THROUGH STRUCTURAL ADJUSTMENT TO TRANSFORMATION: COUNTRY PARTICIPANTS' SEMINAR REPORT

Acknowledgements
This report was prepared by participants to the seminar SS134 (Through Structural Adjustment to Transformation) that was organized by the Institute of Development Studies (IDS, UK and Dar es Salaam) in Arusha, Tanzania over the period 2-20 August 1993. 13 sub-Saharan African countries participated at the seminar. These included Tanzania, Uganda, Nigeria, Ghana, Ethiopia, Mozambique, Zimbabwe, Zambia, Namibia, Swaziland, Malawi, Eritrea and South Africa.

Participants used the occasion to share their individual country experiences on how they have fared with economic reforms so far and how they intended to proceed to economic and social transformation for sustainable development.

This report attempts to synthesize some of the main lessons learnt during the seminar which would help our various countries map out future policies. The report consists of three main sections: the first section highlights the main issues involved in the design and implementation of macroeconomic policies, while the second section examines the sectoral policies, with particular emphasis on agriculture, industry and social policy issues, including poverty alleviation and gender issues. The report ends with some concluding remarks summarizing the main lessons from the seminar.

1 MACROECONOMIC POLICY ISSUES

1.1 Introduction

Structural Adjustment Policy (SAP) is currently in implementation in a majority of SSA countries. At the time of embarking on economic reform major indicators of economic growth and development were showing declines. The economies of SSA countries were predominantly inward looking and highly dependent on agriculture and the export of primary commodities. Interest rates, wages, repatriation of profits and the exchange rates were largely controlled and foreign exchange was administratively allocated. Investment levels were not sustainable, economic growth rates declining and unemployment deepening. Given the relatively high rates of growth of the population this also implied low and falling consumption standards of living for the majority of African people.

SAP in SSA countries is aimed at economic restructuring toward market based patterns of growth. More specifically these policies address objectives of stabilization, growth and sustainable economic transformation through monetary, fiscal and trade policies for the establishment of competitive markets, the reduction or elimination of price distortions and imbalances and the enhancing of public sector efficiency.

Given that demand can be curtailed more easily and faster through changes in public expenditure and money supply, fiscal and monetary policies have tended to be the focus of the first attempts at correcting internal and external imbalances. Adjustment generally entails the realignment of domestic demand with available resources and changing supply and production structures to eliminate external deficits.

1.2 Fiscal policy

One of the main objectives of the adjustment policies is to reduce the budget deficit in order to restore macroeconomic balances, while ensuring resource mobilization for crucial public investments and the provision of basic social services for sustainable growth in the longer term. To achieve fiscal balance, various measures have been introduced in SSA countries to increase government revenue. These include tax reform, the broadening of tax-base, more efficient tax administration parallel to expenditure rationalization. There have also been cuts in the size of the public sector, in particular, public enterprise reform, removal of subsidies and other expenditure reducing measures.

The overall impact of the adjustment process has still remained limited mainly because of unfavourable trends in world commodity markets and slower than expected supply responses in the economies of adjusting countries.

The various presentations indicated that despite progress made on certain fronts SSA countries were still encountering innumerable problems in the management of their economies. In most cases, massive budget deficits, financed through domestic borrowing, still resulted in rapid monetary expansion and severe inflation.

Evidence from the experience of various SSA countries also suggests that inappropriate fiscal policies have been among the major causes of the economic crisis in these countries. The experience indicated serious difficulties in achieving the fiscal balance. In Nigeria, the burden of servicing external debt as well as huge extra budgetary expenses and difficulties in reducing the subsidy on petroleum products have constituted major constraints on reduction of government expenditure. On the other hand, revenue continues to be overwhelmingly dependent upon income from exported petroleum which is subject to changes in the world market.

In Zimbabwe some improvements were recorded during 1990/91 and 1991/92. The drought however, caused a major setback in 1992/93. In Malawi, subsidy removal on fertiliser prices in 1984/85, contrary to expectations, resulted in an increase in the budget deficit. This was exacerbated by a massive inflow of refugees from Mozambique.

Even in a country like Ghana – where overall budget surpluses, including grants, had been maintained since 1986 – the government failed to maintain the surplus in 1992 mainly because of expanded expenditures resulting from the transition to elected government. These experiences suggest the possible existence of political/social constraints (as is evident from the experience of privatization of Public Enterprises) and also the importance of favourable conditions (weather, terms of trade, etc.) for budget deficit reduction initiatives.

While resources available to the governments in SSA are severely limited, the tasks they are expected to perform are ever expanding in scope and complexity, despite – or perhaps because of – SAPs. The private sector requires efficient infrastructure and social services to become more productive. The satisfaction of basic human needs and environmental considerations are also essential for the longer-term sustainability of development. However, a healthy macroeconomic environment is also crucial. Interpreted in the context of SSA countries achieving 'balances' really means adjusting to a situation of extreme scarcity of resources. In this sense, the lesson to be learned pertains to the efficient and effective use of scarce resources.

1.3 Monetary policy

Monetary and financial policies put in place under SAPs have had both stabilization and resource allocation objectives. The policies sought to control the growth in money supply so as to control inflation, while financial restructuring was expected to enhance domestic resource mobilization at the same time as improving financial intermediation.

The common denominator in SSA countries undertaking SAPs has been for governments to opt for a policy of freeing credit allocations and interest rates while improving the supervision and competitiveness of the financial sector. In countries like Ghana and Uganda where monetary and fiscal management has led to substantial lowering of inflation the following features were noted:

i The decontrol of interest rates and the use of market-oriented mechanisms such as Open Market Operations (OMO) to control credit and liquidity has had positive effects on factor market efficiency, domestic savings, financial deepening and price stability.

ii The restructuring of state-owned banks, the enhancement of the Central Bank's policy and supervisory roles, institutional and legal reforms in the financial sector, including the establishment or revitalization of money and capital markets have also had positive effects on private investment, domestic savings, factor market efficiency, and financial deepening.

Notwithstanding the above, there has been little or mixed impact from these reforms on product markets and the fiscal balance.

There is need for the following:

i **Fashioning an appropriate policy mix:** this refers to the dilemma of fashioning the appropriate monetary policy agenda to: curtail excessive growth in monetary aggregates; ensure enhanced levels of resource mobilization, especially from non-bank sources; maintain efficient and reasonable resource allocation mechanism in a conducive environment for financial intermediation without neglecting credit to the productive sector and thereby disenabling private investment.

ii **Confidence building**: improving public knowledge and confidence in the financial sector by introduction of mandatory deposit insurance for banks, ensuring adequate supervision of all financial institutions and the enforcement of the prudential guidelines for financial institutions.

iii **Lowering transactions** costs: in terms of lower taxation, training, better credit statistics and encouraging the interbank market.

iv **Expanding/introducing/improving lending and saving instruments**: For example, consortium lending and reducing restrictions on investments by pension funds and other Non Bank Financial Intermediaries (NBFIs).

1.4 Exchange rate management

The major policy objective of exchange rate management has been to attain market determined rates and also to unify official and parallel exchange rates.

The experiences of Ghana and Uganda were considered as being relatively more successful. The common strand in exchange rate management has been gradual liberalization over several years consistent with market behaviour and the transparency of implementation. The transition has been from several discrete devaluations, through auctioning (retail and wholesale) and the introduction of forex bureaux, to interbank trading in foreign exchange.

In Ghana there has been a virtual unification, since mid-1991, of bureaux and interbank rates. The consequence of exchange rate liberalization has been positive for factor and product markets, private investment, and price stability. The impact on the balance of payments has been mixed as exports have not expanded as much as desired, while imports have not declined or stabilized as expected.

The challenge is basically to maintain a competitive rate. The major ongoing debate in countries which have been considered good performers in exchange rate management pertains to the merit of maintaining current account convertibility while restricting international capital movements, considering the aggressive export promotion strategies and the need for new enterprise capital inflows.

1.5 External sector developments

The major policy objective has been steadily to improve the balance of payments outlook through export promotion, increased production in import substitution industries and restructuring of the debt. The rationale for these objectives has been to reduce external debt and to boost gross reserves while providing for expansion in import volume consistent with growth objectives. They also focused on resuming and sustaining growth through introduction of competitive exchange rate regimes, trade liberalization, provision of incentives for better utilization of installed capacity in industry and improving agricultural production. This approach was aimed at achieving the necessary structural changes needed for viable balance of payments position. To this end, there is identified need for promoting trade, mobilizing external finance and for a comprehensive debt management policy.

The Balances of Payments of most SSA economies implementing SAPs continue to reveal a pre-grant current account deterioration despite efforts to reverse the trends through IMF and World Bank support. The major causes are identified as the deteriorating terms of trade and the mounting external debt obligations.

An analysis of the current account (with the exception of Nigeria) reveals a persistent deficit with little or no improvements in the real (import capacity) value of export earnings and rising import values/volumes in the trade account, coupled with deficits in the services account, largely as a result of interest payment on external debt. Net positive inflows are observed in transfers which shows heavy reliance on external aid to finance imports.

Real export values have not improved despite introduction of competitive exchange rates and adopting trade liberalization policies. This is largely the result of falling commodity prices and export growth rates have averaged less than 7 per cent in volume per annum over the period SAPs have been implemented although in most cases this is a marked improvement over the previous few years. This is in contrast with the rising real unit costs, and often volumes, of imports over the same period. Attempts to increase production in the import substitution industries have been hindered by lack of (i) large domestic markets, (ii) domestic competition, (iii) human capital formation, (iv) appropriate technology, and (v) import capacity for operating inputs and also for rehabilitation and modernization. Amortization and interest payments are observed to consume a substantial portion of resources. An analysis of debt indicators reveals that SSA is the most indebted region in the world relative to export earnings.

There is need to promote trade. SSA countries' export strategies globally and regionally will need to focus on the following:

i intra-African trade

ii Opening up toward world markets gradually by lifting quantitative restrictions and tariffs in such a way as to promote export break-throughs rather than deindustrializations

iii Narrowing down the huge variations in Effective Rates of Protection as well reducing their average levels

iv Continuously adjusting their exchange rates to maintain competitiveness and to encourage the growth of non traditional exports.

Given, the diminishing net real inflows of resources from the rest of the world and the attendant debt problems, there is need for SSA to increase its Savings/GDP ratio, tax-GDP ratio as an alternative to external finance. SSA countries should also utilize to the best of their capacities the aid allocations, debt reduction techniques and special initiatives provided to them by the international donor and creditor community, to secure increased inputs for the rehabilitation and raising of capacity utilization of existing capital stock, expansion of social infrastructure and the directly productive capital stock for ready longer-term development. On external debt, basic institutions need to be put in place to manage debt effectively including:

i improved data collection and strengthening of control units to evaluate sustainability of debt and prevent incurring unserviceable future public or private indebtedness

ii advisory units to analyse international capital markets for purposes of mobilizing additional external resources.

In light of the huge external debt obligations currently facing SSA countries, each country should develop a debt strategy to try to solutions to the country's immediate external debt problems over a given period of time. The objectives of such strategies and their successful implementation will of course depend on availability of domestic and external resources and on write down of external debt to levels which can be serviced in full consistent with sustained growth, a reality the creditors will have to appreciate.

2 SECTORAL POLICIES AND ISSUES

2.1 Agriculture

SSA countries, (with most producing one main primary agricultural crop for export) face the challenge of falling world market prices and, as a result, income at all levels from national to household.

Short-term, as well as longer-run strategy, requires changing the structure of production in order to improve or change the quality of export produce to match world market demand. Resources released by cutting production cost of traditional exports could be channelled to diversifying the export base to include higher earning non-traditional exports and profitable domestic crop production.

Greater efficiency could be achieved if SSA countries pursue pro-agricultural policies, which would reform the sector in a more determined and committed manner. While macroeconomic policy reforms and technological improvements are necessary for agricultural development, they are by themselves largely insufficient to generate the needed supply response. More vigorous micro sector reforms including land tenure, regulation of financial institutions, cooperative law, improved public expenditure programmes, a regulatory framework for forest and natural resource management, private sector initiatives in production, processing marketing and research, social sector development, physical infrastructure rehabilitation and expansion, environmental concerns, and political development are also needed to stimulate real agricultural growth, which in turn could generate the much required sustainable capital accumulation process needed to jump start industrialization.

2.2 Industry

Policy reform measures of direct relevance to the industrial sector include, privatization/commercialization of public sector enterprises, reduction/elimination of administrative bottlenecks, reduction/elimination of subsidies on consumer goods, deregulation of interest rate and exchange rate determination, and trade liberalization including the reduction in the level of protection behind which a number of inefficient enterprises were believed to have thrived (or at least survived).

Although a number of countries within SSA have significantly improved their investment climate, both domestic and foreign private investment on new projects have remained marginal. The observed increases in the index of industrial production during the post-SAP period have been attributed mainly to increased capacity utilization in existing industries rather than the establishment of new investment projects. New Foreign Direct Investment (FDI) is especially noticeable by its trivial levels in most countries.

In most SSA countries the structure of production has not changed; foreign exchange and credit continue to be used primarily for short-term trading activities, and secondarily for the replacement of spare-parts and components, expansion or re-tooling of the existing factories and supplementing enterprise working capital resources. Therefore, the increases in growth rates seem to have been generated by expenditures on replacements, retooling and restructuring within existing factories. Corporate planning has also become increasingly difficult because of the relative volatility of both the interest rate and the exchange rate. The structure of exports, in spite of determined efforts at diversifying the sources of foreign exchange earnings, has not really changed structurally with manufacturing remaining a relatively minor source.

The impact of the privatization/commercialization exercise has been felt mainly in terms of price increases without commensurate improvement in the operational efficiency or the quality of services rendered by affected enterprises; thereby confirming the proposition that 'the key factor determining the efficiency of an enterprise is not whether it is publicly or privately owned, but how it is managed.'

Considering the experiences of SSA countries in implementing SAP reform measures, it was felt that for SSA countries to go through structural adjustment to transformation, the structural adjustment facilities (SAF) being given by the international financial institutions and donor agencies to those countries which have implemented SAP should not only be for Balance of Payments (BoP) support (which is not self-sustaining), but should also be extended to investing in expansion of industries using local raw materials, those producing intermediate goods, export-oriented industries utilizing domestic raw material inputs, small-scale and informal sector enterprises, foundries and forge shops, metal fabrication outfits, machine tool industries as well as assistance towards development/upgrading of existing capacities. There is also the need for massive FDI inflows to SSA countries in order to enable them effectively and efficiently to utilize their abundant resource endowments through converting primary raw materials into processed materials and intermediate and capital goods as well as final consumer goods.

2.3 Social Policy Issues

The effect of structural adjustment programmes on the poor and vulnerable groups (the social dimensions of adjustment) is one major aspect of the SAP initiatives. Various social programmes have been implemented in SSA as part of post 1985 SAPs. These programmes, known variously as follows: PAMSCAD, SDA, PAPSCA were introduced to mitigate short term adverse effects of Structural Adjustment policies. In the various countries, the social development initiatives address the following specific concerns:

- Establishing access by the poor, and therefore vulnerable, sectors of the population to basic human material capital and financial resources and strengthening local communities and development institutions in their ability to deal with public agencies effectively.

- Facilitating the establishment of linkages with communities at grassroots level through a general process of powerment and building of the beneficiaries organizational capacity and to improve the effectiveness of projects.

- Creating an enabling environment for small-scale businesses and improving the participation of women in the main stream economy.

The general experience of countries with SDA policies is as follows:

- The initiatives are characterized by two basic features; a 'welfare' (health, education) dimension on the one hand and also an 'employment' (small scale projects) dimension on the other.

- There is a tendency by national governments and the IFIs to regard SDA initiatives as residual and inconsequential in the progress of SAP implementation. There is a tendency to view SA initiatives as fire fighting equipment that only become relevant at the time of food riots or of resistance to government employment cuts. The general policy environment frequently lacks transparency as a result of unwarranted influence from politicians who view such programmes as an additional facility to finance constituent income generating projects. There is general illiteracy among the people about the aims of SA initiatives.

- There is a general ineffectiveness of SAP social policy with weaknesses in the structure and design of social programmes which imply particular difficulties in the operationalization, implementation, and appraisal of social policy. This is compounded by lack of adequate planning and policy level information on households, small scale enterprises and the informal sector. Consequently there are no clear and systematic methods of targeting. Thus SA programmes are not properly designed to address the social policy objectives of SAP. These programmes more or less exist as part of or parallel to ongoing and existing social programmes rather than as an input into their restructuring and transformation.

3 PLURALISM, PARTICIPATION, POLITICS AND NGOs

3.1 Political issues

Good governance is essential for success in SAP implementation. The historical perspective in SSA was that between 1970 and 1990, many countries were dominated by the political state, or put in other words, there was a monopoly of politics over society and economy. This resulted in rigidities and distortions. It was suggested that the issues really were those dealing with role of the state in the provision of an enabling environment as opposed to providing an overly wide range of services badly restricting, rather than encouraging enterprise, household and community initiatives.

3.2 Gender issues

One observation was that planners and policy makers often failed to focus on gender issues in their deliberations. This reflected one aspect of a lack of integrated and holistic approaches to development which contributed to the failure of most development programmes and or attempts to adjust economies. It was noted that even this seminar excluded gender issues in the main sessions and reporting when serious issues concerning Structural Adjustment and Transformation were addressed. When reference was made to women this was primarily within the context of 'welfare'. This was reminiscent of the earlier WID (Women in Development) approach of the 1970s. Questions pertaining to women also received passing mention during discussions on agriculture, of production by households and of the impact of changing technology and increased commercialization on women.

Privatization of health care facilities and cost recoveries had led to increasing workloads on women by transferring the burden of caring for the sick from the public sphere to the home. The discussion highlighted that unless gender was incorporated in policy formulation our attempts at transformation broad based attempts at development were likely to fail. Gender does not mean 'women' but refers to relations between women and men. Gender subordination, even though not manifested in the same way, was perceived to exist in all societies. There was a need to enhance gender awareness in the various areas of agriculture and production and education, and also to highlight the need to reduce marginalization of women in economic development and in the context of increasing greater social participation in good governance, through enhancing accountability, public legality and transparency.

4 CONCLUDING REMARKS

There were a number during the seminar sessions including the country experiences shared by the 13 SSA countries represented at the seminar. Notable ones include:

i Given the pervasive impact of economic and natural crises experienced in our various countries such as the collapse of primary commodity prices, huge debt overhang, unprecedented drought and civil wars, the need for some major economic reform is seen to be inevitable. A majority of SSA countries are pursuing, in varying degrees, macroeconomic stabilization and structural reform programmes.

ii The recent experiences with ESAF supported programmes indicate that the process of economic restructuring and transformation in our countries is a long-term phenomenon.

iii Economic reform programmes are basically the responsibility of the affected country. What each country makes of adjustment and reform not what outsiders wishes it to be, is what it is going to be. This calls for the need to design realistic and implementable programmes which each country should be prepared to negotiate objectively with donor agencies including the IMF and World Bank. The primary responsibility for creating the appropriate domestic environment for the resumption of sustainable growth and reduction of poverty lies with our individual African countries.

iv There are, however, continuing important roles for the World Bank and the IMF as well as other donor countries/agencies in ensuring that the momentum of restructuring is maintained. The far-reaching programmes designed by many of our countries to manage the process of change will need to be adequately funded if they are to be successful. However, recent studies indicate that the resources required to fund essential programmes in our countries may no longer be forthcoming, partly because of competing demands from new claimants such as the countries in transition and partly because there is the real risk of lower overall availability of resources from bilateral sources. In view of this, the Bretton Woods Institution have an even more important role to play than in the past in mobilizing resources.

v Even while our countries are committed to responsibilities in improving the domestic environment and in correcting their economic and financial imbalances, it is recognized that their efforts are being frustrated by adverse exogenous factors like the adverse impact of sharp deteriorations in terms of trade and of heavy debt burdens leading to increased poverty and declining social services.

vi The above problems underline the need for special incentives/support series to help motivate agriculture and domestic industries to ensure increased productivity and export diversification. There is also the need for a systematic development and upgrading of capacities relevant for industrial development through training and learning by doing. Also relevant here are such issues as an efficient and social services oriented civil service; increased role for the private sector and the need effectively to address the problem of poverty.

vii There is need to develop broad based social programmes that are community based and also sustainable. Related is the need to focus on design aspects of SA programmes with a view to resolving the conjunctural/structural poverty contradictions resulting from selective introduction of incentives or too rapid attempts toward macro stabilization.

viii To develop continuous intellectual self confidence of own ability to develop and manage processes of structural economic change is vital in SSA countries. Such confidence is low and the actual top down, external intervention SAP process tends to erode its frontier. SSA countries need to be able to write and to manage their own agenda for development independently of – even if in dialogue and cooperation with – external forces and agencies.