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A World Free of Poverty



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Partners in Reform: The Special Program of Assistance for Africa (SPA)

In 1988, the international donor community formed a partnership under the chairmanship of the World Bank to coordinate external support for programs of reform undertaken by low-income debt-distressed countries in Africa. All of the major official donors working in Africa, bilateral and multilateral, participate. The aim of this partnership-- the Special Program of Assistance for Africa (SPA) --has been two-fold:

- To ensure that adequate balance of payments finance is available for reform programs; and
- To provide a forum for improving the effectiveness and efficiency of donor assistance for these programs.

As the second three-year phase of the SPA drew to a close in 1993, an assessment was undertaken of the experience under SPA-1 and SPA-2 (1988-1993). Building on the assessment, an agenda was developed for a third phase, SPA-3, covering the years 1994-1996.

Assessing the Experience of SPA-1 and SPA-2 (1988-1993)

Macroeconomic Policies and Performance

Drawing on studies undertaken by the World Bank (*Adjustment in Africa: Reform, Results and the Road Ahead*) and others, the assessment concludes that there had been a *clear improvement in the macroeconomic policies* of the countries supported during the first six years of the SPA. Despite this turnaround in policy performance, *however, most of the countries had not yet achieved a fully satisfactory or sustainable macroeconomic policy stance*. In many countries, the fiscal balance remained fragile, inflation was above international levels, and exchange rates were misaligned, all

indicators used in the assessment.

The assessment also indicates that *better economic policies have led to higher incomes and better economic performance*. The evidence is clear that the implementation of policy reform is associated with improvements in economic performance, and that the countries which maintained good policies have outperformed those which have did not :

- During the SPA-1 and SPA-2 periods (1988-1993), of the 9 countries (Burkina Faso, Burundi, The Gambia, Ghana, Guinea-Bissau, Malawi, Mali, Sao Tome and Principe, and Uganda) which had most consistently maintained relatively sustainable macroeconomic policies and relatively less government intervention in markets, all except Sao Tome achieved an average annual increase in their real Gross Domestic Product (GDP) of at least 3.3 percent. Five of these -- The Gambia, Ghana, Guinea-Bissau, Malawi, and Uganda -- achieved GDP growth rates of more than 4 percent per year. This performance was during a period of slowing growth in OECD countries and strongly declining terms of trade, and was more than twice the growth of the remaining 18 SPA countries, which was only 1.8 percent per year. The 9 countries with better policies were also found to have achieved significantly better performance in export growth and investment. However, savings rates remained low in all groups.

The availability of external finance linked to policy reforms made an important contribution to improved economic performance. These resources and the policies supported by them served to relieve import constraints, increase consumption and investment, and enable growth.

- Real imports of SPA countries rose by 12 percent in 1987-1991, in contrast to the sharp decline in imports in 1981-1986. The 9 SPA countries with better economic policies had experienced a real import rise of 23 percent in 1987-1991.
- Real net external transfers, i.e. aid inflows and other resources, after taking into account inflation and rising debt service burdens, rose by 42 percent, from an annual average \$4.5 billion (\$4,500 million) in 1981-1986 to \$6.3 billion in 1987-1991. These flows were just about enough to offset the decline in the terms of trade which hit the SPA countries. Without the substantial growth of aid during 1987-1991, the impact on the import and financing situation of the SPA countries would have been severe.
- Real exports of SPA countries were 21 percent higher in 1987-1991. This rise accounted for about one half of the increase in imports. The export expansion reflects the beneficial impact of policy reforms, and occurred in the face of the adverse external economic environment.

Improvements in Sector Reforms

Macroeconomic policy reforms have been complemented by reforms in key sectors. *The assessment indicates that the most progress has been achieved in sectors such as trade and agriculture, where reforms were begun earlier and have required less capacity building for their implementation.* Thus, in agriculture, progress has been widespread and substantial. The main impacts on agriculture have come from the correction of distorted exchange rates, liberalization of markets, and better prices for producers. In trade, along with the move to more realistic exchange levels, exchange controls have been eased, import quotas and restrictive licensing schemes have been reduced, and tariffs have been rationalized.

Reforms have been slower in areas that have placed greater demands on institutional capacity or have entailed larger transitional costs - for example, financial sector, civil service, or public

enterprise reforms. More effective implementation of policy reform has been found to result when there is a high degree of commitment to reforms in the country, when policies are well-focused and appropriately sequenced, and when the time frame for implementation is realistic.

Impact on Poverty Alleviation

There has been a continuous evolution in the thinking about the linkages between reform programs and poverty reduction, and the designs of reform programs have been adapted to reflect better understanding. Economic growth serves to reduce poverty--but the *type* of growth is important. It needs to make use of the factors of production owned by the poor, principally labor and land. Moreover, the growth rates that have been achieved so far by SPA countries have not been high enough to reduce the overall level of poverty.

The main mechanism through which the poor have benefited from economic policy reform in the SPA countries is an increase in incomes in the agricultural sector and related activities in the rural areas. Rural incomes have benefited from the exchange rate changes and from the freeing of prices for producers of crops, which have made local production more attractive. The impact on the urban poor, however, is more mixed, with both positive and negative influences. Reform programs have increasingly incorporated safety nets for vulnerable groups.

However, higher incomes by themselves, even those which benefit the poor, are not sustainable unless human capital formation, skills upgrading, and access to basic social services are placed on an equal footing with boosting incomes. More recent reform programs have been addressing the issues of securing adequate funding in such sectors as education, health, nutrition, rural water supply and sanitation. However, more attention needs to be paid to ensuring that both the level and the composition of these expenditures will provide basic education and health services for the poor.

Institutional and Management Constraints

The first wave of reforms were directed toward establishing macroeconomic stability and adjusting relative prices -- exchange rates, tariffs, interest rates and controlled prices. These reforms, though difficult, are relatively easier to implement than sector reforms that depend more on institutional capacity. The second generation of reforms i.e. public enterprise, financial sector reforms, etc. revealed the administrative and implementation weaknesses of the reforming governments. It also revealed a major area of tension - that between the donors' internal pressure to show early results in return for their assistance and the time needed for recipients to build the necessary skills to implement reforms on their own.

Political Transition and Improving Governance

It has become clear that the urban elites were the major beneficiaries of the preadjustment era. The redistribution of benefits to the rural groups stemming from reform has resulted in considerable pressure being put on governments by vocal urban groups to slow down the reform process. On the other hand, problems of governance --lack of accountability, transparency, and the rule of law-- have also hampered reform, and have promoted suspicion on the part of the general population that the ruling classes are deriving disproportionate financial gains from the government's policies. The transition to greater political participation under way in many countries has often complicated economic reform. An SPA Working Group has been established to review, among other things, the linkages between economic reforms and political liberalization and how to make these reforms

mutually reinforcing.

SPA-3 (1994-1996): Looking to the Future

In reviewing the reform experience, there was consensus among the SPA donors that adjustment needs to be seen as part of the broader on going development effort. Structural adjustment measures were seen as necessary, but not sufficient, to bring growth rates to the high levels needed for meaningful poverty reduction. It was emphasized that the nature, and not merely the rate, of economic growth was critical to achieving this objective. Out of this assessment were developed the five priorities or five pillars for SPA-3. These are:

- ***Strengthening Implementation of Policy Reform.*** Providing balance of payments support to help recipient countries strengthen and deepen their policy reforms will continue to be at the center of donor efforts through the SPA. However, donors will need to be more selective in allocating assistance, and, under SPA-3, these decisions will have to take into account even more the extent to which policy reforms are being effectively implemented. More attention will also need to be paid to addressing the constraints to rapid and effective implementation in recipient countries and to the development of more realistic conditionalities. Greater recipient country ownership and political commitment to reform programs will be important. As regional economic cooperation can help African countries to compete more effectively in the international economy, individual country programs should be compatible with potential regional economic cooperation or integration.
- ***Poverty Alleviation.*** Integrating poverty reduction measures into broad policy reforms, public expenditure allocations and into sector investment decisions will be a crucial aspect of SPA-3. Some of the areas to be addressed include protecting and expanding public expenditures which benefit the poor, and ensuring that the delivery of basic services is strengthened through a participatory approach in the design and implementation of these programs, whether locally-financed or supported by donors. Thus, for example, the minimum package of essential public health and clinical interventions linked to a decline in infant mortality and a rise in life expectancy should be made available to the poor segments of the population. Similarly, basic education, with a focus on female education needs to be expanded in the rural areas. An SPA-3 Working Group on Poverty and Social Policy has been formed to further consider how SPA could strengthen its impact on poverty reduction and social development in Sub-Saharan Africa. Its recommendations have recently found their way into donor practice, through undertaking poverty assessments for African countries, expanding and improving targeted programs for the poor, and in more carefully scrutinizing public expenditures to improve the impact of poverty alleviation measures.
- ***Coordinated Support for Sector Investment Programs.*** Investment in key sectors is needed to realize the benefits of policy reform and achieve the goals of accelerated growth and poverty reduction. The SPA will be promoting needed improvements in the efficiency of investment through coordinated donor support for multi-year investment programs in key sectors such as human resource development, agriculture, and physical infrastructure. Such coordination will, in the context of the present fragmentation of present donor lending, provide a better basis for the recipients to take ownership of these programs. Sector programs would involve coordinating resource mobilization and reaching consensus among donors and recipients concerning sector policy and institutional reforms in selected sectors. These programs would be complemented by efforts to expand the role of private investment, on which countries will have to rely heavily if growth rates are to be raised. This effort is crucial in view of the fact that unless per capita income increases at a rate faster than 2 percent per annum, the incidence of

poverty will grow in Sub-Saharan Africa.

- ***Strengthening Local Management and Institutional Capacity.*** As deficiencies in management and institutional capacity are serious constraints to implementing policy reforms on a sustainable basis, there is need to build capacity in very specific areas such as public expenditure management and civil service reforms. The challenge for African countries and their external partners is to strengthen these capacities, while at the same time reducing dependence on long-term expatriate technical personnel. Two SPA Working Groups have been constituted to develop procedures and guidelines for improving public expenditures management and civil service reform.
- ***Improved Monitoring.*** One of the most important features of SPA is its regular monitoring of recipient country and donor performance. To support the agenda for SPA-3, monitoring will be strengthened in the following areas:

Policy reforms: The monitoring of policy reform will focus on implementation and results.

Financing needs and donor financing: Monitoring will continue on a 6-monthly basis so that SPA resources can be allocated where they are needed most, and their adequacy evaluated.

Sustainability: Annual reporting will be put in place on monitoring the sustainability of economic performance.

Poverty alleviation: It is essential to obtain a far more thorough understanding of how economic reforms affect household welfare, particularly the poor, and how households react to economic reform. It is therefore important to monitor the evolution of poverty levels and social conditions over time. The SPA Working Group on Poverty and Social Policy has begun this monitoring process, and is supporting information gathering and analysis at the country level. This work will be expanded.

Donor support for adjustment programs will continue to be the principal objective of SPA-3. It would be unrealistic to expect that all the objectives mentioned here will be achieved by 1996. It would be equally misleading to assume that SPA donors can address all the development issues that confront Africa. Ultimately, the resolution of these fundamental concerns will depend on the resolve and talent of the people and governments of Sub-Saharan Africa.

For further information on the activities of the SPA and copies of the full report, *Special Program of Assistance: Launching the Third Phase*, please contact Jeffrey Katz, Rm J3-075 or Alison Rosenberg, Rm J5-055, Africa Region, World Bank, 1818 H Street, NW, Washington D. C. 20433.

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