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MEMORANDUM

TO : THE BOARDS OF DIRECTORS

FROM : Philibert AFRIKA
Secretary General

SUBJECT : CRITICAL FACTORS IN THREE SUCCESSFUL STRUCTURAL ADJUSTMENT PROGRAMMES*

Please find attached hereto the above-mentioned document.

Attach:

Cc: The President

***Questions on this document should be referred to:**			
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CRITICAL FACTORS IN THREE SUCCESSFUL STRUCTURAL ADJUSTMENT PROGRAMMES

OPERATIONS EVALUATION DEPARTMENT

ACRONYMS & ABBREVIATIONS

ADF	:	African Development Fund
CG	:	Consultative Group (Meeting)
EAR	:	Economic Action Programme
EPCP	:	Economic Prospects and Programming Paper
ERP	:	Economic Rehabilitation Programme
ERRP	:	Emergency Recovery and Reconstruction Programme
ERSAP	:	Economic Reform and Structural Adjustment Programme
GOE	:	Government of Ethiopia
IMF	:	International Monetary Fund
OPEV	:	Operations Evaluation Department

PREFACE[1]

The purpose of this review is to provide a framework for discussing the evaluation reports of three closely related structural adjustment programmes[2]. The programmes may appear different both in terms of design and timing, they have one thing in common. In comparison with most adjustment programmes evaluated by OPEV in recent times, the three programmes appear to have been successful. This review seeks to isolate those factors which might have contributed to their successful outcomes.

In its review of structural adjustment programmes for the period 1986-97, OPEV had recommended selectivity in the choice of countries the Bank seeks to assist with this type of lending programme. This review underscores that recommendation. Although the small sample size of the review might preclude a continental generalization, the three cases herein reviewed underscore the importance of a conducive environment for the success of the programmes. As a consequence, this review reiterates OPEV's earlier recommendation that the Bank Group should ensure the existence of a conducive environment in a borrowing country prior to the introduction an adjustment programme in order to partially guarantee its success. This condition would force some selectivity into Bank choice of countries it would like to assist with adjustment lending.

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[1] This report has been prepared by Mr. O. OJO, Chief Evaluation Officer, OPEV. Questions on this report can be addressed to Mr. G.M.B. Kariisa, Director, OPEV on ext. 4052, or to Mr. Ojo on ext. 4262

[2] The relevant evaluation reports are:
Arab Republic of Egypt: Economic Reform and Structural Adjustment Programme (ADB/BD/WP/2000/61)
Federal Republic of Ethiopia: Structural Adjustment Programme (ADF/BD/WP/2000/93)
Republic of Mozambique: Economic Rehabilitation Programmes I and II (ADFBD/WP/99/112)

CRITICAL FACTORS IN SUCCESSFUL STRUCTURAL ADJUSTMENT PROGRAMMES: A CASE STUDY OF EGYPT, ETHIOPIA AND MOZAMBIQUE

1. Introduction

1.1 In its evaluation report on Bank Group policy-based lending operations (1986-97) prepared for the midterm review of ADF VII, the Operations Evaluation Department (OPEV) concluded that the outcomes of these operations were in general, disappointing[3]. While some countries (e.g. Uganda and Egypt) have experienced real significant economic growth as a result of the implementation of structural adjustment programmes, in some, growth is erratic and hesitant. In some it even declined. Some key economic variables (e.g. external debt) have worsened while some like the inflation rate have improved. But overall, it can be said that the outcomes fell below expectations. There is however a positive side to these programmes. By and large, the presence of these programmes in the policy arena in Africa has altered, perhaps irrevocably, the philosophy of governments across the continent about the management of national economies. Few governments would now favour central planning in the management of their economies and only few would deny the prime of place to market forces in resource allocation. As a result of this shift in policy stance of governments, a conducive environment for private sector initiative, which is generally agreed to be crucial to Africa's development, is being created.

1.2 Even though the record of structural adjustment programmes has been less than anticipated across the continent, a few countries have managed to record relatively successful outcomes as a result of the implementation of these programmes. A logical policy issue question to investigate is the determinants of that success where it has taken place. How can the lessons of these successes be replicated in future progammes as a step towards ensuring the success of those future programmes? As a step in this direction, the cases of Egypt, Ethiopia and Mozambique, (countries whose adjustment programmes were evaluated since the first OPEV report and which, according that evaluation, are found to be successful), are herein reviewed and the relevant lessons drawn for future Bank operations in this area.

2. The Genesis of the Structural Adjustment Programmes.

2.1 The countries under study here have implemented structural adjustment programmes in varying degrees of intensity. While the content and policy thrust of these programmes is different, they all have one common element. According to OPEV programme performance evaluation reports, they are all adjudged to have satisfactory (or successful) outcomes. This section of the report discusses the genesis of the three programmes, while in the next section, the outcomes of the programmes are discussed.

Arab Republic of Egypt

2.2 Between 1950 and 1990, the Arab Republic of Egypt pursued, a public sector-led and inward-looking development strategy, which featured import substitution policies and state ownership of key sectors of the economy. The consequence of this situation was a strong and dominant role of public enterprises in the economy. Indeed the share of the public sector in the GDP was one of the highest

[3] Operations Evaluation Dept (1997), An Evaluation of Bank Group Policy-based Lending Operations, 1986-97

among developing countries. During this period, the economy performed relatively well, thanks to successive increases in the price of oil. Although the Open Door Policy which was introduced in 1974 did pave the way for some liberalisation of the economy, the development strategy continued to be based upon import substitution, with manufactured exports, other than textiles and clothing, remaining virtually stagnant.

2.3 The decade of the 1980s was one of external shocks (in the form of declines in oil prices, high interest rates and general economic decline), in the world economy. For example, in 1981, Egypt's weighted average export price for crude petroleum collapsed from $34 a barrel to $12 in May 1986. The Egyptian economy did not respond adequately to these shocks. The consequence was massive fiscal and current account deficits, which also paved the way for the accumulation of external debt. Between 1980/81 and 1990/91, the country's external debt increased from $22.1 billion to $31.1 billion. At the same time, budget deficit averaged 18% of GDP annually. The rate of inflation had risen to more than 20% and open unemployment had risen to about 10% by 1990.

2.4 In response to this crisis, the Government of Egypt decided to act decisively. A standby agreement was concluded with the International Monetary Fund (IMF) in May 1991 and an economic reform and structural adjustment programme (ERSAP) with the World Bank for the period 1991/92 to 1992/93. The goals of ERSAP were: (a) stabilization of the economy in order to restore macroeconomic balance and reduce inflation; (b) structural adjustment to stimulate medium and long term growth; and (c) modification of social policies to minimize transitory effects of economic reform on the poor.

2.5 The ERSAP was aimed at both the external accounts and government budget, focusing especially on the inter-linkages between the two. The external accounts were to be stabilized through the unification and correction of the exchange rate for any overvaluation. In turn, this would help the budget by valuing imports at higher prices (in local currency) and consequently increasing revenues from import duties. By cutting down on government expenditures, the programme would reduce budget deficit and reduce the demand for imports and move the external position closer into balance. The programme also recognized the need for the introduction of market forces in the functioning of the economy. Thus, it sought to put the economy on a competitive footing as a clear signal that the private sector would be the leading sector. A Social Fund for Development (SFD) was to be put together separately by donors to ameliorate the adverse effects of adjustment on the poor.

2.6 In terms of relevance, the programme had merits. The stabilization component sought to stabilize the internal and external accounts, and to unify the exchange rate. The reform component on the other hand, sought to introduce market reforms, and give prime of place to prices in the allocation of resources. Public enterprises were to be reformed and prices liberalized. The combination of all these were to pave the way for the emergence of a virile private sector.

Federal Republic of Ethiopia

2.7 Since 1974, the Government of Ethiopia had operated a centrally planned economy based on socialist principles of extensive state ownership and control, large-scale regulation of economic activities and restrictive economic policies. The consequences of all these were factor market rigidities, economic distortions and a strong anti-export bias. All these combined with a debilitating civil war and drought to retard economic progress. Annual GDP growth rate averaged –1.6 per cent during 1987/88-1991/92. Military expenditures absorbed about 12-16 per cent of GDP, while fiscal deficit increased from 11.9 per cent in 1987/88 to 13.2 per cent in 1991/92. Per capita incomes were among the lowest, if not the lowest, in the world. In short, all economic aggregates pointed in the direction of a major economic collapse.

2.8 With the end of the civil war in May 1991, the Transitional Government of Ethiopia (TGE), which came into power, took steps to rehabilitate and reconstruct the war-damaged economy by preparing the Emergency Recovery and Reconstruction Programme (ERRP). The international community, including the African Development Fund supported the programme. The Bank Group's Economic Prospects and Programming Paper (EPCP) of 1993 felt the need for further support in the form of structural adjustment loan. The situation was made easy by the fact that the Government had successfully concluded a Policy Framework Paper (PFP) with the International Monetary Fund (IMF) and the World Bank in September 1992 and a Structural Adjustment Facility (SAF) with the IMF, thereafter. The overall objective of the reform programme was to create a conducive policy environment for sustainable development, stimulate growth and reduce poverty. The reform programme focused on replacing the previous centrally planned economy with a private sector oriented, market-based economy. In this regard, the role of the state would be limited to few selected economic services while private sector development would be actively promoted. On the social front, the programme aimed at rehabilitating areas and people most severely affected by the war and the population uprooted as a result of the previous regime's policy of villagisation and resettlement. Following these positive developments, Ethiopia became eligible to participate in the Special programme of Assistance for Africa (SPA). A Consultative Group meeting (CG) held in November 1992 endorsed the reform programme and mobilized donor support for its implementation.

2.9 Thus, on June 23, 1993, the Boards approved an ADF loan of UA 63.55 million in support of the programme. In broad terms, the aim of the programme was the promotion of sustainable development and poverty reduction, through a fundamental transformation from a centralized planning to a market economy. The Government's reform programme comprised a broad spectrum of macroeconomic and stabilization measures and structural reforms all aimed at reducing internal and external imbalances, removing economic rigidities and distortions, improving the efficiency of resource use and creating an enabling environment for the development of the private sector.

2.10 Ethiopia's economic reform programme encompassed a broad spectrum of macroeconomic and structural measures. The PFP detailed the policy measures and the timeframe for their implementation. However, given the long history of Ethiopia's experience with a controlled economy, the transformation to a market-based economy would take several years to achieve. Therefore, the structural reforms would need to be stretched over several years. Moreover, Ethiopia's extreme poverty, massive rehabilitation and reconstruction needs, and large macroeconomic imbalances make the implementation of its structural reform programme exceptionally difficult. Also, given the fact that the country's private sector institutions and entrepreneurship are still largely underdeveloped, they are not yet capable of compensating fully for the limited (but high caliber) capacity of public agencies. Therefore, institutional capacity for managing the change from a planned to a market economy would have to be gradually built-up over time.

2.11 The economic reform programme was, therefore, scheduled for implementation in three phases. The first phase, which started since the beginning of 1992/93 fiscal year, focused primarily on macroeconomic stabilization involving tightening of fiscal policy, strengthening of monetary control, and exchange rate adjustment. The second phase concentrated on the initial structural reforms intended to complement stabilization objectives such as correction of price distortions, tariff reforms, and the stimulation of private sector supply response through the provision of an enabling environment. Although some actions had been taken in this regard in 1992/93, the substantial part of the structural reforms during this phase was implemented in 1993/94. This phase also incorporated actions to promote sustainable development focusing on the environment, population, human resource development, poverty alleviation, and gender issue.

2.12 In the third phase of the reform programme, reserved for the post transition period (of 1994/95) and beyond, more fundamental structural reforms would be introduced. Although macroeconomic stabilization would continue in the context of the PFP agreements, increasing emphasis would be put on issues of allocative and productive efficiency to be achieved by building competitive markets, a closer integration with the international economy, a marked shift in the boundary between public and private production, and reduction or elimination of costly controls. This phase of the reform programme would concentrate on the resolution of the land ownership issue, privatization of public enterprises, financial sector reforms, and civil service reform.

Republic of Mozambique

2.13 Economic developments in Mozambique have been influenced in the last two decades by two major factors – government control over the economy and the civil war, which followed the attainment of independence. At independence in 1975, the Government of Mozambique adopted a centrally planned economy based on socialist principles. In agriculture, state farms were established and parastatals were given monopoly powers in the marketing of agricultural inputs and products. The state also fixed prices at all stages of production and marketing. In industry, state-trading companies dominated foreign trade, commerce and production. State involvement was extended to the administrative allocation of foreign exchange regime.

2.14 Politically, a civil war followed independence and this was to last for 16 years. The civil war considerably destroyed the country’s infrastructure, and encouraged the mass exodus of skilled labour, which was low in the first instance. In addition, it has been estimated that over one-third of health facilities and about one-half of all primary schools were destroyed as a result of the war. The effects of the civil war were further compounded by two major droughts – in 1988 and 1992 respectively.

2.15 During the first five years following independence (1975-79), the economy grew at an annual average rate of 2.5%. But during 1980-1984, this was to decline to an annual average of –6.5%. In response to this decline, the Government initiated the Economic Action Programme (EAP, 1984-86), through which it took the first steps to relax it controls over the economy and provide incentives to the private sector. But the scope of these reforms and their impact were inadequate to bring about the much-needed accelerated economic growth. Thus in 1987, the Government launched the Economic Rehabilitation Programme (ERP-I, 1987-90).

2.16 The objective of the ERP-I was to achieve a turn-around in the economy by supporting the rehabilitation and maintenance of those productive investments and economic services where output response would most immediately occur. A three-pronged strategy was used to meet the programme objectives: (i) to reverse the decline in production while restoring consumption and income to a minimal level for the population, especially in the rural areas; (ii) to curtail domestic and external financial imbalances; and (iii) to establish the conditions for more rapid and more efficient growth in the medium to long term. The principal policies in the programme were those aimed at reducing non-concessional borrowing; reactivating industrial production through the provision of imported inputs and raw materials; and reviving domestic market and rural trade by providing incentive goods. The implementation of these measures expected to achieve (i) a progressive reduction of centralized administrative controls; (ii) increased use of indirect controls, such as price and credit policies, rather than administrative interventions to determine resource allocation; and (iii) link the real cost of production and incomes to the economic performance of units and individuals.

2.17 The ERP-I was relatively successful. GDP growth rates averaged 3.5% in real terms annually during 1987-91, while per capita income growth averaged 2.5% during the same period. Institutional and sectoral reforms were implemented and much of the war-torn capacity was rehabilitated. Inflation however remained high while external debt increased markedly.

2.18 Despite these achievements in the areas of growth and stabilization, policy makers soon realised that the reform process was by no means completed, and that there was need to broaden an deepen the reforms already begun. The outstanding policy reforms were mainly in the areas of further price deregulation, fiscal management, foreign exchange and trade liberalisation, privatisation, and parastatal and financial sector reforms. There was also the need to build additional industrial capacity. Thus in 1991, the Government launched the Economic and Social Rehabilitation (ESRP) for the period 1991-93. The ESRP was in two parts—an Economic Rehabilitation Programme II (whose objective was to broaden the reforms begun under ERP-I) and a Poverty Reduction Programme, whose objective was to offset the adverse consequences of the adjustment process.

2.19 In terms of relevance, the programmes had merits. The economy was in sharp decline in all sectors. It was centrally controlled and was heavily indebted. The rehabilitation of the war-torn economy had become an imperative as a basis for the resumption of growth. These were the declared objectives of the government as contained in the Letter of Development Policy. It was also the declared goal of the Bank as spelt out in the Economic Prospects and Country Programming Paper, 1988-90. The ERP-II was similarly relevant as it sought to build on, and consolidate the achievements of ERP-I.

3. Programme Outcomes

3.1 There are several methods of evaluating the effects of changes in economic policy such as those contained in structural adjustment programmes. In all the evaluation reports under consideration here, the approach has been to compare the situation in each of the respective economies at the end of the programme with the situation prior to introduction of the programme. This is the so-called “before and after” approach, which has become fashionable among policy analysts. In any policy analysis, attribution is always difficult, particularly under conditions of exogenous changes as may be expected in open, underdeveloped economies. Hence it may be not be easy to establish a one-to-one relationship between the state of the economy and the policy reforms. Be that as it may, the before and after approach still represents the best approximation to an analysis of policy changes.

Arab Republic of Egypt

3.2 As a result of the implementation of the adjustment programme, the economy recorded an average growth rate of 2.8% per annum and 5.3% per annum during the programme period of 1991/92 – 1993/94 and post-programme period 1994/95 – 1998/99 respectively. This can be compared with the targets (of 2% for the programme period and 4% for the post-programme period) set at appraisal. Similarly, real per capita GDP improved from nearly zero growth in 1990/91 to 3.5% in 1997/98. The agricultural sector recorded a growth rate of 2% in 1991/92, 3.8% in 1993/94 and 3.7% in 1997/98, an average growth rate of 3% per annum for the period 1991/92 – 1997/98. The industrial and mining sector recorded higher growth rates from 1.5% in 1991/92, 4.2% in 1993/94 and 7.8% in 1997/98, an average growth rate of 5.7% annually for the 1991/92 – 1997/98 period.

3.3 In its attempt to stabilise the economy, GOE focused on budget deficit reduction, the deregulation of interest rates, the unification of the exchange rate, and the control of the growth of liquidity in the economy. Thus the inflation rate was reduced from 22% in 1990/91 to 9% during 1993/94 and 3.8% in 1997/98, an average of 13.7% per annum for 1991/92 – 1993/94 period, well below projected average rate of 21% per annum for the programme period. The rate of inflation for the 1994/95 – 1998/99 period was contained to an average of 6% per annum. The economy experienced spectacular reduction of the budget deficit, from 20% of GDP in 1990/91 to an average of 4% of GDP per annum during 1991/92 - 1993/94 and 1.2% in 1994/95 - 1998/99 period as against the projected average of 12.6% of GDP per annum during the programme period and 3.4% per annum for 1994-97 period. The reduction of the budget deficit is largely attributed to GDP growth, fiscal discipline exercised by GOE through both an increase in revenues and decreases in government expenditures. The budget deficit has remained at no more than 1.3% of GDP since 1994/95.

3.4 The exchange rate was used as one of the major tools to stabilise the economy. The primary and secondary foreign exchange rates were unified by March 1992. The Egyptian pound was effectively pegged to the US dollar in 1991. Since then the nominal exchange rate has remained unchanged. Prudent fiscal policy measures, which controlled fiscal deficits, enabled the Government to contain the potential for over-evaluation of the pound that would have resulted from the pegged exchange rate. These policy measures attracted increased capital flows which helped to build up Egypt’s international reserves. For instance, the reserves increased from US$3856 million in 1991 to US$13,381 million in 1994 and US$19,657 million in 1997. This translated into reserve import cover of 4.6, 12.5 and 14 months respectively. To contain the adverse impact of these capital inflows on money supply and liquidity policy, GOE introduced sterilisation measures like the sale of Treasury Bills (TBs) in 1991 whose proceeds were deposited at the Central Bank of Egypt.

3.5 In the financial sector, the goal was the liberalisation of the interest rates and credit. Regulations governing banks were liberalised such that banks were free to set their own deposit and loan rates. Interest rates on 3-month deposits declined from 16.1% in 1991 to 10.7% in 1994 and 9.0% in 1998. Similarly, interest rates on 91-day Treasury Bills declined from 19.2% in 1991 to 12.5% in 1994 and 8.8% in 1998, reflecting GOE reduced borrowing from the domestic market. In the banking and insurance sectors, laws were amended in June 1998 to allow full private sector ownership in the bot sectors, including foreign ownership. The regulatory framework and the surveillance capabilities of the relevant supervisory authorities of the financial sector including the Central Bank of Egypt (CBE) were strengthened in order to ensure the proper functioning of the markets.

3.6 Monetary and credit policy measures focused on maintaining prudent monetary growth and financial resource mobilisation as a means of reducing inflation, external deficits, and generating domestic savings. Prudent fiscal measures enabled the Government to pursue tight monetary policy resulting in reduction in liquidity growth from 27.5% in 1991 to 12.3% in 1994 and 10.4% in 1998. Although targets for inflation rates and external deficits were met, domestic savings as percentage of GDP did not increase as anticipated. For instance, the ratio declined from 16.1% in 1991 to 15.1% in 1994 and 14.6% in 1997.

3.7 In the external sector, the current account balance as a percentage of GDP including official grants improved from negative 10.4% in 1991 to 5.5% in 1992 and 0.7% in 1994. Thereafter, it remained positive except in 1998 when it turned negative 3.4%, as against the targets of 4.4% - 6.6% of GDP at the appraisal time. Overall BOP was US$5.1 billion in 1992 and US$2.1 billion in 1994 and thereafter remaining positive save in 1998 when it became negative US$135 million. The improvements in the BOP situation allowed the country to dramatically improve her international reserve position as discussed in 4.3.7. The improvement in the balance of payments situation was mainly due to fiscal discipline, generous and timely rescheduling of external debt by the Paris Club and debt cancellations by bilateral creditors, strong foreign exchange earnings from tourism, workers' remittances and Suez Canal Revenues as well as the Gulf war windfalls.

3.8 In an effort to reduce its external debt burden that stood at US$50 billion, representing 132% of GDP at the end of 1990, Egypt concluded an agreement to reschedule and reduce its debt to the members of the Paris Club. Overall, the 1991 Paris Club agreement involved a total of US$19.6 billion (excluding debt owed to United States). Accordingly, the external debt to GDP ratio declined to 77.3% in 1992 and 59.8% in 1994. This ratio further declined to 34 % in 1998, as against the target of 63.4% - 104.3% at the appraisal. Debt service ratio declined considerably as BOP situation improved. This ratio declined from 71.7% in 1991 to 21% in 1994 and 13.6% in 1998, as against the targets of 12.4% - 22.6% at the appraisal. This made Egypt to be one of the moderately indebted countries. This has considerably reduced the country's indebtedness and enhanced its creditworthiness.

Federal Republic of Ethiopia

3.9 The real GDP responded very well throughout the entire period of implementation and even thereafter, growing on average by 6.1% and 3.6% respectively. Had it not been for the drought conditions of 1993/94 and El Nino in 1997/98, the rate of growth of GDP would, probably, have been much higher. In fact, if abstraction is made of those two years, GDP grew, on an annual average basis between 1992/93-1998/99, by a healthy 8.0% and agricultural output by 6.4%. This compares more than favourably with the 5.8% annual average growth rate of GDP and 3.1% for agricultural output set at appraisal. The performance of agriculture was replicated by both the industry and the service sectors. Industry increased, on average, in the two sub-periods by 6.7% and 7.1%. The service sector grew by 8.0% and 8.6% in each of the implementation and post-implementation periods compared with the annual average rate of 6.7% set at appraisal.

3.10 Several factors account for this impressive performance. First, investment responded extremely well to the new stimulating and deregulated environment, including the profoundly overhauled investment and labour codes. Investment as a percentage of GDP, which had declined to 9.2% in 1991/92, increased to 18% by 1998/99. During the seven-year period following the implementation of the programme, it was equivalent, on an annual average basis, to 16.5% of GDP. In agriculture, the increase in investment took the form of expanded cultivated areas and improved technologies such as commercial fertilizers and higher-yielding seeds. As an example, the volume of fertilizer imported increased from 141,000 metric tons in 1991 to 382,000 metric tons in 1998. In the manufacturing sector, it took the form of new capital acquisition. The latter increased from 72 million birr in 1991/92 to 307 million birr in 1996/97 and that increase came principally from the private sector whose capital expenditure was up from 2.2 million birr to 126 million birr over the same period. Second, exports, which had reached an alarmingly low level in 1992, (equivalent to only 1.5% of GDP), also responded very well to the new environment by increasing rapidly to 9.2% of GDP in 1997/98. It was equivalent, on an annual average basis between 1992/93-1998/99 to 7.1% of GDP. Exports as percentage of GDP, consistently increased during the three sub-periods from 2.7%, to 6.8%, to 8.7% during the post-programme. Third, productivity improved rapidly in the manufacturing sector as obstacles to performance such as unattractive investment and labour codes were improved upon. According to figures quoted by the MEDAC, labour productivity, which declined at an annual average rate of 3.4% between 1980/81 and 1990/91, increased by an annual average rate of 35% between 1991/92 and 1996/97. Finally, the return of peace and stability has also enabled the Government to focus on economic management and mobilize the people to that end. Such an atmosphere, happening as it did after a long period of instability, encouraged economic agents to invest, produce, and trade.

3.11 In addition to GDP growth targets, inflation targets were also largely met. At appraisal, the inflation rate was expected to decline from a high of 24.2% in 1992/93 to 7 % in 1994/95, or an annual average rate of 13.7%. The outcome was far better than expected, as seen by the annual average rates of 5.2% and 0.2% in the programme and post-programme periods, respectively. Inflation was up in 1994/95 to 13.4 % mostly because of the prevailing drought conditions and unexpected increases in money supply.

3.12 Public sector deficit (excluding grants) declined throughout the period, except in 1993/94. In relation to the targets set at appraisal, however, the outcome can be considered a success. In the appraisal report, the deficit was expected to represent the equivalent of 21.7% on an annual average basis. Between 1992/93 and 1998/99, it was equivalent to 7.1% on that same basis and 4.3% if grants are included. Thus, in the area of public deficit reduction, it can be concluded that the programme was a success.

3.13 Ethiopia's balance of payments is characterized by a structural deficit on the trade account, a much smaller surplus on its services account and therefore a deficit on its current account before transfers. The latter reached an annual average representing the equivalent of 4.7% of GDP in the post-implementation period compared to an annual average level of 19.4% of GDP set at appraisal. Exports reacted positively to the measures implemented. They increased, in nominal terms, from 319 million birr in 1991/92 to 3.6 billion birr in 1998/99. The volume of coffee exports picked up drastically reaching 121,365 tons in 1997/98 from a low of 36,000 tons in 1991/92. According to the authorities, 80% of that came from private exporters compared to about 16% during the last years of the previous Dergue regime. Despite progress accomplished in the export of pulses and oil seeds (from 0.5% of total exports in 1992/93 to 10.1% in 1997/98, coffee still remains the principal product, by far (70% of total exports in 1997/98), and it is very likely to remain so in the medium term. Imports increased very rapidly reaching an annual average of 18.7% of GDP during the period 1992/93 and 1998/99. As a result of large inflows of capital, (mostly donor funds), Ethiopia even managed to have a surplus on its overall balance, equivalent to an annual average of 2% of GDP between 1992/93 and 1998/99.

3.14 At appraisal, a target for gross reserves representing the equivalent of 7.2, 10 and 13 weeks of imports, respectively, was set for each of the three years 1992/93 to 1994/95. The outturn was far better since for each of those three years, the actual level of reserves was more than twice the targeted levels. The level of reserves represented the equivalent of 14.7, 28.3 and 30.2 weeks of imports in each of these three years respectively. It also reached impressive levels in the three years up to 1998.

3.15 The year 997/98 marked a turning point as debt service ratio declined dramatically from 40.5% to 15.7% following rescheduling operations at the Paris Club in 1997. Its stock of external debt to GDP also declined slightly from 63.9% to 61.8%. However, according to figures provided by the IMF, 1997 also marked a turning point for the worse for the country as it was forced to acknowledge, then, outstanding claims due to Russia (mostly military equipment), that caused its stock of debt to double to 143.5% of GDP. This would cause the debt service ratio to increase to 60%. Nevertheless, it seems that the country is negotiating with Russia and non-Paris Club creditors for similar rescheduling agreement terms as provided by the Paris club. If successful, this could bring about a significant decline in its overall debt service ratio. Finally, the country had been selected as a potential candidate for the Initiative for Heavily Indebted Poor Countries but it appears that the conflict with Eritrea has put the processing of its case on hold.

3.16 The impact of the trade liberalization measures, especially that relating to the exchange rate, was an increase in exports. Exports increased, in nominal terms, from 319 million birr (1.5% of GDP) in 1991/92 to 4.1 billion birr (9.2% of GDP) in 1997/98. The volume of coffee exported increased from 63,400 metric tons in 1992/93 to 123,200 metric tons in 1996/97. Pulses and oilseeds went up during the same period from 1,900 metric tons to 112,600 metric tons, or from 0.5% of total exports to 10.1%, providing impetus to the export diversification objective. Unfortunately, the performance of leather and leather products, the other non-traditional export, was disappointing apparently because of problems inherent in the leather itself. Its share of total exports declined from 14.2% of total exports in 1992/93 to 8.4% in 1997/98.

Republic of Mozambique

3.17 The economy was expected to experience sustained growth throughout the ERP I period and the growth rate of real GDP was projected to rise to 3.5 percent in 1988 and 5 percent by 1990. It may be noted that real GDP had declined by about 20% during 1980-86, in spite of real growth of 1.8% in 1984 and 1986. GDP growth was expected to be reflected in an increase in agricultural and industrial output mainly for the domestic market, although no quantitative targets were indicated. The projected aggregate growth implied a growth in per capita GDP, as the population growth rate was estimated to be 2.6%.

3.18 Available evidence shows that the goals of ERP I were achieved. The GDP growth rate accelerated to 5.8% in 1987 as against the 1988 target of 3.5% and averaged 5.5% during the next two years, again exceeding the projected rate for 1990. These rates imply positive growth rates for GDP per capita during 1987-89, indicating potential improvement in standards of living. The evidence warrants the conclusion that Mozambique's economic decline was arrested and replaced with a positive growth trend as from 1987. The policy reforms in agriculture and industry stimulated economic activity, which translated into increased production, even though supply response was constrained by insecurity in the countryside and the destruction of roads by insurgents. Agricultural production grew at an average annual rate of 5% during 1987-90 and industrial production by 8% during 1987-89.

3.19 The ERP-II successfully built on the foundation laid under the first programme and has continued the newly-achieved trend in macroeconomic performance. The GDP growth rate remained positive every year except 1992 when Mozambique, like the rest of southern Africa, experienced a severe drought. In spite of the 1992 performance, real GDP growth rate averaged 7.5% a year during 1992-97, as compared to the target of 5.3% a year for 1992-96. The target was overachieved in three of those years. The corresponding actual per capita growth rate was 4.8% as against the target of 2.7%.

3.20 The planned tax reforms were effected in 1987 and 1989. Tax revenue increased dramatically from MT 15.6 billion in 1986 to MT 58.1 billion in 1987 and MT 266.4 billion in 1990 – a 17-fold increase during 1987–90. The tax revenue to GDP ratio remained low on account of the country's low tax base, but rose steadily from 9.3% in 1986 to 20.7% in 1989 before tapering off to 19.9% in 1990. Public expenditure proved more difficult to control as its increase, from MT 51.6 billion in 1986 to MT 692.8 billion in 1990 – corresponding to a steady rise from 30.8% to 51.7% of GDP – more than offset the increase in tax revenue. Subsidies to public enterprises declined from 8.5% of GDP in 1986 to about one percent in 1990. Thus the ERP-I was unsuccessful as regards the budget deficit. The budget deficit before grants increased from MT 29.5 billion in 1986 to MT 394.8 billion in 1990, resulting in a steady rise in the deficit to GDP ratio from 17.7% to 29.4% during the ERP-I period. The situation was, however, sustained by large inflows of grants, which accounted for over 70% of total government revenue during the period.

3.21 The ERP-II similarly failed to achieve its target for the budget deficit. As a ratio of GDP, the budget deficit before grants declined from 29.4% in 1990 to 21.9% in 1993. The corresponding figures for the deficit after grants were 12.5% and 4.8%. The underlying reason is that total expenditure, which increased 4.3 times during the period, grew faster than tax revenue, which grew 3.7 times in the same period. The principal factor in expenditure growth was the unforeseen financial requirements for implementing special programmes for the settlement of demobilized soldiers, refugees and displaced persons, preparations for the first multi-party elections, and financing the emergency needs of the 1992 drought. Considerable reductions in import duties and export taxes during the ERP-II period may also have restrained tax revenue growth.

3.22 Available evidence indicates that ERP-I achieved its money and credit objectives. Although the credit ceiling was not adhered to, the growth rate of credit and money supply fell in the last two years of the programme. During 1988–90 the growth rate of broad money supply fell from 53.6% to 37.1%, and that of credit from 38.4% to 26.9%. Notably, net credit to Government, that is, the Government's net indebtedness to the banking system, fell to MT 31.9 billion, its lowest level in five years. Quasi-money increased steadily from MT 4.0 billion in 1986 to MT 26.6 billion in 1990, reflecting a phenomenal increase in domestic savings and the effectiveness of the Government's monetary policy in general and its interest rate policy in particular. These developments effectively reduced the annual inflation rate from 163.3% in 1988 to 40.0% in 1990.

3.23 During ERP-II period, the financial sector was to be further developed by creating more competition in the banking system in order to improve services and reduce inflation through appropriate monetary policies. The actual performance was mixed. Most measures planned for the sector was successfully implemented. Following the approval of a true central banking legislation in December 1991, the Bank of Mozambique (BOM) shed its commercial functions and became a central bank in early 1992. To promote responsible competition, new regulations were drawn up to facilitate entry of new banks. Lending conditions were also harmonized as commercial banks were given a single interest band within which each bank could determine its lending rates. However, the inflation target of 10% a year during the programme period was not achieved. Even though lending to government continued to decline, money supply and credit increased at unprecedented rates during ERP-II. Consequently, inflation jumped from 33.3% in 1991 to 45.1% in 1992 and further to 63.1% in 1994. For the period 1992-97 the annual average was 38.3% as compared with a target of 14.3% during 1992-96. Up to 1996, inflation also remained higher than projected, but it has been falling rapidly since 1995. It was only 5.8% in 1997 and the indications at the time of the post-evaluation mission were that there has been no inflation since January 1998.

3.24 The policy measures in the external sector relate to the exchange rate, trade and foreign exchange management, and external debt. For a number of reasons, Mozambique's economy, including the balance of payments, had deteriorated dramatically for most of the decade before ERP-I. Foreign exchange earnings from merchandise exports were declining largely because of government's inappropriate pricing policies and the exodus of people from the countryside on account of insecurity. Foreign exchange receipts from services were also declining as a result of negative developments in international transportation services and in workers' remittances. At the same time the import bill remained high on account of inelastic imports of food and industrial inputs. Foreign exchange became scarce and the arbitrarily fixed official exchange rate of the metical, the national currency, was highly overvalued. Thus a need was created for administrative control of foreign exchange.

3.25 The high level of imports was made possible by external borrowing, resulting in a rapid rise in the external debt stock and the burden of debt service. Thus the debt stock increased ten-fold from an estimated US$244 million in 1978 to US$2.4 billion - equivalent to 120% of GDP – by end 1984 on its way to a figure of US$ 3.2 billion at the end of 1986. In the circumstances, the Government was unable to meet its debt service obligations and payment arrears accumulated, a situation that caused capital inflows to slow down, making the balance of payments problem worse.

3.26 Regarding the exchange rate, the overvaluation had created a thriving parallel market and the need for administrative allocation of foreign exchange. Under ERP I the metical was to be devalued at frequent intervals until the parallel market rate premium was eliminated, making administrative allocation unnecessary. In conformity with this plan, the first two devaluations were effected in January and July 1987 followed by a third in January 1988. The process continued throughout the programme period as planned, reducing the gap between the official rate and the parallel market rate. The average exchange rate of the metical was MT 1038 to one US dollar in 1990 as against MT 40 in 1986.

3.27 In the area of external debt the objective was to reduce Mozambique's debt service burden. For this purpose, ERP-I set a ceiling of $50 million for non-concessional external borrowing with maturities of 12 years or less. The Government diligently maintained this ceiling. Accordingly, the subsequent growth in total external debt was not accompanied by a corresponding increase in external debt service burden. Nevertheless, total external debt increased by 57% from its 1986 level to about US$ 5.0 billion in 1990, and Mozambique remained a heavily indebted country. It should be noted, however, that over 40% of this increase was in 1987 alone and that the external debt stock grew at a remarkably slower rate during the rest of the ERP-I period.

3.28 The net effect of the policy measures in this sector was to lay a good foundation for a market-led external sector. The immediate effect of the policies on the balance of payment was positive. The export of goods and non-factor services as a ratio of GDP rose from 3.6% in 1986 to 15.1% in 1988 and then stabilized up to 1990. The corresponding ratios for imports of goods and non-factor services jumped from 14.4% in 1986 to 47.8% in 1987 and thereafter rose more gradually to 65.7% in 1990. While the trade balance and current account balance without unrequited transfers widened appreciably, the overall deficit narrowed marginally as a result of foreign capital inflows, mostly in the form of grants. As a result, external reserves doubled from US$ 50.79 million (equivalent to 1.1 months of imports) in 1986 to US$ 105.67 million (22.0 months of imports) in 1987 and quadrupled to US$ 207.48 million (2.8 months of imports) in 1990.

3.29 Under ERP-II, the gains already made were to be consolidated and enhanced by broadening and deepening policy reforms. Efforts were to continue to unify the official and parallel exchange rates and develop a foreign exchange market in which access to foreign exchange would be unrestricted. Efforts to reduce the debt service burden were also to continue. In line with programme expectations, devaluation of the currency continued, reducing the parallel exchange rate premium from over 100% during 1987-90 to an estimated 15-20% in 1992. Thus GOM was able to merge the official and parallel exchange rates and adopted a floating exchange rate system by the end of the programme period. In addition, the scope of non-administrative allocation of foreign exchange was further increased and export incentives were reinforced, with export taxation being virtually eliminated by reducing export tax rates from a range of 3.5-12.5% to 0.5% in October 1991. The import tariff regime was also restructured and simplified while duty rates were reduced from 34% to 5%. Total external debt stock continued to rise gradually in 1991 and 1992 but fell off slightly in 1993. GOM evidently managed its external debt efficiently and the debt service ratio declined from 24.4% to 21.1% in 1992 before rising sharply to 27.6% in1993. Mozambique's high indebtedness and its satisfactory debt management record were later to qualify it as a beneficiary under the HIPCs' Initiative.

4. Factors in Successful Outcomes

4.1 Any attempt to explain quantitatively, the success or failure of structural adjustment programmes is often beset by data problems. For one thing, it is hard to get a measure of policy reform to use as dependent variable. For another thing, one needs variables that capture the domestic political economy and as well as measures of donor inputs. Dollar and Stevenson[4] have sidetracked this problem by falling back on the masive data generated by the World Bank in order to study, empirically, the determinants of success of structual adjustment programmes. Their conclusion is that the factors can be broken into two—the domestic political-economy factors within a country (e.g. programme ownership, political commitment) and factors under the control of donors (e.g. prior analytical work, preparation and supervision and adequacy of financing). The Bank does not currently have such a robust data base and hence the this report cannot be based on a similar empirical analysis. An attempt is however made in this repot to isolate some factors that could have influenced the outcomes of the programmes. This effort points to the followings as likely determinants of success of these programmes: programme design, timing and relevance, the role of external resources, donor coordination, ownership of the programmes and the supply response of the economies.

Programme Design, Timing and Relevance

4.2 In all the programmes, their design, timing and relevance were critical factors in their outcomes. Prior to the introduction of its structural adjustment programme, Egypt had pursued an inward-looking, public sector-led and import substituting development strategy. While this strategy worked for a while, it became unsustainable in the wake of the collapse of oil prices in the 1980s. In 1986 alone, Egypt's weighted average export price for petroleum declined from $34 a barrel to $12. The consequence of this was a massive build up of external debt and large fiscal and current account deficits. The country's external debt increased by $10 billion between 1980/81 and 1990/91. During the same period, the budget deficit averaged 18% of the GDP annually, while the rate of inflation was averaging 20% a year and open unemployment had risen to 10% by 1990.

4.3 Against this background, it is obvious there was a problem waiting to be addressed in a decisively manner. Thus the government concluded a standby arrangement with the IMF and an economic and structural reform programme with the World Bank in 1991/2.The aim of the programme with the World Bank and which later had the Bank Group as a co-financier, were two-fold. One was to stabilize the economy in order to restore macroeconomic balance and reduce inflation. The other was to stimulate medium and long-tem growth of the economy. Given the almost crisis situation then prevailing in Egypt, there was an urgent need for action that could simultaneously address the causes of the macroeconomic imbalances in the economy and pave the way for the resumption of growth. Thus success of the programme could be partially attributed to the fact that there was a problem waiting to be addressed. In effect the timing was right for the implementation of the programme.

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[4] D. Dollar and J. Stevenson (2000), "What Explains the Success or Failure of Structural Adjustment Programmes?" The Economic Journal, Vol. 110, No. 466.

4.4 It was not just the timing that was of the essence, the relevance of the programme was equally important. The stabilization component of the programme was aimed at restoring internal and external equilibria and unifying the exchange rate. The reform component sought to introduce market reforms that would enable prices rather than government regulation to determine the allocation of resources. In the same vein, public enterprises were to be reformed and prices liberalized. The combination of all these reforms was to pave the way for a virile private sector. When viewed against the problems facing the economy as of the time, any set of policies short of those pursued would have been sub-optimal and therefore incapable of restoring macroeconomic balances and growth. It is therefore not surprising that midway into the implementation of the programme the economy started experiencing improvements in both the external and internal accounts. These improvements encouraged the government to request for a cancellation of the second tranche of the loan from the donors. Thus the relevance of the policies pursued was partly responsible for the outcomes of the programme.

4.5 Since 1974, Ethiopia had operated a centrally-planned economy based on market principles of extensive state control and ownership, large-scale regulation of economic activities and restrictive economic policies. The consequences of all these were market rigidities, economic distortions and a strong anti-export bias. These combined with a debilitating civil war and drought to retard economic progress. Annual GDP growth rate was –1.6% during 1987/88-1991/92. Military expenditures absorbed about 12-16% of GDP. Fiscal deficit, which was already high, increased from 11.9% in 1987/88 to 13.2% in 1991/92.Per capital income was one of the lowest, if not the lowest, in the world.

4.6 The civil war, which had been a major constraint on economic performance, came to an end in 1991. The cessation of hostilities provided a unique opportunity to embark on economic rehabilitation and reconstruction and the dismantling of the restrictive economic policies of the former government. To this end, the government put together the Emergency Recovery and Reconstruction Programme in 1991 with the assistance of donors, including the Bank Group. But a further need was felt for a programme that goes beyond rehabilitation and reconstruction and encompasses policy reforms. Thus in 1993 such a structural adjustment programme was put in place with the aim of promoting sustainable development and poverty reduction through a major transformation from a centralized planning to a market economy. The programme focussed on replacing the previously centrally planned economy with a private sector-oriented, market-based economy through a series of reforms and deregulation of economic activities.

4.7 For an economy just emerging from a long civil war and several years of state intervention and control in economic management, the programme could not have been more timely. The rehabilitation and reconstruction components of the programme were the appropriate responses to several years of war and decay. Similarly the reform of economic policies was just what was needed following years of state control. Thus the environment was conducive to any initiative that could make a break with the anti-development past and unleash the inner energies of the people. It is therefore not a surprise that the programme recorded a measure of success. The programme came at a right moment and in a from that was relevant to the economy.

4.8 The case of Mozambique is similar to that of Ethiopia—it had also gone through several years of civil war and state control of the economy. The two programmes that were put in place were meant to rehabilitate the economy and pave the way for the reform of economic policies. Again like the case of Ethiopia, the environment was right for the programmes. In addition, in terms of relevance, the programmes were exactly what the economy needed after years of war and state regulation. Thus the timing and relevance were partly responsible for the successful outcome of the programme.

The Role of External Resources

4.9 In all the three cases under consideration, the availability of financing was important to the outcomes of the programmes. In Egypt, the period of the programme coincided with the Gulf War. As part of the politics of that war, the country benefited from huge debt relief from its key creditors, mostly the United States and the European Union. Indeed, as a result of debt rescheduling/restructuring, the country was able to achieve the equivalent of 50% reduction in the net present value of its debt. Similarly, in the period leading to the war and its duration, Egypt became a safe haven for flight capital as citizens of countries around the region sought to protect their assets. This led to huge capital inflow. The consequence of these two developments was a massive turn around in the fortunes of Egypt's balance of payments account. Thus midway into the implementation of the programme, the country requested the Bank Group and the World Bank to cancel half of their respective loans under the programme. The availability of resources (in the form of debt relief, grants and gulf war windfalls) encouraged the country to implement the programme with vigour. This underscores the well-known proposition about the complimentarity between adjustment and financing[5]. In the absence of adequate financing, adjustment could become painful in terms of lost output and unemployment. This possibility could discourage a government from vigorously implementing an adjustment programme and thereby undermine its outcome. On the other hand, the availability of financing encourages a country to pursue adjustment with vigour and ultimately achieve the desired results.

4.10 The cases of Ethiopia and Mozambique, while not similar in the circumstances then prevailing, equally evoked donor support and the financing of their programmes. The two economies had experienced long wars and the associated dislocation of basic infrastructure. The mass poverty which the economic decline had brought on their people was well demonstrated in international media. As a result, donors responded favourably to both programmes as the need was felt for economic reconstruction and the dismantling of state control through market reforms. In both cases, the World Bank led the way with the Bank Group and most European Union countries and Japan putting in substantial amount of money. The commitment of both governments to the implementation of the programmes derived in part from the encouragement provided by the availability of resources from donors. Government commitment to full implementation meant, some partial guarantee of success of the programmes.

Ownership of the Programmes

4.11 The ownership of adjustment programmes is a conceptually difficult variable to measure. But Johnson and Watsy[6] have developed a framework that could approximate the concept. The measurement is based on a classification that treats ownership as a four dimensional independent variable. The four dimensions are: (a) locus of initiative; (b) level of intellectual conviction among policy makers; (c) expression of political will by top leadership; and (d) efforts towards consensus-building among various constituencies. Each of these dimensions has four levels reflecting the intensity of ownership. The four levels are: Very high, High, Low and Very Low. For example, the four levels of locus of initiative are: (a) the initiative for formulating and implementing the programme

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[5] Tony Killick and Mary Sutton (1982), "Disequilibria, Financing and Adjustment in the Developing World" in Tony Killick (ed) Adjustment and Financing in the Developing World. International Monetary Fund, Washington DC, 1982.

[6] John H Johnson and Suliman S. Watsy (1993), Borrower Ownership of Adjustment Programmes and the Political Economy of Reform. World Bank Discussion Paper No. 199.

was clearly the borrower's; (b) the programme was inspired and developed in close collaboration between government and the World Bank/IMF; (c) the programme was designed by the World Bank, and received the borrower's broad commitment to adhere to it without major dissent; and (d) the programme was prepared by the World Bank and funding extended, despite governmental disagreement and reluctance to implement some aspects of the programme.

4.12 These are then correlated with programme outcomes (Highly Satisfactory, Satisfactory, Unsatisfactory and Very Unsatisfactory) in order to determine the influence of ownership on adjustment outcomes.

4.13 In all the three cases, borrower ownership, as defined above, was not the strongest that one can hope for, but it was certainly not low. In Egypt, the government took the initial steps that led to the Standby Agreement with the IMF. This was to pave way for the structural adjustment programme with the World Bank, of which the Bank Group was a co-financier. The government tried to build political consensus for the programme among the various constituencies. This was to generate strong commitment on the part of the bureaucrats as well as the reform-minded politicians who were brought into government in the wake of the cabinet reshuffle that took place shortly after the commencement of the programme. In Ethiopia, the new government, armed with a new outlook, sought to undo the mismanagement of the past. It took the initial steps of preparing the Emergency Recovery and Reconstruction Programme, and got the international community, including the Bank Group, to support it. It also concluded a Policy Framework Paper with the IMF and the World Bank. These initiatives paved the way for the structural adjustment programme herein reviewed. Beyond this, it took steps to make the programme acceptable and popular among the various constituencies. In Mozambique, the cessation of hostilities brought home to the government that if it was to avoid a major economic collapse, it should take strong measures to put the economy on the path of growth and recovery. Hence it initiated the Economic Action Programme, through which it took the first steps to relax controls over the economy and provide incentives to the private sector. The limited scope and achievement of this programme more or less forced the government to launch the Economic Rehabilitation Programme. In addition to putting the programme in place, the government sought political support for it among the major constituencies. While borrower ownership was not very high in the three cases, it was high enough to be a contributing factor in the successful outcomes of the programmes.

Donor Coordination

4.14 Donor coordination should in principle be driven by recipient government needs and priorities. But because of weak governance structures and management capabilities, this responsibility has often fallen on donors themselves. In the three cases under review, donor coordination was led by the World Bank, with the Bank Group playing an active role. In Egypt, coordination was very strong among all the donors. The debt relief which the country enjoyed was the result of the coordinated effort of the donors. As part of its contribution to coordination, the Bank Group joined the World Bank appraisal missions in the months leading to the approval of the programme. In Ethiopia, the adjustment programme had its roots in the Consultative Group meeting of 1992 at which the reform programme was endorsed and donor support mobilized for it. Beyond this, there was strong coordination between the donors during the appraisal and implementation stages of the programme. In Mozambique, coordination was carried out under the aegis of the Consultative Group and Special Programme of Assistance (SPA) meetings. It was at these meetings that the humanitarian assistance programme and resettlement schemes that followed the 1992 drought were discussed and approved. This assistance was later to make it easy for the government to implement the adjustment programme. Similarly the establishment of peace and the basis for democracy and good governance has a lot to do with the coordination efforts of the donors. In all the three cases, the coordination activities of the donors created a conducive framework for the design, formulation and implementation, including monitoring, of the programmes. This in turn might have played some role in the outcomes of the programmes.

Supply Response

4.15 One of the findings of OPEV review of adjustment programmes, and indeed most academic reviews of these programmes, is that the poor performance of these programmes is traceable, in part, to the weak supply response of African economies. This response has to do with the flexibility of these economies in adapting to changes or to incentives[7]. In the three countries under review, the supply response was relatively better, thereby facilitating output growth in the key sectors. Prior to the introduction of ERSAP in Egypt, government intervened in the goods and services sectors through systematic price controls. But with the introduction of ERSAP, prices were liberalized in the agricultural, industrial, energy and transport sectors. In agriculture, all prices were liberalized and subsidies removed except for bread, wheat flour, and sugar and cooking oil. All industrial prices were liberalized except for pharmaceuticals. In the energy sector, the government raised petroleum prices to 100% of international prices, while electricity prices were raised to 74% of long run marginal costs. In the transport sector, tariffs for the Egyptian National Railways were raised by 5% annually beginning from 1991 with the hope of reaching 100% by 1998 as required under the programme. The outcome was a gradual reduction in economic distortions. The consequence was a massive response from the economy. The agricultural sector recorded a growth rate of 2% in 1991/92, 3.8% in 1993/94 and 3.7% in 1997/98—an average rate of growth of 3% during the period. The industrial and mining sector recorded and annual average rate of growth of 5.2% during the same period. The energy sector also recorded an impressive rate of growth of 5% during the period, while the transport sector recorded a rate of growth of 5.2%.

4.16 In Ethiopia, the prior pursuit of state controlled economic system had left a legacy of extensive price control or regulation. Thus one of the objectives of the programme was a major deregulation of prices. With the implementation of the programme, all prices were liberalized and tariffs on public utilities significantly adjusted upwards to reflect real costs of production. In the financial sector, most controls on lending and deposit rates were lifted, while the foreign exchange market was deregulated with the introduction of a market-determined exchange rate. With this move the premium on the official and parallel rates has been eliminated. Tariffs were also rationalized. The impact of the liberalization measures was immediate. Agricultural output increased substantially while the manufacturing sector had the same experience. The share of industry in GDP increased from an annual average of 9.6% in the preprogramme period to 11.4% in the period following the programme. In response to the developments in the foreign exchange market, the competitiveness of the currency, as measured by the real effective rate of exchange, increased by 76% between 1992/93 and 1998/99. As a result, exports increased, in nominal terms, from 319 million birr (1.5% of GDP) in 1991/92 to 4.1 billion birr (9.2% of GDP) in 1997/98.

4.17 The development experience of Mozambique is very similar to that of Ethiopia—state control of economic activity and a long civil war. The adjustment programme was meant to usher in a period of price liberalization. Thus in agriculture, prices were liberalized and the distribution network improved. The consequence was a significant increase in output. Agricultural production grew at an

[7] This is one area where Bank research activity could shed light on the possible responses of an adjusting country to policy changes/incentives.

annual rate of 5% during 1987-90 while industrial production grew by 8% during 1987-89. The continuation of the civil war was to halt this process but as soon as hostilities ceased, agricultural output grew by 9.1% and by 5.9% in 1996 and 1997 respectively. Industrial production increased by 11.6% and 9.1% in the two years. The reforms in the external sector produced similar results. Exports of goods and services as a ratio of GDP rose from 3.6% in 1986 to 15.1% in 1988, while external reserves doubled from US$ 50.79 million (1.1 months of imports) in 1986 US $ 105.67 million (2.8 months of imports) in 1990.

5. **Conclusions**

Although the outcomes of structural adjustment programmes across Africa might have been disappointing, there are a few cases where they have made significant impact on the relevant economies. The three cases discussed here fall within that category. Several factors account for this relative success. These include programme design, timing and relevance, external funding, ownership of the programmes and the supply response of the economies. Needless to say that these are also the same factors that could guarantee the sustainability of these programmes. While the small sample size of this review might limit a continent-wide generalization of the conclusions, it bears re-emphasizing that focusing on the factors making for the success of these programmes by future programmes could partially guarantee the success of those programmes. The lesson here is that in order to make structural adjustment programmes perform better, programme preparation should emphasize these factors in the early stages of programme formulation and design.