

Structural Adjustment and Vulnerable Groups in Sierra Leone

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I. Introduction

In June 1986 the boldest structural adjustment programme ever pursued in Sierra Leone was introduced, at the instigation of the IMF, following an earlier series of uncompleted programmes. The impact of this latest programme on the poor, especially upon women and children, is examined here. In principle this requires investigation of its impact upon a) the incomes of low income households (these can be directly affected via changes in wages or in employment opportunities on the one hand, and via changes in agricultural terms of trade on the other); b) the price and availability of consumption items important to low-income families, especially food; and c) levels of government expenditure, especially those in the social sectors, affecting vulnerable groups.² The data available to address these questions are as yet limited. It is in any case difficult to separate out the effects of adjustment policies from other influences on the economy, such as seasonal factors. Nevertheless, there is sufficient evidence available to draw preliminary conclusions as to the likely effects of Sierra Leone's adjustment package upon the poorest groups.

This article is in three sections. The first provides a brief review of the economy and the history of Sierra Leone's relations with the IMF and other aid agencies; the second section examines the status of vulnerable groups, in terms of their incomes, nutrition, and access to health care and it assesses the impact of the structural adjustment programme (hereafter SAP) on these groups; the final section draws some tentative general conclusions.

II. The Economy, IMF and the Donors

The economy of Sierra Leone has declined sharply since 1980. The output of agriculture, mining, industry

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² For more discussion of these mechanisms, see Cornia, Jolly and Stewart 1987.

and services has stagnated. Growing fiscal deficits have been associated with expansionary monetary policies and accelerating inflation. A thriving parallel market for foreign exchange has developed together with increased smuggling of export commodities (especially diamonds) and minimal surrender of export revenues to the banking system. Debt service obligations have been increasing with large external payment arrears. In spite of declining terms of trade and export revenues, huge increases in public expenditure have continued throughout the period — one example was that associated with hosting the OAU conference in 1980. This has occurred partly in response to demands made on the governments to restore the incomes of some of the more powerful and articulate groups.

In consequence, fiscal policy has been characterised by large budget deficits with a shift towards recurrent rather than development expenditures. The fiscal imbalance has had a serious adverse impact on monetary policy and the balance of payments. Unable to generate enough resources through taxation, domestic non-bank borrowing and external loans, the government has depended more and more on the banking system to finance the expanding budgetary deficit. As a result, domestic bank borrowing increased by more than 330 per cent between 1980 and 1985, reflecting a more than doubling of the budget deficit over the same period to about 10 per cent of GDP. Bank financing of the budget deficit averaged Le90 mn per month in the first half of Financial Year 1986/87, increasing to Le276 mn in January 1987, or 12 per cent of the total money supply.

The large external debt and heavy debt-service obligations have been major destabilising influences weakening the leone. In spite of some debt relief, scheduled debt-service payments were 53 and 66 per cent of export earnings in 1984/85 and 1985/86 respectively. Total foreign debt in 1985 amounted to almost 300 per cent of export earnings for the year. The breakdown of Sierra Leone's external debt in 1983 was 33 per cent bilateral or official, 39 per cent multilateral, 21 per cent suppliers' credits and 7 per cent from financial institutions. The balance of payments deficit increased steadily from 1975, to reach 13 per cent of GDP in 1985.

The leone fell rapidly after being delinked from the

pound sterling in November 1978. It fell from Le1.25 to the dollar in December 1982 to Le6 per dollar in February 1985. Parallel market rates were considerably lower, such that when the leone was floated in June 1986 it depreciated rapidly to stand at Le50 to the dollar by April 1987. Sierra Leone is bordered by two countries with links to hard currencies: Liberia (US\$) and Guinea (CFA franc). As a result there have been high levels of smuggling — particularly of diamonds and gold — across the borders. Furthermore, commodities such as rice, petrol, cocoa, coffee and diamonds, have been illegally traded for the highly convertible dollar or CFA franc.

Despite the removal of subsidies as part of the SAP (discussed below) some smuggling still remains profitable for producers close to the border. Also, premiums still exist on holding both the dollar and the CFA franc compared with the leone. Economic statistics, therefore, often reflect only a part of actual transactions, and some estimates suggest that as much as 80 per cent of foreign exchange transactions take place outside official channels.

The flotation of the leone was the major element in the Standby Arrangement agreed with the IMF in November 1986. The package also included decontrol of the prices of basic consumer goods, removal of subsidies on rice, petrol and kerosene and substantial increases in the producer prices of the major export crops of coffee, cocoa, palm kernels and ginger. The producer price of rice has also been increased. Other reforms to be introduced included the privatisation of rice imports, tightening of fiscal and monetary policies, the introduction of competitive interest rates and the reform and restructuring of public enterprises. Major reductions in daily paid labour in the Ministries of Works, Agriculture and Health were demanded. Finally foreign exchange surrender obligations were to be reinforced.

The progress made by the Government in implementing the measures agreed with the IMF was to be directly linked with its access to donor funding via the UNDP-assisted Round Table discussions. The 1986/87 SAP evolved in the context of a three-year Programme for Rehabilitation and Economic Recovery (1985/86-1987/88) produced by the Ministry of Development and Economic Planning [MDEP 1985]. This outlined a three-year programme for the economy together with the technical and capital assistance needed to support it. The programme proposed major reforms in economic policies and a Core Investment Programme (of \$335 mn) which represented those projects for which funding had been obtained. Under this programme, 61 per cent of investment funds were to be allocated to heavy infrastructure (power, water, transport and communications); agriculture was to receive 23 per cent with health and education receiving nine per cent.

However, by June 1987 Standby Arrangement had been suspended by the IMF because credit ceilings, domestic and external arrears, government expenditure and the level of bank financing had not been contained in ways agreed under the SAP. The government had been selective in carrying out the package of measures. In general, the interests of the powerful business community had been the main influence on how, and to what extent, the adjustment measures were implemented.

First, the surrender of foreign exchange by exporters was not properly enforced. The tendency to hold foreign exchange increased as the currency depreciated. Second, the floating of the leone saw sharp price rises for all commodities, irrespective of foreign exchange content: changes in the exchange rate were transmitted literally overnight to markets. Third, the subsidies on rice and petrol were phased out within six months of the float. Thus, the poor faced higher prices for their staple food, lacking the privileged access to rice available at 'official' rates. Yet those with such access to the distribution of rice in bulk were able to make substantial profits by hoarding.

III. The Impact on Vulnerable Groups

Poor and vulnerable people, especially women and children, are particularly susceptible to the shocks caused by stabilisation and adjustment policies. However, understanding how the linkages operate and selecting sensitive and appropriate indicators to show that is happening is not easy. In policy terms, women and children can usually only be assisted by helping the poor generally: some attempts to help them as separate groups have been unsuccessful because the underlying causes of poverty have not been reduced. A focus on helping women and children requires special knowledge of the ways they acquire food and incomes, and of how they allocate time in order to use services.

This implies a need to understand and account for intra-household resource allocation, raising questions about — *inter alia* — the sexual division of and control over income sources in the family. The rationale for such an approach, however, is based not only on equity, but also upon efficiency considerations. Poor health and nutrition undermines production, [Rao Matura 1979] and reduces the effect of incentives [Jolly 1985]. For women the need to replace children who have died is an enormous drain upon their energy [Longhurst 1984]. Households for whom food security is assured should be able to adopt innovations, or take risks. Insufficient attention to primary school education seriously reduces the effectiveness of schooling at higher levels [Colclough 1982:167-85]. Furthermore, primary schooling increases labour productivity in both rural and urban

sectors, it reduces fertility, improves health and nutrition, and promotes other behavioural and attitudinal changes which are helpful to economic development [Colclough 1982].

Women and children require special attention for two further reasons: first, they have less economic and political power than men; for children in particular their case has to be articulated on their behalf. Second, they have special health, physiological and nutritional needs which demand separate attention. The health of children in Sierra Leone is recognised as being particularly poor: according to UNICEF it has the third highest infant mortality rate — 175 per 1000 live births — of all countries. The National Nutrition Survey [Ministry of Health 1979] showed that the incidence of stunting (height for age being less than 90 per cent of the reference median) and wasting (weight-for-height being less than 80 per cent of the reference median) were 24 per cent and 3 per cent respectively, which is poor — although not unusual for sub-Saharan Africa. In a more recent survey (1982-83) carried out in Northern Province during the same post harvest period as the NNS, the levels of stunting and wasting were 40 and 9 per cent respectively [Meals for Millions 1983]. This indicates high levels of malnutrition.

In principle one would wish to investigate the effects of the SAP upon the incomes of vulnerable groups, and upon the prices of products and availability of the services which they use. Data do not yet exist in order satisfactorily to address each of these issues. Nevertheless, evidence does suggest that the selective introduction of the SAP measures and the process of adjustment itself have led to a further deterioration of the living standards and general welfare of the poor.³ In recognition of the fact that groups have been affected differently in terms of extent and timing of impact, the rural and urban poor are discussed separately.

In terms of prices, especially for food, the urban poor have probably been harder hit than the rural poor. The removal of the subsidy on rice and the floating of the leone led to an increase in the official price of rice from Le85 per 50kg bag prior to June 1986 to Le340 in March 1987. But underprivileged people would never have access to rice at this price and would be more likely to pay Le500 per bag. A cup of rice, usually the form of purchase by the poor, increased over the same period from Le1.00-1.50 to Le4.00. All other food prices also rose: palm oil from Le3 to Le12 per pint and meat from Le14 to Le45 per pound. Compare the minimum monthly wage of Le250 for a government labourer with the general assumption that an average

sized family of five adults and children requires a bag of rice per month.⁴ The subsidy on rice in 1985/86 was relatively small, being only Le36 mn or four per cent of the actual budget deficit. By comparison the subsidy on oil was Le325 mn or 36 per cent of the budget deficit. Donor food aid (especially PL480) is very important and keeps the price of rice lower in Freetown than elsewhere. Distribution is through a private agent with no rural outlets and through Members of Parliament. For the vulnerable groups these methods of distribution are not adequate to obtain food aid except from retailers selling well above 'official' prices.

The all item Freetown Consumer Price Index (CPI) for the low income group rose steadily from 1516.2 [1978 = 100] at the end of the second quarter of 1986 to 4743.2 by April 1987 — an increase of 213 per cent. All commodities rose in price, including housing. A comparison of wages and prices carried out by the Sierra Leone Labour Congress shows how wages in the formal sector have been eroded by price rises not only since June 1986 but over the last six years. In spite of a four-fold increase in nominal wages, the real wage had declined by 1986, to 26 per cent of its level in 1980 [Sierra Leone Labour Congress 1986]. Since the flotation of the leone, the need to curtail some of the effects of the programme measures resulted in two wage increases for civil servants: average increases of 35 per cent and 90 per cent were granted in July 1986 and February 1987 respectively. The wage adjustments, although initially for public employees, have been extended to parastatals and to the private sector. Data are not yet available to assess the extent to which these revisions have preserved the level of real wages in comparison to their pre-devaluation levels.

Urban families find themselves more at the mercy of the market than rural families although they have more opportunity to trade and diversify income sources. Rice is the staple in urban Sierra Leone and it appears that opportunities for consumer diversification to other foods, such as cassava, sorghum and legumes, are limited: surveys of the market in March 1987 showed that other food items were equally expensive [Longhurst, Kamara and Mensurah 1987]. Families therefore have had to cut back on the quantity and quality of their diet. A severely reduced daily meal⁵ for a family of five which might be stretched throughout the day costs Le34 or about Le1000 per month. Comparison with the government minimum wage of Le250 gives a strong indication of the dietary adaptations urban families need to make.

³ See also Aboagye 1985, which demonstrates how the recession in Sierra Leone (between 1979 and 1983) had negative impacts on the poor.

⁴ A similar situation was found in Ghana in 1984 where the real remuneration for formal sector work could not support the food requirements of one single adult, let alone those of the family, plus their clothing, education and health requirements (UNICEF 1986).

⁵ 4 cups of rice, 1/4 pint palm oil, fish flavouring, onion leaf, 1/4 cup pepper, 2 ties green vegetables, 1/4 cup groundnut and salt.

Calculations by Lisk and van der Hoeven (1979) based on the National Household Budget Survey of 1974-75 showed that the average monthly cost of a minimum food basket for the typical urban household of two adults, one teenager and two children (then costing Le47) was 65 per cent of the total basic needs budget which also included expenditure on rent and fuel, clothing, health, education and transport. Some of these items of expenditure can be postponed during periods of economic crisis but only at cost to the family (clothing, withdrawal of children from school) but others can not (rent, non treatment of illness). Therefore the estimate here for 1987 includes both a severely reduced diet that would cause malnutrition and no consideration of other essential expenditure. Some families have responded by going into a wide range of businesses, and petty trading has expanded substantially. Absenteeism of government officials has increased as they try to supplement their incomes and spend more time searching for rice. The extent to which domestic production in the informal sector is replacing previously imported items is not yet clear, although there are reports of soft drinks and soap now being made locally.

Rural families also faced higher prices immediately following the currency flotation. Transport costs increased markedly: the withdrawal of the petrol subsidy resulted in a doubling of its price between June 1986 and February 1987. Perhaps paradoxically, rice has always been cheaper in Freetown than in the rural areas because of the government subsidies aimed at helping urban populations, especially civil servants, and members of the armed services. Following the liberalising of the exchange rate, some essential items (such as wire for rodent traps) were priced out of reach of most farmers. Incomes were seriously reduced, and the practice of foraging for bush yam (a 'famine' food) normally carried out by the poor immediately prior to harvest (July) had become a common strategy at planting time (April).

There is no evidence to suggest that urban people were returning to the land, as intended by the SAP. This was mainly because rural areas, like the towns, were facing higher costs of living but with fewer opportunities to trade. Costs for land cultivation (seed rice, labour) had increased in advance of higher producer prices so the trend was to prepare less rather than more land. The package of measures had included an increase of 50 per cent in the palm kernel price, a doubling of the price for coffee and a trebling of the ginger and cocoa prices. The prices of these commodities were between 39 and 51 per cent of their respective world prices after flotation (as at January 1987).

The official producer price of rice was increased from Le40 to Le150 per bushel of paddy which is equivalent to Le420 per bag of milled rice. The supply response of these export crops is difficult to assess: tree crops, of

course, are supply inelastic in the short term. Higher prices may reduce smuggling but with the high transport costs in Sierra Leone it will still be beneficial for those close to the Liberian border, where most coffee and cocoa is grown, to market outside official channels. Also, the long term supply response may be weak because of the small fixed land holdings and the nature of the land tenure system (expansion of tree crop area implies ownership of communal land). Some marginal supply response is possible through intensification of harvesting, clearing and pruning.

Poorer farmers with small quantities to market may find relative prices (i.e. producer prices *vis-à-vis* input prices such as fertiliser and seed rice) unchanged, although the latter can be fairly low proportion of the total. Farmers should have absolute gains — in both nominal and, initially at least, real terms — although given the poor extension services, they may not actually know the current level of prices. The most critical factor for the rural producer is that the timing of the package means that costs come first and higher returns later — usually only after a minimum of one cultivating season. Therefore, in terms of a model of the expected effects of devaluation, some — rather than all — exporters are helped. Farmers without reserves or access to credit may then not be able to respond. The timing and sequencing of the float is important also in relation to the agricultural seasons. For consumers the Leone was floated at the time when food prices were already rising in the pre-harvest period.

There is little evidence to indicate whether rural or urban areas have gained or lost at each other's expense. The evidence provided in 1978 [JASPA 1981] suggested that on an average basis an urban family could expect to have incomes three times those of rural families and a standard of living two and a half times greater. There is a great deal of income dispersion within rural and urban areas, (more in urban than rural) with Gini ratios for urban and rural incomes being 0.60 and 0.32 respectively. For example, the top decile of the urban population took 51 per cent of the urban incomes compared with 19 per cent taken by the top decile in rural areas.

Differentials in rural incomes are explained by size of land holdings, regional variations in soil conditions and opportunities to earn off-farm incomes during the slack season [Lisk and van der Hoeven 1979]. Therefore, in the long run the impact of the measures will depend on these factors, upon families' capacity in the short run to survive the initial shocks and on whether they are net food producers or consumers.

The SAP is likely to widen inequality of overall income distribution as the rich can make profits by hoarding, control of foods, and ultimately even manipulation of the exchange rate. The package of measures has provided few incentive measures to the subsistence

farmer or urban manufacturer. The 'retreat into subsistence' seen in the 'post-float' economies may well emerge in Sierra Leone.

The *availability of social services* has also shown a decline over the last six years: for example there have been severe shortages of drugs in rural clinics and of textbooks in primary schools. The flotation of the leone has accelerated this trend. In some parts of the country the cost of medication has increased far in excess of the CPI or the devaluation of the leone: for example, aspirin has increased in price from 2 cents to 10 cents per tablet and chloroquine from 4 cents to 40 cents per tablet. The salaries of health units' staff are low, which obliges them to find means of supplementing incomes: a chieftom dispenser earns Le216 per month, an MCH aide Le50 and a porter Le116.

Given the available data, it is not easy to detect whether there have been changes in the shares of expenditure by sector since the introduction of the stabilisation measures. Between 1970 and 1985 government expenditure on agriculture and social services as a proportion of total recurrent expenditure varied between a low of 22 per cent in 1982 and a high of 36 per cent in 1985, averaging 30 per cent. However, it seems that in 1987, this proportion fell to 15.7 per cent. Data on social service expenditures as a proportion of GNP are available only for the years 1970-1982, and fluctuate relatively little around an average of 4.8 per cent. Of the five sectors classified (agriculture, education, social welfare, housing, health and tourism) education took the lion's share — usually around 20 per cent of recurrent expenditure. This is planned to fall in 1987 to around 9 per cent. The urban population is far better served than the rural population in the distribution of health care resources. Western region, which includes Freetown, with 13 per cent of the population received 34 per cent of health care expenditure (1982/83); Eastern region had a per capita health expenditure equivalent to one-seventh of the Western region. Repair of water systems is restricted because of lack of imported spare parts, the costs of which have risen in line with the fall in the leone. Even before the stabilisation measures, most schools lacked textbooks and other teaching materials such as chalk. The IMF measures made no provision to protect or enhance social services.⁶ Government's scope to cut social service budgets may be limited because of the high proportion (up to 95 per cent) already devoted to salaries. Redundancies would be politically difficult and have not been carried out of date.

Development expenditures are left to donors who at this time may be reluctant to increase the already small proportion they devote to 'soft' sectors.

⁶ This contrasts strongly with Zimbabwe where the government energetically expanded health programmes during stabilisation [Davies and Saunders 1987].

IV. Conclusions

The introduction of adjustment measures in Sierra Leone is too recent to properly assess their impact. But the limited evidence available does suggest that they have worsened rather than improved the precarious position of the poor. Nor have the measures set up the incentives for expanded land cultivation, increased crop production and export promotion that were sought. To achieve this, greater attention should have been given to the timing of increased producer prices *vis-à-vis* that of devaluation.

Measures to protect the poor were most frequently discussed in donor circles in terms of the provision of compensatory mechanisms — particularly the use of food aid. For example, it was envisaged that food aid would be used to provide support to newly redundant workers, to help settle them in rural areas. Such measures may be useful in alleviating some of the problems of the poor, although the food distribution mechanism requires substantial reform. However, support which will succeed in increasing their production and incomes will require changes in the structure of the SAP. Such changes would need to recognise the nature of local political conditions and would require institutional reform going well beyond mere privatisation. In this context compensatory programmes are essentially short term and palliative rather than reconstructive in their effects.

The government presently finds the choices open to it concerning the direction of its own expenditures very difficult to resolve. By continuing to meet and increase salaries which include large numbers of daily paid workers, it is making a substantial effort within the IMF straightjacket to protect workers' incomes. Nevertheless, business interests have controlled the supply and influenced the disposition of foreign exchange, and the more vulnerable groups have been forced into making serious adaptations in diet and, often, withdrawal from health care and education. These phenomena can be expected in due course, to show up in more substantial indicators, such as declining nutritional status and increasing infant mortality rates.

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