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STUDY SEMINAR 125

ECONOMIC MANAGEMENT FOR STRUCTURAL ADJUSTMENT IN SUB-SAHARAN AFRICA

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1. INTRODUCTION

This is a report covering my participation in Study Seminar 125 on Economic Management for Structural Adjustment in Sub-Saharan Africa (SSA) from 6 to 24 August 1989. The Seminar was organized jointly by the Institute of Development Studies at the University of Sussex (IDS) and the Economic Development Institute of the World Bank (EDI), and took place at the facilities of IDS in Brighton, England. I am most obliged to the IDS and EDI for inviting me to the Seminar.

My participation became possible with financial support from the Danish International Development Agency (Danida), the Carlsberg Foundation and the Institute of Economics at the University of Copenhagen. I am deeply indebted to these three institutions for their generous and expedious approval of my applications for support.

The Directors of the Seminar were Professors Mike Faber (IDS) and Stanley Please (EDI). They were assisted by Co-Directors R.H. Green (IDS) and Cadman Mills (EDI) and an impressive group of some 30 resource persons from a variety of development institutions, including the World Bank, IMF, ECA, UNICEF, ILO, ODA, ODI and the IDS. The participants included 20 senior officials dealing with economic policy and planning from Ethiopia, Ghana, Lesotho, Liberia, Mauritius, Tanzania and Uganda, in addition to eight independents (mainly from development assistance agencies with me as the only academic). For details on the resource persons as well as the participants please refer to the programme in Annex 1, which also includes a list of the sessions and the particular subjects covered.

The Seminar was organized in order to analyse the causes of the wideranging economic difficulties in SSA with a view to advance a process of mutual learning as to what are the feasible options in terms of adjustment policies and how to design adequate programmes. The Seminar focused on six topics:

- the external economic setting facing SSA;
- the nature and causes of economic weaknesses within SSA economies involving an analysis of both structure and policies;
- relationships between macroeconomic and sectoral policies and variables;
- main elements in the formulation of structural adjustment programmes;
- technical instruments for use in adjustment; and
- actual experience of selected SSA governments designing and implementing adjustment programmes.

It is not feasible in a report like the present one to deal with all aspects of the Seminar in detail. The subsequent sections are therefore limited to presenting and highlighting a few major points of the presentations and discussions in a structured manner. More detailed country presentations will not be referred to, but they were an integrated part of the Seminar and provided valuable concrete examples for use in the more abstract and theoretical discussions. Further information is also available in Annex 2, which is a list of suggested readings.

2. GLOBAL CONTEXT AND PROBLEMSETTING

Since 1979 a majority of the countries of Sub-Saharan Africa (SSA) have experienced sharply worsening economic difficulties. The past decade has in fact been disastrous. The more specific features have included decreases in most per capita performance indicators, such Gross Domestic Product (GDP) and food production, as well as increased national and household economic vulnarability to further shocks.

The Seminar reviewed at length the overall global context of SSA and the external reasons for their poor performance. It was pointed out that for oil-importing SSA countries the constellation of circumstances in the 1980s could hardly have been worse. These circumstances included:

- reduced import volumes by SSA countries with recession and protectionism in developed countries interacting in the same direction;
- highly unfavourable terms of trade as a result of both high oil prices and a deterioration of other commodity prices in relation to their manufactured imports;
- a reduction and virtual cessation of commercial bank lending and a rise in real interest rates so debt burdens were increased both through lower export earnings and higher service payments;
- a strong appreciation of the dollar resulting from the high interest rates; and
- a spreading "aid fatigue" among industrial countries.

The Seminar also considered in detail internal weaknesses of structure and policies which contribute to prevailing problems. The most important manifistations of structural deficiencies may according to the ECA be grouped as follows:

- the predominance of subsistence and external commercial activities;
- the narrow disarticulated production base and ill-adapted technology;
- the neglected informal sector;
- the degraded environment;
- the lopsided development due to the urban bias of public policies generally and development policies in particular;
- the fragmentation of the African economy;
- the openness and excessive dependence of the economies including dependence on external factor inputs; and
- weak institutional capabilities.

A series of weaknesses in internal policy making and economic management are also widely recognized. These will be further specified below, but whatever the causes, the generality of these features since 1979 indicate a need for adjustment of production, investment, scarce resource allocation, government budget structures and import/export levels.

Against the above background - and in view of the probable future trends which do not appear encouraging - African countries have with (and in some case without) the support of the IMF, the World Bank and a series of bilateral donors initiated socalled structural adjustment programmes (SAPs). However, the record of countries that have adopted such programmes since the early 1980s appears somewhat uneven. There have been some spectacular failures, a number of middle cases and a few more promising performances. The reasons for this generally unsatisfactory situation have not yet been fully uncovered and therefore needs further study.

3. CONCEPTUAL ISSUES AND PROGRAMME ELEMENTS

3.1 Structural Adjustment Perspectives

Three basic concepts or perspectives of structural adjustment can - according to Tony Killick of the ODI - be identified:

- restoring in a transitory phase and in an orderly manner a series of economic balances (such as balance of payment and domestic fiscal balances) ;
- a transitory process of policy reform intended to address policy changes in order to raise the efficiency of resource use, strengthen basic institutions and restore balance of payments viability;
- a part of a continuous process of transformation, reflecting induced or planned adaption and adjustment policies as instruments chosen to respond to long run development objectives and trends.

The Seminar discussed these different adjustment approaches at length, and it became apparent that they are often being mixed and used in a very loose way which can lead to misunderstanding. This makes it rather difficult at times to trace the origins and implications of a particular objective and policy proposal (or conditionality). Clarity about the conceptual framework (i.e. the underlying model) and objectives is essential.

The first concept (i.e. "restoration of balance"), has been identified as the IMF approach (also identified as the stabilization approach). It may be seen originally as a response to the second oil shock, the recession in the OECD countries and the mounting debt crisis. Policy advice derived from this concept is focussed on monetary aggregates and puts considerable emphasis on demand restraint. It has not generally been concerned with supply side issues, but on "restoring the conditions for renewed growth". Such adjustment does not therefore by itself provide a growth dynamic.

The second ("policy reform") approach has been identified with the World Bank. "Economic policy is seen as part of the problem". It covers a range of issues including more recently distributional and environmental questions. Its ultimate concerns are real as opposed to narrowly monetary. It is "supply side focussed" and is preoccupied with the establishment of a growth dynamic. It is nevertheless transitory in nature, a characteristic it shares with the IMF approach. The danger of this view of adjustment is that it may become identified with the views of the international donor community giving it a somewhat arbitrary character. Adjustment will not be successful if it is externally driven.

The third ("transformation") approach is much broader. This perspective is not narrowly identified with an institution, but corresponds broadly with the views of for example the OAU/ECA and a number of critics of the orthodox World Bank/IMF approaches, including several fellows at IDS. This approach is concerned with the continuous, long run needs of transformation and development. As such it is as much concerned with the establishment of a growth dynamic as the World Bank concept, but in a wider context, and "policy is part of the solution". All economies have to be continuously adapting to changing circumstances and both the first and second concepts of adjustment are therefore in this view nothing more than sub-sets of a wider and longer term process of adaption.

The above classification does not, however, fit all situations, and the overall picture has become much more blurred than in the beginning of the 1980s. Neither the World Bank/IMF nor proponents of socalled "alternative" approaches have been "static" in their application of concepts during the past decade.

The Seminar noted that perspectives on structural adjustment are evolving in a dynamic manner. The need for adjustment is no longer part of controversy, and more emphasis is put by all involved on growth and supply side issues as well as the need for a long term perspective and attention to social and human dimensions of adjustment.

It was originally thought that SAPs would only be required for a duration of up to five years from the start of their implementation. This perception is now changing. Nevertheless, structural adjustment is not - in the words of Professor Reginald Green of IDS - revealed truth. On some elements reasonble people can disagree, particularly in specific country context. This was during the Seminar clearly illustrated in, for example, the at times rather heated discussion of the recently published ECA document on the African Alternative Framework to Structural Adjustment Programmes for Socio-Economic Recovery and Transformation (AAF-SAP).

3.2 Macroeconomic Framework

Macroeconomics is not the whole of structural adjustment. The Seminar in fact uncovered a series of important sectoral and institutional aspects. Yet, macroeconomics is important through its impact on overall resource allocation, institutional structures and public expenditures and taxation.

The Seminar therefore went carefully through what economists mean by balances in this context.[1] A useful newly elaborated pedagogical tool (based upon an input-output conceptual framework) for deriving the national monetary accounting equations around which the IMF's financial programming exercises are organized was presented by Cadman Mills of the EDI. The Seminar used this consistency framework to identify the basic differences between an "expenditure reducing" and an "expenditure switching" approach to adjustment.

The Seminar also identified a number of limitations of this framework. These limitations include all the drawbacks of social accounting matrices.[2] Furthermore, focus is on "monetary" rather than "real" variables and balances, and it provides no insight to causal relationships in the economy. To turn the framework into an economic model which may be of use in policy result projection, assumptions about causality (i.e. "how the model is closed") have to be made. That is, if imbalances exist ex ante they will by their very nature be closed ex post - the issue is how they are closed and whether deliberate policy action can affect this process. Nevertheless, even when a fully specified behaviorial model is designed the consistency relations may provide valuable insights into whether a particular scenario appears feasible.

The basic IMF macroeconomic model is based on the assumption that real output growth and the price level are exogenously determined.[3] Changes in domestic credit expansion result only in changes in international reserves. Dynamics and timelags are handled through forecasting and estimations of the basic equations referred to above. The IMF model cannot therefore be used to investigate supply side issues, an aspect which has so far led the IMF to focus on demand restraint in attempts to establish economic balances in an orderly manner.

The World Bank approach is different in both time and variable considerations.[4] "Real" variables and relationships are in focus, and investment, imports and savings are related to output or disposable income. This has led the World Bank to emphasize growth supply side oriented policies in

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[1] These balances include inter alia external payments, government budgets, savings/investment, incomes/goods available, food, basic consumer goods and public services, transport etc.

[2] These socalled SAMs represent a linear, fixed-coefficient world, and models based solely on them fails to convey possibilities for substitution, productivity growth and changes in institutional behavior. Data requirements are enormous.

[3] Financial programming is the term used to describe the process of determining the values of the policy instruments (i.e. credit contraction) that are required to achieve desired values of the target variable (i.e. balance of payment).

[4] This approach is reflected in the socalled "revised minimum standard model" which has been the basis for country economic projections in the World Bank for several years.

attempts to establish economic balances in an orderly manner, and involves "grappling" with micro and macro economic structural and institutional issues.

Efforts have been made to integrate IMF and World Bank approaches and models but it is still an unsettled issue whether this can be done in a satisfactory and operationally useful manner.[5]

Agreement on an IMF supported set of stabilization measures has normally been a precondition to entering into structural adjustment programmes supported by the World Bank. The main elements in SAPs as they have been formulated during the 1980s are outlined in the following section.

3.3 SAP Elements

IMF/World Bank supported SAPs - which without doubt have so far been inspired by the ascent of neo-liberal views on economic development - have centered around the following objectives:

- strengthening the balance of payments position;
- reduction in domestic financial imbalances, including less government deficit financing;
- elimination of price distortions in various sectors of the economy;
- promotion of domestic savings in public and private sectors;
- increasing trade liberalization; and
- restoration of orderly financial relationships with trading partners and creditors and mobilization of external resources.

Other objectives have included restoring positive per capita growth, averting pauperisation of the poor and vulnarable groups and avoiding such drastic compression of personal consumption and basic services as to rend the fabric of society. The more specific policy instruments used have generally included:

- credit ceilings and control of money supply;
- exchange rate adjustment, mainly devaluation;
- interest rate policy;
- deregulation of prices of goods, services and factor inputs;
- fiscal policy including measures for resource mobilization as well as the reduction of public expenditure;
- trade and payments liberalization, including i.a. the removal of import quotas;
- institutional reforms with emphasis on increased capacity to implement public investments and privatization; and
- debt reschedulings.

These instruments have served as the basis for the definition of criteria (conditionalities) against which a given government's performance has been assessed. More recently, specific measures for the alleviation of the social dimensions of adjustment have also been included in programmes in recognition of the fact that fuller account must be taken of the human dimension.

It is impossible to establish a counter factual case of what trends would have been without structural adjustment programmes. However, universal acceptance of SAP design and implementation clearly requires more positive results than have so far come forward. There is in this context little doubt that the design of SAPs and attached IMF/World Bank conditionalities should be improved. Unless structural adjustment is grounded in national contexts and based on national analyses, decisions, commitments and personel it will not last.

[5] Disputes therefore continue to exist between the IMF and the World Bank in the formulation of specific country programmes.

4. SELECTED TECHNICAL POLICY INSTRUMENTS

4.1 Fiscal and Monetary Policy

The size and role of the public sector in SSA has been the subject of intensive debate over the past decade as evidenced in the 1988 World Development Report.[6] The subject matter is clearly influenced by ideological preferences which obviously vary a great deal. Nevertheless, there are elements of a consensus emerging. These were put in focus in the Seminar.

Government financing requirements/deficits have a series of macroeconomic linkages (credit expansion, balance of payment, inflation and growth). Fiscal measures are therefore important in redressing imbalances. In this regard, it was the general experience of participants that SAPs have often included overall budgetary reductions by targetted annual percentage as a means of redressing these imbalances. However, not all "deficits" have comparable short and long term impacts - neither on production efficiency nor on distribution. If cuts in public expenditures are inevitable - as they no doubt are - considerable attention should therefore be paid to which kinds of cuts are to be made. It is in this context remarkable that it is the ECA that has been the more forceful in drawing attention to the importance of military expenses as a heavy burden on government budgets.

While the IMF does not have the expertise to enter into specifics on the income/expenditure side the World Bank has explicitly recognized this need and public expenditure reviews have become a regular feature of SAPs.

It was also highlighted in the Seminar (cf. section 3.2) that it is by no means certain that service provision (demand) cutting is a better general approach to budgetary balance restoration than revenue (supply) raising. The limits within which each of these two approaches are the more relevant must be identified rather than assumed as is often the case in IMF programmes. Effective ways of increasing revenue relative to GDP and measures of increasing the efficiency of resource use may exist. Such efforts are as important as efforts to reduce public expenditures.

In line with this approach a series of resource people gave lectures on a wide range of topics, including better procedures for budget planning and implementation, the use of the budget as a tool of economic management, the choice of investment projects, the management of civil service reforms, the reform of public enterprises and the importance of maintenance. A detailed review of seminar deliberations on these topics is not included here.

Credit policy is closely linked with public finances and the balance of payment. It is a basic IMF rationale that if domestic sources of monetary expansion (including in particular budget deficits due to the limited development of financial markets in SSA) are excessive relative to growth in the demand for money, spending will be stimulated and the balance of payments would deteriorate. This rationale is used as a basis for calculating credit ceilings which countries have to adhere to during adjustment.

It was observed at the Seminar that this policy more often than not leads to output contraction, and a subsequent inflationary pressure. Therefore, while the balance of payment may be impoved, investments and growth are reduced. It is not the use of credit ceilings as such which is subject to debate. However, Fund administered credit ceilings have generally been set at levels considered consistent with the balance of payments and inflation targets, without taking account of working capital requirements of the economy.

For economies which have undergone prolonged deterioration of physical and institutional

[6] There is a widespread perception that SSA countries have over-expanded state size and functions and under-used price mechanisms.

infrastructure (as is the case in SSA) working capital demands for a given level of economic activity may rise well above normal levels. The imposition of credit ceilings without consideration of working capital requirements may therefore lead to inconsistencies with the growth targets of an adjustment programme.

SAPs have included limits not only on overall credit expansion. Also separate ceilings for government/public and private sector credit are used in order to provide more "room" for the private sector. This is based on the view that the public sector has generally "crowded out" the private sector - a view which is still subject to debate because of the structural characteristics of SSA countries. The importance of the public sector "crowding in" the private sector should not be underestimated, Simon Commander of the ODI observed. ECA has complained that views against the public sector are ideologically biased - although not questioning the need for reform.

4.2 Exchange Rate and Pricing Policy

Exchange rate and pricing policy has been an area for intensive dialogue since the publication of the Berg report in 1981 in which insufficiences in domestic economic policies were identified as a fundamental cause of the deepening economic crisis in SSA. "Getting the prices right" became a corner stone in the approaches of the IMF and the World Bank to stabilization and structural adjustment.

The Seminar revealed that exchange rate and interest rate adjustments have in fact - without exception - been both a precondition and performance criteria for continued financial support from the Bretton Woods agencies. The importance of this issue was also clearly spelt out in country presentations.

Stanley Please of EDI noted that it is unfortunate that the IMF did not during the 1970s support World Bank attempts to start discussing the subject of price and exchange rate adjustments. He furthermore observed that price and exchange rate management should not only be seen as "belt tighting", but rather as an inherent element of the process of economic management and transformation - a view which is rather close to the ECA position.

It was agreed that "getting prices right" is potentially important, and that some of the more extreme views of the early 1980s have clearly been modified. Active exchange rate management is now perceived as an important policy tool by a series of African countries - not only by the IMF and the World Bank. The importance of pursuing an effective price policy avoiding the development of parallel markets over which Governments have no effective control was also stressed.

On the other hand, a series of reservations were also raised as regards the limitations of prices and markets as an effective means to allocate resources. Investment and savings decisions are not only affected by relevant prices but by a host of other factors as well and "market imperfections" - in all its dimensions - are persvasive.

Due to the high social and economic costs of pursuing a policy with significantly overvalued exchange rates and inadequate pricing structures, the question of how to manage these policy instruments during the transition process were discussed and the difficulties in identifying what the "right prices" are were pinpointed. Emphasis has therefore to some extent shifted from getting prices "right" to avoiding getting them too "wrong".

It was also repeatedly stressed - i.a. by Kevin Cleaver of the World Bank - that when basic reasons for poor economic performance are structural in nature "better prices" are not by themselves enough.[7] On the contrary, exchange rate adjustments without the necessary accompanying measures may indeed have counterproductive effects, and can make subsequent adjustments even more

[7] Paul Streeten's "six inns" (incentives, inputs, innovation, information, infrastructure and innovations) are all relevant.

difficult.[8] The extent to which this may also account for internal prices was not put in focus.[9]

The potential gains and costs of attempted "sharp shock" as opposed to phased or "incremental" approaches towards adjusting the exchange rate were discussed but no clear conclusions emerged. Options vary depending upon particular country circumstances, and the basic question is that of striking a proper balance and coherence of the overall programme or policy package.

4.3 Trade Policy, Debt and External Finance

The liberalization of trade has been actively promoted in the context of SAPs. In general reforms try to remove quantitative import restrictions, but also reforms of tariff structures and the active promotion of exports are included. The basic justification of such measures is derived from classical trade theory emphasising comparative advantage.

It is generally accepted that trade liberalization may be beneficial in particular circumstances. Restrictions may be so widespread, complex and dislocating that their removal can have beneficial effects on incentives and output.

Nevertheless, concern exists about the effect of outward orientation on export prices and terms of trade due to the socalled fallacy of composition argument.[10] While the reason for adjusting previous import substituting policies is often that they were not efficient, export promotion must also be efficient, and this may not be the case if a large number of countries pursue similar policies at the same time.

Also the need to avoid collapse of domestic import substitution industries, some of which have strategic advantages or genuine prospects for becoming internationally competitive have to be considered in the case of removing quantitative import restrictions.

Reforms in SSA are initiated from a situation of macroeconomic disequilibrium (i.e. severe foreign exchange shortages and hign inflation). Adding to this the extra drain on foreign exchange which removal of import restrictions may imply, the balance of payment (i.e. external balance) may become impossible to handle.[11] If considerable devaluations are undertaken simultaneously the government may loose revenue obtained through the implicit import tax which overvalued exchange rates amount to. Trade liberalization must therefore be accompanied by appropriate macro economic policies that take into account both the internal and external imbalance in the economy during transition.

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[8] One of the reasons for a country devaluing is the presumed effect on changing relative prices and switching demand from traded to non-traded goods. But standard conditions of domestic demand and supply as well as foreign demand to make devaluation successful are often not satisfied.

[9] The World Bank/IMF approaches are based on the alledged superiority of market forces as the allocation mechanism of scarce resources. While these forces should not be underestimated excessive reliance on the price mechanism has at times been a characteristic of SAPs. The respective roles of government planning and market forces is as already noted one of the areas of continued debate.

[10] The presumptions that commodity exports are the key to restore external balance, that commodities are likely to enjoy growing markets and constant or improving terms of trade have proven to be wrong for most commodities and most SSA countries.

[11] It may also be noted that a sudden change in the structure of imports in the midst of severe shortages of foreign exchange and limited overall import capacity may occur and result in for example excessive luxury consumer goods imports to the private sector and insufficient imports of basic foods or strategic imports. Government may therefore wish for this reason to retain some direct control over some of the nation's foreign exchange and its allocation.

The introduction of tariffs may go part of the way to solve the above problems, but they are by many SSA governments perceived as somewhat more difficult to handle - and should according to free trade principles be avoided. Availability of foreign assistance may also go part of the way to ease the short run costs of liberalization until possible medium term benefits appear in the form of increased export earnings. Yet, such assistance has been rather slow in coming forward as most aid is still tied to specific projects or has a series of conditions attached.

It is clear from the above that trade policy reform is particularly vulnarable to changes in the international environment (such as the present protectionist practices of industrialized countries against African exports). It is a complicated path and feasible only when several policies can be closely coordinated. Policy choices differ from country to country.

The Seminar did not therefore accept outright trade liberalization as a general prescription applicable in all cases. It was also noted that the number of countries that have experimented seriously with such reforms is limited and that some of the countries that are now pursuing export-oriented strategies have gone through indispensable import-substitution phases.

Yet, the Seminar also agreed with Mike Faber's statement that notwithstanding the unfavourable global trends and the harmful effects of international market conditions created by the actions of some OECD governments, nothwithstanding even the "fallacy of composition" argument, it is clear that commodity production and export will remain of great importance to many African countries. Therefore, greater pre-export processing, South-South trade, the identification of new exports and participation in international marketing must be promoted on a country-by-country basis.

It is clear that real resource transfers to SSA have to be increased but it is by no means easy to estimate the size of the resource gap although some attempts have been made. It is in this regard also important to note that not all reource flows have similar applicability in the present situation of SSA. It is for example doubtful to which extent non-concessional resource flows are likely to be usable.

The Seminar discussed issues related to SSA debt. The composition of the debt and the reasons for the rapid increase in SSA debt from the late 1970s were reviewed. The imprudent way in which this process evolved became obvious to participants - and the shared responsibility of all involved was noted.

Debt reduction is a must, and more recent initiatives such as the Toronto Summit Statement were therefore welcomed by Seminar participants. What remains an open question is whether these measures and real resource flows to SAA in general - will be sufficient to make adjustment possible so that "SAA avoids sliding down a slippery slope" - to use a phrase Professor Hans Singer used repeatedly.

5. SECTORAL ISSUES

5.1 Agriculture

The poor performance of the agricultural sector and the importance of better policies vis-a-vis this sector have already been discussed above. The Seminar also spent time reviewing a wide range of constraints to agricultural development of in SSA.

These constraints may be gouped under the following headings:

- physical: i.a. access to and cost of transport, storage, land, war or civil disorder, weather and environment;
- incentives (other than price): i.a. prompt payment, access to basic services, availability of consumer goods and security of land tenure; and
- technological: i.a. basic lack of agricultural and research data, local technical testing and adaption, testing for economic viability of proposed techniques, extension service ability and integration of services.

The Seminar discussed what can be done to relax these constraints and it was observed by Professor Reg. Green that they feature much less prominently in SAPs than macroeconomic measures. This is possibly a fundamental flaw in the whole SAP approach to adjustment.

5.2 Industry

The performance of the industrial sector has been disappointing in SSA during the 1980s be it in terms of GDP growth, competitiveness, foreign exchange savings and contribution to welfare etc.

The origins of the problems in the industrial sector in SSA can - according to John Page of the World Bank - be traced to the unsustainable high levels of protection under which industry has operated in Africa. Development was taken to be equivalent to industrial growth and import substitution policies were therefore followed. Powerful vested interests including many foreign investors entered markets in SSA and managed to maintain their protected position. This has led to a situation where possibly only 20-30% of SSA industries are internationally competitive.

The seminar did not get that far in considering how this sector can contribute to structural adjustment. There was general agreement that there is a need to restore demand (increased agricultural incomes, modified incentive structures etc.) and to increase competition (reduction of levels of protection, liberalization of markets etc.) as measures to increase the rate of utilization of existing capacity and technical efficiency. However, the issue of how innovations and technological transfer is promoted was not touched upon.

Privatization was discussed at some length. It was pointed out that privatization does not in itself solve the problems of enterprise efficiency. It is environment rather than ownership which lies at the root of present problems, and how this process should be directed and phased is so far very unclear. There are few experiences with such reforms.

5.3 Social Sectors and Human Dimensions

It is becoming increasingly clear that the seriousness of human sufferings in SSA cannot be overstated. The quality of health care and education is declining almost everywhere, the supply of expendables (drugs for health services, books for pupils etc.) is grossly inefficient, real incomes are falling and maintenance budgets are inadequate. Progress in reducing child death rates has slowed down and in some cases even reversed and at the same time population growth is soaring.

The social sectors are central to the formation of human capital. It is not reasonable to view basic health, education, water, extension services as amenity consumer goods only. Unless they are provided ability to produce is affected and the future potential for productivity growth is impaired - not to mention social and political stability.

This contrasts with the rather widespread negative effects on social sector budgets and employment which have so far been a consequence of SAPs. This has had adverse affects on poorer segments of the population (inparticular children, poor women and the aged) which can no longer be ignored. It is indeed correct that many SAPs are intended to move societies towards greater equality by reducing the "urban bias". Yet, while rural incomes are generally lower than urban incomes there is no guarantee that SAPs - in their present form - will not increase inequality in the rural sector, and the creation or further deepening of urban poverty is a rather common feature as well.

Several organizations, including in particular UNICEF, has drawn attention to these issues in more recent years, and there is no doubt greater general recognition of their importance than in the early 1980s. Initiatives under the socalled social dimensions of adjustment programmes (SDAs) are an illustration hereof. Yet, social aspects should not just be "tagged on" afterwards. The following measures were suggested as intrinsic elements of future SAPs:

- continuous monitoring of the human situation, especially living standards, health and nutrition, of low income groups during the adjustment process so needs are identified and the effectiveness of adjustment programmes are assessed and modified accordingly;
- protection of basic social services to low-income households from cut backs, and adoption of high impact, cost effective measures such as essential drugs schemes;
- provision of income maintenance through labour intensive food-for-work schemes in infrastructure improvments (i.a. irrigation and roads), and health centre and school feeding of high risk children;
- targeting of selected subsidies to high risk groups;
- restructuring public expenditures both between and within sectors towards the poor;
- investment in areas geared towards the enhancement of productive capacity of the poor, especially women (i.a. credit schemes, extension schemes, research and development of appropriate technologies, literacy programmes etc.);
- land reforms (including tenure rights for women); and
- earmarking of taxes for social investment including import duties on luxury items.

Little is known about the interaction of structural adjustment, gender and population issues, despite of their great importance to both policy-makers and scholars. In particular, much too little is known about the effect structural adjustment policies have on women and how this in turn affects economic growth and demographic phenomenon such as fertility, mortality and migration. These relationships take on added importance in SSA where women generally take on the primary responsibility for typical food crops, where population growth rates are very high and where agricultural policies are being targeted at raising tradeable agricultural output.

The Seminar pursued the above issues in a session introduced by Ingrid Palmer of the IDS. The major policy implication arising would appear to be that most policies have a variety of gender differentiated effects. These must therefore be analyzed on a case by case basis and a long list of proposals was outlined in the Seminar. Such analysis would contribute to policymakers' ability to design programmes and complementary policies that are effective both for addressing immediate financial crisis and for medium/longer term benefits.

6. POLITICAL DIMENSIONS

6.1 The Internal Politics of Adjustment

SAPs have significant distributional effects on SSA economies in adjustment. For SAPs to be successful they must therefore be based on political coalitions in favour of initiating and sustaining structural adjustment. The issue of how such coalitions can be forged is therefore crucial to national policy makers. They will - at the same time - have to consider the tradeoffs between technical efficiency and speed and political sustainability and the economic costs of politically failed or abandoned adjustment efforts.

It has already been noted that the adjustment record of SAP implementing countries shows considerable variation. Charles Harvey of IDS enquired in his introduction at the Seminar whether there are common factors in the "success" and in the "failure" cases. While the economic and political struture of a particular country is of overriding importance he offered the following tentative conclusions as regards the internal politics of SAP implementation:

- government commitment to the SAP (or "owning of the programme") is essential. If governments become convinced about the need, they are much more likely to persist with the reform process;
- capacity to manage programme implementation is important for success. Past failures makes it much harder to get through in renewed attempts, so once initiated it is important that a SAP is continued and that "adjustment fatigue" is contained - even if the particular SAP has to be somewhat adjusted as compared to an "ideal" model; and
- governments that do persist with SAPs are likely to encounter resistance and even coup d'etats.

It was also noted at the Seminar that government deficit reduction is important for the degree of success (although the way this reduction comes about may differ depending upon the structure of the economy), and that abandoning protection can contribute to failure as it may hinder recovery of industry and erode political support as a result of the flood of imported consumer goods (cf. section 4.3).

It is therefore - in the formulation of Charles Harvey - irresponsible to view economic advice isolated from political consequences and economic analysis of who the "gainers" and who the "loosers" will be is important. Failure to design compensating devices - or negotiated "social contracts" - for "loosers" may cause political difficulties and delay programme implementation.

Linked with and to some extent overlapping the above points is the debate about the nature of the African State. Economists have so far in their policy analysis used the socalled "rational actor" model of government behavior, i.e. a view of government as a monolithic entity trying to correct market imperfections and promote long run development. The implications of this view of the government were outlined by Ravi Gulhati of the World Bank.

A lively debate developed around the issues of what the elements of a more realistic policy model would be. Some participants observed that most states in SSA are subject to personal rule and that an individual's etnic and regional background in SSA is much more important than class interests based on economic classifications. Myrdals's "soft states" were also referred to. The implications drawn from these observations vary. Some concluded that adjustment will only be successful if basic reforms take place in the political systems of SSA. Others felt that "personal rule" may not be a constraint to adjustment.

Clear conclusions did not emerge at the Seminar as regards the nature of the SSA state. It became, however, once more clear that the quality and capacity of political leadership matter a great deal. Adjustment will be more successful if political leaders have a strategic vision of the future, a disposition to act as well as a medium to long term horizon.

6.2 The Politics of SAP Negotiations

Structural adjustment assistence provided by i.a. the World Bank and the IMF is a kind of aid, but policy conditions are attached. The Director of IDS, Professor John Toye, pointed to the paradoxical fact that aid is subjected to conditions. There are therefore three ways in which SAP negotiations may be conceived: as unforced agreement, as coercion with WB/IMF financial power being used as the medium of coercion, and as a bargaining process.

Using the last approach it becomes apparent that there are not just two "players". Within the World Bank there are at least two lines of thought about adjustment lending,[12] the IMF adds another "leg" and to this comes the groups within an SSA country which "participate in the game". Consequently, no simple game theoretic model can be formulated, and negotiations have in fact a range of possible outcomes which are difficult to predict.

The Seminar agreed that SAP negotiations are not zero sum games as there are goal overlaps among the various "players". It is, however, not an easy area to research. Not all conditions are made explicit, and slippage may be allowed in some countries while not in others, which adds a degree of artificiality to conditions setting. Conditionality is dispersed among the various elements of a SAP, and it is in general difficult to get access to the relevant files.

While the World Bank and the IMF have considerable leverage in the early phases SSA countries do get socalled "reverse leverage" as the adjustment process goes on due to the cost of programme failure which the Bretton Woods agencies face. It can also be noted that "moral hazard" works both ways as the World Bank/IMF cannot always deliver the financial package which is an integral part of any SAP.

Finally, negotiations have quite simply not always been efficiently conducted. The necessary degree of flexibility and professional competence, including knowledge of country particulars, have not always been characteristic for IMF and World Bank missions.

All this point to an active role of bilateral donors in expanding the analytical and empirical basis on which to make appropriate structural adjustment proposals. This was not, however, accepted by the ODA during the participants visit there. ODA strongly confirmed its support of IMF/World Bank initiatives and policy in all its respects, the only reservation being in relation to implementation where it was accepted that consistency among donors and their speed of response might be improved.

[12] The basic disagreement between these two groups is centered around the extent to which "better policies" have to be in place (through SAPs) before the Bank once again puts focus on its "normal business", i.e. project lending. This lending continues to account for the major share of both the Bank's overall loan portfolio and its new loans.

7. SUMMARY AND CONCLUSIONS

The Study Seminar offered participants a unique opportunity to discuss the wide range of issues relevant to the design and implementation of structural adjustment programmes in Sub-Saharan Africa. While clear answers did not always come about due to the complexity of the issues, the Seminar was useful in identifying these and giving participants a good idea of the present "state of art".

Much of the debate in regard to SAPs in SSA is due to the nonexistence of a counterfactual. It cannot therefore be known with certainty what would have happened without the SAP programmes implemented so far. Nevertheless, justified doubts have been raised about the design of ortodox SAPs. A search for alternatives - or more moderately - modified designs of appropriate adjustment programmes has therefore begun.

It must be emphasized that for most SSA countries the fundamental question today is not "to adjust or not to adjust". Economic collapse is looming in the background and the choice is therefore either to devise effective adjustment programmes (with or without the assistance of the international donor community) or to have adjustment imposed one way or the other.

The following points would appear to include some of the major unresolved issues in designing structural adjustment programmes and around which research, policy debate and negotiation musts be centered in the coming years:

- **Tensions between demand and supply management.** World Bank and IMF approaches and views differ in ways which are not always perceived. This is so i.a. in relation to investment, imports and domestic credit. Demand management cannot be neglected, but there are difficulties in striking the balance, and these difficulties need to be put more into focus. This raises topics like what the IMF and World Bank macroeconomic models are, how they relate to real and monetary variables and whether they are compatible (in theory and in actual practice).

- **Consistency of SAPs with the long run process of development.** There are a series of unsettled questions on how ortodox World Bank/IMF approaches and policy instruments actually work in the SSA environment (including the speed with which adjustment is promoted and the possible inconsistencies with SDA dimensions). Programmes have not fulfilled expectations and the range of reasons for failure must be investigated. There may be both domestic (i.a. governments' failure to implement agreed measures) as well as external factors (i.a. inadequate financing, contracting export markets and even faulty programme design), but which are the more important reasons. It also needs to be discussed to which extent adjustment programmes must be modified and how this is to happen taking into account the future external environment of SSA such as possibilities for increased concessional resource mobilization. Reformist approaches could be pursued, but it may also be that viable alternatives exist such as the ECA suggests.

- **Respective roles of prices and planning** (and as a corollary the roles of the public and private sectors and the nature of the African State). This recurrent theme in economicis is reappearing in the SSA context. The State in SSA has overexpanded and "government failures" may be important. It is open to debate, however, both where the balance lies (i.a. how far should/could privatization go) and how exchange rate and other price policies work in face of structural obstacles.

- **International aspects and degree of openness.** Adjustment is a necessity, but both deficit and surplus countries must adjust. Valid concerns exist about OECD policy stances (including the USA budget deficits which have a significant impact), protectionism and adequacy of SAP supporting finance. Furthermore, it remains an issue to which extent SSA countries should try to interact with international markets, i.e. whether adjustment should be outward or inward looking.

IDS
Institute of Development Studies
at the University of Sussex

EDI
Economic Development Institute
of the World Bank

SEMINAR ON ECONOMIC MANAGEMENT FOR STRUCTURAL ADJUSTMENT IN SUB-SAHARAN AFRICA

STUDY SEMINAR 125

SEMINAR ON ECONOMIC
MANAGEMENT FOR STRUCTURAL
ADJUSTMENT IN SUB-SAHARAN AFRICA

7 - 24 AUGUST 1989

The Institute of Development Studies, University of Sussex, Brighton BN1 9RE Tel: (0273) 606261 Telex: 877997 IDSBTN G

Economic Development Institute, 1818H Street, N.W., Washington DC, 20433 Tel: 202 477 1234 Telex: 23-248423

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	Mr Stanley Please, Economic Development Institute, The World Bank
Seminar Co-Directors:	Professor Reginald Green, Institute of Development Studies
	Mr Cadman Mills, Economic Development Institute, The World Bank
Seminar Administrator:	Mrs Anne-Maria Harvey, Institute of Development Studies
Seminar Assistant	Mrs Sue Ong, Institute of Development Studies
Research Materials Organiser:	Ms Rosalind David, Institute of Development Studies
Research Assistant	Mr Mohammed Diab, Institute of Development Studies

(All seminar sessions will be held
in Room 120 at the Institute of Development Studies
unless otherwise stated)

Unless otherwise stated the timing of the Seminar sessions will be as follows:

Morning Sessions:	09.15 - 12.30 hours (with a mid-session break for coffee)
Buffet Lunch:	1.00 pm in Room 109
Afternoon Sessions:	14.00 - 17.30 hours (with a mid-session break for tea)

Dinner will be served in the Bedford Hotel every evening from 7.30pm unless otherwise stated

Travel Arrangements

Coach departs from Bedford for IDS each morning at 8.30 am

Coach departs from IDS for Bedford each afternoon at approximately 5.30 pm

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Week 1

Sunday, 6th August

5.00 p.m.	Arrival and Registration at Bedford Hotel	Anne-Maria Harvey Sue Ong

Monday, 7th August

9.15 a.m.	Welcome by Course Team Introduction to the Seminar	Mike Faber/ Stanley Please
10.30 a.m.	What is Structural Adjustment? (1)	Tony Killick
2.00 p.m.	Continue Discussion	
3.00 p.m.	Country Presentations	Seminar Participants

Tuesday, 8th August

a.m.	AAF-SAP Policy and Instruments (2)	Owodunni Teriba/ Sadig Rasheed
p.m.	Country Presentations	
.30 p.m.	Opening Dinner at the Bedford Hotel Guest Speaker: The Right Honourable Lynda Chalker, Minister For Overseas Development	Lynda Chalker

Wednesday, 9th August

a.m.	The Analytical Framework (3)	Cadman Mills
p.m.	Public Expenditure: Recurrent and Investment (4)	Akbar Noman
	Conclude Country Presentations	Seminar Participants

<u>**Thursday, 10th August**</u>

a.m.	Criteria for the Choice of Public Investments (5)	Brian Reddaway
	Maintenance, (6)	John Wood
p.m.	The Management of Civil Service Reform (8)	Garth Glentworth
3.45 p.m.	Group Photograph	
4.00 p.m.	Further Issues in Public Finance (7)	Reginald Green
6.45 p.m.	Tour of Brighton	

<u>**Friday, 11th August**</u>

a.m.	Exchange Rate Policies (9)	Steve O'Brien/ Irfan Ul-Haq
p.m.	Discussion	

<u>**Saturday, 12th August**</u>

a.m.	The Global Context - Prospects for Exports, Terms of Trade. Debt, Concessionary & Non Concessionary External Assistance (Bedford Hotel) (10)	Mike Faber/ Reginald Green

<u>**Sunday, 13th August**</u>

Barbecue at Mike and Didon Faber's house

Week 2

Monday, 14th August

a.m.	Agriculture : Price and Non-Price Issues - Discussion (11)	Kevin Cleaver
p.m.	Continued	
	Gender Aspects of Agricultural Supply Responses (12)	Ingrid Palmer
ening	Informal session at the Bedford Hotel	Dominic Mulaisho

Tuesday. 15th August

a.m.	Industry - Rehabilitation, Liberalisation, Incentives (13)	John Page
p.m.	Rehabilitation Projects (14)	Mike Faber

Wednesday, 16th August

a.m.	Social Policy and Protection of Vulnerable Groups (15)	Ruth Kagia/ Hans Singer
p.m.	Public and Private Enterprises - the CDC Experience (16)	Alistair Boyd
4.30 p.m.	Historical walk around Lewes	

Thursday, 17th August

a.m.	IMF's Role in Structural Adjustment (17)	Richard Williams
p.m.	The Internal Politics of Adjustment (18)	Charles Harvey
6.30 p.m.	Coach departs for London	

Friday, 18th August

a.m.	**ODA Field Trip**	
9.15 a.m.	The Role and Organisation of the ODA (19)	Robert Ainscow
10.00 a.m.	The ODA's Policy on Aid for Structural Adjustment in Africa	John Healey
	Address and Questions	
11.00 a.m.	Coffee	
11.30 a.m.	Panel - ODA Country Presentations and wider panel for questions and discussion	
1.00 p.m.	Lunch	
00 p.m.	Free for individual meetings, visiting embassies, shopping etc.	
Evening*		

Saturday, 19th August

a.m.	Free
p.m.	Free
Evening*	

* Accommodation (including Continental breakfast) has been reserved at the London Rubens Hotel for Thursday, Friday and Saturday night.

Week 3

Sunday, 20th August

a.m.	Free	
p.m.	Free	
6.00 p.m.	Coach departs for Bedford Hotel, Brighton	

Monday, 21st August

a.m.	Employment Aspects of Adjustment (20)	Vali Jamal
	Political Aspects of Structural Adjustment (21)	Ravi Gulhati
p.m.	Start Preparation of Final Plenary Report	Seminar Participants
8.00 p.m.	Special Session (22) (This may be switched to earlier in the day)	Adebayo Adediji -

Tuesday, 22nd August

a.m.	The Politics of SAP Negotiations (Variations and Alternatives) (23)	John Toye
p.m.	Preparation of Final Plenary Report (cont.)	Seminar Participants

Wednesday, 23rd August

a.m.	Presentation of Final Plenary Report	Seminar Participants
p.m.	Discussion and reflections of SS125	Course Directors Kim Jaycox
7.30 p.m.	Closing Dinner at the Bedford Hotel	

Thursday, 24th August

a.m.	Seminar Evaluation	Peter Knight
p.m.	Farewells and Departures	

PARTICIPANTS

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Mr Bekele Geletu	Head of Planning and Programming Department, Office of the State Committee for Foreign Economic Relations, P O Box 2428, Addis Ababa, Ethiopia
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Mr Ian Hopwood	UNICEF, Area Representative for Zambia amd Botswana
Mr Jean-Louis Houdart	EEC, Desk Officer for Ethiopia
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Mr Kim Jaycox
Regional Vice-President for Africa
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Mr Ephraim Kamuntu
The World Bank
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Professor Hans Singer
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Mr Irfan Ul-Haq
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Richard Williams
International Monetary Fund

Dr John Wood
Consultant

ANNEX 2: **Suggested Reading For Each Session**

Week 1

Monday Aug 7

1) **What is Structural Adjustment?**
(Tony Killick)

Streeten, P. (1987) 'Structural Adjustment: A Survey of the Issues and Options', World Development vol 15 no 12.

Tuesday Aug 8

2) **AAF-SAP policy and Instruments**
(Owodunni Teriba and Sadig Rasheed)

ECA (1989) African Alternative Framework to Structural Adjustment Programmes for Socio-Economic Recovery and Transformation, ECA. United Nations

Wednesday Aug 9

3) The Analytical Framework
(Cadman Mills)

Easterly,W. (1989) 'A consistency framework for macroeconomic analysis', World Bank working paper June

4) **Public expenditure: Recurrent and investment.**
(Akbar Norman)
IBRD,'Improving the allocation of public spending', Chapter 5,

IBRD, 'The role of public finance in development', Chapter 2,

Thursday Aug 10

5) **Criteria for the choice of public investments**
(Brian Reddaway)

Reddaway, B., (1962) The Development of the Indian Economy, London, Allen and Unwin.

6) **Maintenance** **(John Wood)**

Wood J. (1986) 'Keeping the wheels of development turning', Contempory Review, April

7) **<u>Further issues in public finance</u>**
(Reg Green)

Green, R. (1987) 'Budget management as economic management: some key concerns', in Ndegew, Mureithi and Green (eds.), <u>Management for Developement: Priority Themes in Africa Today</u>, ch.6

8) **<u>The management of civil service reform</u>**
(Garth Glentworth)

Glentworth, G. (1989) 'Strategic issues in Civil Service reform in sub-Saharan Africa

Friday Aug 11 9) **<u>Exchange rate policies.</u>**
(Steve O'Brien, Lifan Ul-Hag)

Pinto, B (1989) 'Exchange rate unification and budgetary policy in sub-Saharan Africa'

Caballero, R and V. Corbo (1989) 'How does uncertainty about the real exchange rate affect exports', World Bank staff working paper, June

Saturday 10) **<u>The Global context-prospects for exports, terms of trade. Debt, concessionary and non concessiony external assistance.</u>**

(Mike Faber, Reginald Green)

Faber, M (1988) 'Beware of debt speak', <u>IDS Discussion Paper</u> no 251

Green, R. (1988)'Unmanageable - Toward sub-Saharan Afrian debt bargaining' in S. Griffith-Jones (ed.) <u>Managing World Debt</u>, Harvester

Faber, M. and R. Green (1988) 'Commodity production and trade: the impact of domestic policies', Paper for UNCTAD

<u>Week 2</u>

Monday Aug 14

11) **<u>Agriculture: Price and non-price issues discussion</u>.**
(Kevin Cleaver)

Cleaver, K (1987) 'The impact of price and exchange rate policies on agriculture in Sub-Saharan Africa' <u>World Bank Staff Working Paper</u> no 728

Chaper 4 'Agriculture: The primary source of growth and food security' AFTSE

12) **<u>Gender Aspects of Agricultural Supply Responses</u>**
(Ingrid Palmer)

Elson, D (1989) The impact of structural adjustment on women: The concepts and issues' in B Onimode (ed), <u>The IMF, The World Bank and the African Debt; The Social and Political Impact</u> vol 2. Zed Books

Tuesday 15 Aug

13) **<u>Industry - rehabilitation, Liberalisation, Incentives, a Policy Issue.</u>**
(John Page)

Page, J. (1988) 'The persuit of industrial growth; policy incentiatives and economic consequences', <u>The World Bank</u>, June

Chapter 5 'Industry: Responding to markets, the challenge of industrialization' AFTSE

14) <u>Rehabilitation projects.</u>
(Mike Faber)

Faber, M (1989) 'Project rehabilitation: Getting the issues right'

Wednesday
Aug 16

15) **Social policy and protection of vulnerable groups.**
(Ruth Kagia, Hans Singer)

Cornia, G.A. with R. Jolly and F. Steward (1988) 'Summary and conclusions', chapter 16 of Adjustment with a Human Face, Oxford, Clarendon Press

Bourguignon, F. with W. Branson and J. de Melo (1989) 'Adjustment and income distribution: A conterfactual analysis', World Bank staff working paper, May

Development committee (1989) Stengthening Efforts to Reduce Poverty, no. 19, prepared by the staff of World Bank and IMF for the Development Committee

16) **Public and private enterprises - the CDC experience**
(Alistair Boyd)

Nellis, J.R (1986) 'Public enterprises in sub-Saharan Africa', World Bank Discussion Paper, no 1

Thursday
Aug 17

17) **IMF's role in structural adjustment**
(Richard Williams)

Theoretical Aspects of the Design of Fund-supported adjustment programme. IMF occasional paper no 55.

18) **The Internal Policies of Adjustment**
(Charles Harvey)

Harvey Charles, (forthcoming) 'Recovery from macroeconomic disaster in Sub-Saharan Africa', in C. Colclough and J. Manor, Imperfect markets or imperfect states? Neoliberalisation and the development policy debate, OUP

Week 3

Monday
Aug 21

20) **Employment aspects of adjustment**
(Vali Jamal)

Jamal, V and J. Weeks (1988) 'The vanishing rural-urban gap in sub-saharan Africa', International Labour Review vol 127 no 3

21) Political **aspects of structural adjustment**
(Ravi Gulhati)

Gulhati, R and R. Nallari(1989) 'Mauritius: A case of successful reforms', draft report

Gulhati, R (1989) 'Boxed in Zambia: Economic recovery or downward spiral'

Tuesday

22) The Politics of **SAV Negotiations: Variations and alternatives**
(John Toye)