined, yielding a total of 16 possible ratings for each adjustment operation reviewed (see “World Bank Structural and Sectoral Adjustment Operations: The Second OED Overview,” Report No. 10870, June 1992).

Rated according to these criteria, the degree of ownership of the African adjustment operations reviewed was correlated with program outcomes. Borrower ownership was strongly predictive of program success in 76 percent of the cases. A review of borrower ownership of African adjustment operations over time, i.e., by Board approval date (the applicable database runs through FY88) shows little change. When the analysis was confined to operations approved since 1985, borrower ownership was even more strongly predictive of overall program success, making up 91 percent of the total of operations.

<table>
<thead>
<tr>
<th>Program Outcome</th>
<th>Highly Satisfactory</th>
<th>Satisfactory</th>
<th>Unsatisfactory</th>
<th>Very Unsatisfactory</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very High</td>
<td>1</td>
<td>6</td>
<td>0</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>High</td>
<td>3</td>
<td>14</td>
<td>2</td>
<td>1</td>
<td>20</td>
</tr>
<tr>
<td>Low</td>
<td>1</td>
<td>8</td>
<td>6</td>
<td>2</td>
<td>17</td>
</tr>
<tr>
<td>Very Low</td>
<td>0</td>
<td>3</td>
<td>11</td>
<td>5</td>
<td>19</td>
</tr>
<tr>
<td>TOTAL</td>
<td>5</td>
<td>31</td>
<td>19</td>
<td>8</td>
<td>63</td>
</tr>
</tbody>
</table>

Source: OED

should be exercised where significant doubts exist regarding the degree of ownership. Where there is scope for flexibility, efforts should focus on policy areas where some degree of consensus can be elicited among the implementing agencies, key interest groups in the country, and the Bank.
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