Book Review Article

Requiem for Adjustment Lending?

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Structural Adjustment and Agriculture: Theory and Practice in Africa and Latin America. Edited by Simon Commander. London: James Currey and Portsmouth, New Hampshire: Heinemann, for Overseas Development Institute, 1989. 250 pp. £30.00 hb, £11.95 pb.

I

This outstanding collection raises a puzzle. The editor concludes (p. 241):

> Adjustment lending has now emerged centre stage . . . the weight given to policy rather than project lending continues to grow. Yet, at least in sub-Saharan Africa, the benefits are not readily visible.

The World Bank's own *Report on Adjustment Lending* frankly faces these failures, not just in Africa but also in heavily indebted countries, and in low-income countries as a whole. Hence the puzzle: if adjustment lending does not work, why does it flourish? (The argument that *more* of it, more fiercely implemented for a longer period, will do the trick sits oddly with the market-oriented view that success is measured by performance; anyway, such an argument has diminishing marginal credibility.)

Even the claimed successes — Ghana (p. 107), Senegal (pp. 145, 170) — have not led to sustained acceleration of agricultural growth. Progress towards the intermediate goals of adjustment lending, such as real devaluation, has been modest and intermittent (p. 235). Even more puzzling, there is increasing agreement that the thrust of adjustment lending often ensures its failures. These arise largely because of non-price factors that reduce the price-responsiveness of aggregate farm output. Such factors are anyway serious in a

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technologically near-stagnant agriculture, but are worsened by budgetary and ideological pressures against rural action by the state. Yet such pressures for state compression are closely tied to IMF and World Bank conditions for policy lending — the same lending, and sets of conditions, that seek better functioning of rural markets. And state compression, in already weak states, undermines the already precarious infrastructure for success in stimulating aggregate agricultural growth through better incentives.

The lesson is, in part, being learned. The World Bank is seeking project re-entry through 'new-style projects'[1] in much of Africa, and is making support for agriculture conditional upon *increased* sectoral domestic public expenditure in several countries of Latin America. Yet the paradox — a generally failed adjustment process[2] that absorbs a growing proportion of donor money — remains. To incorporate the excellent papers of Commander's book into our understanding, we need to resolve that paradox.

II

I suggest that adjustment lending looms so large because it is a reaction by donors, not mainly to the structural disequilibria created by oil price movements and debts in 1973–85, but principally to 'project fatigue'. An exaggerated, over-generalized sense on the part of donors that 'their' agro-rural projects have failed is joined to an exaggerated attribution of failures not to project design, but to wrong macro-policies (especially on exchange rates, interest rates, and prices of farm inputs and outputs). Add the belief that donor loans and conditions can enable, or push, recipients to 'get the policies right' — and must do so before agro-rural project lending can usefully grow again — and the paradox of donor persistence with unsuccessful adjustment lending is partly explained.

In the 1970s, donors belatedly raised the proportion of aid going to agriculture. Some of this went to comprehensive area projects. Most of these were wholly agricultural. Sometimes, they also embraced other sectors (education, health, roads, etc.). Contrary to the general view, most of the aid money invested in these projects obtained economic returns — and poverty impact — satisfactory in themselves and competitive with other public (and private) investments.[3] For most of Asia, and some of Latin America, major donors understood the appropriate farm techniques and the available rural institutions

— at least in part, for crops, and in favoured areas. Governments, moreover, supported project aid with roughly reliable current funds and personnel.

However, in most of Africa and much of Latin America, these two conditions for successful agro-rural projects were increasingly violated in 1973–85. Donors often gave project staff neither time nor incentive to prepare or supervise projects properly — to 'get the techniques and institutions right'. Recipient governments, overwhelmed by debt in Latin America — and by droughts, wars and skill shortages in Africa — reneged upon promises of staff and of current cash to support aid projects. The macro-policy environment often made matters worse, but correcting this environment, even if it is possible via adjustment lending with policy conditions, cannot *suffice* to squeeze good results out of ill-designed and ill-implemented agro-rural projects.

Donor evaluations of the reasons for agro-rural project failures[4] amply recognize the central role of bad technical and institutional project design and implementation. They also stress that the role of farm price distortions is usually peripheral, not because prices don't matter, but because farmers are better at avoiding price distortions than governments are at imposing them. Further, donor evaluations show that the alleged 'failure' is mainly confined to Africa, and even there largely to area projects and livestock projects. Yet, despite these clear messages from the data, several donors persist (though with ever-decreasing confidence) in arguing — and allocating — as if they best helped agro-rural projects by improving, not project technology or institutions or the directly supportive actions of the national government, but its macro-policies, especially on exchange rates, farm prices and private ownership.

This book says too little about how to get the projects right. However, it amply documents how seldom donors have improved agricultural performance via general-purpose, or sectoral, lending conditioned upon 'better' prices for foreign exchange (or farm inputs or outputs) plus reduced state intervention in agricultural credit, marketing and supply. This requiem for the adjustment approach, at least in agriculture, has four main voices.

III

First, stern conditions upon secondary issues, for want of conditions on more important matters, have been rendered ineffective or else implemented in damagingly structured ways. Thus it is *ineffective* to seek to help the poor by higher farm prices, unless the poor have adequate access to farmland (as in South Korea, but probably not in India). If big farmers (who are usually more capital-intensive) are the main gainers from better price incentives, they will generate little employment, but severe shortages of capital. Yet in Brazil, Kenya, the Philippines and Thailand, donors insisted much less effectively upon land-reform conditions than upon the price adjustments whose success partly depended on such conditions (pp. 76–8).

Damagingly structured implementation of IMF-type conditions upon budget deficit reduction may arise if (as is usual) they are approached by cutting public expenditure. Ghana is a striking exception, where the relatively good prospects for successful adjustment lending stem from an unusual upsurge (and restructuring) of public investment (p. 109). When public expenditure *was* cut, investment fell much faster than government consumption in Colombia (p. 195), Ghana (p. 110), Morocco (pp. 177, 185, 233), Senegal (pp. 150, 170) and Zambia (p. 129).[5] Agriculture in Senegal (p. 149) and elsewhere,[6] preventive health care and rural social services (pp. 98–9), lost out especially heavily.

IV

The second 'voice' in the adjustment requiem stresses that the process harms the poorest most. These papers provide an excellent analytical frame to test this proposition (pp. 11, 72), but how convincing is the evidence? Nutritional intakes or status — but more seldom health outcomes — worsened in the 1980s in several countries (pp. 91–3). However, of these, Brazil strained every sinew *not* to adjust, while Sri Lanka's budget deficit left no 'non-adjusting' alternatives available. Elsewhere, the blame for worsening poverty rests with the pre-adjustment, 'Dutch-disease' shifts against labour-intensive food-growing sectors during commodity booms — e.g. towards phosphates in Morocco and Senegal (pp. 145–6, 179) — at least as much as with later 'adjustments' or lending conditions (admittedly far from optimal) designed to correct or reverse such shifts by transmitting, through market incentives, the fact that the commodity boom was over.

The clearest threats posed to poor people by adjustment processes come from dearer food after devaluation; from reduced government (and multiplier) employment; from cuts in spending on social services; and perhaps from reduced income for poor producers of non-tradables, especially services, as policy reforms increase the relative rewards for producers of tradables. Yet these threats are implicit in the initial disequilibrium. If adjustment lending could be so managed that better farm prices led to substantially more output of staple foods, especially from labour-intensive smallholdings, the poverty impact should be favourable.

V

This, however, brings in the third 'voice' in the requiem for adjustment lending: the claim that even if such lending helps to bring about higher farm prices (whether by devaluation or otherwise), total farm output[7] responds 'weakly'. By 'weak' response, analysts variously mean that a rise in farm output prices, relative to input prices, or to the overall cost of living, produces an effect on total farm output that is (a) slow, (b) proportionally small, (c) of low statistical significance, or (d) responsible for only a small part of output variations. Especially in the African context — of slow and under-researched agro-technical progress and unreliable, perhaps as in Senegal (pp. 151, 157) increasingly unreliable, farm water supply — this book illustrates and explains all these forms of weak response, but might do more to distinguish among them.

Chhibber (pp. 59–61) conclusively refutes Peterson's influential, but far too high, estimates of aggregate agricultural supply elasticity. Chhibber's most powerful evidence (from Binswanger and Bond) further substantially reduces even his own long-run estimates (0.3–0.4). The reasons for low responsiveness of aggregate farm output to *official* prices are familiar, but there are some new twists. Cross-border smuggling of cocoa from Ghana, and of groundnuts from Senegal, avoided 'pre-adjustment' price distortions and thus reduced gains from 'adjustment'. Less familiarly, Bates (pp. 222–3) infers that the private sector had adjusted informally, so that formal price adjustment — contrary to dogma on all sides — had the role not of correcting prices but of re-establishing credible government. Desubsidization of fertilizers and rural credit, often preceding higher farm output prices, often further reduced their effect on output.

VI

The bass voice, in this requiem for adjustment lending as a major part of the cure for agro-rural under-performance, is the evidence that the two goals of such lending — state compression to make room for new private enterprise, and market relaxation to stimulate more output from existing enterprise — are in sharp conflict. In a country where rural people have long been neglected and exploited by 'their' government, it will achieve little, contrary to Tolstoy's view, simply by getting off their backs. Neglect must cease, and the state be expanded rather than compressed, if less exploitative prices are to do much for agricultural growth or rural welfare.

Lance Taylor's work, cited on p. xiii, shows that real exchange-rate depreciation tends to work if, and only if, public investment meanwhile expands. 'Atrophy of rural-sector institutions' and 'absence of technical interventions' in Senegal or Sierra Leone (p. 238) will be worsened by state compression. Confining the state to producing 'public goods' and helping it to do much more of this (p. 66), while theoretically attractive, is infeasible politically, and rests on a much sharper distinction between public and other goods than can in fact be made. The account of cocoa extension in Ghana — not overstaffed, highly functional, yet forced to contract (and reduce cocoa farmers' price-responsiveness) during public-sector cuts (p. 125) — is very telling. In Zambia, the scanting of public action in support of food production not only reduces farmers' price-responsiveness, but also impedes the food supplies needed to make the adjustment process politically sustainable (pp. 139–140).

To provide such public action means relaxing the budgetary and ideological pressures towards smaller states. Yet — just as farm output usually responds little to better prices alone if there is little public provision — so such provision will call forth little extra output in the presence of general restraints and distortions of prices, exchanges and markets. Market relaxation, to achieve broad-based agro-rural progress, must be divorced from state minimalism, and married to purposive — and expanded — state action.

This is not easy. Big, active states tend to contain powerful people, and to accumulate clients, who gain by controlling or destroying markets. Only competitive public overview, through the political institutions of 'civil society', can resolve this dilemma. There are prospects for this in much of South and East Asia, in Latin America and in some countries in Africa. It is also feasible in Eastern Europe, unless its debt-burdened countries are ideologized and fiscalized into destructive compression and privatization, instead of redirection and public overview, of states and parastatals. It is to issues of this magnitude that Commander's stimulating collection directs our attention.

A place for adjustment lending clearly remains. Increasingly, it should go to countries (a) constrained by capital rather than by organizational factors, (b) with governments whose overall, and marginal, use of capital is generally seen as reasonable. Such 'programme aid' is needed for, say, India or even Bangladesh. In most of rural Africa, donors should increase the proportion of support going to carefully selected, technically sound projects consistent with local farmer institutions and demand. This surely requires help, to willing African governments, to build the institutions of *internal* policy dialogue in civil society — institutions from statistical services to universities (and newspapers) that can support open economic debate. But a large role for programme lending in these circumstances — and its capacity to induce, or even to define, the right adjustments — seems, after this admirable book, to be very dubious.

Notes

1. These are projects aiming to provide national-level services to farmers — often through joint work by the public sector with NGOs or private firms — rather than to supply farm inputs, credit, etc. to a defined area.

2. Turkey anad Morocco are among the outstanding exceptions. Middle-income, not too heavily indebted, countries have generally responded best to adjustment loans. See World Bank, *Review of Adjustment Lending*, Washington DC, 1988.

3. World Bank, Operations Evaluation Division, *Twelfth Annual Review of Project Performance Results*, Washington DC, 1987, pp. 158–60; *Annual Review of Project Results for 1987*, Washington DC, 1988, p. 119.

4. See note 3, and World Bank, Operations Evaluation Division, *Rural Development: World Bank Experience*, Washington DC, 1988.

5. It has been argued that, in crisis, one should cut savings — and hence investment — so as to buffer consumption. For the household, this makes sense. For the government or firm, it leads to wasteful, half-completed, 'stop-go' capital formation and irretrievable losses of economic growth.

6. P. Mosley and L. Smith, 'Structural adjustment and agricultural performance in sub-Saharan Africa 1980–87', Discussion Paper No. 14, Institute for Development Policy and Management, Manchester, 1988.

7. M. Lipton, 'Limits of price policy for agriculture: which way for the World Bank?', *Development Policy Review* 5(2), 197–215.