

SADCC and Structural Adjustment: Notes Toward Interaction

By R. H. Green

OVERVIEW

What Is SA?

SA in SSA is a protean not a precise concept. The one thing it clearly is not (or no longer is) is a classic IMF demand management stabilisation by contraction. A reading from 1981 Accelerated Development to 1989 Long Term Perspective Study (Berg Report to Please/Agarwala Report) suggests the structural adjustment of structural adjustment and a lengthening of time perspective into structural transformation.

But SA does have a certain set of processual-verbal-operational common themes greater or less stressed in almost all programmes:

- a. moving toward balance on governmental, external and domestic market (i.e. price) accounts;
- b. doing that balancing largely by supply expansion - external resource transfers in short run and by increased production/exports/tax revenues in the medium and long runs;
- c. improved efficiency in resource allocation by price, in budgets, by sector, in projects for finance, food, imports and personnel;
- d. a certain ambivalence on how much (and how much managed) market and how much policy/budget in the allocational efficiency raising project. (The rhetoric is uniformly market and implicitly unmanaged market. The cases usually cited as models, e.g. S. Korea, Taiwan, Japan and Singapore, are very much managed markets. The exchange rate/interest rate proposals are usually interventions to set market parameters not free market responsive in nature. The actual programmes are all over the map depending on predilections and skill of SSA country and the predilections and leverage of involved World Bank personnel.);

- e. a growing stress on Poverty Reduction (still called Social Dimensions of Adjustment but no longer normally seen as merely smoothing edges of adjustment fall-out but as enabling poor people to become less poor irrespective of why they are poor now);
- f. linked to human investment (education-health-pure water-extension services) to raise productivity and to reduce structural poverty;
- g. the foregoing amounting to revival of McNamara "eradication of absolute poverty" theme of 1970s (which LTPS rather frankly admits should not have been dropped in 1970s);
- h. in coherence or wage/salary policy. Real wages are confused with unit labour costs so that nagging perception some are too low to be efficient does not get into analysis. Real salaries (in public sector) are often seen as too low. (Part of incoherence is range \$5 to \$150 monthly minimum wage and \$50 to \$4,000 top civil servant wage in SSA - indeed in SADCC Region in which highest are arguably inefficiently and inequitably too high and lowest are economic nonsense because they erode productivity much more than they cut wage bill);
- i. a verbal emphasis on smaller state which really means more selective as LTPS projections call for 100% average real per capita and 50% GDP share increase in average state resource use including infrastructure. (Bank itself does not see this clearly.);
- j. a meretricious love of user charges and fees for their own sake (goes back 25 years not new in SA) with no understanding of Treasury style efficient revenue collection issues and only a theoretical recognition of access problems of poor people. Bank has no conception of real life administration problems under conditions of scarce personnel;
- k. no real export development strategic frame. Restoring old primary exports is a stopgap. Liberalisation alone is historically not the road to manufactured exports breakthrough. Here it does see regionalism as a second best road toward global export breakthroughs. Strategic infrastructure provision, interim breakthrough cost support is not rejected in principle but no work is done to see what it would be in any real case;

- l. a realisation macro financial policy is necessary but not sufficient for real supply enhancement leading to sectoral policies. But also leading to too much top down price theory in sectoral views relative to bottom up real/contextual input. For example, in agriculture, Bank's own data suggest 10% of differences in output growth relate to formal pricing policy, 90% to other (perhaps 30% other policy) but 90% of Bank efforts on prices and half of other 10% on research with no real integration back to market or other policies. In extreme cases, e.g. environment/ecology, totally abstracted sectoral pseudo strategies result if only macro price analysis is used as a base without bottom up work.
- m. a growing weight on sectoral policies as macro balances become less wildly unbalanced or precarious and perspectives turn to the medium and long term (and project or sector finance becomes more important). Whether these do interact with macro - beyond market and charges rhetoric and paste-ons - is uneven; in health and education they rarely do. (Which may explain fierce defence charges that create nightmares not revenue and pseudo privatisation which is so peripheral as to be non-priority. These excrescences - and palpable inefficiencies in attention devoted! - are only links back to macro and to claim to be part of broad scene.)

Neither Bank nor theoretical critics see it this way. Both are more purist and less case by case, objective/operational concrete reality based in their outlook. Presumably SADCC wants to take an operational, pragmatic, contextual nuts and bolts entry point.

What/Which SADCC Role?

SADCC plays different roles:

- a. information (e.g. Regional Econ Survey - which should become yearly with more statistics and each year key policy/strategy documents on 2 or 3 selected topics) provision and forum (e.g. for business persons, on women in development) offering;
- b. special service running (e.g. training centres, SACCAR, some food security projects) in which basic output is knowledge (whether in general or embodied in specialised personnel);

- c. specific cross border operation coordination (e.g. Namibia/Botswana/Angola/Zambia/Zimbabwe border area animal disease control but also Beira Corridor);
- d. broader sectoral coordination (e.g. overall transport to sea, airline routes/schedules, P + T somewhat imperfectly agglomerating to coordinated national to regional Transport/Communications sector strategy-policy-programme main project package.)

The users and active participants are still largely states, less uniformly state (public utility) enterprise, semi-peripherally private enterprises.

Macro policy has had a very macro nature (and not what Bank means by macro strategy/policy in SA!):

- a. survival of economies especially those facing full RSA onslaught;
- b. building along mutual interest lines to strengthen interactions which in sum become macro;
- c. a defence of managed (vs 'free') market policy [not of specific choices within that frame on which rhetorical and - overlapping but not identical - practical divergences are wide];
- d. stress on "basic human needs" which - except for agricultural research/food security/fuelwood areas - doesn't fit directly with actual operational coordination areas;
- e. grim defence of recipient driven even if donor fuelled strategy and policy.

That list has mattered. In respect to "basic human needs" on strategic level (not on concrete) SADCC preceded UNICEF on challenge to "adjustment" by cuts. In respect to recipient leadership SADCC is only recipient run, policy oriented, resource transfer forum. The "bhn", "recipient driven" focuses (and related "market management" one) still matter. But surviving RSA onslaught is falling away and "basic interest accretion" approach (because of initial successes) needs reconsideration. All now need sharper focuses (and new, catchy presentations... Yes, style-tome-timing matter,

they have been key to success of Children On The Front Line which, however indirectly is a SADCC inspired/caused product).

MACRO PROPER

Fiscal Policy - Taxation

SADCC might - if MF's want - provide information, forums. Actual policy coordination doesn't seem an immediate practicability.

Exchange Rate

Eight rates are at levels that are at or below level at which short run devaluation would do little good (Zimbabwe, Lesotho-Swaziland-Namibia, Mozambique, probably Botswana, Malawi, Tanzania. Two are still lunatic asylum rates - Angola and Zambia in rather different contexts).

For the eight, fine tuning does no good. If an export breakthrough is already prepared on other counts a 25% devaluation might then do some good. Until then downward float parallel to excess inflation (with an eye on main regional competitor - i.e. RSA - rate) is appropriate. Whether semi-annual meetings of MF's/Governors to exchange views on managed floats and to strengthen each ones position against doctier "devaluation is good for your soul" (external plus Hawkins crowd) and "devaluation is always wrong" (largely internal) schools would be useful, I do not know. Maybe.

For the two, SADCC really has no expertise on transitions. Maybe Mozambique, Tanzania and Zimbabwe do but whether SADCC could be a convincing channel for such "technical assistance" I do not know.

Inflation

There are three clusters - 15% odd, fairly stable (Zimbabwe, Malawi, Botswana, Namibia, Swaziland and Lesotho); 25% odd fairly stable (Mozambique, Tanzania); high, explosive rises, pseudo remissions (Zambia, Angola). How to get 15% and 25% to under 10% is a serious question but not one I can see SADCC as able to supply much expertise on and the two horror cases relate to exchange rate and horrifying fiscal unbalance cases where obvious analytical points are obvious to Luanda and Lusaka too. May be taken if peace holds in Angola but in Zambia I would expect political

'liberalisation' to worsen inability to act for 18-24 months... or longer. Unless Min Fins of 4 or 5 states request SADCC study and forum I'd advise steering clear - hi-risk nasty failure, lo-chance useful success.

Trade 'Liberalisation'

Yes. Bank wants regional liberalisation as first step to global. It is open to phased 'liberalisation' à la Zimbabwe. A common approach based on discussion, parallel policies nationally, regional umbrella would be useful. As tariff preferences are least of instruments needed and PTA clearing (for its limited range of uses) is as good as SADCC (if Botswana/Angola join PTA) no inherent conflict. Key elements:

- a. cross credit accounts at central Banks;
- b. selective OGL (open general licence) regional member States (could be open to other PTA as - except for Kenya and on narrow range Mauritius - they aren't very relevant);
- c. frame trade targets (initially bilateral or trilateral but negotiated at multi country forum) - value, planned imbalance, probable main types of goods;
- d. closely linked to enterprises interested in buying (as well as selling!) regionally;
- e. with helping build up enterprise forum information flows and trading enterprises (private-mixed-public) oriented to general regional importing/exporting and looking for potential users (imports) and needs (goods-specifications-prices).

(That would lead to some discussion of exchange rates and of relative inflation without risk of failure a direct tackling of those issues would bring.)

If desired I can prepare a more detailed memo/prospectus on this topic (including dusting off regional export working capital fund scheme).

Poverty Reduction

The "production by poor people"/basic services expansion/infrastructure rehabilitation/last resort transfer payment package is now fashionable, has some articulation, bits and pieces in place in most SADCC member States.

An annual 2 week seminar ending in 3 day Ministerial level policy review workshop might be useful-welcome-fundable. Initially best a joint venture SADCC - External Academic Unit - one or more SADCC universities/institutes. After 2 years external unit falls away. (Yes. Subject to contractual details IDS could articulate proposals, help find funds, be 2 year jv partner handing over to SADCC University consortium.)

SECTORAL. MACRO

Back to fall 1986. SADCC's thrust to achieve coordinated regional sectoral strategies with national bases was correct. Unfortunately it has not fully come off. In SATCC it has gone into reverse:

- a. enterprises not properly involved and do not love own Ministries (who are - unevenly - involved in SACC);
- b. secretariat turning into note takers/agenda drafters not strategic conceptual/project cluster input experts.

NB these criticisms are much less true of Telecoms. And there is de facto a coherent national/regional subsectoral strategy and practice with enterprises/ministries working together. And not coincidentally best external funding relative to needs least interference by donors with our policy design, best record service quantity/quality improvement.

Key Sectors

(prog. packages
 For true regional (strategies based on national strategies/programmes the
 key sectors are:

Transport/Communications
 Energy
 Manufacturing
 Mining (on input supply-training-coordination
 of export marketing outside region)

because Agriculture cluster is more about knowledge development and
 exchange than production coordination.

Trade is a somewhat different type of sector referred to under macro above.

These are sectors central to structural transformation (of production/extra
 regional trade) so lead into next phases of Structural Adjustment (where
 Bank is weakest/vaguest). To get to this stage SADCC needs:

- a. clear agreement that is understood by relevant Ministries and units;
- b. better staffed (more relevantly) Manufacturing sector;
- c. revitalised SACC;
- d. more meaningful enterprise inputs of knowledge and at design stage;
- e. broader national component coverage than regional priority project list
 (especially in T and C in which all main ports and railways and trunk
 highways need to be in frame whether or not finance is sought via SADCC
 fora).

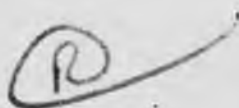
EXTERNAL DEBT

SADCC Ministries of Finance could benefit from a coordinated approach.
 (Not same demands by each country but that fact, i.e. Botswana no call for
 relief; Zimbabwe more grant or very soft in future but no renegotiation
 past; e.g. Angola once for all 'Polish' type past write-off plus new
 serviced semi-soft flows, Mozambique/Tanzania 100% write-off or roll-over
 to long/ultra soft range would add to credibility.)

It would be useful to see whether Ministers of Finance of Zimbabwe and Tanzania agree. If they do they could co-chair/host with SADCC a two week working export group - 3 day Ministerial policy meeting after a 3 to 6 month study by - say - 2 regional + 2 external experts on situations/past policies/present needs. As there is again some movement on SSA debt this may be a good 1991/92 programme.

CONCLUSIONS

1. SADCC needs to look at SA and Macro or Aggregated Sectoral roles.
2. It needs new language/image as well as new topics.
3. Several are set out above. Not all could be pursued in 1991/92 but perhaps Trade (or Debt) plus 2 sectors (T + C | Manufacturing) and/or Poverty could be prioritised.
4. At that stage -
 - a. articulation on that topic
 - b. identification of supporters-knowledge-people-funds needed and possible sources would be needed.
5. Suggest we discuss when I come to see you 24-27 June in Gaborone. Am able to articulate in some areas if you choose them.



RHG
Miscellaneous
Maputo
June 1991