

Consolidation, IMF Programmes and Vulnerable  
Groups (especially poor children) in SSA

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I. Introduction

These notes are based on discussion and study of IMF programmes or attempts to negotiate programmes in Zimbabwe, Zambia, Botswana, Kenya, Uganda, Tanzania, Sudan, Tunisia, Nigeria, Ghana, Sierra Leone, Zaire, Upper Volta and Senegal. The greatest amount of first hand experience relates to Zimbabwe and Tanzania.

They are not intended as a complete review either of SSA economic malaise or of IMF conditionality. Because they centre on a) what the IMF might do both to ensure that its conditionality and advice did not rest disproportionately on vulnerable groups (especially children) and b) what the IMF might do to assist in encouraging programmes (presumably funded by donors) to alleviate negative impact on weak/vulnerable groups, they do not go into great detail on national political perspectives or programme design.

The argument is not that the IMF can cause SSA governments to be sensitive to the needs of their vulnerable citizens. There are limits to what any outside body can do and UNICEF, ILO, IFAD are much more likely to be effective at such sensitisation than IMF with IBRD and UNESCO intermediately placed. Nor is it argued that consolidation/adjustment can be managed costlessly or even at no cost to vulnerable people. (Albeit given how severely many SSA economies have deteriorated since 1978-79, any adjustment/consolidation programme which does not produce a speedy halting and at least partial reversal of downward momentum is unlikely to last long enough to work in the medium or long term. Further for many vulnerable groups further sacrifices mean levels of malnutrition and ill health, absence of education and death rates such as to threaten present existence and future ability to participate either socially or economically. Neither at the national economic nor

the vulnerable persons level are the margins above survival comparable to those in even a low income - e.g. Portugal - European state.)

What is argued is that:

- a. the IMF should not oppose (and/or be seen to oppose) policy designs intended to reduce the impact of consolidation on vulnerable groups so long as a serious overall programme package is proposed;
- b. the IMF should be sensitive to the human, social and economic costs of marginalisation, degradation and life shortening of vulnerable people - especially children - in the same way it is, e.g. sensitive to the economic and social costs of rapid inflation;
- c. the IMF should consider how - in conjunction with its programmes (especially 3rd and over credit tranche and EFF) - it can support efforts of states seeking financial assistance (e.g. from IDA, EDF, bilateral, IFAD, UNICEF) to support programmes keyed to reducing the impact of consolidation on children and other vulnerable persons.

These notes relate primarily to SSA. However many of the points, issues, approaches would appear relevant to low and lower middle income economies in other parts of the world, e.g. Tunisia, Indonesia, Sri Lanka, Grenada, Bolivia.

## II. Vulnerable Peoples' Needs/Mechanisms/Risks

Who are vulnerable in SSA varies from country to country and time to time. No universal 'read off' is likely to do more than offer a starting check list for national identification (which realistically must be done by national bodies with assistance from - e.g. - UNICEF, IBRD, IFAD, UNESCO not primarily by the IMF whose duty is not to do such work but to pay serious attention to it when presented to it.)

In general one can say that low income groups - and especially women and children in low income households - are at risk. Who are poor and what

the relative size of these groups are varies significantly:

- a. rural households lacking the ability/resources to produce enough to meet their own food plus enough of a surplus to sell to meet other basic needs and with poor access to basic education, health, pure water, relevant agricultural services (and in some cases fuel) are usually the largest group;
- b. within them rural landless are not - in most cases - as significant as in Asia or Latin America (i.e. group "a" is by no means simply or even predominantly constrained by land shortage), but they are no longer insignificant. Migrant workers (e.g. in Southern Africa and coastal West Africa) are often forced to seek work (often abroad) by land shortage as well as low productivity. In more densely settled areas, e.g. Owerri Plateau and Kano Plain (Nigeria), Nile irrigation schemes (Sudan), Mount Kilimanjaro-Meru zone (Tanzania), Rwanda, Burundi, Central and Lake Zune (Kenya), land shortage and rural landless poor are rapidly becoming increasingly prevalent;
- c. urban poverty was, perhaps, much less significant than rural as recently as 1960. However, while in terms of numbers still smaller, urban vulnerable groups are now both large, rapidly growing and very vulnerable indeed as even quick tours of the squatter areas and exurbs of - e.g. - Dakar, Kinshasa, Lagos, Accra, Lusaka, Nairobi and the Three Towns (Khartoum - Khartoum North - Omdurman) should show any sensitive observer. While usually having better access to water-education-health than the rural vulnerable, the urban often have even worse access to food (especially when rapid price increases and wage restraint are combined), fuel, shelter and even poorer sanitary conditions (especially when environmental sanitation and immunisation programmes suffer from budget cutting exercises).
- d. within this cluster of urban vulnerable people the "informal" (i.e. small scale self employed, casually employed, small employer employed) is usually larger and poorer than either "formal wage" or unemployed sub-sectors. (The truly unemployed have to be less poor

to stay alive - in fact casual labour and self employment are the normal overt urban African Face of Unemployment.) How much poorer (and more vulnerable) varies. In Dar es Salaam survey data suggest most 'informal' workers have 2/3 or 3/4 to 5/4 the minimum wage averaging 3/4 but in other cases gaps of 2 or 3 to 1 seem to be common (e.g. Ndola, Dakar - Pekine, Nairobi).

e. Urban (formal) wage-earners have, in general, never been an affluent group in SSA. But until the 1970s they were rarely among the more vulnerable except in cases of severe economic chaos such as characterized Ghana and Zaire from the mid-1960s. This is now less uniformly true. First, some countries have deliberately sought to shield peasants with the result that taking self consumed food/housing at urban prices average (not poorest 40%) peasant household consuming power is near to above minimum wage (the extreme case is Tanzania where it was ca 75% in 1967, 100% in 1980 and 125% by 1984) because wage purchasing power has fallen faster. Second, wages in many SSA economies have risen less rapidly than urban (or grower) food prices (e.g. Nigeria 1977-82) while base level surveys show high starting year and higher subsequent year urban malnutrition. Third, in economic chaos countries - e.g. Zaire, Uganda, Ghana - demonstrably no wage (and at any plausible consumption pattern almost no salary) earner can live on his formal income so guessing informal income pattern/deprivation impact is hard, i.e. clearly most Kinshasa and Kampala workers do have 'second' incomes but most vulnerable unskilled workers have limited access to such incomes and are at sub-subsistence levels.

f. Some people shift (are flung) from non-vulnerable to vulnerable:

- i. drought/flood/insurgency hit peasants (the drought cases are the best known and largest numbers affected in half SSA countries but actual deaths linked to lack of food are highest, e.g. Mozambique, Ethiopia where drought cuts basic own food supply and insurgency/invasion prevents effective emergency supply provision);
- ii. urban newly unemployed from loss of formal (or informal) jobs. With limited (negligible) social security they become

vulnerable entrants into urban informal (or marginal peasant) groups;

- iii. school leavers who 'graduate' into rural landlessness, urban unemployment or the bottom end of urban informal sectors.

At a rough guess 40% of SSA people are vulnerable in any year. The % urban and rural may not be very different but that suggests 3-4 times as many rural as urban/peri-urban vulnerable people. The particular people vary from year to year - as does % - with extent and location of rural climactic (or other) catastrophe. Of these perhaps 10-15% (20-25% in worst cases) are very vulnerable, i.e. their survival as normal human beings (health-strength-intelligence) or even as living persons is at risk. These most vulnerable are dominantly rural in almost all cases and are usually people in low productivity areas hit by successive climatic disasters and/or massive insurgency/civil disorder. However, on 1979-83 trends significant numbers of urban people are about to (or have) entered the very vulnerable category. (e.g. Tanzania studies suggest relatively static rural malnutrition in non-drought areas but rapidly rising low income urban malnutrition. Random observation suggests the urban poor of Kampala and Kinshasa have lower food availability than the average Ugandan or - less clearly - Zairois peasant.) The %'s and makeup vary significantly from country to country.

What the vulnerable individuals/households require is fairly easy to set out:

1. Access to adequate food supplies (beginning with basic staples since the worst deficiencies are usually in basic calorie intake although - especially for women and children - protein deficiencies may also require specific attention) whether self grown, purchased (requiring adequate real income) or provided (as relief or "food for work");
2. Access to employment or self employment adequate to produce enough and adequately paid enough to meet basic household food-shelter-clothing requirements (except in emergency situations which may be large and multi-year, e.g. Zimbabwe in the third year of drought

has 2.1 million - 28% of its population - needing food relief or work to pay for food because their incomes from self employment have been wiped out).

3. Access to pure water at a location and a cost which allows basic household consumption (drinking/cooking/washing/sanitation) to meet bodily and sanitation needs and to do so without huge (often 8 hours per day per household) and exhausting (often 10-15 miles trudging with buckets) use of girls and women's time to collect it.
4. Access to basic health facilities (esp. vaccination-sanitation-simple curative - child + mother care) both for human reasons and because chronic ill health and high mortality impose crippling economic losses on vulnerable households, on national production and (through their permanent effect on children) on future production possibilities;
5. Access to basic (primary, applied, adult) education again for human, present production and (especially for children, women and peasants) future national production potential reasons.
6. In many cases (not, apparently, uniform but general in Eastern and Southern Africa and Sahel - e.g. Senegal) access to household fuel which has inordinate and growing cost either in terms of price or (dominantly the case in rural areas) time and energy to collect it from increasing distances (dominantly by girls and women).

How these needs can be met by vulnerable individuals/households varies. Clearly children's welfare cannot usually be safeguarded in respect to food, sanitation, clothing, water except in the household context and the same is largely true of expectant and nursing mothers. Equally clearly in the near total absence of formal public or private social security, emergency survival needs can only be met by public expenditure. The cases for free food distribution, selective food subsidies and/or food for work are debateable as are programme designs but to opt against all is to opt for massive pressure in vulnerable human beings and - literally - for the premature death of some, or many, of them.

Similarly there is no way private or full cost recovery public programmes can meet the vulnerable individual's maximum health care, education or water needs. There is a case for mobilizing labour time to lower costs (e.g. in facility construction/maintenance) and may be a case for partial fees (waived for the poorest) but the basic condition for access by the vulnerable is that the basic cash cost be borne by the state (out of general revenue or specific external assistance).

In respect to employment and self employment the situation is different. The state cannot afford to provide the bulk of such employment - except in some cases in temporary emergency 'relief' type public works as used satisfactorily in some Indian States and being tried in Zimbabwe. For the vulnerable what is needed is state action to assist them to raise productivity (e.g. basic field tested/viability tested/farmer tested research and extension/improved human-livestock-crop water supply) and to ensure minimum fair remuneration (e.g. wage and grower price policy). SSA states cannot be (and do not in general try) general employers of last resort if only because however useful the services produced an implausible balance of public services to basic consumption goods would result. (The case of Mauritius' "travail pour tous" programme demonstrates the general unviability fiscally - especially under conditions of economic adversity. That of Botswana - which has achieved a very significant proportion of households supported by genuine public sector jobs consistent with fiscal and external balance - illustrates a further limitation. In the absence of the jobs an additional 10% of Botswana households would be vulnerable. But these jobs take up so much of the fiscal resources that little remains to raise productivity (as opposed to provide basic services) for the 40-50% of rural households who remain very poor and - often - vulnerable.)

### III. Economic Contraction's Impact On Vulnerable People

The general economic malaise of SSA did not begin until 1979-80. Over 1976-79 African economies averaged over 6% annual GDP growth - their best four year record and above that for all developing countries (UN Dept. of Int'l Econ and Social Affairs data). This does not mean that the problems of chronically sick (and quite possibly chronically ill

managed) economies like Zaire and Ghana, chronically resource poor countries like Upper Volta, and states stricken by domestic oppression/insurgency or invasion like CAR, Uganda, Chad, Mozambique, Angola are all equally recent. Nor does it imply that whatever the causes one can assume a rapid return to 1976-79 conditions and therefore conduct 'holding' rather than 'adjustment' policies. (Indeed the dominant SSA mistake over 1978-81 was precisely to expect 1981 and after to return to 1976-79 as 1976-79 had been a recovery - to higher growth levels than 1970-73 - after 1974-75.) But it is to say that in most of SSA the mechanism of economic decline began with severe external shocks (terms of trade, export volume demand, weather, and/or invasion) not with overheating via vast increases in real resource use and that that starting point is relevant both to the impact on vulnerable people and to how they can be protected within consolidation and recovery programmes.

The impact of terms of trade shifts initially falls primarily on major users of imports and producers of exports. These may well not be primarily vulnerable people (export crops are dominantly produced by above average rural income households in most SSA countries albeit there are significant country - e.g. Sahel - and crop - e.g. cashew - exceptions). Whether vulnerable groups are greatly affected at the first round by import price increases depends largely on what prices and the degree of staple food self sufficiency. Fuel price increases are especially damaging because via the general use of fuel and the prevalence of cost plus pricing they rapidly generalize themselves. If staple food imports are significant then import price increases have a direct impact on vulnerable urban persons.

The direct impact of climatic shocks is much more concentrated on the vulnerable. They tend - almost by definition - to be concentrated in ecologically marginal rural areas and their 'normal' household income is very near survival level so that output losses fall heavily on them. In the context of forex constraints, domestic food prices will rise sharply so that the urban vulnerable households will also be significantly affected.

The secondary rounds generalize the impact. External imbalance widens



(tending to cause overvalued exchange rates which then become themselves an obstacle to recovery of balance) and imports are cut. Employment at best stagnates and wages fall relative to prices. Lower real export prices (not surprisingly) lead to lower growth (or actual falls) in exports. Lower imports cut manufactured output by a multiple of the initial cut. Government revenue in real terms falls rapidly as (1) external trade in real terms contracts, (2) real wages and salaries are eroded, (3) company profits fall, (4) local manufacturing (the sales and excise tax base) slumps. This leads to cutbacks which tend to be especially severe (e.g. Zambia, Tanzania) on health, education, water and to limit emergency relief to climatic disaster stricken areas (generally effective in Tanzania in 1973/74 and 1974/75 but reaching only the most weather blighted and chronic low income areas after 1978/79) and to force either very rapid real increases in urban food prices or real cuts in grower food prices (or a combination of the two). Parallel to this there is likely to be high (by SSA standards 15-20% is high and over 20% very high except for disaster cases like Ghana, Zaire, Uganda) and self-validating inflation and the emergence of parallel markets especially for food and imports. The vulnerable rarely have the ability to profit from inflation or parallel markets and at least the rural poor have to buy on the latter more than consumers as a whole (the urban vulnerable may be more able to have access to some price controlled or rationed staples, e.g. Maputo, Dar es Salaam).

Clearly, a) the precise mechanisms and initial shocks vary widely; b) in some cases there was initial overheating as well (e.g. Zimbabwe 1980-81/Zimbabwe's external environment ecological shocks are late, i.e. 1981/82 on, not 1979/80 on - ); c) domestic policy errors before or after the shocks (e.g. 1961-1980 low attention to export expansion in Tanzania, belated and unselective import cuts in Kenya and Nigeria) has often exacerbated matters. The point is that in most cases the mechanism is one of an external shock reversing a relatively satisfactory previous trend or period.

#### IV. Internal Mechanisms Of Vulnerability Pressure Increases

The previous section has sketched the broad scenario of economic

contraction's impact on the vulnerable. (For the vast majority of SSA economies 1980-83 has seen per capita real output falls. As it has also seen negative terms of trade shifts of up to 15% of GDP the per capita falls in command over real resources are even sharper.) A few more points on internal mechanisms may be useful, albeit these appear to vary in detail quite markedly within and between countries and time periods. The emphasis is on vulnerable people not overall income distribution for three reasons: a) the overall income distribution results are somewhat more problematic, more sub-category (e.g. salary earners, medium scale food sellers, transporters) specific; b) income distribution has been significantly affected by policy in some cases independent of a general decline in resources per capita (on the face of it toward lesser inequality in Tanzania and greater in Zambia - also greater in Botswana but that is a real resource increase case and is the reverse of the clear policy intent); c) if real resources per capita are falling the possibility that they are falling less rapidly for vulnerable people is not enough to protect them (or at least may not be) because they have less margin above severe deprivation in the first place.

Urban low income households have been hit by:

- a. rapidly rising food prices (parallel and open market combined with static or cut subsidies);
- b. wages rising less rapidly than prices and especially food prices (both general public policy and the result of budget constraints on public sector wages and the general weakness of demand for labour have influenced this);
- c. stagnant or falling "formal" wage employment;
- d. increased pressure on the "informal" sector (natural population growth, school leaver bulge accentuated by impact of higher fees, migration from rural areas especially those with land pressure and/or ecological disasters) which combine with falling wage earner real purchasing power (especially excluding food) to force down real incomes of this vulnerable group;
- e. deterioration in quality and sometimes (especially relative to growing population) of basic health-education-water services and of access to services because of higher fees;

- f. general rapid price increases for basic commodities, e.g. cloth, clothing, soap.

Rural vulnerable households have been hit by:

- a. rapid rises in transport costs and commercial margins (relating to fuel costs and shortages' increasing of monopolistic elements whether in open or parallel markets) so that the rise in grower food prices significantly lags that in urban (even abstracting from official price policy or in countries - e.g. Nigeria - where there is none with respect to food);
- b. decreased availability of basic production inputs down to and including hoes and seed with resultant negative impact on output (and with vulnerable least able to use cash or influence to get what inputs are available);
- c. radically deteriorated public services (e.g. rural health facilities in rural Northern Zambia have become virtually non-functional for lack of supplies and transport; the % of rural water units with significant 'breakdown time' annually in Tanzania is approaching 50% and the lag to repair lengthening) and increased fees for their use;
- d. sharply reduced seasonal, casual or temporary job availability. (Even in Tanzania over 25% of peasant household cash income in the mid-1970s came from off-farm employment. This appears to have had a bimodal distribution. It was significant to above average income peasant households, much less so for the middle band, but more so for very low income ones. A similar pattern appears to hold in Botswana.);
- e. reduced transfers from urban relatives (because of their falling real incomes);
- f. reduced access to buyers (public or private) because of transport gaps (e.g. in 1983, 60-75,000 tonnes of potatoes in Tanzania's Southern Highlands rotted because the - previously fairly effective if high cost - private sector buyers failed to secure transport) and delays in payment after sale (especially a public sector failing but not uniquely so);
- g. ecological (drought, flood, bush or forest fire) and civil (invasion, insurgency, etc) disasters combined with reduced or

halted government food relief and/or rural works employment programmes.

#### V. IMF Programme Problems For Protecting Vulnerable People

This critique is not meant to imply that consolidation and adjustment can be cost free. It is to argue that how the costs are distributed is critical and has some degrees of freedom whatever the overall level of restraint. However, it is also arguable that in low income economies with falling per. capita command over resources set off or greatly aggravated by external shocks (rather than endogenous overheating) and with much domestic capacity (including that of poor peasants starved of transport, inputs and markets) by lack of forex no consolidation is likely to be possible without more resources as well as different resource allocation. That combination may not apply to all SSA cases (e.g. not to Botswana's successful 1981/2 adjustment but does to many low, e.g. Uganda, Tanzania, Upper Volta and to some middle, e.g. Zambia, Zimbabwe income countries.

IMF advice/conditionality tends to be both specific and fairly rigid as to general targets and fairly unselective within them. This may or may not be true at the highest policy, analytical and research levels - it certainly is true of the typical SSA country mission.

Key examples include:

- a. Reduction of real public expenditure especially on recurrent account. In general no full or partial exemption is made for those areas, e.g. basic health, education, water, drought relief most critical to the vulnerable - au contraire in some cases;
- b. Reduction/elimination of subsidies to consumers no matter on what products, for whom (e.g. marginal or middle income), what % of govt. spending or with what impact on vulnerable groups. Many subsidies, e.g. gasoline and milk may be misconceived economically and/or in terms of income distribution. This is not self evident in terms of those on staple grain when a high % of urban consumers

are in vulnerable groups and do have access to the grain. Some programmes have crippling costs. But SSA states have very few transfer payments to consumers (basically basic goods subsidies and drought relief) - notably so by comparison with world and even general developing country share of government spending. Thus to argue for nil subsidies on principle appears rather extreme. This is especially true of calls for instant elimination or savage cuts when the impact on prices will be such as to make vulnerable groups suffer markedly and to have social, political and production (e.g. riots, strikes, alienation) impacts hardly conducive to support for and production under much more quantitatively significant aspects of the programme. In some cases subsidy elimination seems to be set up as a dogma independent of its actual impact and with the result of bogging down all discussion. e.g. in Tanzania one product (maize meal) is subsidized. The budgetary impact is 2% or less of recurrent spending (plus 1% odd cross price subsidy from sugar). The impact of instant removal on urban worker budgets (their purchasing power has been cut over 50% since 1981 at minimum wage and informal vulnerable group levels) would be severe. Whatever the merits of phased reduction to lay central stress on this item for immediate change appears theological not pragmatic or quantitative. Phased reduction consistent with vulnerable group protection may be workable in certain contexts. e.g. the 1983 Zimbabwe subsidy cuts combined with parallel low (not general) wage increases and drought relief (albeit the impact on urban informal vulnerable people may have been severe) - the case for making early elimination central to all programmes is very weak. (It may also distract attention from medium term phase out approaches which are seen as irrelevant to satisfying the IMF and cause an equally theological reaction against any lowering of subsidies - both evident in Tanzania over 1981-83.)

- c. General raising of grower food prices as the cure all for production problems. This may have been a sensible prescription in most of SSA in 1977; it is far less generally relevant in 1983 and is far from a complete answer. Relative to wages these prices have skyrocketed over the past 5 or 6 years with clear negative impact on the urban vulnerable and little positive on either the rural

vulnerable or production. More careful analysis is needed. Absence of transport, access to inputs and markets is often more of a barrier to increased effective production than price. In the absence of resources to produce more goods to sell to farmers (e.g. of import constrained domestic manufactures) higher food prices simply increase inflation and parallel marketing with negative social and income distribution and marginal (at best) output effects. Further in much of SSA no prices will produce grain surpluses during droughts (e.g. 1920's - 1960's historic record Zimbabwe and Tanzania) while present prices are already adequate to do so if weather is good (some countries, indeed 1984 crop season prices in Tanzania especially for maize are wildly too high by any plausible test). The confusion of price as a selective, partial instrument with its use a near single brute force bulldozer is serious generally and especially in impact on vulnerable groups (not least when taken together with govt. spending curbs it forces cuts in drought relief food distribution).

- d. Lowering real wages and salaries (especially wages - IMF missions tend to be more sympathetic to salary earner complaints of draconic falls in real purchasing power, at least in SSA) has its limits especially as to minimum wages (and to informal sector incomes which, to a varying degree, tend to move with them) and especially when 50% or more falls from late 1970's levels are not unusual (and ones of less than 25% uncommon). When pushed to extremes like Zaire and Uganda all that is created is opaqueness - minimum (and other) wage earners do not live on their wages. How they do survive is less clear but is unlikely to be in ways consistent with the productivity/efficiency/or probity of their work for their 'primary' employer.
- e. Multiplying and raising user fees especially hard for vulnerable households to bear (e.g. standpipe or rural water, radio and bicycle licenses, primary school fees, clinic and drug charges). These - especially in the absence of widely used waiver provisions - in fact deny access to those most needing the services. Their fiscal value is rarely great and their use of scarce administrative and policy personnel almost always a gross resource misallocation

especially if there are effective (for the poor) waiver provisions. (e.g. in Tanzania a 1/10 increase in the tax on beer would produce about three to four times the revenue of this category of fees and a 'doubling of the passenger car annual licence fee about as much both at negligible marginal cost as the collection procedures are relatively automatic and their cost unrelated to the amount of the tax.)

- f. The combination of import price increases, import liberalisation (in terms of reduced licensing and allocation) and import reduction has an especially negative impact on public services. In the absence of any likely true equilibrium exchange rate (the market will not in most SSA countries clear at - say - 1972 constant real exchange rates even when those were not considered overvalued) and the presence of govt. spending constraints only allocation of import capacity and some budgetary adjustment for devaluation can prevent near total destruction of rural health, education, water (and often agricultural extension services) by pricing them out of drugs, medical and educational supplies, books and paper, basic equipment, fuel, vehicles and spares.

Needless to say, the absence of an IMF programme does not resolve these problems. In many SSA economies to attempt that causes such inadequate forex availability and such sustained output fall that - no matter if serious efforts are made to mitigate consequence for vulnerable people - the results are still profoundly unsatisfactory (e.g. Tanzania, Mozambique, Nigeria). Indeed the one 'successful' IMF type programme without the IMF - Rhodesia (as it then was) 1975-78 underlines the likely consequences of a do it yourself austerity programme. External imbalance (and external borrowing) was contained as (except in 1978 with war spending) was government recurrent balance. Price increases were kept low without major subsidies and interest rates were also low without any evident tendency for savings to fall below demand. But real output declined steadily, per capita it fell on average about 5% a year. Food production rose 1/2 to 2/3 as fast as population. Fixed investment levels were so low that in the long run overall productive capacity would have declined. This was stabilisation

but on a declining trend with little reason to expect a reversal. In this case it was stabilisation made possible by pushing most of the burdens on the most vulnerable - real African wages and peasant incomes declined, access to jobs and land worsened. While the Rhodesian Front's priorities are extreme it is true that under very extreme resource constraints both production and political concerns will prejudice the interests of the vulnerable who are rarely key producers nor the most significant political actors. One purpose of IMF programmes is presumably to provide (directly or indirectly) forex resources to lessen the constraints in the short run until enhanced production can do so in the medium and longer term.

VI. IMF Analytical Limitations In Terms of Protecting Vulnerable People (and more generally in respect to SSA?)

The programmes problems turn in part on IMF missions' rather simple and uniform analytical assumptions and approaches which often appear to relate to objective physical, structural, institutional and output realities other than those of most SSA states/economies. These include:

- a. failure to set minimum necessary imports for halting decline, maintaining basic physical and service production and infrastructure capacity and instituting a process of output recovery as the vital target and building the programme around it. (In practice SSA fund missions usually treat it as a residual even when they accept the need to raise, not cut imports. This is not true of Bank SAP missions who do seem actual identification of minimum import requirements and working out how to finance them as crucial.) Without such a core target no programme can do more than make continued decline more orderly and - perhaps - less rapid;
- b. a (related?) assumption that unsustainable increases in resource use rather than sudden decreases in resource availability have set off the cumulative malaise. This is more often than not quite inaccurate in SSA and has a direct bearing on the cost of further cuts and of what is/is not practicable in terms of laying a base for recovery. It is not evident that resource use cuts (private or



public) in much of SSA will restore balance because they are likely to accelerate the fall in resource supply (production);

c. an overemphasis on undifferentiated macro analysis without adequate regard to differential micro factors generally or in relation to protecting vulnerable people;

d. a related overemphasis on prices as almost uniquely necessary and sufficient conditions which both is particularly injurious to vulnerable individuals and by itself is so incomplete and oversimplified as to be at best inadequate and at worst counterproductive. (All Tanzania's 40% odd average 1983/84 grower price increase will achieve that a 20-25% one would not be more inflation and more constraint on real government spending. If weather is significantly better output and exports will rise and the price impact on cost of living be minimized. Similarly if more forex for transport, inputs, processing is procured that can help raise effective production/domestic supply and exports. But the weather and the forex not the excessive price increases based on a naive view that real incomes can be raised by nominal price increases in the face of output falls nominal price incentives cannot reverse.);

e. an also related overemphasis on undifferentiated gross fixed capital formation in new capacity. In the short run maintenance and less underutilisation of existing capacity (including institutional and basic service) is what most SSA economies (and especially their vulnerable members) need most urgently. (Given forex constraints and the high direct and indirect forex content - often 60 to 75% - of most GFCF there is a direct tradeoff between early output recovery and growth of potential - but unuseable - output capacity by raising investment.) Selective GFCF in export and effective import substitute (especially food and energy) production is needed - and at least on the food and some export production can be designed to increase incomes and reduce climatic vulnerability of vulnerable rural people;

f. inadequate attention to timing. Shock programmes with dislocations

and costs front loaded (early) and adjustments and gains backloaded (late) have very grave disadvantages - as contrasted to more gradual and balanced moves with at least some gains front end loaded:

- i. very large price or other changes take one so far outside known parameters that prediction of side effects (especially on the vulnerable) is very difficult and therefore timely action to mitigate harmful ones almost impossible;
  - ii. very large price changes tend to set off self cancelling inflation to an extent lesser ones might not and thus to become the basis for a hydro-inflation/hyper-'adjustment' cycle of a distinctly undesirable type. This is particularly true when massive price increases are put in place 3 to 9 months before higher output can be achieved (import to production to distribution and or crop season lags) so that the immediate result is massive real income reduction;
  - iii. poor, vulnerable individuals and economies have very limited ability to survive initial costs until gains come. Shock cures for the basically healthy may overcome a fever 'when for the really ill and debilitated they produce pneumonia or worse. To ask an average Belgian worker (or an upper income African civil servant who may have a similar real income) to accept sacrifice now for rewards in 18-24 months is not the same thing as to ask it of an African low income household already malnourished, inadequately clothed and washed, barely able to afford clinic and school fees for themselves and their children. They may literally be dead or too weakened to benefit in 18-24 months; even if the programme succeeds at macro level which (on the IMF's own evaluation) a majority of those since 1979 in SSA do not do.
- g. Serious underestimation of natural, cyclical disasters - e.g. drought - which can be expected to reverse themselves and, therefore, are logically primarily targets for accommodation until recovery not for adjustment to a permanently worsened context. African drought problems are severe but not - in general -

permanent. e.g. Tanzania had severe drought in 1972/73 and 1973/74 and an abnormally long run of good years over 1974/75 - 1977/78 before bad years in 1978/79, 1979/80, 1981/82 and 1982/83. Zimbabwe had bad years in 1974/75, 1976/77 and 1981/82, 1982/83, 1983/84 with fair to very good between. (Storage and production vulnerability reduction seem to have received inadequate attention in good years but that is not a problem primarily remediable by IMF conditions and indeed is one worsened by govt. spending limits and credit ceilings which hinder holding bumper crops to meet subsequent deficits). There is an exacerbating factor - droughts in Eastern and Southern Africa now seem to have become more bunched than over 1950-70 (partly a reversion to earlier patterns) with more successive good or bad years which makes both "riding out" and storing for bad years harder. The point is not that the IMF ignores drought but that it seems to underestimate its impact and to view it as a case for adjustment by use cuts not for accommodation until cyclical recovery.

The degree of possible impact is illustrated by Zimbabwe (an economy whose agricultural share in GDP is very low by SSA structural averages and is thus in one sense less vulnerable to weather).

- a. Over 1980/81 - 1982/83 real agricultural output fell 32% with a further small fall or very small recovery likely in 1983/84 (also severely drought hit). The 1981/83 fall is equal to 5.5% of 1981 GDP (indeed it is virtually identical to the actual overall 1981-83 GDP fall);
- b. had agricultural output remained constant at 1981 levels real GDP would - on the primary impact alone - not have fallen;
- c. export losses/import increases result from at least 1/3 of the agricultural output loss. The overall import capacity multiplier is over 3 to 1 for the economy as a whole. Further, other sectors (both manufacturing and services) have been negatively influenced by lack of agricultural inputs and rural demand. The secondary loss from drought has probably been 1 to 1½ times the primary. Thus in the

absence of drought real GDP in 1981 could have risen 2 to 2½% and in 1982 3½ to 4% consistent with no worse external imbalance or inflation as opposed to actual falls of 2% and 3½% respectively;

- d. on govt. account recurrent budget spending on drought relief proper in 1983-84 is likely to exceed \$150 million and direct plus indirect run over \$200 million. This is 7½% plus of total recurrent spending and the same order of magnitude as the recurrent budget deficit (i.e. without it all net borrowing would be for capital and loan account).

This does not suggest the 1980-1981 growth spurt was sustainable nor that there were not also overheating problems (the recurrent deficit began in the late Rhodesian military spending and was not fully eliminated in the 1980-81 and 1981-82 pre-drought Zimbabwe budgets). It does suggest that the difference between slow growth and successful recurrent budget balancing and absolute decline with a rising recurrent deficit (despite restraint) is drought - a factor which is both beyond Zimbabwe's control and - one can reasonably assume - cyclically self reversing.

The IMF cannot be expected to be independently expert at micro and sectoral level for each SSA economy - albeit higher levels of expertise than currently shown by many country missions can reasonably be expected. It can be expected to recognize that there are significant macro, sectoral and micro differences among and within SSA economies and to pay serious attention to analysis seeking to identify and illustrate them. Similarly it can be expected to evaluate policy proposals based on such analysis - including policy proposals seeking to limit burdens on vulnerable groups and to accommodate cyclical exogenous factors such as drought - seriously and sensitively rather than treating them (as many country missions do) as at best irrelevant and at worst as attempts to evade making rather than altering the makeup of adjustment. Such proposals may well in some cases be unviable (and some are unsound special pleading, not necessarily for the vulnerable) but to characterize all as such from the start is to raise the cost of adjustment unnecessarily, to reduce national commitment to whatever programme is adopted, to protract negotiations while the underlying

problems become more intractable and - in extreme cases - to lead to programmes which objectively have no real chance of success (in IMF or national) terms.

#### VII. Practical Problems Of Implied Alterations In Approach For IMF

The programme changes flowing - at least implicitly - from the above critique include:

- a. longer time periods - of drawings, grace and repayment to accommodate more phased adjustment, more accommodation of (versus short term contraction in response to) short term/self correcting cyclical factors and protecting the most vulnerable from at least part of the costs of adjustment that would fall on them in the absence of special measures;
- b. acceptance of the necessity (for production consolidation and recovery) of higher (than at present or in most programmes) import targets (and presumably either of larger IMF and associated programme funding or/and substantial long term rescheduling of debt at lower interest rates plus some lengthening of the period targeted for arrears elimination where - e.g. Zambia, Tanzania these are very large. Programmes in which over 50% or over 75% of drawings are targeted to arrears reduction, e.g. Tanzania 1980 and late 1983 proposals are not likely to be viable nationally or to meet even the arrears reduction target except in very special circumstances.);
- c. recognition of the facts of divergent causes of extreme external and domestic imbalance, of differences at micro and sectoral level and of the need to reduce adjustment costs to vulnerable rural and urban groups and the implications these have for diversity of national programmes as to micro, sectoral and timing targets and macro target makeup as well as the limits they impose on practicable reduction in macro, sectoral and vulnerable group resource use.

These changes would require:

1. More resources (whether from the IMF or in an associated package);
2. In general over longer periods;
3. With more acceptance of different makeup of national adjustment packages, more attention to sectoral and micro issues and more tolerance of expenditures (relief, temporary works programmes, subsidies, basic health/education/water/fuel/agricultural input - extension - vulnerability reduction) targeted to buffer vulnerable individuals/groups and likely to be reasonably effective in doing so.
4. More flexible targets in respect to timing and absolute attainments with some automatic or quasi automatic adjustment when either a) initial position data estimates turn out to have been seriously inaccurate; b) external economic environment changes are radically worse than projected and/or c) the results of carrying out agreed measures are lesser or slower than projected or create negative side effects for vulnerable groups requiring expenditure on govt. account to limit to tolerable levels. (This is not an ideological point. Projections from an uncertain base under conditions of external uncertainty and unclear probable magnitude and timing of response to policy changes do not logically lead to fixed point quarterly targets. That view is shared by conservative monetarists - e.g. Prof. Harberger - and mainstream monetary - e.g. Prof. J. Williamson - as well as moderate monetary system critics, e.g. Professor Helleiner - analysts.)

The difficulties such alterations would pose for the IMF are not trivial. They include:

- a. paying more attention to differences in economic imbalance causation; to sectoral, micro and institutional issues and therefore to alternative (and sometimes unorthodox) national adjustment programme makeup. There is an efficiency case for this quite independent of limiting negative impact on vulnerable groups.

But to do so would require a significant change in outlook and of approach to specific national proposals especially at the level of most SSA country missions;

- b. the IMF cannot practicably set an infinite number of micro targets. If - as appears desirable - a limited number of macro range or direction (rather than point) targets and policy instrument actions are agreed then both the reality of uncertainty and the need to accommodate rather divergent national realities and capacities within a common typology of targets require more qualitative and sensitive monitoring of performance which in turn requires more and more SSA expertise endowed personnel than seem to be available now in respect to most SSA countries. (This again is not an ideological point - Prof. Helleiner in his Princeton monograph and elsewhere is much more scathing on the average quality of personnel and specific data/knowledge of IMF SSA missions.)
- c. longer drawing (e.g. up to 5 years), grace (e.g. up to 3 years after the last drawing) and repayment (e.g. up to seven years for a possible maximum of 15 years from programme initiation to final repayment) periods will pose problems for the IMF. However, they are not inconsistent with IMF objectives. Where shorter programmes cannot achieve sustainable consolidation and lay the basis of sustainable recovery they are inefficient in terms of the IMF's Articles as well as gravely damaging to vulnerable groups of people.
- d. more funds would be required whether from the IMF, from other multilateral and bilateral agencies or from debt rescheduling/de facto (e.g. lengthened maturity - lowered interest rate) partial writeoffs. All are hard to secure. But the cost to vulnerable people, to sustainable growth in SSA and to world trade and finance of not doing so is likely to be high and long lasting.

Therefore, a case for seeing how the problems could be overcome and the costs met exists.

VIII. Some Sugestions For IMF Action

- a. More attention to the specific needs of vulnerable groups especially children in the context of adjustment/consolidation programmes including serious attention to expert agency (e.g. UNICEF, IFAD, ILO, IBRD) analysis and advice and to national proposals oriented to meeting such needs;
- b. more willingness to recognize diversity including diversity of potentially viable programme components;
- c. more flexibility in phasing and in target level adjustment to take account of uncertainty in initial (IMF-Country agreed) projections.

These require primarily alterations in IMF personnel - and especially country mission personnel. To a degree senior policy and research personnel do accept and express them but they do not appear to be taken seriously by most SSA country missions. Nor do most other agencies see the IMF as concerned with these issues so that a public restatement/adjustment of the concerns to be taken into account in negotiating programmes would be needed.

- d. As a result national programmes would need to be more diverse in length, agreed policy instruments and national objectives (some of which - in particular vulnerable group protection - would not be 'trigger clauses' but would affect practicable levels of, e.g. government expenditure and borrowing which are 'trigger clauses') with average and total increases in programme length and finance requirements.
- e. Realistically only part of these additional financing requirements can come from the IMF. In particular specific finance for interim protection of vulnerable groups and medium/longer term reduction of their vulnerability and enhancement of their productive capabilities and incomes is not very well suited to IMF drawings except in the case of fairly short and not very severe cases (e.g. 1981/82 Botswana) where a portion of general forex availability enhancement from 1st/2nd Credit Tranches and Compensatory Finance may be available for and adequate to that end and specific external financing be unnecessary.
- f. Therefore in most SSA cases the IMF should take the lead (jointly



with the country and perhaps another international agency) in seeing that a wider and larger package involving other agencies (multilateral and bilateral) in new funds; debt rescheduling adequate in amount, period, and terms to permit recovery; and arrears consolidation and phased reduction is put together. Specific national proposals to protect (short term) and improve the position of (medium and longer term) vulnerable people and groups should have - and be said by the IMF to have - priority within these packages.

- g. Package approaches (or IMF programme associated finance) are not novel in concept. The IMF 'seal of approval' has consistently been seen as critical to unlocking other resources. Logically this applies to concessional and semi concessional finance at least as much as to investment and commercial borrowing even though the IMF has not, by and large, stressed this aspect. However, seal of approval without overt IMF initiatives/arm twisting is at present not enough. This is evident in respect to the IMF initiatives to secure associated commercial bank lending to certain major debtors (e.g. Brazil). A case for analagous aid mobilisation/debt burden lessening exists for a majority of SSA programmes. Without such added resources on a timely basis (if they are long delayed the fund programme is likely to break down before the complementary resources needed to achieve its targets become available) it is hard to see how most SSA fund programmes can achieve consolidation, let alone sustainable recovery and least of all special attention to reducing negative impact on vulnerable human beings.

It should be clear that it is not argued that the IMF should - or can - become the primary champion of vulnerable groups of people.

(No more is it likely that Treasuries, Planning Ministries or Central Banks will play that role nationally even if some Treasuries - e.g. Tanzania, Zimbabwe - do seem more concerned with vulnerable group protection and income earning prospect improvement than most other institutions in their countries.)

The IMF should:

- a. make clear that protection of the vulnerable and reduction of their future vulnerability are legitimate priority objectives;

- b. accept that meeting these objectives is a (not the only) constraint on appropriate programme targets and policy instruments;
- c. encourage other agencies (bilateral and multilateral) to look favourably on specific where able group welfare and vulnerability reduction (earned income enhancement and stabilisation) oriented programmes/projects in the allocation of their resources.
- d. to do this in action as well as declaration and at country mission as well as 'higher' levels.

Equally IMF teams - if they have studied the topics and country circumstances enough to have valid detailed opinions - are well within their briefs to comment on the probable cost efficiency (in terms of benefits to vulnerable groups per unit of govt. finance, forex or real resources expended) of proposed and alternative measures. For example it is arguable that well designed rural and urban labour intensive works programmes are more effective than food relief (or especially than food subsidies) in assisting vulnerable households now and especially in providing future income and basic service capacity. However, to be effective they require either reallocation of investment resources or higher expenditure (than food distribution) because of the complementary personnel, tools and inputs needed if they are to be more than 'make work' efforts. In other cases food subsidy phaseout over 2 to 4 years with parallel offsetting wage increases to low income groups may be more effective in protecting the vulnerable and be so at lower public expenditure cost than continued subsidies. However, for this to be true there must either be convincing evidence that "informal" sector incomes do in fact rise when the minimum wage does or some programme specifically targeted to raise informal urban income earning opportunities or the most vulnerable urban groups will be the hardest hit even if minimum wage earners are protected.

There is evidence that many SSA programmes intended to protect vulnerable groups are not very effective at meeting their goals and are high cost in relation to actual benefits to poor people. Improvement is needed and dialogue on how to achieve it would not, in general, be unwelcome. However, so long as the IMF is perceived as opposed to such programmes in general its ability to influence their makeup or efficiency will be low and its specific criticisms, however justified,

fall largely on deaf ears. To be effective specific criticisms and proposals of alternatives must be seen to flow from an acceptance that present protection of vulnerable people and reduction of their future vulnerability are genuine priority objectives.

(Written by Prof. Green and  
transcribed in his absence)