A SCORECARD OF AFRICAN ECONOMIC REFORMS

MARK GALLAGHER

Upon gaining independence, many African[1] governments opted for a development path that included considerable government intervention in allocating economic resources. Policies, while often stated in terms of African socialism, were not out of line with the received wisdom of the day's economic development experts. Allocation of investment to public enterprises, central bank-controlled exchange rates, regulated prices, and restrictions on both domestic and foreign capital were not only consistent with African socialism but with current, dominant development theories. African leaders believed that development policy must lead to balanced growth, compensate for a perceived lack of indigenous entrepreneurship, and stimulate and protect domestic industry. Furthermore, African leaders, although often suspicious of international capital and trade, recognized the urgent need to industrialize. Industrialization was to come from direct government investment in the productive processes and from government planning and control.[2]

These policies were sustainable as long as export markets remained favorable and international financial markets remained willing and able to provide Africa with new financing. Continued inflows of borrowed funds and export receipts allowed African governments to maintain expansionary fiscal policies and to run considerable imbalances in international trade. With the beginning of the 1980s, however, prices for Africa's export commodities rapidly deteriorated while international liquidity dried up. In addition, oil price shocks had a negative impact on non-oil-exporting countries. With the decline in export receipts and the unavailability of new lending, most African economies were overburdened by the debt of the past and the inability to generate growth in their economies. These imbalances revealed the unsustainability of the state-centric policies of the past.

Against this backdrop, many African countries began efforts to stabilize and reform their economies and to seek the assistance of the international

Mark Gallagher is an Economist in the Technical Department of the Africa Region of the World Bank. The opinions expressed in this article are the author's and may not reflect those of the World Bank. *The author wishes to thank Charles Humphreys, Osita Ogbu, and William F. Steel of the World Bank, and Professor Robert West of The Fletcher School of Law and Diplomacy for their helpful comments.*

1. For the purposes of this paper, "Africa" refers solely to Sub-Saharan Africa, excluding the Republic of South Africa.
2. For an elaboration of this theme, see Mark Gallagher, *Rent-Seeking and Economic Growth in Africa* (Boulder, Colo.: Westview Press, to be released in 1991).

community. At first these reforms were supported primarily by short-term programs of the International Monetary Fund (IMF), and concentrated on restoring fiscal and international balances through contraction of aggregate demand. Eventually, however, when it became apparent that IMF short-term instruments would not be adequate for addressing long-range policy problems in Africa, the World Bank and several bilateral donors supported deeper reforms, such as improving incentives for African farmers, raising interest rates above the rate of inflation, and liberalizing trade regimes.

There has been much discussion of the impact of these reforms. In 1989 Carol Lancaster wrote that "Economic restructuring has become high politics in Sub-Saharan Africa."[3] Will economic reform eventually lead to growth? Why have reform efforts not led to increased investment? Are the social costs of adjustment bearable? It seems, however, that before we can even think about these questions it would be best to know if there have been actual reforms, and, if so, in what policy areas and in which countries.

Some World Bank[4] reports define the "adjustment status" of countries by whether or not the country is borrowing from the World Bank under a Structural Adjustment Loan (SAL). If a country is an SAL borrower then it is considered "adjusting." If it has had three SALs then it is an intense adjuster, or "AL-intensive." Based upon this categorization of African countries, a report jointly prepared by the World Bank and the United Nations Development Program (UNDP)[5] found that "adjusting" countries had improved their investment and growth performance vis-à-vis "weak adjusting" countries.

Shortly thereafter, in a barrage of insults hurled at the World Bank (surprisingly, none were directed toward UNDP), the UN Economic Commission for Africa (ECA)[6] disputed the World Bank/UNDP report. According to the ECA, almost all African countries had been going through "adjustment"[7] and the "adjusting" countries had not reaped any benefits for their efforts. Another World Bank report[8] evaluated reform programs throughout the world. This report was limited to assessing the degree to which loan conditions on SALs were being met. The report did not evaluate the implementation of reforms by countries that did not participate in World Bank policy lending, nor did the report present a breakdown of reform by policy area and country.

In another report, the ECA[9] characterized World Bank and IMF adjustment programs as based on orthodox economics more appropriate to well-developed

3. Carol Lancaster, "Economic Restructuring in Sub-Saharan Africa," *Current History*, May 1989.
4. See especially Thomas Vinod and Ajay Chibber, eds., *Adjustment Lending: How It Can Be Improved* (World Bank, 1989).
5. World Bank and UNDP, *Africa's Adjustment and Growth in the 1980s* (Washington, D.C.: World Bank, 1989).
6. United Nations Economic Commission for Africa, *Statistics and Policies—ECA Preliminary Observations on the World Bank Report "Africa's Adjustment and Growth in the 1980s"* (Addis Ababa: April 1989).
7. The ECA defined "adjusting country" as any country that had ever received IMF assistance.
8. World Bank, *Adjustment Lending: An Evaluation of Ten Years of Experience* (Washington, D.C.: Country Economics Department, 1988a).
9. United Nations Economic Commission for Africa, *African Alternative Framework to Structural Adjustment Programmes For Socio-Economic Recovery and Transformation (AAF-SAP)* (Addis Ababa: June 1989).

countries. According to the ECA, the classical instruments of money supply control—credit contraction, exchange and interest rate adjustments, trade liberalization, and privatization—are ineffectual in the African economies, which are characterized by "weak and disarticulate structures." Furthermore, the ECA maintains that these orthodox programs are not only ineffectual but, in fact, counter-productive.

The purpose of this paper is to help provide a transparent evaluation of reform implementation. It is candidly conceded that this analysis is only partial in scope, based on limited information and addressing limited areas of reform. However, the evaluation focuses on policy areas fundamental to stabilizing African economies and placing them on a path to economic recovery—namely, fiscal, monetary and financial, exchange rate, and agricultural pricing policies. Most reform programs purport to go much further than the four areas investigated here. Yet, without success in achieving these fundamental policy targets, the prospect of success for less fundamental reforms is small indeed. In short, while the reforms included in this analysis may not be sufficient to attain overall adjustment, stabilization, and growth, they are necessary. Without these fundamental reforms, recovery will remain elusive.

This evaluation uses a straightforward methodology. Reform implementation is measured against major policy reforms to which leaders of African governments publicly committed themselves between 1984 and 1987. There are two methodological reasons for limiting the evaluation to the four policy areas stated above. First, these broad reforms have been included on most reform agendas in Africa, whereas others, such as public enterprise rationalization and reforms of the health and education sectors, are less commonly found. Second, these areas allow for clear, objective, and quantified verification, thus standardizing the evaluation. However, this approach also has drawbacks. The reliance on quantitative measures ignores the nuances of more subtle reforms, such as those to improve public enterprise management and liberalize domestic prices.

A Brief Look at African Economic Reform Programs

This section presents the range of policy reforms[10] announced by policymakers in Africa between 1984 and 1987.[11] Such an inventory provides a clear picture of the range and depth of reforms African leaders have agreed are needed.[12]

10. The range of reforms in Africa goes beyond the four policy areas that are the focus of this evaluation. This section discusses the broader range of reforms.
11. The period was chosen because of the availability of documentation and because it coincided with the period when many of Africa's reform programs began.
12. The information was collected from various IMF and World Bank documents, as well as documents issued by African governments. Only those policy reforms actually agreed to by African governments were included in the survey. Policy recommendations made in Bank and Fund documents but not explicitly agreed to by the respective governments (such agreement can be reached by closing on a standby, CFF, SAL, or other such agreement) are excluded.

Of the forty countries surveyed, twenty-nine instituted some type of fiscal reform program, most of which focused on reducing deficit spending. Although most included greater tax effort and reduced expenditures, only twenty of the twenty-nine countries specifically targeted greater tax effort. Twelve countries announced major tax reforms. Reduction in wages and other civil service reforms were on the agenda of twenty-four countries, but increased wages were planned for Ghana and Uganda, where government wage rates had fallen behind those in the rest of the country.

Sixteen countries planned a tightening of money growth. Countries attempting to reduce their fiscal deficits generally advocated tight money policies. At least eleven countries planned to raise real interest rates or to subject financial markets to market forces. Four countries called for studies of the money and banking systems prior to announcing reforms.

Nineteen countries planned to devalue their currencies in real terms or to liberalize the allocation of foreign exchange—some through foreign exchange auctions. Liberalization of trade regimes, which includes removal of quantitative restrictions, elimination of import/export monopolies, tariff reform, and other related measures, has been included on the policy reform agenda in sixteen countries. However, trade liberalization, primus inter pares among policy reforms in Africa,[13] is not easily measured. Quantitative restrictions on imports create artificial shortages and tend to distort economies more than high tariffs. The available information on import duties for African countries does not indicate whether stricter enforcement of customs regulations or higher tariffs cause collections (and hence the "effective tariff rate") to rise. Some countries have import monopolies that tend to distort domestic markets and waste resources. Because of the lack of information on trade orientation, regulation, and reform, this important area of African economic reform cannot be included in this evaluation.

Six countries planned studies of the public enterprise sector. In most cases public enterprise reform has concentrated on management improvements and institutional and budgetary reforms. Fourteen of the twenty-eight countries where public enterprise reform is on the policy reform agenda have planned privatization to a limited degree.[14]

Twenty countries planned agricultural reforms and another two have promised studies with reform in mind. In fourteen of these countries, increased producer prices have been called for; in six, reduction in input subsidies; and in ten, improved market access—including deregulation, elimination of monopoly/monopsony, and certain investments. Decontrol of general prices was planned for eleven countries, elimination or reduction of consumer subsidies

13. For a thorough discussion of the importance of trade liberalization for economic performance and stabilization in African countries see Sebastian Edwards, *Notes on Openness, Outward Orientation, Trade Liberalization and Economic Performance in Developing Countries* (National Bureau of Economic Research, June 1988).

14. For a more in-depth review of reforms in the public enterprise sector see Daniel Swanson and Teferra Wolde-Semait, *Africa's Public Enterprise Sector and Evidence of Reforms* (World Bank Technical Paper 95, 1989).

for five, increases in electricity tariffs for six, and price increases for petroleum products for eight.

These reforms generally concentrate on economic stabilization and reduction of the state's role in the economy through reduced regulation and smaller government. Enough time has now elapsed since these reforms were first proposed to allow assessment of whether they have actually been implemented.

A Case History: Reform in Nigeria

Nigeria is home to approximately one-fourth of the inhabitants of Africa and about the same share of total African income. A review of the process and the political context of reform in Nigeria offers a more in-depth understanding of some of the issues involving economic reform in Africa.[15]

Nigeria's spending spree, fueled by oil exports, petered out in the early 1980s. Foreign exchange reserves dwindled and credit from abroad dried up. However, continued government spending fueled rapid inflation which, in the face of fixed exchange rates, led to an overvalued currency. The overvalued naira damaged the country's competitiveness, encouraging imports and discouraging non-petroleum exports.

In 1983 the World Bank recommended a series of reforms to reduce the country's dependence on oil and to lower aggregate demand through austerity measures. Nigeria rejected these recommendations until the military government that took power on December 31, 1983, accepted austerity but chose to address other economic difficulties through greater regulation and administrative control. In the meantime, the World Bank and the IMF continued to press for broader economic reforms that Nigeria did not accept until after the Babangida government took power in August 1985.

In early 1986 an open national debate among academics and market women on measures for stabilizing the economy dominated the news media. The country expressed its desire not to accept an IMF stabilization program. Instead, the government decided to adopt many of the austerity measures recommended by the IMF but not to avail itself of IMF financial support. Adopting a program of reforms allowed the government to renegotiate its debts with foreign donors without running up new short-term obligations, while maintaining sovereignty over its economic policies. Aside from the usual austerity measures, the Babangida government drastically devalued the naira and eventually allowed its rate to be set by an open auction system. Furthermore, the government has lifted some price controls and eased or removed some import controls, planned the privatization of public enterprises, and rationalized some agricultural prices and subsidies.

---

15. For an early discussion of Nigeria's reform process see Nils Borje Talroth, "Structural Adjustment in Nigeria," *Finance and Development* (September 1987). The most enlightening and entertaining tale of policy politics and reform in an African country that I have read appears in a recently published book that I recommend wholeheartedly: Robert Klitgaard, *Tropical Gangsters: One Man's Experience with Development and Decadence in Deepest Africa* (New York: Basic Books, Inc., 1990).

Despite the high-level and grassroots support for much of the reform program, implementation reform has been stop-and-go for the past several years. Changes in political regimes have contributed significantly to the government's willingness to address the issues of stabilization and structural adjustment. While the naira has been drastically devalued and its rate is now set by an auction system, recent inflationary measures have been matched by the government's moral suasion that banks "bid prudently" for foreign exchange. Money expansion, greatly reduced in 1986, has since accelerated. In addition, despite austerity measures announced by the Babangida government, the federal government's fiscal deficit-to-GDP ratio appears to be on the rise after an initial decline. In short, although Nigeria has created a rather comprehensive reform agenda, implementation of the reform has been weak or, at best, incomplete.

It is not clear what the future holds for Nigeria and the reform process. Recent bouts of inflation apparently are undermining the public's tolerance and the widespread support for the reform efforts. President Babangida has stressed the importance of reform for the country's survival and has appealed directly to the people in an effort to publicize his support for structural adjustment. With civilian elections in 1991 and a new president due in 1992, the future momentum of reform lies in doubt. At the same time, the recent troubles in the Persian Gulf will double Nigeria's export earnings. Will a renewed inflow of petro-dollars make the reforms more tolerable or will the urgency of reform tend to dissipate?

Fiscal Policy

Fiscal policy affects African economies in a number of ways. While government spending provides public goods and social services such as health care and education, these services absorb resources that could otherwise provide private goods and services. High rates of taxation and tax systems not thoughtfully designed can harm economic incentive. Although deficit spending can be a useful, stimulative tool, deficits become unsustainable when their financing leads to rapid inflation and general economic instability. By the beginning of the 1980s almost all African countries found themselves spending beyond their means, with foreign financing less readily available and domestic financial markets severely limited in their ability to absorb new government debt without creating inflation or "crowding out" domestic investment.[16]

This evaluation addresses the following reforms in the area of fiscal policy: deficit reduction, reduction of expenditures as share of gross domestic product (GDP), and increased tax effort.[17] All of the reforms refer to central government finances only.

---

16. For a more thorough discussion of the impact of fiscal policies on development and economic stability see World Bank, *World Development Report 1988* (Washington, D.C.: Oxford University Press for the World Bank, 1988b), n.b., chs. 2 and 3.
17. All fiscal variables reviewed in this evaluation are on cash basis.

Table 1
Fiscal Deficit/Surplus (−/+) Before and After Survey Period

	Overall		Own		Current	
	1980–84	1987–89	1980–84	1987–89	1980–84	1987–89
Benin	−4	−5	−11	−8	−3	−14
Burkina Faso	−1	0	−1	0	1	3
Cameroon	0	−3	−1	−3	7	5
Central Africa	−1	NA	−3	NA	−1	NA
Chad	−1	−13	−6	−33	−2	−2
Congo	−5	−16	−6	−16	14	−18
Côte d'Ivoire	−10	NA	−10	NA	2	NA
Gabon	2	−11	1	−11	31	−14
Gambia	−7	−3	−12	−9	−1	14
Ghana	−4	0	−4	0	−3	3
Guinea	NA	NA	NA	NA	NA	NA
Guinea-Bissau	−25	−17	−46	−41	−21	5
Liberia	−9	−7	−12	−9	−2	−4
Malawi	−10	−5	−13	−9	−1	−2
Mali	−6	−5	−15	−12	0	2
Mauritania	−10	−2	−23	−11	−8	−11
Mauritius	−9	0	−10	−1	−3	5
Niger	−7	−4	−8	−9	3	−1
Nigeria	−7	−5	−7	−5	5	−1
Senegal	−4	−3	−5	−4	0	2
Sierra Leone	−11	−17	−12	−11	0	−1
Somalia	−5	−8	−8	−21	−2	−8
Tanzania	−8	−2	−11	−8	−3	−2
Zaire	−6	−14	−9	−17	−2	−7
Zambia	−13	−11	−14	−13	−7	−7

Notes: Period averages are calculated using available data. In most cases averages for 1987–1989 may be based on only one or two observations. All data are rounded to the nearest integer. A zero may indicate a surplus less than .5 percent of GDP.
Sources: Data are from the IMF's *Government Finance Statistics Yearbook*, various years, from the World Bank's electronic database, BESD, from IMF and World Bank country reporting documents, and from the central bank documents of various countries.

Deficit reduction is evaluated using three different measures. The first, overall deficit, expresses the difference between total central government revenues plus grants received from abroad and total expenditures and lending minus repayments.[18] The overall deficit provides the broadest measure of the central government's net borrowing requirement. In a sense, it may be too broad to represent government policy only, since it includes concessional loans from abroad. These loans are often meant to finance development projects,

18. Lending minus repayment is not a financing item. It represents government loans made for policy reasons (e.g., student loans) rather than for cash management or for general government financing.

which in most cases have been encouraged by foreign donors during the 1980s. The second, own deficit, is similar to the overall deficit but excludes grants from the revenue side. It indicates government's borrowing requirement but views grants as financing rather than as a revenue item. Thus, increased grants do not reduce deficits in the face of continued profligacy. On the other hand, this measure introduces bias in that grants are often made in support of specific expenditures, which governments might not otherwise be willing to make. The third measure of deficit reductions, current deficit, reflects the difference between current revenues plus grants and current expenditures, and represents the central government's net impact on aggregate domestic savings. Table 1 assesses the implementation of fiscal deficit reduction using all three of these measures.

From Table 1 we see that of twenty-five countries that had announced they would reduce their fiscal deficits, only half actually achieved the target, while two (Côte d'Ivoire and the Central African Republic) provided insufficient data for evaluation. Niger's own deficit actually deepened despite the improvement in the overall deficit. Of the twenty-five countries only the following appear to have reduced deficit spending unequivocally: Burkina Faso, the Gambia, Ghana, Guinea-Bissau, Liberia, Malawi, Mali, Mauritania, Mauritius, Nigeria, Senegal, Tanzania, and Zambia.

Tax effort represents the share of taxes as a percentage of GDP. A number of countries collect royalties on the export of minerals (such as oil in Nigeria or bauxite in Guinea) as "non-tax" revenues. Table 2 presents tax and revenue effort before and after the survey period for the pertinent countries.

As Table 2 shows, only six of the twenty-four countries committed to raising tax/revenue effort achieved their targets. Instead, in ten countries tax effort declined, and in eight total revenue effort declined. Overall, in terms of tax effort, there has been more decline than improvement. Three countries—Chad, Ghana, and Mauritius—have made great strides in improving their tax/revenue effort, while two others—Burkina Faso and Mali—have made less dramatic progress.

Thirteen countries have called for expenditure reductions. Three indicators of expenditure are used. The first, total expenditure, includes all expenditures and indicates government's total direct allocation of a country's resources. Expenditure net of grants excludes foreign grants from total expenditures. Since grants often support specific expenditure programs, increased grants might raise overall spending despite government's best efforts to reduce overall spending. Finally, expenditure net of interest payments represents the allocation of resources after the onerous burden of interest payments is dispatched.

Again, the record is mixed. As shown in Table 3, the expenditure to GDP ratio rose in the same number of countries in which it fell. In Zaire total spending rose slightly, but this was due to the increasing interest bite without concomitant efforts to reduce spending.[19] Only six countries appear to have

19. During the 1980s, interest payments in Zaire rose from about 5 percent of the central government's budget

Table 2
Tax and Revenue Effort (Percent of GDP)

	Taxes		Revenues	
Country	1980–84	1987–89	1980–84	1987–89
Burkina Faso	13	14	15	18
Central Africa	12	NA	15	NA
Chad	4	9	5	10
Congo	15	12	36	20
Côte d'Ivoire	22	NA	26	NA
Gabon	27	18	39	24
Gambia	17	21	18	22
Ghana	5	12	6	14
Guinea-Bissau	10	9	13	13
Liberia	19	15	20	16
Malawi	17	16	19	19
Mali	11	13	13	16
Mauritania	17	NA	19	22
Mauritius	19	21	21	24
Senegal	19	NA	21	18
Sierra Leone	11	6	13	6
Somalia	8	5	9	9
Tanzania	16	14	17	15
Zaire	12	10	13	11
Zambia	22	17	24	18

Notes: Period averages are calculated using available data. In most cases averages for 1987–1989 may be based on only one or two observations. All data are rounded to the nearest integer. A zero may indicate a surplus less than .5 percent of GDP.
Sources: Data are from the IMF's *Government Finance Statistics Yearbook*, various years, from the World Bank's electronic database, BESD, from IMF and World Bank country reporting documents, and from the central bank documents of various countries.

succeeded in reducing government spending as a share of GDP: Benin, Congo, Gabon, Liberia, Malawi, and Zambia. Liberia only met this target because of its failures in tax/revenue effort, lack of flexible monetary instruments, build-up of interest arrears, and lack of access external financing.

Monetary Policy

This section reviews two types of policies: money growth and interest rates. In money growth, two indicators are inspected: growth in M1 and growth in M2. M1 uses a narrow definition of money comprising coins and currency in circulation and demand deposits in banks. M2 uses a broader definition comprising M1 and savings deposits (also called "quasi-money"). The second

to almost 40 percent. See World Bank and UNDP, *African Economic and Financial Data* (Washington, D.C.: World Bank, 1989).

Table 3
Expenditure Reductions

	Total Expenditures		Net of Interest		Net of Grants	
Country	1980–84	1987–89	1980–84	1987–89	1980–84	1987–89
Benin	30	20	27	18	24	17
Cameroon	20	22	19	21	19	22
Central Africa	17	NA	16	NA	15	NA
Chad	11	43	11	43	6	23
Congo	43	33	40	25	43	33
Gabon	38	35	36	29	37	35
Ghana	10	14	9	13	10	13
Liberia	32	25	28	21	29	23
Malawi	32	29	28	23	29	25
Mali	27	28	27	26	19	21
Sierra Leone	24	28	22	23	23	24
Zaire	20	22	16	15	17	19
Zambia	38	31	35	31	37	29

Notes: Period averages are calculated using available data. In most cases averages for 1987–1989 may be based on only one or two observations. All data are rounded to the nearest integer. A zero may indicate a surplus less than .5 percent of GDP.
Sources: Data are from the IMF's *Government Finance Statistics Yearbook*, various years, from the World Bank's electronic database, BESD, from IMF and World Bank country reporting documents, and from the central bank documents of various countries.

policy attempts to raise real interest rates to positive values. Money growth rates are presented and compared in Table 4.

Of the sixteen countries committed to tight monetary policy, in only half did money growth (either M1 or M2) slow between 1987 and 1989. Guinea, as usual, provided insufficient data to allow a judgment. In Guinea-Bissau data are not available for the 1980 to 1984 period, but clearly M1 growth of 85 percent per annum is inconsistent with stabilization goals. In terms of monetary policy, the adjusting countries are: Côte d'Ivoire, Congo, Equatorial Guinea,[20] Gabon, Mali, Mauritania, and Togo.

Eleven countries had targeted either raising real interest rates or general liberalization of capital markets.[21] Table 5 compares real interest rates prevailing during 1980 to 1984 with those prevailing in 1987 to 1989. The table analyzes three interest rates: the discount rate (the central bank's overnight lending rate to commercial banks), the deposit rate (the rate paid to depositors with accounts at commercial banks), and the lending rate (the amount charged commercial bank customers for overnight or overdraft privileges).

20. The lack of 1980-1984 data does not preclude this judgment since M1 and M2 both declined rapidly in 1987-1989.

21. It is assumed here that market allocation of investible funds and mobilization of financial savings implies positive real rates of interest.

Table 4
Money Growth Comparison

	M1 Growth		M2 Growth	
Country	1980–84	1987–89	1980–84	1987–89
Côte d'Ivoire	6	−8	8	−3
Congo	15	−3	17	1
Equatorial Guinea	NA	−37	NA	−35
Gabon	15	13	16	8
Guinea	NA	NA	NA	NA
Guinea-Bissau	NA	85	NA	73
Mali	16	1	17	5
Mauritania	12	6	11	3
Mauritius	5	17	13	23
Nigeria	NA	NA	14	25
Senegal	8	4	13	5
Sierra Leone	37	73	31	65
Somalia	16	116	18	103
Tanzania	12	36	15	32
Togo	11	−17	15	−6
Zaire	62	96	58	97
Zambia	15	64	18	62

Notes: Period averages are calculated using available data. In most cases averages for 1987–1989 may be based on only one or two observations. All data are rounded to the nearest integer. A zero may indicate a surplus less than .5 percent of GDP.
Sources: Data are from the IMF's *Government Finance Statistics Yearbook*, various years, from the World Bank's electronic database, BESD, from IMF and World Bank country reporting documents, and from the central bank documents of various countries.

Of the countries in Table 5, only Malawi and Sierra Leone saw a decline in real interest rates. The negative interest rates of Sierra Leone reflect that country's inability to restrain inflation as much as they reflect inflexible interest policies. In Burundi, Gabon, Gambia, and Mauritius efforts have been quite successful in raising real interest rates to positive values. Ghana and Tanzania have made considerable progress in raising real interest rates but they remain negative. Data are unavailable for Guinea and Guinea-Bissau.

Exchange Rates

Overvalued exchange rates reduce a country's international competitiveness by raising the cost of its export products and lowering domestic prices for its imports. Overvaluation often leads to shortages of foreign exchange and encourages black market activities.

Devaluation and/or liberalization of exchange rates have been primary elements of most reform programs.[22] Nineteen countries were committed to

22. It is assumed that the liberalization of exchange rates in these countries would imply a depreciation of the real effective exchange rate.

Table 5
Real Interest Rates

	Discount Rate (a)		Deposit Rate (b)		Lending Rate (c)	
Country	1980–84	1987–89	1980–84	1987–89	1980–84	1987–89
Burundi	−1.6	1.2	−4.4	−1.1	3.4	6.2
Gabon	−2.3	14.2	−3.3	13.4	1.9	16.9
Gambia	−2.1	3.8	−3.4	0.1	6.1	13.6
Ghana	−55.1	−7.0	−58.1	−18.5	−50.8	−10.0
Guinea	NA	NA	NA	NA	NA	NA
Guinea-Bissau	NA	NA	NA	NA	NA	NA
Malawi	−3.8	−11.8	−3.5	−10.3	4.2	−2.3
Mauritius	−4.9	3.2	1.0	2.7	3.8	7.6
Nigeria	−12.7	NA	−13.4	2.9	−10.8	3.8
Sierra Leone	−26.9	−75.3	−29.2	−74.9	−24.4	−62.5
Tanzania	−25.3	−18.6	−25.4	−14.0	−17.1	−2.0

Notes: Period averages are calculated using available data. Data may not be available for every year in each period. Real values are calculated by subtracting annual percentage growth in the consumer price index from the nominal interest rate.
(a) = rate of interest the Central Bank charges as lender of last resort
(b) = average rate of interest commercial banks pay on savings accounts
(c) = average overnight or overdraft rate of interest commercial banks charge
Source: Data are from the IMF's electronic tapes of the International Financial Statistics.

devaluation or liberalization. Except for Rwanda, real devaluation—in terms of depreciating real effective exchange rates—took place in each country for which data are available. In Rwanda the real effective exchange rate was higher on average during 1987-1988 than during 1980-1984.

Price data are not available for Equatorial Guinea, Guinea, or Guinea-Bissau, and therefore we cannot calculate the real effective exchange rate. However, Guinea introduced a radical 94 percent devaluation and ushered in a new currency (the Guinean franc) in 1986 with the exchange rate determined at a weekly foreign exchange auction. In January 1986 Equatorial Guinea joined the BEAC (Banque des Etats de l'Afrique Centrale—Bank of the Central African States), devalued its currency 82 percent, and replaced it with the CFA franc. Thus, although price data for these countries are unavailable, it is clear that Guinea and Guinea-Bissau have made great efforts to introduce reforms to address exchange problems. Evidence also indicates that Guinea-Bissau has made some progress in reducing the difference between the black market exchange rate and the official exchange rate. Unfortunately, there is insufficient data to assess whether real improvements in the exchange rate have been achieved.

Agricultural Reform

Exploitation of farmers through monopsonistic commodity marketing boards and administered prices has dampened agricultural output, pauperized

Table 6
Real Effective Exchange Rates (1980 = 100)

Country	1980–84	1987–89
Equatorial Guinea	NA	NA (a)
Gambia	96	78
Ghana	172	23
Guinea	NA	NA (b)
Guinea-Bissau	NA	NA
Kenya	99	76
Madagascar	105	55
Malawi	98	80
Mauritius	100	81
Niger	97	70
Nigeria	129	29
Rwanda	126	134
Sierra Leone	150	119
Somalia	117	58
Sudan	97	89
Tanzania	146	62
Uganda	45	22
Zaire	90	34
Zambia	103	55

Note: The real effective exchange rates are calculated by multiplying trading partner—weighted nominal exchange rate (local currency:trading partners' currencies) by the domestic price level relative to price levels in trading partners' countries (domestic prices/foreign prices), then setting the 1980 level at 100. Averages for each period are calculated using available data.
(a) = new currency in 1985, CFA
(b) = new currency in 1986, Guinean Franc
Source: Exchange rates and price indexes are available in the IMF's *International Financial Statistics*, (various years). See also the OECD's *Direction of Trade Statistics*.

the countryside, encouraged migration to urban areas, and reduced agricultural investment.[23] In at least fourteen countries, reform of agricultural prices—namely, raising producer prices—and reform of agricultural marketing have been important reform items. Table 7a compares the producer price shares for agricultural exports (the ratio of the domestic producer price of a crop to the border price of the crop). Table 7b compares real domestic prices of the major agricultural crops. Both Tables 7a and 7b compare data for the periods 1980 to 1984 and 1986 to 1987. More recent data are not yet available.

Table 7a indicates declining real producer prices in Côte d'Ivoire, Ghana, Senegal, and Uganda. In part, these prices have fallen because of declining

23. For a discussion on how poor price incentives hamper agricultural output in Africa see William Jaeger and Charles Humphreys, "The Effect of Policy Reforms on Agricultural Incentives in Sub-Saharan Africa," *American Journal of Agricultural Economics* Vol. 70, No. 5 (1988): 1036-1043.

Table 7a
Agricultural Prices: Producer Price Shares (Ratio of Official Producer Price to International Border Price)

Country	Commodity	1980–84	1986–87
Benin	Cotton	0.41	0.87
	Palm Oil	0.32	1.01
Burundi	Coffee (a)	0.52	0.65
	Tea	0.23	0.38
Central Africa	Cotton	0.36	0.64
	Coffee (r)	0.32	0.58
Congo	Coffee (r)	0.39	1.74
	Cocoa	0.23	0.40
Côte d'Ivoire	Coffee (r)	0.78	1.38
	Cocoa	0.43	0.71
	Palm Oil	0.44	1.04
Equatorial Guinea	Cocoa	0.14	0.75
	Coffee (r)	0.29	0.85
Gambia	Groundnuts	0.67	1.42
	Cotton	0.39	0.35
Ghana	Cocoa	1.00	0.33
Guinea–Bissau	Groundnuts	0.49	0.36
	Palm Kernel	0.30	0.31
Senegal	Groundnuts	0.53	1.85
	Cotton	0.34	0.64
Sierra Leone	Coffee (r)	0.95	1.36
	Palm Oil	1.09	NA
	Cocoa	0.54	0.43
	Palm Kernel	0.42	0.24
Togo	Coffee (r)	0.59	0.63
	Cocoa	0.33	0.46
	Cotton	0.35	0.83
Uganda	Coffee (r)	0.51	0.27
	Cotton	0.83	0.12
Zambia	Cotton	0.71	0.52
	Tobacco	0.83	0.60
	Sunflower	0.86	0.78

Notes: Period averages are calculated using available data.
(r) = robusta coffee
(a) = arabica coffee
Source: African Economic and Financial Data, 1989.

value on international markets, hence the improvement in the producer price shares (as shown in Table 7b) in Côte d'Ivoire and Zambia. Table 7b shows considerable progress by most countries in increasing the ratio of domestic producer prices to border price for these crops. However, in Ghana, Guinea-Bissau, Uganda, and Zambia the ratio has actually worsened. In Sierra Leone

Table 7b

Agricultural Prices: Constant Unit Prices (1980 Local Currency)

Country	Commodity	1980–84	1986–87
Benin	Cotton	69.9	NA
	Palm Oil	5.5	NA
Burundi	Coffee (a)	100.4	99.8
	Tea	8.8	11.2
Central Africa	Cotton	62.4	69.0
	Coffee (r)	112.3	117.9
	Sorghum	34.5	40.8 (p)
	Maize	40.3	47.6 (p)
	Groundnuts	34.2	37.4 (p)
Congo	Coffee (r)	150.1	246.7
	Cocoa	133.6	137.7
	Maize	48.0	48.8
Côte d'Ivoire	Coffee (r)	282.0	278.3
	Cocoa	281.2	278.3
	Palm Oil	13.8	14.6
	Rice	54.6	55.7
	Maize	31.0	27.8
Equator	Cocoa	NA	301.7
Guinea	Coffee (r)	NA	NA
	Cassava	NA	NA
	Plantains	NA	NA
Gambia	Groundnuts	0.4	0.5
	Cotton	0.5	0.5
	Rice	0.4	0.3
	Maize	0.4	0.4 (p)
Ghana	Cocoa	4.2	8.2 (f)
	Maize	4.0	2.2 (f)
	Groundnuts	9.8	8.0 (f)
	Cassava	1.7	1.0 (f)
	Plantains	2.3	1.9 (f)
Guinea-Bissau	Groundnuts	NA	NA
	Palm Kernel	NA	NA
	Rice	NA	NA
	Sorghum/Millet	NA	NA
	Maize	NA	NA
Senegal	Groundnuts	43.8	49.4
	Cotton	55.2	54.8
	Sorghum/Millet	40.5	38.4
	Rice	43.5	46.6
	Maize	38.8	38.4
Sierra Leone	Coffee (r)	1.3	1.9
	Palm Oil	0.6	NA
	Cocoa	1.2	1.9 (p)
	Palm Kernel	0.2	0.1
Togo	Coffee (r)	196.0	264.9 (p)
	Cocoa	197.5	239.5
	Cotton	55.8	76.2
Uganda	Coffee (r)	0.4	0.2
	Cotton	0.3	0.1
Zambia	Cotton	0.4	0.5
	Tobacco	1.9	2.1
	Sunflower	0.3	0.3
	Maize	0.2	0.2
	Wheat	0.3	0.3
	Cassava	0.1	0.2 (p)

Notes: Period averages are calculated using available data.
(r) = robusta coffee (a) = arabica coffee (p) = 1985 prices (f) = 1985 farmgate prices
Source: African Economic and Financial Data, 1989.

the experience has been mixed, with the ratio rising for the major crop, coffee, but declining for cocoa and palm kernels.

Summary and Conclusions

Table 8 summarizes the implementation of reforms. While a few countries fully implemented planned reforms (Burkina Faso, Burundi, Kenya, Madagascar, and Togo), none enacted a very comprehensive reform agenda. Ghana structured one of the most comprehensive reform programs, but implementation has been incomplete, failing to raise some agricultural prices or producer price shares and allowing a rise in government expenditure. Considering the radical devaluation of the Ghanaian cedi, however, missing the mark on agricultural pricing seems understandable.[24] Zambia's reform agenda is as comprehensive as Ghana's but implementation has been even less complete. Zambia did not meet its tax effort targets nor could it restrain government spending. Also, little progress is shown in improving agricultural incentives.

Chad, Gabon, Gambia, Mauritius, Tanzania, and Uganda have planned reforms almost as comprehensive as Ghana's. Only Gambia, however, has had wide success in implementing its reform agenda. Tanzania, with a similarly comprehensive agenda, has failed to implement most aspects of the program. It has had only limited success holding the line on deficit reduction and mixed performance in raising interest rates to positive values. Cameroon, Rwanda, Sierra Leone, Somalia, and Zaire have made little progress and are experiencing further deterioration in these indicators.

This analysis compares the intended reforms to observations of the relevant indicators prior to the onset of the reform period (1980 to 1984) and after the reform period's start (1987 to 1990).[25] Reform implementation receives a grade of A, B, or F. A indicates real progress in meeting the reform target. B represents partial progress. F connotes movement in the wrong direction, for instance, where fiscal deficit rose when it was to decrease as a share of GDP, or where currency appreciated when a country had committed to devaluing its currency. C is used only in averaging all reform grades for a particular country. The grades are then weighted on a grade point basis where A = 4.0, B = 3.0, C = 2.0, and F = 0. The number of reforms indicates the comprehensiveness of the reform agenda included in the survey. Seven, the highest number possible, would indicate seven reform targets. A final score for each country is reached by multiplying the grade points by the number of reforms to produce an overall measure of implementation cum comprehensiveness.[26]

---

24. In Ghana, the real price of cocoa vis-à-vis domestic purchasing power doubled over the period. Nonetheless, a radical devaluation resulted in a decline in the producer price share.

25. However, data for agricultural prices are not available after 1987 and so 1986 to 1987 price data are used instead.

26. This categorization was suggested by Robert West, who also noted that the first category would include only the Gambia, while Ghana provides a shining example of category 2. At the other end of the rankings is Rwanda, which had only devaluation on its agenda but where the real effective exchange rate appreciated.

The most successful reform has been the devaluation and/or liberalization of exchange rates.[27] Agricultural reform, in terms of raising producer prices and ensuring farmers a greater share (relative to the international price of their product), has been implemented broadly. Considering that this has happened in the face of real exchange rate devaluations, it must be seen as considerable progress. Monetary and fiscal policy, however, have met with less success. Less than half the countries that planned to reduce the fiscal deficit to GDP ratio actually made progress. It seems there has been less success raising tax effort than by reducing expenditure. This, however, may be understandable given the already onerous tax burden in many African countries and the difficulty in raising taxes when national income is increasing slowly.

This evaluation differs considerably from the World Bank's adjustment lending report[28] in several ways. The World Bank compared implementation to SAL conditions while this evaluation compares implementation to public statements of African leaders. On this basis, the World Bank found that slightly more than 50 percent of all SAL conditions have been met,[29] whereas this evaluation would rate overall reform implementation at about "C+." The World Bank concluded that exchange rate reform has been the most completely implemented of all reforms[30] but also found that fiscal policy reform has been fairly well implemented. In contrast, while agreeing that devaluation has been broadly implemented, this evaluation finds fiscal policy reform to have been rather incomplete. Similarly, the World Bank found tax/revenue efforts to be difficult to implement, while this report found that they have been somewhat more successfully implemented. In addition, the World Bank found implementation of agricultural pricing reform rather lackluster, while in this evaluation indicates it has been implemented fairly thoroughly.

Some of the differences arise from the fact that the World Bank's report covers all regions while this evaluation only refers to Sub-Saharan Africa. Another source of difference probably results from timing and availability of data: the World Bank's report, written in 1988, had less quantitative data to work with and insufficient time had passed for reforms to have been implemented. Finally, the World Bank's report covered more policy reforms but limited itself to only those countries with SALs.

In conclusion, it is fair to say that reforms have not been implemented uniformly. To date, implementation has varied across countries and across reform areas. Several countries have not yet implemented even the most fundamental reforms—reforms necessary, but not alone sufficient for stabilization and recovery. The difficulties of this evaluation indicate the need for

27. It was assumed that liberalization would have led to real depreciation (liberalization probably would not have been too urgent, otherwise); however, devaluations need not have entailed liberalization.

28. World Bank 1988a, Table 4.3, p.61.

29. Ibid.

30. World Bank 1988a, Table 4.4, p. 63.

Table 8
Summary of Reforms and Reform Progress:

	Fiscal Policies			Monetary Policies	
	Deficit	Taxes	Expenditures	Money Growth	Interest Rates
Benin	F		A		
Burkina Faso	A	A			
Burundi					A
Cameroon	F		F		
Central Africa	NA	NA	NA		
Chad	F	A	F		
Congo	F	F	A	A	
Côte d'Ivoire	NA	NA		A	
Equatorial Guinea				A	
Gabon	F	F	A	A	A
Gambia	A	A			A
Ghana	A	A	F		B
Guinea	NA			NA	NA
Guinea-Bissau	B	B		F	NA
Liberia	B	F	A		
Kenya					
Madagascar					
Malawi	B	B	A		F
Mali	A	A	F	A	
Mauritania	B	A		A	
Mauritius	A	A		F	A
Niger	B				
Nigeria	A			F	A
Rwanda					
Senegal	A	F		A	
Sierra Leone	F	F	F	F	F
Somalia	F	F		F	
Sudan					
Tanzania	A	F		F	B
Togo				A	
Uganda					
Zaire	F	F	F	F	
Zambia	B	F	A	F	

Notes: A = countries that committed to the reform and implemented it
B = countries that partially implemented the reform
C = an average grade equal to two POINTS, e.g., the average of two Bs and an F
F = countries that should have but did not implement the reform
NA = countries that committed to the reform but data are not available for making a judgment
(No symbol is provided if a country did not make a commitment to the reform.)
GRADE = the overall performance acheived in implemented targeted reforms
POINT = the numerical equivalent of GRADE, where A = 4, B+ = 3.5, B = 3, and F = 0
NUMBER refers to the number of targeted reforms covered in this survey.
SCORE combines performance with depth of reform program by multiplying POINTS by NUMBER.

Table 8
(continued)

Fgn Exchange Exchange Rates	Agriculture Producer Prices	Overall Performance			
		Grade	Points	Number	Score
	A	A	C	2	3
		A	4	2	8
	A	A	4	2	8
		F	0	2	0
	A	NA	NA	4	NA
	A	C	2	4	8
	A	C	2	5	10
	A	NA	NA	4	NA
A	A	A	4	3	12
		C	2	5	10
A	B	B+	3.5	5	17.5
A	F	C+	2.5	6	15
A		NA	NA	4	NA
NA	B	NA	NA	6	NA
		C	2	3	6
A		A	4	1	4
A		A	4	1	4
A		C+	2.5	5	12.5
		B	3	4	12
		B+	3.5	3	10.5
A		B	3	5	15
A		B+	3.5	2	7
A		B	3	4	12
F		F	0	1	0
	A	B	3	4	12
A	B	F	0	7	0
A		F	0	4	0
A		A	4	1	4
A		C	2	5	
	A	A	4	2	8
A	F	B	3	2	6
A		F	0	5	0
A	B	C	2	6	12

better information and quantification of economic policies in Africa. If stabilization and structural adjustment are to remain at the forefront of development assistance in Africa, systems and data for monitoring and evaluating implementation of economic reform programs should be developed and maintained. At present these systems are non-existent and data are too few and too delayed for region-wide monitoring.