

FROM CRISIS COPING TO GOOD HOUSEKEEPING:

Beyond Structural Adjustment

By Reginald Herbold Green

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And found and lost again,
And now must be sought
In times which do not seem propitious.

- T. S. Eliot

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WHERE NOW?

If structural adjustment as an organising strategy is running out of time, space and payoff - at least in countries which have used it for several years - where next?

Fairly clearly not back to the early 1980s when serious deterioration and the risk of economic free fall were the rule not the exception. Almost equally clearly not to setting up substantive strategic goals (whether poverty reduction, public service recapacitation or women's workload reduction) as Christmas tree decorations on a basically procedural (SAP) trunk in ways limiting coordination with each other with each linked backward to the imbalance reduction core. The post 1985 evolution of SAPs to include a plethora of strategic goals as secondary add-ons to an overriding public expenditure review strategy is increasingly seen as tactically useful but strategically a dead end, both by some of its initial ("Human Face") advocates and by the Bank which in the early 1990s had begun to see it as at least a potential way forward.

The answer may be to keep the main gain of structural adjustment - economic balance reduction to sustainable levels - and turn it into a supporting service (economic good housekeeping) for an integrated strategic goal based approach to the public policy of development planning, articulation and operation/incentivation.

Avoiding unsustainable imbalances - like overall resource (GDP) growth - is ultimately a **means** not a substantive end. Also it is not an area in which big ideas, major concepts, exciting changes are likely to be dominant. Marginal policy shifts to sustain balance and incremental resource reallocations to bolster efficiency are in large part tedious, repetitive, even boring. They are - almost literally - the opposite of the Chinese curse "May you live in interesting times". SAPs - if successful - have banished the interesting times on the catastrophic macro imbalance front; economic good housekeeping's goal is to ensure balance maintenance is a priority but a boring, background one.

FROM CRISIS MANIPULATION TO GOOD HOUSEKEEPING

Structural adjustment's main goals - certainly as initially formulated and arguably throughout - have related to **reduction of fiscal, monetary and external imbalances to sustainable levels and dynamics**. Certainly its main achievements have been on that front (including consequential returns to modest real output, export and fiscal receipts growth) That can fairly - and by no means condescendingly - be characterised as a **return to economic good housekeeping**.

The end of structural adjustment does not imply that good housekeeping is no longer important or that once achieved sustainable imbalance can be expected to be self-sustaining without further effort. Indeed it is often very fragile as the consequences of Ghana's 1992 pre-election fiscal laxity underline. However, it does **imply a shift from manipulating crises to reduce imbalance to managing imbalances - and averting their burgeoning out of control - in order to provide a stable basis for strategic political and socio-economic goal setting and implementation** including adjusting production and distribution structures. Housekeeping is not *per se* an easier exercise but is a rather different one, because more attention to 'fine tuning' is both necessary and plausible than during the crisis manipulation phase. That in turn requires more knowledge and more articulated policies, e.g. if a currency is 500% to 1000% overvalued, initial corrective measures are not hard to identify or to introduce - the difficult issues are of timing. If the currency is +20% to -20% around a sustainable, quasi market validated rate, measures to limit random (but possible self-generating) swings and to allow for shifts validated by inflation or terms of trade/access to investment and transfers shifts are much harder to design, operate and monitor, albeit mistakes are less swiftly and overwhelmingly disastrous so ongoing monitoring can allow time to retrieve mistakes this side of debacle.

The concept of economic good housekeeping implies **firm annual and indicative 2 to 3 year rolling budgets** - capital and recurrent - **and** definitive enough ones to **allow departments to**

organise their year's activities around the annual ones, not be dependent on hand to mouth releases. That may be consistent with strict cash flow budgeting including an initial contingency reserve and building in serious projections of seasonality and of inflation. It is not consistent with literal cash flow budgeting as practised in some SAPs. Nor is it consistent with over dependence on government interest rates as a control device. Real interest rates above 10% on short term government paper if sustained for over three months distort credit allocation, are likely (in the presence of currency convertibility) to lead to overvaluation from footloose financial capital inflows, discourage enterprise productive investment (and bank lending to them), generate cost push inflation and (if treasury bills and notes are a substantial proportion of domestic debt and/or longer term bond rates are floating with the treasury bill rate) substantially worsen budget balance (or imbalance).

Those principles are important to efficient resource utilisation and become dominant as soon as basic imbalances are reduced to manageable proportions. **Economic good housekeeping's business is to maintain balance/manageable imbalance and to do so in good time by means not seriously impairing efficiency of resource use.** Fine tuning is a somewhat misleading description - the allowable and near inevitable margins of error in data, project and results are rather wider than that. But proactive or prophylactic action to avert full scale crises, not late response to them is a clear distinction between *egh* and *sa*.

Because the initial pre-crisis positions were often relatively *ad hoc* good housekeeping and because the overall economic environment in SSA today is less friendly (more hostile) than the 1960s and latter half of the 1970s (in retrospect - those years did not seem a golden age at the time!) better housekeeping is needed than heretofore. The experience - and personnel - gained over a third of a century and the somewhat different exercise of painful balance regaining under structural adjustment may be serviceable in that respect.

BUDGET MANAGEMENT: BALANCE AND EFFICIENT RESOURCE USE

Budget management requires both a clear and certain frame of goals-resources-limits and ongoing monitoring to ensure results approximate projections and, in particular, that massive, macro destabilising imbalances do not arise.

One route to the latter end used under structural adjustment from Ghana in the 1960s through Zambia in the 1990s is "**cash flow budgeting**" - or more accurately **releasing**. Basically it turns on releasing to Ministries and Departments only the cash flow received in the previous month even if this is less than the budget allocation. A modified form releases certain items - especially salaries - automatically, but requires specific approval and release for all others.

There is no doubt that cash flow budgeting can be enforced to keep limits on government cash-overdraft-Treasury bill balances. There are however, problems:

- a. **commitments** may be made and, as a result, **unpayable bills** set aside to be paid whenever surplus releases arrive - a route to massive hidden short term debt as shown in Francophone Africa which has practised a form of cash flow budgeting throughout the 1960-1995 period because both Central Bank borrowing and French Treasury deficit cover were capped. As a result not paying bills (in the poorer states including salaries) was the 'easiest' option whereas in Angolophone Africa recourse to Central Bank finance was standard practice;
- b. **neither cash flow nor expenditure are normally evenly divided by month** and seeking to match the latter's seasonability to the former's is not self-evidently efficient;
- c. **total uncertainty** as to allowable levels of spending **defeats the managerial and resource use efficiency of budgeting** on the spending side - stop and go handling of operational supplies (e.g. drugs, textbooks), of mobility (vehicles, spares, fuel) and of training is very cost and result inefficient.

Six modifications may make a monitored, adjustable budget more user friendly:

- a. **estimating cash flow projections month by month** to adjust for seasonality and inflation (and factoring inflation into expenditure projections as well, e.g. with 25% inflation, second half year indirect taxes and non-wage and interest expenditure will be of the order of 10% to 15% above the first half even if there are no real changes);
- b. **seek cash flow balance** in the sense of a bank borrowing target (which may be negative) **for the year not month by month** implying monthly surpluses and deficits, monitoring steadily to identify (and halt) cumulative divergences;
- c. in the initial budget build in a **reserve** vote (preferably 5% of total recurrent and capital spending) allocable only by supplementary estimates and only for unforeseeable cost overruns (e.g. higher than projected inflation, export price collapse, drought) while **including known future expenditure boosts** (e.g. inflation at project rates, wage and salary increases) in the basic budget or in the case of wage increases in Treasury votes to be allocated to spending units at the time of the pay increases:
- d. do not attempt repetitive, ill-thought out, **temporary revenue boosting measures** during the year because they tend to be inefficient, less revenue generating than hoped and lagged in receipt build-up so do not give much short term macro balance comfort, but do consider

introducing major tax restructurings at - say - mid fiscal year to allow them to run in before the budget year in which the revenue boost is intended to be on stream;

- e. **restore the keeping and monitoring of commitment as well as payment records** so that cumulative obligations as well as sums paid out are known and hidden build-up of an unpaid bill overhang can be identified in time for corrective action;
- f. **monitor cumulative cash flow receipts and expenditures and fiscal year commitments and receipts** (i.e. like with like) taking full account of projected seasonality/inflation creep.

All of these steps are possible - indeed most have at times been practised. If done, the macro surprise avoidance purposes of cash flow budgeting can be achieved better (as bills are monitored too) and improved efficiency of resource use secured by allowing rational expenditure timing within budget limits. Zambia's cumulative, semi flexible monthly cash flow budgeting appears to be tending in that direction, but on an *ad hoc* rather than an explicit seasonality and inflation adjustment basis.

The degree to which seasonality and inflation plus collection pipeline time affect revenue is surprising. In Tanzania, normal collections on account of the current fiscal year over the first six months are unlikely to exceed 35% to 37½% of budget assuming an inflation rate of 20% to 25% and output growth of 4%. This results from the inflation impact, the lag of running in new tax measures, the skew in direct tax due dates (even with substantial pay-as-you-earn on business as well as wage income tax) and the pipeline effect that taxes due during one month are brought to book in the next (e.g. single point sales tax for June is payable by the middle of July).

Unfortunately this very clear pattern - despite advice dating back to the early 1970s - has not resulted in a systematic monthly budgeting projection system, only in *ad hoc* calculations each January when the half year revenue figures are below half of the budgeted amount causing initial panic.

Seasonal expenditure swings - especially on a fiscal year cash flow basis - are just as wide. They are affected by the same inflation and pipeline effects - non-wage bills relating to one month's commitments are in practice presented and paid 30 to 60 days later. Further, despite efforts to limit lags, these do exist on starting new fiscal year activity at the onset of the year and in clearing up delayed payments at the end, spilling over into payments chargeable to the past fiscal year in the first two months of the new.

Finally, utter chaos results if revenue attributable to the current year (excluding receipts in respect to the closed year) is compared to cash flow payments for both the closed fiscal year

and the current one. In that case first month revenue is likely to be under 5% of budget and the expenditure 7½% to 10% (depending on how high a pipeline of closed year bills were paid at the last possible moment). Oddly, Exchequer Returns usually do distinguish total cash flow in respect to past and current years; it is the analysis which causes confusion.

The "reserve" vote or votes issue is a contentious one, albeit the decline in that device's use in cases in which it was once prominent - e.g. Tanzania - owes more to fiscal *force majeure* than debate on principles. Individually unprojectable costs - e.g. droughts, floods, export price falls, devaluation linked cost increases - are relatively certain; windfall revenue gains - e.g. above targeted profits or wages or spending feeding through to taxes - much less so. The two ways to manage that reality are to estimate revenue cautiously (e.g. take 3% to 5% safety margin away from inflation adjusted projections), to put in a 5% reserve (contingencies) vote in Treasury estimates or blend the two.

The reserve route is the most transparent one but does, perhaps, lead users to believe errors in projection (including deliberate ones) as well as true contingencies will be accommodated. The hidden reserve by adjusting revenue projections does not encourage belief a "jam jar" exists, but only because it is not transparent. The mixed method - practised in Tanzania over 1970-79 - is workable, but if historic memory weakens may be dropped by accident. In low inflation (under 10%) contexts, simply not adjusting revenue projections for inflation would produce results similar to the mixed method. With higher inflation, the error in the basic estimate is too large to manage - e.g. with 50% inflation projected indirect revenue 'gain' of 5% is in fact a 30% fall, much too cautious a projection if the plausible inflation adjusted figure would be plus 57.5% (i.e. 5% real growth).

Better data, delivered on time and better monitored and analysed can allow macro borrowing management and efficient use of budgeted resources. Getting them is possible and not very complex. The analysis requires contextual (including historic knowledge) but not sophisticated techniques. The recording forwarding and prompt study are routine albeit time consuming but the first two at least are needed in any event for accountability and audit purposes.

Revenue rehabilitation and development is normally a requirement inherited from SAPs because the fiscal balance they have restored is defective - or at any rate transitory - on five counts:

1. expenditure - especially on basic services - is unduly constrained;
2. domestic proportion of capital budgets is too low to maintain adequate control over their makeup, management or scale;

3. key recurrent budget sectors are too heavily dependent on external grant and soft loan finance;
4. revenue collection is inefficient for reasons related to impropriety, inconsistency, rate-procedure-tax instrument patterns and inadequate pay of personnel to require and to enforce probity and productivity;
5. too many tax concessions are made (even excluding corrupt ones) with little analysis and less accountability or transparency as to costs or benefits.

Assuming a certain short term sustainability and operationality, these weaknesses do not require (and cannot be solved by) crisis management. A five year programme of sustained housekeeping improvement is more likely to be successful and sustainable.

The expenditure issues are considered in a subsequent section. Their implication on the revenue side is that domestic collections need to rise more rapidly than GDP both to increase necessary spending and to reduce at least the share of dependence on external finance.

A typical SSA state should, with a bearable tax burden and a well designed system be able to collect 20% to 25% of total Gross Domestic Product (30% to 35% of monetised product). Several did have ratios at or near that level in the late 1960s and 1970s. During pre and initial SAP crises collections fell - often to barely over 10% and in the extreme cases of Ghana and Somalia about 5% of GDP. Today 12% to 18% appears to be the common range. There is good reason to suppose restoration of collection efficiency could raise that range to 16% to 24% with no new taxes or higher average rates (albeit probably with tax and rate restructuring for collection friendliness/avoidance unfriendliness).

How and how fast is a contextual issue. For example, duplicative taxes (Tanzania has at times had up to four uncoordinated income, five road use, and four *de facto* sales taxes operating in parallel) and minor ones requiring high personnel and costs to collections rates should be scrapped to concentrate resources on main, low cost/revenue ratio sources. Specific rates should be converted to *ad valorem* or annual price index linked adjustment built into the tax legislation. Rates so high as to guarantee evasion should be lowered and very low ones (e.g. Ghana's on alcohol and tobacco) raised. Problems caused by cross-border differentials leading to smuggling (and often return flows of supposedly "bonded" exports to the source state, e.g. Kenyan beer in the Tanzania and Ugandan border areas) should be addressed by inter-Treasury discussions. For example, tobacco tax in several Southern African countries is about 35% of total retail price with each believing 40% to 60% would be desirable, but fearing smuggling would make national efforts counterproductive. The results

of discussions are more problematic in respect to states for whom low tax 'informal' entrepot trade to high tax neighbours - e.g. Gambia, Togo - is a key sector of the economy.

Collections may or may not be improved by restructuring taxes. Radical changes in instruments usually result in an initial loss. One key exception - very notable in Ghana - is conversion of inflation eroded specific rates to rational *ad valorem* ones. Tax simplification - one basic income/company tax; one customs tariff; one basic inclusive indirect tax on imports and local production (with not over three basic rates other than exempt) and a coherent set of road user taxes (including fuel and vehicle sales taxes plus licenses including wear and tear related scales for heavy vehicles) are the logical core. Other taxes may be mildly useful (e.g. inheritance taxes), accompany licenses needed for recording/regulating purposes, augment a basic tax (e.g. electricity, water, telecommunications taxes which extend indirect taxes of goods or withholding taxes on payments of income to external legal persons which broaden income tax). But in revenue terms they are likely to be - at best - useful but marginal and care is needed to avoid low yield, high collection cost ratios which are costly diversions of energy (e.g. most stamp duties on receipts or entertainment ticket taxes).

Collector friendliness, low cost of collection ratio, substantial receipts with buoyancy (likely to rise faster than GDP) and **absence of gross enterprise hampering market distortions are the key criteria not technical sophistication nor theoretical fiscal optimality**. These criteria are highly context specific and 'expert' advice based on a misunderstanding of the initial position can cripple reality.

In Somalia, for example, the pre-SAP fiscal/import situation was one in which most dutiable imports were financed by purchase abroad of Somalian worker/business remittances and paid customs at 15% to 25% on a value agreed by importer and customs officer after debate - a system known as franco voluta which was centuries old but modernised by Russian advisers to provide a *de facto* free currency market, adequate consumer imports with no call on official forex flows and a revenue stream in excess of 5% of GDP. The Fund/Bank assumed that the archaic (1930s Italian) tariff code and rigid pre-import licensing system (tied to use of official forex) were general and required they be made so. To declare goods with no forex (or import) licence was to have them confiscated. So instead of franco voluta to the state, traders paid lesser sums to tax officers to turn a blind eye with customs revenues falling four-fifths.

More generally, a mistaken urge for uniform modernity has led to a wave of remarkably inappropriate VAT proposals. As no retail/sub-wholesale level tax in SSA is likely to be collection efficient or over 30% to 60% collectable (South Africa's is 60% collected according to assessment studies, Zimbabwe's probably under 50% at retail level. Except for Mauritius, Seychelles or Cape Verde collection rates elsewhere - if attempted - would probably be substantially lower). Further, VAT's simplicity is in its logic not in actual recording and

checking which is, in fact, complex. Further, because a multi rate VAT is unmanageable, separate amenity/luxury indirect taxes (e.g. alcohol, tobacco, fuel, consumer durable and vehicles, perfume) are needed increasing administrative costs and complexity. A single point of entry or manufacture sales tax with four basic rates (0 - 20% - 30% - 50% say) plus a handful of special ones (on alcohol, tobacco, and perhaps, perfume/cosmetics-gasoline-consumer luxury hard goods) is much simpler to run because the ratio of importers plus manufacturers to total traders through retail is about 1 to 100. Perfectly handleable administrative arrangements can avoid double taxing of goods which are both final products and inputs where this would significantly distort markets (e.g. textiles) while an importer/producer level rate of twice the intended retail level of tax will (in most countries) come out about right. True such a tax can be called modified VAT (as the IMF/Bank seem to have agreed in some SSA cases) but to start with an impracticable approach and modify back to a well known (at least in several countries) one seems somewhat circular.

Administrative structures - like tax instruments - need reforming but the bottom line problems are rarely administrative status or institutional pattern based. Certainly more modern specialised techniques and less antique data processing, office equipment and filing/data basing can help. The bottom line issues however are the interlocked trio of **probity-pay and complementary resources** plus - recent service history.

If dishonesty exists at the top (political and/or official) nothing will do much good until the clearly guilty are purged and those who were either guilty, wilfully blind or grossly naive are moved to less sensitive branches of the public service. A corrupt top cannot discipline others and, indeed, usually encourages petty corruption to win supporters. Lower level corruption is largely a result of inadequate pay - a tax officer or tax constable paid \$35 a month when the household absolute poverty line is \$75 a month is certain to secure side income and almost certain to secure it for not collecting or under-collecting taxes. No cure is possible without restoring pay to a range of \$50 to \$500 moving toward \$100 to \$1,000 a month (in the \$75 bpl case, higher *pari passu* in higher cost of living countries). Similarly, pay without computers, word processors, telephones, data banks, procedural guides and transport will have limited impact. Recent history dictates how much more is needed. If petty and high level corruption have become a seamless whole, then a purge of the worst/most documentable offenders will be needed. If many middle level officers were basically honest and high level corruption more recent or less generalised, a full purge may not be necessary. If training has been cut out by financial stress mass retraining will be needed, etc.

The common SAP themes of autonomy and depoliticisation are at best rather misleading albeit their conclusion that an administratively separate tax service with a special review and monitoring board is appropriate may in some cases be valid. **Taxation is ultimately a policy**

decision - it cannot and should not be depoliticised. Collection management should be a professional area not subject to random/amateur political interference but its broad guidelines are as much political level decisions as those for agricultural extension or education curriculum or balance among different levels of health services. Any public servant should be seen as a professional or para-professional carrying out political (i.e. public policy) strategies within set structures, but within those on the basis of judgement and technical efficiency. In that sense tax collectors are no different than teachers.

A separate tax service with a Director of Revenue (or a Deputy Secretary for Revenue) operating within an autonomous department framework is inherently neither better nor worse than a tax service within an omnibus public service as one of four to six major departments of a Ministry of Finance (Revenue, Expenditure, Policy and Research, Accountant General, External Finance, Administration and Personnel). Nor is a separate advisory and review committee uniquely appropriate (or inappropriate if it deadlocks with Finance on policy or mixed policy/procedural issues) than for basic health services or agricultural extension. What is true is that **higher pay for tax officers alone is easier to handle in an autonomous department** structure as is setting more adequate levels of supporting resources (e.g. vehicles, data processors, forms) e.g. by using a budget guideline of 5% of targeted revenue. That, however, is as a means to probity/productivity/pay solutions not to depoliticised tax policy let alone a structure run by expatriates (at up to 300 times the proposed cost per officer) on the basis they have either unique honesty, local knowledge or relevant technical competence (all of which are demonstrably untrue in some and the latter two in most cases).

EXPENDITURE FOR WHAT? WHEN?

Expenditure Restructuring, Renovation and/or Reduction is an inevitable good housekeeping category. Revenue recovery and buoyancy can certainly underpin present spending. If it is to be adequate to make restoring efficiency wage levels and moving basic services (primary health services and education, water, extension, access to physical infrastructure, police and magistracy) toward universal coverage then austerity - avoidance of waste and of low priority, even if honest, efficient and desirable, spending is needed too. To be able to say "Yes" to structurally adjusting spending to priority areas a Treasury must behave as a "deadly no man" on non-priority items and inefficient methods.

The World Bank's *Sustainable Development Report* sets expenditure targets which imply that by 2005 SSA as a whole **should be spending 35% of GDP** on government account (or government plus non-profit social sector in the cases of health and education), nearly a third on health and education; about the same on infrastructure (including maintenance); a sixth on

water, extension, research and a quarter on debt service-defence, law and order plus general administration. That is a capital plus recurrent and central plus regional plus local government total which compares to **present typical 15% to 25% ratios** and to projectable tax collections of 20% to 25% of GDP. If the tax collection ratios are attainable and external finance - especially for infrastructure and excluding expatriate salaries and emergency relief - can be held at 10% to 15% of GDP, the target is just attainable in most states though perhaps not in the lowest income ones since cost of basic services per person does not fall directly with lower GDP so up to 50% government spending to GDP targets are implied.

Expenditure **restructuring** needs to include three **cost raising elements**:

1. phased (10 to 20 years in most cases) movement to universal access to basic services;
2. restoration of living (efficiency) wages for public servants linked to restoration of productivity and professionalism standards;
3. rebalancing to provide adequate training, operating supplies, data and communications systems and mobility for staff to be productive and adequate maintenance for infrastructure to remain operational.

The extent to which enhanced revenue collection and overall economic growth's tax dividend can fund these is a factual not a theoretical one with answers varying by time and place. But initially, especially in very low (under \$400 per capita) GDP countries, it is unlikely revenue boosting (domestic or foreign) can carry the whole load.

That creates the case for seeking items to **reallocate away from**:

1. defence aspect of security (police are almost uniformly both too few and too poorly funded);
2. debt service (domestic and foreign);
3. surplus public servants;
4. higher level services (e.g. secondary and tertiary education and medical care);
5. excessive administration;
6. shifting the cost to other entities;
7. waste.

Defence spending can be cut to - say - 5% of budgets if external security is a reality, police forces are large and professional enough to maintain law and order, the government is confident of its own legitimacy in the eyes of its citizens. In the absence of the first condition a 10% ceiling may be achievable (e.g. Tanzania which has seen one or more massive western neighbour insecurities it needed to halt at the border - as it has done - in each and every year of independence) and in the absence of the third it is quite unclear what real leverage a Treasury (or, realistically, a donor) has. The second creates a case for priority to recruitment and training of civil police (and seeking external finance for training, equipment, buildings). Reallocation gains can be substantial - 10% of GDP in Ethiopia between 1991 and 1994 - albeit in most cases training and other economic reintegration costs for discharged personnel will erode net early year payoff since men who earned their income with guns publicly are all too likely to do so privately if no other option is provided. (Even neo-liberals rarely advocate privatising gunmen in general albeit they do advocate private police forces for high quality property or person protection.)

Debt service - domestic as well as external - is too high to achieve and maintain sustainable budget balance in many SSA economies. In respect to external debt write-offs and write-downs are needed as discussed in the next section. In respect to domestic debt the key problem for countries maintaining high (over 5%) real interest rate policies is regaining less implausible means of managing macro supply/demand imbalance and/or expectations leading to inflation so that the real interest rate on government paper declines to the 1% to 3% range. In countries with very high (e.g. over 50% real in several cases) short term paper rates and substantial short term paper outstanding, the gains could be up to 5% of budget and rather more if the high rates have spread to the longer term securities. The high nominal interest burden paralleling high inflation is likely to be paralleled by high growth rates of nominal revenue so poses less of a real fiscal problem (or opportunity) - the basic reasons for driving inflation to single digit levels are not fiscal.

Surplus public servants are not a significant source of net savings - as evidenced by the structural adjustment programmes which have concentrated on 'redeploying' them into informal sector low productivity employment. As a matter of good housekeeping needed levels by category should be derived and projected and non-recruitment in overstaffed ones plus retirement, departure, death and retraining to fill vacancies used to erode overstaffing. If there are 10% surplus personnel then, if overall departure is 4% a year and some retraining is possible, over 5 years the problem can be eliminated at lower political, social and decision-taking cost than that of massive retrenchments. Once this is done a tight hiring policy is needed to prevent recidivist overstaffing re-emerging.

Inadequately trained personnel in needed posts may well be 20% or above in many countries. Good housekeeping requires a phased training programme reducing this level to under 5% over 5 (or at most 10) years but that - like the need to increase numbers of teachers, nurses, medical technicians and assistants, maintenance foremen and artisans, tax officers, constables and magistrates, extension and applied research personnel (especially but not only in agriculture) - costs rather than saves money.

Higher level services may well usually be too large relative to primary in SSA. Unfortunately this is rarely because they are overextended or over-funded. In very few countries are central, let alone district hospitals, over-staffed or over-supplied and in a minority are there enough such hospitals (and beds). In these cases rebalancing means prioritising primary sector units in respect to additional resources not reducing secondary and tertiary unit resource allocations (except to the extent fees can reduce government costs without serious damage to access). No rational observer/analyst supposes Maputo or Dar es Salaam Central Hospitals or Eduardo Mondlane or Dar es Salaam Universities are over-funded - cuts have gone beyond the point at which by damaging productivity efficiency they raise the unit cost of services, at least taking quality into account.

Excessive administration is a slippery concept. African rural and urban administration is - in most cases - understaffed. Half of the problem of regulatory bodies is inadequate staff to do the job assigned so that streamlined, one stop shop regulation would indeed increase efficiency by reducing workload to what existing levels could do. The real surpluses are usually in messengers, cleaners, drivers and junior clerks, not administrators.

Shifting costs is attractive but some of the propositions made appear to be daydreams which, if seriously attempted, would become nightmares. To say the public service paybill could be cut by excluding primary teachers is true, but begs the question who is to pay them since presumably the proponents (usually external technical assistance personnel) do not advocate abandoning primary education. If the answer to "who" is local government, either central to local salary transfers or transfer of existing taxes will be necessary - having new parallel local indirect and/or nuisance taxes to finance teachers' salaries can hardly be viewed as payer or user friendly. If the answer is "communities" it is unclear how household budgets unable to pay higher indirect taxes can make major cash contributions. It is not irrelevant that the most successful broad front domestic social sector (primarily church but sometimes mosque related) health services in Namibia, Ghana and Tanzania are joint ventures with state salary payment transfers for domestic staff a vital complement of user, community and external funding, i.e. they raise service provision at lower incremental cost to the central budget rather than reducing the health vote absolutely. If the answer is "users and their parents" then a nakedly elitist system with access to decent quality services only for the top 10% of urban and 5% of

rural households is being proposed. Normative issues aside, Asian "success stories" do not suggest narrow access health and education to be the highroad to rapid sustainable growth - very much *au contraire*.

Waste reduction is a fine thing - nobody supports waste. Equally, waste (even if by simple accretion or by changing circumstances including cost reduction opportunities) is omnipresent. But in SSA today it is neither likely to exceed 5% in functioning states nor to be in largely, readily identified, easily removed chunks. Ongoing case by case reviews on a 5 year rolling basis (the old Organisation and Methods unit approach) can be a part of good housekeeping yielding a 0.5% a year saving, and preventing accretion of new wastes. Better procurement price negotiation (e.g. easy pre-qualification, open tender plus negotiation post tender) might yield higher gains with adequate data bases, staff training in business negotiation and credible auditing or other accountability testing.

Waste beyond 5% is either a feature of non-functional states which deliver so little almost all spending can be termed wasteful - e.g. Sierra Leone, Zaire - or a convenient code word for corruption, hidden expenditure, military spending or programmes the critic sees as low or negative priority. A borderline case is payment to "ghost" (departed from the public service at any rate) employees which is waste in not correcting payrolls and fraud in collecting salaries which in peak cases - e.g. Ghana - may have accounted for 15% of nominal public servants and 8% to 10% of payrolls (3% to 5% of recurrent budget); evidently an early target for cutting out and an ongoing one to prevent birth of new ghost communities.

Corruption is waste but its cure lies in macro political or sectoral political change and/or in paying public servants enough to be honest (and in donors and international agencies being less willing to allow their contractors, consultants and employees to be charged with corrupting when clear cut, triable cases arise). **Hidden expenditure is inherently unaccountable** and not subject to realistic auditing or analysis. It is common as a means to disguising security spending (e.g. Zambia, Zimbabwe) or carrying out public policy goals personally chosen and crafted by the head of state (e.g. Uganda). The correct complaint is not "wasteful" but "not transparent, not accountable" which is a different matter.

Programmes seen as **low** (e.g. generalist information provision) or **negative** (e.g. detailed exchange control and/or import licensing) **payoff** should be criticised as should ones viewed as unsoundly structured (much generalist tourism promotion). But the issue is not primarily waste in doing something but rather either arguing that it should not be done or, if done, should be carried on quite differently.

One special problem arises - any expenditure which was (or appeared to be) prudent *ex ante* is in one sense waste if the **contingency** against which it guards does not arise. This is in a real

sense analogous to insurance (which governments, probably unwisely in respect to catastrophic and/or excess of loss cover, rarely carry in respect to insurable risks). For example, extra analysis to avoid errors or identify side effects cost time and money - in one sense wastefully in cases when the additional work confirms the earlier. Early warning systems, pre-positioned grain reserves, standby response systems all 'waste' money and staff in non-drought years. But that is the wrong test - as it is with an **insurance** for an individual. The question is costs and savings over a run of years - in the drought case made more complicated by the fact that \$1,000,000 may buy/distribute 4,000 tonnes of grain may save 25,000 lives but most people (and accountable politicians) would value 25,000 lives at more than \$1,000,000. That does not validate any and all precautionary expenditure but does test it on a multi case cost/gain basis - as one might do when evaluating insurance.

Fees are perhaps better seen as a branch of cost reduction (reallocation from Treasury to users) than of revenue raising. In principle there is no reason to oppose or to favour them as an alternative to other methods of cost cutting or revenue raising. Practically several points arise:

1. if they are paid in resources usable by the service and having a lower opportunity cost to the payer than the cash equivalent to the Treasury, a gain to users/tax payers results;
2. as it does if - because charges are seen to improve service quality - fees are relatively more willingly paid than higher taxes;
3. and if the fees in a decentralised structure (needed for 1 and 2 to operate) increase service provider direct accountability to users thus complementing Treasury controls;
4. but, unless block community or user group payments are negotiated, the collection cost/gross revenue ratio of myriad small user fees can easily run to 50% versus the 5% ceiling acceptable for indirect and 5% to 10% for direct taxes;
5. and at primary health or education level user fees worth collecting are likely in practice to exclude 50% or more of all people while safety net exemptions (unless operated *ad hoc* at primary unit level) are impossible for administrative (and cost) reasons;
6. although at higher service tier levels (e.g. reference hospitals/universities/piped water connections to a building) fees can be more cost efficient to collect (because there are lesser numbers at higher unit values);
7. but health economic logic calls for a quasi insurance (annual fees paid by the community not individual point of use ones) approach while post-primary education (because the

payoff is in future income) should logically be loan repayment (not cash at time of use) financed;

8. however, water (because of high actual cash or time costs of present alternatives to public systems) can much more easily be run on a quasi corporate, business basis subject to state provision of capital costs (especially in rural areas) at less than full recovery rates and also provision of some low income facility (standpipe, rural well costs) to complement individual piped building and neighbourhood/village user committee charges.

The above considerations imply fees and charges plus linked decentralisation and user accountability are potentially useful marginal shifts requiring detached local knowledge and design to get right. That is they are highly appropriate to ongoing good economic housekeeping and were totally inappropriate for major reduction of imbalance crisis containment under structural adjustment.

Reallocation of external resource inflows is an area relatively less canvassed. However, verbally and in some instances in practice, there has been a shift in balance from large scale, capital intensive fixed investment projects to selected, often basic level service provision or infrastructural maintenance recurrent programmes. However, as *Toward Sustainable Growth* analysis suggests government fixed investment (which in this model is almost entirely infrastructure and services) needs to be 12.5% to 15% of GDP and present levels tend to cluster in the 7.5% to 10% range there does not seem to be much more reallocation mileage on that front.

The largest potential lies in **technical assistance and expatriate salaries** imbedded in capital projects. Expatriate wages and related costs are frequently up to 40% of bilateral and a third of total gross transfers; double their early 1970s level. Given worsening economic performance and rising numbers of qualified African personnel, this record hardly looks to be one of efficient resource allocation. Up to half of expatriate personnel (whose all-in cost is probably about \$150,000 a person year) replace or augment citizen staff driven out of post or working ineffectively because of low pay levels who could be held or enabled/incentivated to be productive again at an average cost of perhaps \$5,000 per person year. Another quarter provide advice to senior personnel who cannot use it (and could often get comparable advice from their own personnel) either because middle level cadres are debilitated by low pay or the short term consultants have so little contextual background their proposals are either inappropriate or require massive investigation and adaptation before implementation.

Perhaps a quarter of technical assistance is indeed crucial - genuine gap filling usually for new tasks, advisory work within basically African teams, consultancy on highly specialised topics to personnel who can understand and adapt it contextually. However, that implies sensible

prioritisation (good housekeeping) would **reallocate a substantial portion of present expatriate salary to paying and training domestic personnel plus reinstating productivity setting and monitoring procedures**. As the total from which the reallocations should be made is frequently larger than total domestic service emoluments (up to seven times as large in Mozambique as of 1994/95) the potential is significant.

The problem facing Treasuries in this area has three fronts. Domestically ta (including external NGO staff support) is often seen as a free good not as an alternative to programme and project assistance within country transfer ceilings. Externally ta is genuinely seen as part of the answer to and rarely (by starving budget support) as part of the problem of African public service decapacitation. Interestingly senior Bank personnel are among those who now accept that such **personnel provision frequently does decapacitate** especially when the expatriates are *de facto* accountable only to funding donors (or themselves). Procedurally ta is rarely negotiated within an **overall envelope approach** which begins with a total transfer sum and allocates to projects, programmes, import/budget support and ta on the basis of negotiated priorities - e.g. in a Consultative Group process - rather than handling ta separately under a different (UNDP) coordinating body in a way which means the ta/other transfers decision is made before and outside of the allocational process.

The very substantial nature of the transfers (over \$300 million a year in Mozambique and nearly as much in Tanzania) mean this is a - perhaps the - **key area for reallocation**. Changes require careful initial strategic planning and tedious case by case articulation and debate over several years will be needed to secure and sustain results. But that is one of the features of economic (as of other) good housekeeping - the process is repetitive and the individual tasks often boring with limited individual payoff but the cumulative gains over time (or the costs of not carrying it out) can be substantial.

REVENUE RAISING: IMPROVING INTAKES AND PIPES

Revenue rehabilitation in SSA is a priority - radical restructuring of tax systems, draconic rate rises and ingenious multiplication of numbers of taxes are usually either second best to or attention diverting from more sustained, less dramatic, cumulative measures.

The number of cases in which a **one-third increase in collections relative to GDP** is not attainable at present rates, with minor modifications to rates (especially scrapping or indexing specific ones) and with a reduction in number of taxes to reallocate personnel to the main revenue producers and to reduce user/payer unfriendly overlap plus a reduction of both officially promulgated and occult tax give-aways, is probably very low.

A one-third increase in revenue is strategic, but the primary means to achieving it are frequently - perhaps usually - in the good housekeeping category unless the state is in the hands of systemic corruption from the top down. In respect to such cases the only possible verdict is that economic good housekeeping is not possible if the central state macroeconomic institutions are systemically corrupt and almost impossible if they are unable to defend themselves from frequent, large scale political interventions which are corrupt in nature.

The main pillars of increasing collections are:

1. concentrating on **key taxes** and **main payers**. That would usually include one broad base (import and domestic) indirect tax with a related excise cluster if the general tax is single rate; one integrated income and company tax, a coherent road use tax/charge cluster (e.g. indirect tax on fuel and vehicles and licence fees scaled to road wear and tear imposed by vehicle weight), import duties and - in the case of mineral and hydrocarbon exporters - royalty and excess profit (above a cumulated target return on investment tax). It would also imply limiting number of collection points - e.g. avoiding retail level sales taxes (or VAT), using pay-as-you-earn employer deductions on personal income tax, avoiding tiny nuisance taxes (and fees);
2. **securing, training, retraining, paying** adequate numbers of staff to carry out identification, assessment, collection, prevention and punitive (prosecution and/or 'agreed' penalisation of non-payment) operations. Untrained or too few personnel cannot do their job; those paid below a \$50 to \$500 a month range are unlikely to do so and very likely to collect privatised 'user fees' for non-performance (i.e. take bribes);
3. operate efficient **mechanisms** and structures; supported by appropriate **tax codes**; and provided with adequate **transport, communications** and **data processing** facilities;
4. taking a pragmatic view of **quasi autonomous tax collection agencies** (presumably meaning self-accounting and managing as fiscal policy can hardly be delegated to a truly autonomous body not headed by accountable political decision takers). If overall civil service pay, productivity, procedural reform is likely to be a lengthy process and is constrained by poor revenue collection, then a quasi autonomous department is arguably a useful initiative to spark and pay for the reform process more generally;
5. requiring all **tax concessions** (whether statutory or discretionary) to be published in an official gazette and to be based on statutory provisions which give guidelines for authorising special rates or waivers. Preferably double entry bookkeeping should be practised showing standard rate tax on the revenue and tax concessions on the expenditure

side. The need is **not to get political decisions out but to get transparency and accountability in.**

This is in a sense a boring agenda. But it is practicable - magic bullet quick cures have a tendency not to be. This is especially true because major alterations of basic taxes, e.g. VAT plus excise replacing Single Point (Import/Manufacture Sales Tax) have high initial disruption costs and significant learning curve costs. The one semi-unusual approach which may yield a quick (but once for all) revenue boost is shifting non-wage income and company tax to a quarterly pay-as-you-earn basis based on estimates or previous year's income (whichever is higher). The problem in this case is transitional provisions as actually collecting two years tax in one fiscal year would have serious negative consequences, so that phasing in over at least two years is necessary.

MONETARY AND EXCHANGE RATE POLICY

Under economic good housekeeping **relative stability of both real and nominal interest and exchange rates** with limited market nudging (not blocking) intervention are operational objectives. They necessarily involve a goal of relative price stability. It is perfectly valid to indicate that exogenous events - e.g. drought, terms of trade (on either export or import price side), major trading partner inflation and/or interest rates - limit the ability of any Ministry of Finance/Central Bank partnership to achieve these goals. But that is no case for not setting and keeping the domestic side in order:

- a. broadly **balancing recurrent revenue** (perhaps including a limited proportion of grant aid) **and expenditure except** in cases of genuine exogenously caused emergencies (e.g. drought relief);
- b. **limiting borrowing from the banking system and from short term instruments more generally** and primarily borrowing long for long term infrastructural (or perhaps directly productive joint venture) investment which can **validate and thus pull in enterprise and household investment**;
- c. **avoid radical, rapid, erratic and random changes in the framework of laws** (including taxes) affecting enterprise and household economic activities;
- d. adopting a **pragmatic approach to market smoothing interventions** (e.g. buyers and sellers of last resort to protect small farmers in peak and consumers in trough output years) but avoiding permanent market blocking measures. The last may be subject to a caveat if external market blocking (e.g. EU sugar and beef dumping) prejudices a market

productive sector but rarely on the (usually valid) ground the producers of a cost inefficient product could not - over time, with assistance - shift output.

Assuming relatively manageable opening imbalances - i.e. a moderately successful past SAP experience - none of the goals is unattainable nor requires massive investment of personnel or analytical and decision taking capacity.

Real interest rates on high quality enterprise overdrafts/advances should normally be in the -2% to +5% range. Outside that range, misallocation is likely and in particular extended periods of high rates deter enterprise long term investment. To achieve this goal requires avoiding the 'need' to use sky high real interest rates on short term government paper frequently or for more than - say - 90 days. To do so tends to suck in footloose financial capital thus overvaluing the exchange rate and to deter long term investment (unless banks are very heavily leaned on to provide lower interest finance to enterprises which runs a high risk of "round tripping"). Conceivably such interest rate policies can mop up pools of excess liquidity - misused to absorb flows (as in Chile-Argentina-Uruguay in the early 1980s and Mexico in 1994) they fail to halt the flows and greatly worsen the underlying imbalances before collapsing. Their advocacy in SSA by the IMF is clearly - with very rare exceptions - totally unsound, not least on the basis of the Polak macro monetary model supposedly informing IMF analysis and strategy.

Real exchange rates - once in a sustainable range - should alter slowly except in response to permanent negative economic shifts (e.g. a discovery that the main export is carcinogenic). This does imply that nominal rates will need to rise or fall to the extent domestic inflation exceeds or is lower than that of major trading partners and closely linked economies.

Both as to **interest and exchange rates there is no way in which Treasuries/Central Banks can (or should) be neutral**. First - especially but not only in SSA - they are major actors. To pretend otherwise leads to inadequate analysis of the macro consequences of particular market actions with unanticipated costs likely to be severe. Further, it directs debate on errors into counterproductive channels.

For example, in Ghana a public enterprise invested perhaps \$200 million into pre-paying imports and into a long payoff, high risk investment programme financing it with short term central bank drawings. The impact was to breach an IMF trigger clause. The resultant debate has been largely on propriety - of the programme and/or corruption. In fact the financing issues turn on appropriateness. Short term finance for long payoff investment (especially if external) is so risky as to be inappropriate in virtually all cases while shifting payment for imports from post sale (*de facto*) external finance of inventories to pre-sale (domestic finance) on a large scale is likely to worsen the apparent external position and trigger negative

expectations. Large high risk investments should if possible be structured so initial risk falls primarily on an external enterprise partner (or its Treasury in respect to loss write-offs). These issues are largely Treasury/Central Bank ones albeit the risk/partner ones should have been more evident to the enterprise than seems to have been the case. **Diatribes after the event** about propriety and corruption (neither self-evidently relevant) are a **poor substitute** for prior evaluation of monetary and external balance stability impact - within a general framework of **guidelines - before the event**.

Second, **markets are not perfect and tend to overreact**. Smoothing markets (not blocking them) and encouraging rational enterprise actions (not forcing them) are proper state functions. The problem is that African states have limited instruments (reserves, interest rates, open market - if any - operations, control over repatriation of export proceeds/timing of expatriation of import payments, capital account exchange controls). Luckily most African finance and forex markets are fairly small and unsophisticated so these instruments can - if used to nudge, not block, have some impact. Abandoning any prematurely is a mistake - e.g. Namibia's and Botswana's capital account exchange controls by existing, even if in practice neither tightly applied nor truly enforceable, seem to create an environment in which marginal to moderate differentials of interest rates from South Africa are possible.

Enterprise investment in SSA remains low in several polities/economies in which rational expectations of opportunities and policies would seem to indicate it should be higher. Unfortunately low investment (and its frequent counterpart low savings for own investment by enterprises and households) is self validating - by lowering household and supplier incomes it lowers growth of demand and of the economy thus worsening the apparent investment opportunity climate. Ghana and Zimbabwe are both examples which have endured for a decade.

Clearly **state action to improve investor animal spirits is needed**. The problem is what specific actions are possible and prudent. Business rhetoric is not *per se* a good guide - individual businesses want all controls and all market price affecting measures scrapped, **except** the ones benefiting them, so a bonfire of the interventions (as in Zimbabwe over 1990-91) can worsen their animal spirits radically. Similarly, rapid, unphased import liberalisation without targeted measures to help potentially viable, but past economic context weakened, firms to meet competition can kill rather than foster manufacturing sector confidence - e.g. post 1987 Ghana.

How to remove counterproductive regulations (dating to the illegal Smith regime in Zimbabwe and to the second military regime in Ghana) systematically, predictably, on a phased basis and with measures to enable potentially viable enterprises to adjust structurally is a question easier to pose than to answer. Post SAP it may be manageable because the

remaining regulations are less costly, the expectations less negative, the costs of delay and/or failed enterprise friendly adjustment support lower. An example - from the SAP era - of one possible type of intervention is the renewal of much of Ghana's processed wood export manufacturing capacity by providing relatively soft commercial loans to re-equip, to re-enter export markets and to remain competitive in domestic markets just as exchange rate shifts rendered the former attractive and two to four years allowed time before import deregulation enforced full competitiveness in the latter.

None of the above is a case for blocking. The IMF advocated exercise by the Bank of Tanzania which kept Treasury Bill rates at sky high levels (up to 150% nominal and 125% real annually free of tax), forced reductions in enterprise overdraft (as well as deterring its use), caused (because it did suck in footloose financial capital) a 50% real exchange rate appreciation (wiping out much of a hard won adjustment to a potentially sustainable rate), increased the government borrowing requirement and diverted attention from the basic problem (massive revenue losses linked to a series of identifiable actions which were clearly both unsound and improper). It was an exercise in market blocking worthy of Stalin Planning at its worst.

How to intervene - like how to manage market transactions - is a contextual and a pragmatic issue. Answers are unlikely to be uniform among countries or constant over time. Nor if a reasonable stable climate of expectations has been created is it likely to be massively time consuming except in the context of exogenous shocks and then briefly if prompt action is taken. Massive continual problems usually indicate that interest, exchange and inflation rates have been allowed to get totally out of hand by the absence of ongoing economic good housekeeping.

External finance management has been an unsatisfactory facet of structural adjustment which needs reform to facilitate economic good housekeeping - and to reduce length and increase performance of late starting SAPs:

- a. **adequacy** has been a perennial problem. In general agreed Consultancy Group presentations have been at or below minimum levels needed (on both country and Bank perspectives) on relatively favourable economic context projections with no contingency sources built in and no pre positioned fall back positions if commitments (frequently) or releases (usually) fell short;
- b. **predictability** (or bankability) has been even less satisfactory because failure to meet short term targets (for whatever reason) frequently leads to flow attrition or cut-offs making regaining the target path nearly or totally impossible;

- c. **time span** has usually been a year or eighteen months overall pledges, a time scale which is not adequate for any medium term strategic approaches (policy, sectoral, programme or major project);
- d. **fungibility** is so cross constrained as to prevent any rational allocation - by donors or by recipient - among emergency, recurrent budget support, sectoral policy and programme restructuring and/or capital investment projects. In particular technical assistance (dominated by expatriate salary and associated costs) has risen to implausibly high proportions and non-food import direct - let alone indirect - costs of drought, war and peace have been grossly underfunded as has recurrent spending on basic services. Not least, regaining efficiency pay levels and beginning strategic advance toward universal access to basic services have rarely been on the main agenda at all;
- e. **fragmentation through parallel delivery** - particularly but not only by NGOs has grown to proportions decapacitating national public and social sector systems and rendering both coordination of activities within national strategic frameworks and cost efficient service provision impossible. The last point arises not only from loss of economies of scale but also because external NGO expatriate to service delivery ratios are high, necessarily raising unit costs.

None of these is a new problem - all predate structural adjustment - but their detrimental effects are higher when all flows are allocated to priority uses and nationally held fiscal and forex reserves are very low. Since the trend of real per capita net ODA to SSA has been downward for two decades (about 30% by the mid-1990s) and is unlikely to be reversed, the adequacy problem has become greater - arguably it was not a serious general constraint up to the mid 1970s. Predictability has worsened - political hold-ups (over national policy) are probably no more and no less frequent than two decades ago but IMF "trigger clause" linked ones are, if only because all SAPs include an IMF target set and the IMF has made no progress toward substituting range for point targets nor toward building in contingency provisions. Oddly, programme transfers tend to reduce three year flow predictability (at least as perceived by SSA Treasuries) because project loans or grant commitments usually - at least in practice (no ODA is an enforceable contract on the supplier) - were for two to five years which is not usually the case with programmes, much less import or budget support. Fungibility has improved in the sense that recurrent or quasi - recurrent (e.g. deferred maintenance) items are now more fundable as are certain direct calamity/catastrophe costs. It has worsened in respect to the rising technical assistance and parallel delivery system components which, *de facto*, come off the top. Worsened, not come into being, NGO decapacitation and crippling of coordination dates at least to the 1960s (e.g. the Ruvuma Development Association and its German mentors in Tanzania) and the unease over expatriate

technical assistance as to the (albeit more over internal incoherence than excessive overall size) dates to the same period.

To some extent SSA states can take corrective action:

- a. including **contingency reserves** in both recurrent and capital budgets;
- b. doing **similar exercises in respect to Congroup presentations** and post pledge budgeting - notably in respect to projected lags in disbursements (based on past performance);
- c. operating **rolling three year recurrent and capital budgets**;
- d. presenting Consultative Group proposals as **prioritised packages of capital, recurrent, emergency and technical assistance components** (with external donor financed NGO operations - preferably routed via domestic social sector or local governance bodies - included sectorally or as a separate category) to allow an **overall envelope approach** to prioritisation, targets (policy and quantitative outcome) and monitoring (included but not limited to propriety auditing which, to be effective, would need to be for overall government expenditure not by particular income source);
- e. following **systematic early warning procedures** on physical economic and other economic (e.g. terms of trade) crises to allow both national early adjustment and early discussion with external partners on i.) target alteration and/or, ii.) resource augmentation (e.g. out of reserves blocked into Congroup pledge for that purpose) to avoid crises causing target slippage and resource flow reduction;
- f. building **external reserve levels** adequate to allow draw-downs to ride out minor, self reversing shocks and to provide time to adjust to major exogenous ones.

However, these national actions are unlikely, by themselves, to be adequate. Joint or external agreement is needed:

- a. to **alter IMF (and other) targets to ranges** and to build in **temporary waiver provisions** (or pre cut off renegotiating periods) for cases in which demonstrable efforts had been rendered ineffective by unforeseen exogenous shocks and/or mutually agreed, erroneous projections;
- b. to make **contingency "drawings"** available - with pre specified conditions - either by restoring the IMF's "lender of first resort" access (e.g. by refunding outstanding IMF drawings via ESAP and refraining from making new short term drawing facilities available to meet long term, structural requirements) or by a joint Congroup programme

commitment of - say - 10% of the basic pledge. In either case consolidation and refinance would need to be on the next Congroup agenda;

- c. requiring **donor funded NGOs** to take part in **sectoral coordination** exercises and **channelling most external NGO finance to domestic social sector or local governance bodies who would then contract with the NGO**;
- d. recognising that over half of **technical assistance and related expatriate provision** (e.g. in capital projects) is *de facto* **replacing citizen capacity leached away by low salaries** and - by limiting budget support which would allow efficiency wage/salary scales - is **cost inefficient per person year of work supplied and decapacitating of the domestic public service**. Those results are no more in resource transferor than in SSA interests unless ta really is intended to be open air relief to unemployable northern professionals;
- e. adopting an **envelope (or linked key sector) approach to allocation of all resource transfers** to agreed priority areas with action and outcome targets to be monitored plus provision of overall priority audit data on government spending (to avoid fungibility evasion of intended control which is inevitable when only some source and use audits are provided). This implies a single agreed overall audit format - an improvement on the multiple, partial audits now performed for different donors.

None of the above national or international measures will be easy. All are practicable and are good housekeeping/cost efficiency - not ideology-oriented. At least that is the case if one assumes recapacitating SSA states and increasing their responsibility by placing the basic duty of agenda formulation and cooperation proposals on them is a shared interest.

Debt write-down is a special external resource flow area. Technically there is near agreement:

- a. projecting external flows (pre debt service) at - say - 6% growth and reasonable economic strategy plus economic context perspectives;
- b. determining from "a" what debt - including new borrowings could be serviced on what terms;
- c. from "b" calculating what reductions in service (due) on existing external debt are needed and working out packages of principal write-down, interest reduction, period extension to fit.

The World Bank's exercise suggests 60% to 90% write-downs in debt service due are probably needed by a majority of SSA economies. In practice some of these are currently

servicing little more than IMF/World Bank debt (and that *de facto* out of new drawings and loans) so the reduction in amounts actually paid is likely to be much smaller.

Which debts should be reduced how much is a political and a pragmatic question. Very high write-downs on non-bank trade credit, bank loans secured via the secondary market and rouble (or analogous currency) denominated external debt (paid by free market purchases of the base currency) can be achieved if Bank (or Fund) refinancing drawings or loans are available. The balance of write-downs among bilaterals and the IFI's (logically some of each as seems increasingly agreed) is a matter primarily for the lenders as is the choice between write-off/write-down and collecting on old credits back to back with additional grant aid to cover all or much of the service cost (as apparently preferred by Japan). The issue of how parallel private sector enterprise write-offs should be to public sector lenders is also one which is - for any fixed write-off total - basically among external actors. **The removal of debt overhang and the reduction of future debt service to manageable levels are the SSA priorities**, not the precise modalities of achieving those ends.

The main barrier to this approach is not a belief by creditors that they can recover most of the loans. They are aware the constant reschedulings and minor erosive (not structurally corrective) write-downs alleviate debt service burdens now by rolling the underlying problem forward. Why they choose to do this - which entails a very heavy misallocation of SSA scarce personal time to debt renegotiation - is open to two interpretations:

- a. gradually eroding over time and delaying major write-downs is politically - or for banks economically - prudent domestically;
- b. permanent, repetitive debt rescheduling (and the tacit threat to halt it) gives donors and banks more power.

Given the size of SSA loans it is hardly credible a pre agreed five year write-down (tied to performance agreements) would have major domestic political costs for lender states or institutions - everyone knows the loans are 'lost'. **The power perception is a misperception. So long as SSA politics need new resource transfers, debt service renegotiation is a superfluous lever.** It wastes time, embrangles relations and makes the budgeting side of good economic housekeeping much harder while deterring the rebuilding of a projectable, friendly environment for domestic or external enterprise investment, because the contingency of enforced debt service would cripple import levels and therefore output and return on investment.

National and regional good housekeeping need to be integrated if liberal economic policy coordination and market integration are to be sought. Otherwise parallel (or competitive)

nationalisation of exchange rates and interest rates and at least some types of tax reform are as likely to create as to reduce market distortions among integration group members. SAPs are drawn up rapidly to manage crises, are national in scope and do not usually involve officials responsible for, nor data relevant to, regional economic links. They are rarely homogenous in scope, timing or stage among countries in a region. Therefore they are as likely to hamper normal intra-regional trade - and especially recorded trade with payments put through official clearing systems - and to encourage tax or currency divergence linked smuggling as to facilitate the one and discourage the other. Further, to the extent SAPs encourage tariff reduction more rapid than that required by the WTO, they reduce the time and space available for fiscal preference stimulation of regional trade linkages.

Good housekeeping in this area implies:

- a. **reasonably comparable** (preferably within a sustainable range) **official or 'free' market exchange rates** - e.g. in SADC Angola and possibly Zambia are badly out of line;
- b. **relatively similar rates of inflation** - SADC's spread from under 15% to several hundred per cent is a barrier to any transactions involving longer than a few weeks financial exposure;
- c. **comparable tax structures** and - at least in respect to indirect taxes - to some extent rates;
- d. a **common approach to investment incentives** - not necessarily giving identical potential gains to investors (e.g. the polities with least access to investment could be allowed to offer higher incentives within some prescribed range) but also not radically divergent;
- e. **export incentives to goods sold to regional partners at least comparable** to those for extra regional exports;
- f. **interest rate structures whose relative levels and volatilities do not create either great strains** on one partner's financial markets to finance other partners' enterprise working capital or to sudden reversible surges of footloose financial capital having destabilising results on suppliers as well as recipients.

Perfection is not needed on any of these heads - if it were the EU would have failed long ago. It does require regular monitoring, communication, and consultation primarily among Ministries of Finance and Central Banks. That should not be particularly difficult as a formal part of - or parallel to - a functioning regional economic grouping. Certainly it was one of the more successful and less tension ridden aspects of the East African Common Market and Community. However, to date it does not appear to be a strong routine feature of any

existing African grouping apart from the two frame zone currency unions where it is a necessary condition for sustaining an arguably no longer appropriate common currency and a French guarantee of deficit cover subject to specific fiscal and monetary conditions being met.

IN CONCLUSION

In conclusion is perhaps precisely the wrong way to sum up a review of economic good housekeeping - as a housewife would readily point out to anyone who applied it to domestic housekeeping. **Housekeeping has no conclusion - the tasks recur and new ones arise.** Shocks - including unexpected consequences of own actions - occur regularly. The sooner corrective action is taken, the less draconic it will need to be and - probably - the more positive expectations will be because the government is seen to be in control. Waste - at least in the sense of personnel and expenditures once justified but no longer truly high priority - will accrue and incremental unit cost reducing technologies, procedures and equipment will be adopted laggedly and spasmodically unless the functions previously performed by Organisation and Methods and Central Establishments in these regards are revived.

To keep abreast of these issues senior officials and political decision takers need an in-house analysis unit in regular touch with other official, academic and enterprise analysts. Certainly such a policy and analysis unit's high profile work is likely to be strategic, budgetary and macro or sectoral policy transformation oriented. But its bread and butter day to day work should also include monitoring to identify economic good housekeeping needs. It is tempting to view this as an analogue to weeding (identifying and hoeing before the weeds choke the crops) but probably too negative-positive opportunities as well as negative risks are usually there to be identified and analysed.