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REVIEW OF THE IMPACT OF STRUCTURAL ADJUSTMENT PROGRAMMES ON FISCAL POLICIES IN SELECTED AFRICAN COUNTRIES

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INTRODUCTION

The crisis situation of the early 1980s compelled African governments to respond thereto under conditions which established new kind of dependent relationships with the western governments and the International Financial Institutions, particularly, the International Monetary Fund (IMF) and the World Bank. The international financial institutions imposed unavoidable conditionalities under which the African governments had to pursue the goals of the restoration of the real growth of their economies, in other words, to embark on structural adjustment programmes as advocated by these institutions. It is through such policy conditionalities that most structural adjustment programmes are being implemented.

Broadly, the structural adjustment as advocated by the IMF and the World Bank, seeks to restore growth and stability by recasting relative prices, domestic expenditures and the type and degree of state intervention in the economy. The Adjustment programmes represent continuous changes in a variety of policy parameters including, the exchange rate, supply of credit, tax regime and price to producers of export commodities or the retail price of domestic food. Clearly missing from these policy parameters, is the mention of the social dimensions of the adjustment (the concern over the burdens of adjustment across the population as well as the sharing of the fruits of the restored growth). It stands to reason, therefore, that the policy variables for structural adjustment should equally focus attention on the social ramifications of the adjustment programmes. The paper discusses this issue in further details.

Also at the centre of attention is the issue of the impact of the structural adjustment programmes on the fiscal policies of the countries implementing the adjustment programmes. The central issue is the reconciliation of the objectives of the adjustment programmes with those of the fiscal regime in practice. The paper, therefore, assesses the reconciliatory implications of the aims of the structural adjustment programmes and those of the fiscal regime. The paper is developed into five sections. Section I deals with the review of the general fiscal policy issues in Africa. Section II reviews the structural adjustment programmes in selected African countries. Section III discusses the experiences of some selected African countries under the structural adjustment programmes. Section IV deals with the impact of the structural adjustment programmes on fiscal policies in selected African countries and Section V deals with the summary of conclusions and suggestions.

SECTION I

OVERVIEW OF FISCAL POLICY ISSUES BEFORE THE ADOPTION OF STRUCTURAL ADJUSTMENT PROGRAMMES

Historically, the tax systems of the African countries are the legacy of the colonial past. However, in response to post-independence ambitious development objectives and the increasing systematic use of development plans, there have been marked changes in the tax systems. But in general, the changes have not been occasioned by concrete reform processes. Instead, they have been brought about through the accretion of ad hoc measures responding to pressures for revenue requirements to meet the expanding expenditure demands and, in certain cases, responding to other particular interests.

The emergency of the ad hoc approaches was also motivated by the fact that, the productive bases of the economies of the then newly independent African countries were not appropriately structured and were largely characterized by underdevelopment and backwardness, low levels of income as well as massive external dependence. Their finance structures were fundamentally unsustainable on both the revenue and expenditure sides. The tax bases on which their revenues structure depended, could not be adequately exploited.

To improve those economies and also to increase the level of income, the African countries developed fiscal policies whose major objectives were to maintain a high level of employment and to promote, on the whole, the social welfare of the people. The promotion of the social welfare required stimulatory measures to increase social expenditure as means to mitigate the adverse impact of living standards. The social welfare measures had, as an underlying aim, the redistribution of income in favour of lower income group. In some cases, the social welfare oriented tax measures were intended to be fiscal contribution to incomes policy usually in the form of reductions in personal income tax rates. Indeed, the politics of distribution of income has dominated the African countries ever since independence.1/ Further, the fiscal policy in most african countries focused attention on the expansion of public sector investment, which, until recently, was not perceived as detrimental to the growth of the economy.

However, owing to the sustained poor performance of the public sector, the prevailing view now is that large-scale absorption of the resources by the public sector is seen to have adverse long-term impact on economic performance The view points to the fact that an effective way to cure economic malaise is to reduce the relative size of the public sector and government interference in the market mechanism. The growth of the public sector beyond unspecified limits leads to the diversion of resources from more productive use in the private sector and in this way, the overall economic growth suffers. Furthermore, the need to

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1/ Bonnie K. Campbell and John LoxLey (eds.): Structural Adjustment in Africa, Macmillan, London, 1989, reviewed by Diane Elson.

stabilize the economy, in particular, in terms of trade, called for action on the fiscal front. At the time of high increases in energy prices as well as the ensuring world recession, the African countries were highly susceptible to external impulses. Fiscal policy was then considered to be the major instrument of economic stabilization and the policy response was generally to shift the fiscal stance in a highly expansionary direction. As the economic activities of the African countries increased, there was a corresponding rise in the rate of inflation.

The concern over the inflation problem induced the governments of these countries to adopt stiffer fiscal stance and monetary policies. In the main, therefore, the fiscal policies of the African countries embraced the committal to the objective of stimulating employment and economic activities, the preservation of living standards and the control of inflation. These major fiscal policy aims required to be reviewed in the light of the changing economic and political conditions. Otherwise, they, themselves might generate strong impediments to the expansion of the economy, the growth of the tax base, equity and achievement of development objectives. Such occurrences were bound to create disturbing gaps between government expenditure and revenue. For example, in the case of revenue boom, following, for example the boom in export of particular agricultural or mineral products like coffee, cocoa, tin, copper etc, while they may appear as "lottery prize" to the government, they may create decision-making problems. For an example, should the government continue to spend in relation to permanent income or should it raise the level of expenditure to current level of revenue? Literature on this issue suggests that the decision-maker ought to take into consideration the following factors; the expectation about the presence of the current level of revenue, the immediate investment opportunities for the transitory portion of current revenues, the political pressure on the government for additional spending and the government's perception of the political and economic benefits of additional spending.2/

Lessons of experience show that, some countries, faced with the commodity boom, sharply increase their public expenditure, perhaps under the mistaken impression that the commodity boom will be permanent. Such countries, for example, faced with temporary revenue boom, expand public employment, raise wages, create new entitlements, increase the scope of subsidies etc, in short, they bring about permanent expenditures and when suddenly the level of the current boom revenue declines, there emerges huge fiscal disequilibrium. Even where the countries allocate the additional revenue to capital expenditure, that too, may be associated with inefficient projects as there may not be enough time to carry out detailed studies of the projects or there may not be enough managerial ability or skills to supervise them. Capital projects themselves, may have recurrent components (that is roads built have to be repaired) which in turn, increase future public expenditure; or worse still, the commodity boom may vanish before the projects are completed.

2/ VITO TANZI: World Development, Vol. 10 number 12. December 1982. -Fiscal Equilibrium in Developing countries. Pegon Press Ltd. New York.

At times, fiscal disequilibrium occurs not necessarily because of the public expenditures induced by commodity boom as discussed above, but because , for certain reasons, the government decides to increase the level of expenditure or because it is not able to control the expenditures of other various spending units; for example, where particular departments, ministries and public enterprises accumulate arrears and sooner or later the government has to come in to pay the accumulated arrears. In some cases, the government may aim at promoting particular objectives, for example, generating employment, or redistribution of income etc. through additional expenditure. Indeed, in some countries, the governments have attempted to promote employment policies by requiring that public enterprises expand their employment beyond efficient levels. For example, they are required to hire high school or university graduates which requirement has the effect of increasing the costs of those enterprises. At the same time, prices of the products of those enterprises are never allowed to increase accordingly thus inevitably resulting to widening of the deficit with obvious budgetary consequences3/. Insulation of prices from increase in costs leads to fiscal disequilibrium. Yet, again, through additional expenditure, the government may be trying to maintain the price of certain commodities consumed by the masses by subsidizing the supplies (producers importers etc). Additional expenditures brought about under these circumstances, are never influenced by structural or exogenous causes but are brought about by political and administrative considerations, yet they, too, have the effect of creating gaps between the expenditure and revenue which may necessitate deficit financing.

Still an alternative version of disequilibrium may come because of over-ambitious investment programmes by some public enterprises, coupled with an inability or an unwillingness on the part of governments to control their expenditures. In some countries, these public enterprises have been almost totally free from financial controls and have engaged in borrowing to an extent that could not fail to jeopardize their economic situation. In some cases, this borrowing has been from foreign sources; and in others, these enterprises have managed to get their funds directly from the monetary authorities at highly subsidized rates. In both of these cases, there could be considerable monetary expansion in the country without any corresponding increase in the size of the deficit of the central government. Therefore, the fiscal deficit, as normally measured, could at times, understate the inflationary impact of the public sector as a whole.

Fiscal disequilibrium may also be brought about by the worsening of the terms-of-trade scenario. This situation arises as a result of a drastic fall in the price of exported commodities, and is thus, the reverse of the export boom scenario. However, a more general situation common in recent years is associated with a drastic and possibly permanent increase in the price of some important imported commodity, such as oil. In such a situation, the increase in the price of the imported product should be passed through to the domestic consumers, thus leading to a reduction in their real incomes and, thus, expenditure. Some countries have, however, prevented this pass-through and, in doing so, have contributed to the fiscal disequilibrium. This has happened, for example, when the government has decreased the taxes on the product in order to neutralize the real price increase for domestic consumers; or, when it has subsidized the domestic use by, say, providing budgetary transfers

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3/ Ibid pp.1074.

to the main users such as enterprises engaged in public transportation. Either the fall in taxes or the increase in expenditure caused by the subsidy contributes to an enlargement of the fiscal deficit.

The past fiscal regime as regards agricultural sector which is predominant in the African countries, has not made much progress in formulating tax policies that would encourage the diversification of production or the commercialization of the activities in this sector. African governments tend to adopt rather cautious approaches to the taxation of agricultural income as well as agricultural land. One factor which makes it unattractive to tax this source is that, in general, the agricultural sector is characterized by low income levels and assets disparities. For example, the labour force in agriculture earns wages which often fall below the exemption threshold and thus attracting no tax. Tax shift from direct to indirect taxation for example, is sometimes resorted to. But not without caution since the taxes on consumer goods usually have adverse effects on consumption level of low-income households. In the case of assets, for example, land and credit facilities, only small proportion of farmers have access to arable land as well as access to credit facilities.

The disparities, therefore, offer very little opportunity for a relatively rapid increase in smallholder commercial production. The complexity of implementing taxation on land requires the government's ability to mobilize resources from elsewhere for funding of the very agricultural and rural programmes. Increase in production could be achieved perhaps, by allowing greater participation of small farmers and paying adequately high prices for their products. Thereafter, there can be considered reasonably equitable and progressive taxation of the crop earnings. This would improve the resource mobilization while ensuring equitable growth and fostering growth linkages with the rest of the economy, a dynamism that still has less role to play in most African countries. However, some countries (Kenya) have, over the past, adopted policies which resulted in rapid and broad-based growth in smallholder agriculture.4/ Such policies are commended as they guard against the plunders which often occur during export boom economy whereby the boom is accompanied by stagnating agricultural production, high rural emigration and high levels of food import.

The fiscal policy regarding the promotion of agricultural production is, to a great extent, influenced by the aggregate demand for the agricultural production. So that the incentives for agricultural productions are markedly influenced by the structure of demand. Aggregate demand for different agricultural products is, in turn, affected by total income available for food consumption, consumer tastes, as well as the location of consumer markets. The consumer markets are generally measured or located in terms of the patterns of income distribution. But the general low-income levels of consumer income in most African countries imply low domestic aggregate demand and consequently less encouraging to producers to supply the markets and hence less pressure for tax incentives to promote agricultural production for domestic demand . For export crop production, the incentives structure is determined by the world market demand and international prices.

4/ World Bank, Washington D.C.: Managing Agricultural Development in AFRICA-MADIA Discussion paper No. 9, 1989, by UMA LELE.

If the world wide demand for the export commodities is very low, swelling up tax incentives for the promotion of the production of the export commodities may not be an economically sound fiscal stance. The crucial fiscal issue, therefore, is how best to distribute demand. This may call for sound government spending and investment decisions that should effectively distribute demand inter-sectoraly, between imports and domestically produced goods, between rural and urban areas, between geographic regions and between food producers and consumers. Through income policies, wage settlements, domination of the job market for certain skills, geographic distribution of employment and generating of direct and indirect expenditures, government policy will affect relative wages and incomes for different skills and regions; and ultimately the profile of food demand.5/

SECTION II

REVIEW OF STRUCTURAL ADJUSTMENT PROGRAMMES IN AFRICAN COUNTRIES

The crisis situation in Africa over the last decade or so, has obliged the governments of these countries to adopt and implement largely 'cut and-dried' orthodox structural adjustment programmes often designed and supported by the international financial organisations, particularly from the western world. Whilst it is acceptable, in principle, that the stabilization and adjustment programmes are necessary, in the balance their design and purpose do not comprehensively or fairly focus on all the interests that ought to be taken into account in the process of stabilization and adjustment in African countries. It is common cause that the theme in critiques of the IMF and World Bank policies for stabilization and adjustment is that such policies undermine national economic integration and self-reliance by promoting the greater internationalisation of trade and capital flows and thus promoting the interests of capitalism at the expense of ordinary people of the Third World.

This view is evident from the developments in 1988/89 whereby the structural adjustment programmes advocated by the western international financial organisations , in particular, the International Monetary Fund (IMF) and the World Bank came under attacks at both the national and international levels. At the national level, for example, the adjustment programmes as strategies for economic recovery, were challenged by the retired General Olusegun Obasanjo (former Head of State) in Nigeria. The General took a swipe at the adjustment programme under implementation and called for a reformed adjustment programme "with a human face".6/ At the international level, the IMF-World Bank supported structural adjustment programmes were confronted by the Economic Commission

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5/ S.J. Scherr: Agriculture in an Export Boom Economy. A comparative analysis of Policy and Performance in Indonesia, Mexico and Nigeria- World Development Vol. 17 NO. 4 April 1989 (Pergamon Press , New York).

6/ Adebayo Olukoshi- crisis and Adjustment in the Nigerian Economy (JAD Publishers Limited) Lagos, Nigeria .

for Africa (ECA) on the very issue of the supposed beneficial effect of those adjustment programmes. For an example, the ECA strongly disagreed with the IMF and the World Bank on the impact of the adjustment programmes arguing that they had devastating human dimensions for the continent.7/

Other international agencies have also come to recognise 'the social costs of transition' predicted as an unavoidable part of the process of structural adjustment and economic reform under IMF and World Bank auspices. Not only has UNICEF made its view clear, in its report on' Adjustment with a Human Face' but in May 1988 a report published by the IMF itself recognised that poor people have been hurt by the policies it has pressed on Third World countries, such as devaluation and cuts in government spending. The report suggested that 'the more adjustment efforts give proper weight to social realities- especially the implications for the poorest-the more successful they are likely to be'8/. Some bilateral agencies also clearly agree. At the beginning of April 1988, the USA for example, signed an agreement with the Moroccan government for a food programme worth $60 million for the period 1987-89. The programme provided for the purchase during the adjustment period, of foodstuffs such as flour, wheat, edible oil and milk. A part of the sum financed 'social projects' through the Moroccan National Assistance and National Promotion.

The view contained in these developments is that greater emphasis should be laid upon the social-Dimensions of the structural adjustment programmes. For example, do these adjustment measures improve the material well-being of the majority of the citizens of the African countries which have adopted and are implementing the programmes? To what extent are the vulnerable groups(the poor) protected under the programmes? Effective targeting of measures to protect vulnerable groups or to offset transitional costs is of significant consideration. The human aspects of the adjustment programmes ought, therefore, to address issues like the demand for the creation of jobs as against retrenchments, high cost of living, low wages, inflation etc.

Lessons of experience from African countries which have adopted and are implementing adjustment Programmes is that, the programmes often create labour redundancies at a faster rate than they can be absorbed or re-adapted into productive employment within the economy. As more (conditional) sectoral loans are contracted by the governments of the African countries undergoing stabilization and adjustment, more workers can be expected to lose jobs. The sectors of the economy which benefit from such loans are compelled to rationalize their services. They are also forced to increase the cost of their services. In both ways, the workers are disadvantaged or made worse off; so that a situation emerges whereby structural adjustment programmes are regarded as socio-economic violence directed against the workers as well as other underprivileged classes in the country. Nigeria offers an immediate example of the adverse effects of the adjustment programmes on jobs

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7/ Beyond Recovery: Economic Commission for Africa's Revised Perspectives Study of Africa's Development Prospects 1988-2008. United Nations Economic Commission for Africa: Addis Ababa, December, 1988.

8/ Financial Times May 1988.

when in 1989, the government, faced with tense labour-government confrontation over the administration's economic recovery programme promised to create 62,000 more jobs through the Directorate of Employment. Ironically, in order to implement the adjustment programme, many workers were sacked from certain projects, notably the II River Basin Authorities, at the very time when government was expected to create 62,000 more jobs (ADEBAYO OLUKOSH,1991).

There is rapid evolution in thinking about the design and implementation of structural adjustment that will ensure that the twin goals of sustained economic growth and poverty reduction can be attained as well as to reconcile what the people of the continent need or have come to expect, with what their respective countries can afford. While most African countries have adopted IMF and World Bank-supported stabilization and structural adjustment programmes, these programmes on the whole, often lack the ability to grasp the political, social, cultural and economic realities of African countries. This view is best expressed in the Khartoum Declaration as follows:

> "These programmes are "incomplete because they are often implemented as if fiscal, trade and price balances are ends in themselves, and are virtually complete sets of means to production increases. Human condition imbalances, as related to employment, incomes, nutrition, health and education, do not receive equal priority in attention to macro-economic imbalances. They are too mechanistic being inadequately grounded in, or sensitive to specific national, economic, human and cultural realities...(and) they are in too short a time perspective. Africa cannot wait for the attainment of external equilibrium and fiscal balance before seeking to improve the human condition, nor can long-term human investment to strengthen the institutional, scientific, technical and productive capacity operating in environmental balance be postponed".9/

Further, on the social front, many African governments have enormously reduced their budgetary support to public social expenditure respect of education, health and other social services and have channelled the resources saved from the expenditure cuts to debt-servicing in an attempt to cut budget deficit. The long-term effect of the reduction in investment on human resources, in particular, is a progressive rate of illiteracy of Africa's population and declining skills capabilities. The consequence of that is that Africa will continue to slide into backwardness and marginalization and ultimately become a 'misfit' to the world society. It stands to reason, therefore, that such a situation ought to be arrested. The stabilization and adjustment programmes ought to be continuously refined in the light of the lessons of experience on the implementation of those which have been adapted. Only the stage by stage refinery of the stabilization and adjustment programmes can throw some light at the end of the tunnel. Indeed, the lessons of experience are already influencing such a trend as can be seen from the historical development of the adjustment programmes in Africa. For

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9/ United Nations Economic Commission for Africa - African Alternative Framework to Structural Adjustment Programmes for Socio-Economic Recovery and Transformation. (AAF-SAP) (E/ECA/CM/6/Rev.3).

example, the initial round of adjustment programs in Africa, which occurred in 1981/83/84, concentrated mainly on restoring macro-economic balances following the imbalances which were earlier brought about by over expansionary monetary and public finance policies largely influenced by the commodity booms of the early 1970.

The second stage of the adjustment programmes which occurred during 1984-1986, retained most of the policy instruments of the earlier stage but added, thereon, improvement in resource allocation and growth. For example, Governments increasingly sought to change the structure of economic incentives through a comprehensive revision of trade and exchange rate policies as well as institutional reforms, especially in marketing. In addition, increased attention was paid to improving public-sector efficiency and the planning and implementation of public investments.

It was during the second generation of programmes that more attention was focused on the social dimensions of adjustment. Public policy turned to exploring ways to assist the poor and vulnerable groups affected by the adjustment process, once it was recognized that the transition could well extend for a longer period of time that initially anticipated. Quite rightfully, African Governments and donors recognized that vulnerable groups could not wait for the benefits of adjustment to accrue to them and that they would need various kinds of assistance in the interim. Nonetheless, social dimensions programmes were seen as parallel activities to be undertaken along side of ongoing adjustment programmes. Moreover, emphasis of these early social dimensions projects and programmes was put on protecting poor and vulnerable groups during adjustment through welfare and consumption interventions, that is through mitigation, and less on promoting their integration into the newly emerging economic environment. Country examples of this second generation can be seen in Ghana, guinea-Bissau, and Senegal.10/

The third stage, which is also the current one, has carried the second stage further and in addition, it incorporates 'poverty reduction' as well as improved efficiency and economic growth. Poverty reduction addresses the poverty effects of alternative adjustment packages. Views are thus being sought for the agenda for the next stage of the adjustment programmes. In this connection, the thinking would appear to be along the lines of going a step further on poverty - oriented adjustments which would emphasize greater participation of the poor in the growth process.(the enhanced mass participation in decision-making and implementation of programmes).

However, whatever the considered options for the design of stabilization and adjustment programmes as well as policy instruments for their operationalization, the cornerstone for their success is the structure of the political institutions in Africa. The stabilization and adjustment programmes ought also to capture the political-oriented dimension. This dimension should envisage greater freedom of democracy, greater freedom to participate in the developmental policy formulation process, liberty to air the views and

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10/ RAF/86/037/A/01/42- UNDP Regional Programme for Africa, Fourth Cycle: Assessment of Social Dimensions of Structural adjustment in Sub-Saharan Africa.

the privilege to be heard.11/ There is a direct link between the freedom of the people and their commitment to the process of economic recovery and transformation. The freedom to determine their leadership is the cornerstone for generating the sense of the masses' commitment to the programmes adapted by the leadership of their own making. The sense of commitment, in turn, breeds the 'will' for sacrifice under the process of recovery and transformation, which, in turn, minimizes the erosion of working confidence in the leadership.

SECTION III

MEASURES UNDERTAKEN UNDER STRUCTURAL ADJUSTMENT PROGRAMMES BY SOME SELECTED AFRICAN COUNTRIES

I. GHANA

The adjustment programme started in Ghana in 1983. Initially the programme was negotiated with the International Monetary Fund (IMF) and was presented in the budget in April, 1983. The key aspects of the budget were (a) introduction of the system of surcharges and bonuses which imposed surcharges ranging from 750 per cent to 900 on the face value of imports and confined bonuses of the same magnitude on the face value of exports. That in effect, established a dual exchange rate for the cedi and accounted for a massive devaluation of the cedi from US$1 to C2.75 to US$1 to C23.00 and US$1 to C30.00 respectively. (b) an increase in the cocoa producer price from C360 to C600 per load of 30kg. (c) increase in basic wage from C12.00 to C21.19 per day (d) increase of 100 per cent in the price of petrol, up to 1500 per cent in the price of medical care, and up to 400 per cent in the process of meat and some basic commodities. Particular emphasis was placed on production. The centrepiece of the strategy to increase productivity was the mobilisation of all groups of people including processionals, students, workers and farmers."12/

The 1983 budget introduced a one-year economic stabilisation programme to be followed by a three-year Economic Recovery Programme (ERP) starting 1984 through 1986. The key to the recovery plan was an Export Rehabilitation Project covering cocoa, timber and mining. That included the World Bank assisted projects to rehabilitate two state-owned and 17 private sector timber firms, rehabilitate the TARKWA and Prestea gold mines; as well as

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11/ E/ECA/CM.16/11- African Charter for Popular Participation in Development and Transformation (Arusha 1990). The charter was adopted at the International Conference on Popular Participation in the Recovery and Development Process in Africa held in Arusha United Republic of Tanzania during 12 to 16 February, 1990.

12/ Bonnie K. Campbell and John LoxLey: Structural Adjustment in Africa. (The Macmillan Press Ltd, Houndmills, Basingstoke, Hampshire RG21 2xs and London.

the on-going cocoa replanting projects in Ashanti and the Eastern Region. The IMF was responsible, in collaboration with the Ghanaian officials, for evolving exchange rate and trade policy, fiscal issues and domestic resource mobilisation and external debt management. Whilst the World Bank focused mainly upon incentive policies and public sector reform policies. Those covered trade liberalisation and cocoa sector policy, public expenditure targets public sector management and reform of parastatals. The overall programme objectives and sector policies were developed by IMF and World Bank staff in collaboration with officials from the Ministry of Finance and Economic Planning.

As regards the Economic Recovery Programme, it was developed along conventional form of market-oriented and supply side reforms involving deficit and tax reduction, production incentives, trade liberalisation and exchange rate depreciation. Central to its attention were the following: Exchange Rate Reform, Price Decontrol and reform, Monetary and Fiscal Policies, Export Sector Rehabilitation Programme, Public Sector Investment Programme and State Enterprise and public Sector Reform.

Exchange Rate Control

The creation and maintenance of a meaningful market-determined exchange rate was central to Ghana's adjustment Programme and the main aim being to unify the official and free market exchange rates for the cedi. To achieve that, the cedi was devalued by over 99 per cent in relation to the US$, from C2.75 to C260 to one US$ between April 1983 and April 1988.

Price Decontrol and Reform

The changes in the exchange rate triggered upward revisions in import and export prices and were further supported by the abolition of state subsidies and price and distribution controls. The list of essential consumer items subject to price control were reduced from 23 to 17 in 1984 and then phased out altogether. The aim of exchange rate and price reforms was to shift incentives further from trading and rent-seeking activities to production.

Monetary and Fiscal Policies

The monetary and Fiscal Policies focused primarily upon increasing national savings rate(through substantially raising the interest rate and imposing strict credit ceilings) and the management of public sector finances(through dramatic reductions in current expenditure, discontinuation of public subsidies, repricing of government services, massive public sector entrenchment, relative increase in development expenditure as a proportion of total budget, the broadening of tax and revenue base and reduced reliance on the banking system).

Export Sector Rehabilitation

The Export Sector Rehabilitation Programme focused attention initially upon improvement of producer incentives and an export earning retention scheme that permitted certain exporters to retain a proportion of their foreign exchange proceeds. Also to improve the real returns to the producer, and raise the domestic price as a proportion of the world market, the producer price for cocoa, was substantially raised, for example from C12,000 per tone in 1982-83, to C56,000 per tonne in 1985-86 and C140,000 per tonne in 1987-88.

Public Sector Investment Programme

The Public Sector Investment Programme aimed mainly at rehabilitating economic and social infrastructure, concentrating largely on repairs and improvements to roads, railway, ports and communication systems and leaving the private sector to spearhead the productive base.

State Enterprise and Public Sector Reform

The objectives of the reform were said to be threefold: firstly to reduce state involvement in the productive sector and the financial and managerial burden of the state enterprises; secondly to improve the efficiency, profitability and productivity of state enterprises; and thirdly to increase the managerial autonomy and accountability of state enterprises. Thirty state enterprises were to be liquidated, sold outright, or converted into joint ventures in the initial phase of the reform programme; those included both loss-making as well as profitable enterprises considered potentially attractive to investors. The remaining enterprises were to be opened to increased competition and market discipline, including competition from foreign firms through trade liberalisation where no domestic competitors existed; preferential access to foreign exchange and credit for state enterprises was to be abolished. Ten per cent of parastatal staff were to be dismissed in an initial phase of retrenchment between 1987 and 1989. A Structural Adjustment Institutional Support Project aimed to strengthen the planning, implementation, analytical and monitoring capabilities of the Ministry of Finance and Economic Planning and other key ministries and government agencies involved in structural adjustment work. A basic condition for assistance under that project was retrenchment of 15 000 civil servants (or 5 per cent of the civil service) annually between 1986 and 1988 and improvement of working conditions for the remainder, particularly at the top of the system.13/

The above policy instruments which were employed for the operationalization of the Structural Adjustment Programme as well as the Economic Recovery Programme (SAP/ERP) in Ghana, were introduced in the wake of devastations in the agricultural sector in 1983 caused mainly by severe drought and bushfires which destroyed food and cocoa production

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13/ Ibid pp.110.

and brought about famine conditions. Nonetheless, there was still claim for significant successes in a number of areas.

II. IVORY COAST

The programme for Economic Corrective measures in the Ivory Coast started at the beginning of 1978 when the government adopted an initial financial programme covering the period of April 1978 to March 1979. Then, in recognition that the necessary adjustments could only be accomplished in a middle - term time frame, the government called the International Monetary Fund (IMF) to endorse the carrying of its adjustment programme. Following that, an extended facility agreement was signed in January, of 1981 which was supplemented with renewed stand-by agreements14/. The Ivory Coast received assistance from the World Bank and the Caisse Centrale de Cooperation Economique (CCCE) for its adjustment programme along with the support of the IMF. Three structural adjustment loans to finance technical assistance and other new projects was financed by the World Bank. Whilst no programme of structural adjustment was developed by the CCCE, it did significantly issue supplementary financing for development projects which constituted direct aid to public financing in order enable the Ivory Coast to provide its share of the funding for projects which otherwise benefitted from external aid. The use of the structural adjustment loans was concentrated on the following: (a) macroeconomic and financial management, (b) reorganisation of the public sector, (c) industrial policy, (d) agricultural policy and (e) Housing policy.

(a) Macro-economic and Financial Management

The primary aim of the macro-economic and financial management was to intensify measures to (i) improve the evaluation, programming, administration, follow-up and control of investment projects (ii) recover the cost of investment and recurrent expenses in education, housing and urban transport, (iii) initiate reforms in the civil service; and (iv) strengthen the personnel and the tools available for macro-economic forecasting and financial management of the economy.

(b) Reorganisation of the Public Sector

In line with the launching of tools and procedures for better financial management, emphasis was laid upon the need for extensive audit of the state corporations with a view to their reform and possible transfer of certain activities to the private sector.

14/ Ibid pp.137.

(c) Industrial Policy

Greater recognition was given to the industrial policy as the significant instrument to reform the system of incentives in order to restore and enhance the competitiveness of business and to promote the industrial base.

(d) Agricultural Policy

The agricultural policy was one of the principal aspect of the programme of structural adjustment lending. It pursued the profit terms of trade for agriculture and aimed at creating the environment which favoured the modernisation of agriculture and investment in that sector.

(e) Housing Policy

The primary aim of the housing policy was to cut the financial burden of this sector on public accounts. To achieve that, the following measures were adopted: (i) the establishing of the principle of shifting the largest part of the cost on to the user; (ii) the reorientation of public investment so as to leave construction the responsibility of the private sector; (iii) the reform of financial mechanism concerning housing (iv) the reform of public sector enterprise; (v) the progressive freeing of rents on housing owned by public enterprises and the transfer of a part of this housing to the private sector and (vi) the reduction of expenses resulting from the housing for civil servants.

The first structural adjustment loan(SAL) in 1981, emphasized macro-economic and financial management, administrative reforms and restructuring of public enterprises. The second (SAL) in 1983, focused in greater depth on restructuring of public enterprises and the introduction of industrial policy; while the third SAL in 1986, was directed at perfecting industrial policy, pursuing the restructuring of public enterprises and development banks and implementing agricultural policy (prices, incentives, restructuring, modernisation and privatization).

The degree of the success of the above policy instruments varied. For example, in the case of the macro-economic policies, whilst there was claim for significant achievements, it was noted that the success resulting from macro-economic reforms was costly, fragile and limited in scope. In connection with the industrial policy, a number of promising signs appeared in the textile and wood industrial sector. Nonetheless, the level of investment remained weak. Finally, in connection with agricultural policy, the central issue was whether the reforms instituted were capable of stimulating the growth of Ivorian agriculture, of bringing about its diversification, of lessening its vulnerability relative to the world market prices of coffee and especially cocoa, and setting in motion a trend towards intensification. To address the issue, it was generally observed that the restructuring of agricultural sector was a long-term process and that the direct effects of adjustments in the sector were bound to spread over time.

III. MADAGASCAR

Six stand-by agreements intended to support the structural adjustment programmes advocated by the International Monetary Fund (IMF) were signed between 1980-86. The first two were suspended in mid-term because the country failed to respect the performance criteria which were attached to the loans (in particular with respect to the obligation to reduce deficits). The next three (from July 1982 onwards were carried to terms. An additional one was approved in August 1986. The objectives of the structural adjustment programmes were the re-establishment of equilibria and solvency on the one hand, and economic recovery through liberalisation and restructuring of supply on the other . Those objectives were thus of a dual nature.

The key measures which the IMF advocated in respect of the stand-by agreements providing loans to finance the implementation of the structural adjustment programmes included:

(a) Global strategies for reintroducing equilibrium: restriction of money and credit, devaluation, institutionalisation of a flexible rate of exchange, subject to revision every trimester, reduction of the deficit in public fiances which included reductions in the investment budget and a ceiling of salary increase; reduction of arrears due to foreign loans and a ceiling on loans; abolition of subsidies for consumer goods (such as rice).

(b) Increases in agricultural prices.

(c) Progressive liberalisation of industrial prices.

(d) Progressive liberalisation of exchange controls and of the system of currency allocation.

The World Bank which provided credit assistance to industry (CAI) and also credit assistance to agriculture (CASA), proposed a plan that would contribute to resolving crisis in Madagascar based on compliance with adjustment polices as advocated by the IMF and the World Bank. The plan envisaged the following:

(a) A vigorous increase in exports (4.1 per cent annually between 1985-90, 5.8 per cent annually from 1990-1995); principally as a result of the increase in agricultural exports following successful liberalisation of agriculture.

(b) A renewal of growth (3 per cent from 1985-90, 3.6 per cent subsequently) engendered by agricultural growth (3 per cent, 3.6 per cent) and industrial growth (4 per cent, 5.4 per cent).

(c) A reabsorption of the deficit in the balance of goods and services.

Table 1 below shows the World bank scenario to solve the economic crisis in Madagascar.

Table 1: The World Bank Scenario to Solve the Crisis

	Growth Rates(% per annum)			Share of GDP*(%)		
	1980-85	1985-90	1990-95	1985	1990	1995
Gross domestic product	- 0.9	3.0	3.6	100	100	100
Agriculture	2.3	3.0	3.6	42	42	42
Industry +	- 6.5	4.0	5.4	18	19	21
Other sectors	- 0.7	2.8	2.6	40	39	37
Consumption	- 0.6	2.9	2.8	91	90	87
Investment	- 9.0	1.5	4.7	14	13	13
Exports	- 6.9	4.1	5.8	15	17	19
Imports	- 15.1	2.1	2.6	20	20	19
Gross domestic savings	- 1.9	4.1	9.5	9	10	13
GDP,per capita	- 3.6	0.3	0.8	n.a	n.a	n.a

* In constant 1985 Prices
\+ Includes Mining, Manufacturing, Construction, and Utilities

Source: Wold Bank: Country Economic Memorandum, March 1986, p 49.

In order to execute the plan, the World Bank advocated the following measures: increases in agricultural producer prices, devaluations, continuation of the process of liberalisation and deregulation, particularly with respect to exchange controls, commercialisation, reform of the public sector (state corporations, banks) transportation and privatisation.

As a means to revitalise the economy, emphasis was laid upon better use of price incentives and a greater role given to market forces which were supported to stimulate the productive system that was considered, otherwise very much under-utilised. But the World Bank scenario was not without obstacles. For example, in the case of agriculture the irreversible ageing and deterioration of plants and plantations, particularly of coffee, affected recovery process. In the case of transportation, there was severe deterioration of the transport system including roads and fleet of trucks. Further, the country was experiencing marked degeneration of commercialisation networks and progressive peasant withdrawal from the money economy. These factors had the effect of prolonging the anticipated results of the adjustment programmes.

SECTION IV

THE IMPACT OF THE STRUCTURAL ADJUSTMENT PROGRAMMES ON FISCAL POLICIES

The impact of the structural adjustment programmes on fiscal policies in African countries ought to be assessed against the background of the origins of the disequilibrium in the economy of each individual country. The structural adjustment programmes are, but the responses to a country's socio-economic crisis. In spite of the fact that African countries inherited relatively similar economic structures at independence, and that consequently, the origins of the economic and financial crisis in these countries share many commonalities, that, itself, should not give rise to the assumption of the universality of the purpose or objectives of the structural adjustment programmes, whereby recommended solutions or policy responses in one country automatically apply to the other country.

The purpose of the structural adjustment programmes is to address country specific conditions at a given period of time. The measures adopted to achieve the objectives of the adjustment programmes should be determined by the characteristics of the origins of the crisis situation. It is, however, ironical that in general, the policy variables involved in the structural adjustment programmes as advocated by the IMF and the World Bank, are broadly the same regardless of the country or government seeking assistance, only the details of adjustment vary.

In connection with the selected countries discussed above, the origins of the disequilibrium or economic crisis within their economies may be briefly explained as follows:

GHANA

The decline in the domestic management of Ghana's economy was precipitated by the breakdown of the entire public infrastructure and transport sector which interrupted haulage to the points, an overvalued exchange rate which lowered domestic prices to cocoa producers and other exporters and encouraged smuggling and deterioration of productive assets and balance of payment problems which led to shortages of producer inputs and spare parts. Other factors specific to particular sectors included in the case of cocoa, declining real producer prices and drastic changes in relativities between cocoa and other crops, which encouraged a shift out of cocoa cultivation. In the case of mining industry, there were obsolete machinery, liquidity problems and indifferent management.

IVORY COAST

The origin of the disequilibrium in the Ivorian economy was the deterioration in the balance of payments after 1978 as the consequence of the deterioration in the international economic environment (the second petroleum price like and the decline of world market prices for primary resources). In the industrial sector, owing to rapid upsurge of import substitution the share of the industry to the Gross Domestic Product fell. As regards public investment, in the 1970s the country had experienced huge public spending. But when exports fell, public spending progressively dried off and thus affecting the general level of activity in the modern sector which resulted to the progressive exhaustion of the economic dynamism of the country.

MADAGASCAR

Madagascar is characterized by a very particular configuration of characteristics which are reflection of its situation as an island. The island is vast and mountainous; a geography which impedes transportation. The origins of the economic and financial crisis there which began in the early 1980s may be summarized as follows: the weakness of the trading economy (at independence the economy was structured around an economic de traite (colonial trading economy) based on the production and export of primary resources which were essentially agriculture, the underdeveloped state of the transportation and commercial networks, the weakness of productive investments and relatively low level of integration of the rural population to the market economy.

The measures that the Ghanian government undertook in response to the fiscal and balance of payments problems in the economy which related partly to the decline in export prices, included; domestic economic diversification and integration through rapid import-substitution industrialisation; emphasis on state-led accumulation channelled through a variety of mechanisms (taxation and reliance on short term foreign credits and deficit financing) and development of social and economic infrastructures. As was common with any developing country the economic and demographic trends reflected movement of labour as well as resources away from rural areas to urban areas thus causing relative shrinkage of agricultural population, proceeding in tandem with the expansion of urban activities.

The implication of such a trend was that fiscal policies tended to structure incentives away from production and toward exchange and rent generating activities. Since the adjustment programmes emphasized agricultural production, the fiscal policies were then restructured to encourage those activities. The policies to improve the incentives were primarily through unification of various exchange rate markets and maintenance of flexible exchange rate, higher cocoa producer prices and improvement in management and resource use in the public sector.

Since the launching of the Economic Recovery Programme, the core of the reforms was the real effective depreciation of the cedi by about 90% in around 1988. The government also rationalized the tariff structure and substantially liberalized trade by eliminating most quantitative restrictions on imports and by progressively allowing imports

to be financed through the foreign exchange auction. The cocoa producer price was increased substantially by about 2.5 times in real terms by 1988. For example, effective from the 1987/88, the cocoa producer price was raised by 65 per cent to C140,000 per metric ton. In late 1988, farmers were also paid bonuses on previous production, C500 per metric ton 1986/87 and C10,000 per metric ton for 1987/88. The impact of those price changes was to raise the farmers share of the world market.15/ There was also improvement in tax administration, which, together with the increases in petroleum taxes, contributed to stronger revenue performance. Further, in order to encourage the flow of additional resources through legal channels and to improve the operation of exchange system, particularly the process of obtaining small amounts of currency on a daily basis, as of February 1, 1988, Government permitted the establishment of foreign exchange bureaus, which had to report all sales and purchases of foreign exchange to the bank of Ghana. The restructuring of the basic institutions of the economy , particularly in the areas of import-export trade, tax and budgetary reform and the establishment of a sound macro-economic framework covering fiscal and monetary policies as well as prices and incomes policies with the objective of rationalizing production incentives, meant that the government was placing greater emphasis on rigorous adherence to financial discipline requiring proper complementarity between the restructuring of production and sound mobilisation and management of financial resources.

On the public expenditure side the Ghana Government had two notable priorities for public expenditure. Those were improvement in the allocation of operations and maintenance expenditures and the improvement in planning and implementation of public investment, thereby increasing returns on those expenditures. A task force was appointed in the Ministry of Finance and Economic Planning body was instituted to undertake a study on recurrent expenditure norms. The study provided guidelines which were then used for the preparation of the national budget. The guidelines helped to ensure that all government critical services received adequate funding. On the overall, the public expenditure policy in Ghana emphasized stimulating the economy while clamping down on allocative inefficiencies. It should, however, be emphasized that successful implementation of structural adjustment requires more effective economic management. Relentless efforts, therefore, ought to be exerted in this direction in order to ensure that policy decisions are soundly coordinated and followed up fully.

In the case of the Ivory Coast, as was pointed out earlier, the economic disequilibrium occurred largely because of lack of coordinated overall control over public expenditures (both government and public enterprises), as well as control over foreign borrowing. Structural changes, therefore, focused more attention upon the question of policy controls over public investment and overall foreign borrowing by (1) the government (2) the public enterprises and (3) the private enterprises. The public investments and foreign borrowing because they were badly conceived and uncontrolled proved to be largely inefficient and did not contribute to unblocking the bottlenecks in the economy. The emphasis of the measures for structural change was on restructuring the budgetary expenditures for efficient resource allocation as well as the reform of the public sector . There was a need to improve the evaluation,

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15/ World Bank - Ghana - Structural Adjustment for Growth. January 23, 1989 (Report No. 7515 - GH.)

programming, administration, follow-up and control of investment projects as well as the centralisation of financial adminstration with procedures permitting the ministry of Finance to follow up and control transaction of the public sector as whole. A further impact of the structural change was the devaluation of the country's currency in order to encourage agricultural exports. On the same note, fiscal measures were taken to provide incentives for producer prices. However, it should be observed that the achievements resulting from the corrective measures undertaken were of costly, fragile and limited nature.

In the case of Madagascar, the country experienced some difficulty in responding to structural changes through fiscal front. Given the country's low level of income, increasing taxation is a difficult proposition; it is even more so, because nearly one third of revenues are obtained from export duties, which duties ought to be lowered to strengthen export incentives. Lowering export duties requires identification of alternative sources. Likewise, overtaxation of exports discourages production and long-term investment in agricultural crops for export. However, in the wake of essential expenditures under the recovery programme, emphasis was laid upon measures to strengthen revenue assessment and collection, and, where possible, expand the tax base or raise tax rates to generate more receipts. The prospect for public domestic resource mobilisation, in particular, the expansion of the tax base, relied heavily on the improved performance of the public enterprises. In recognition of that, the country undertook measures, on the basis of extensive study, to define the roles of public enterprises in the agricultural sector and to create appropriate management systems; some form of tightening of financial discipline and management.

Generally, the analysis of public finances in Madagascar is quite complicated as fiscal management is split among various departments, both in regard to revenue collection and expenditure. As regards the expenditure side, there were issues in the expenditure programming, relating to appropriate balances between current and capital expenditure on the one hand, and appropriate balances within each of these categories.16/

SECTION V

CONCLUSION

By and large, African countries have undertaken positive steps to improve their economic policy environment as well as national economic management. Despite pressing financial problems confronting the African countries, particularly, the financial requirements for structural adjustment and transformation, there have been claims for improvements in economic growth, though such improvements are commonly at the detriment of the vulnerable groups (the poor). Budgets have largely been restructured to encourage stimulation of the economies and effective financial discipline. Shifts have been made away from the traditional methods of expenditure towards the modern methods involving expenditure programming. Shifts have been made away from wasteful public investment towards productive public

16/ World Bank: The Democratic Republic of Madagascar - Country Economic Memorandum March, 1986 - (Report No., 5996 - MAG).

investment. Efforts are continually being made to improve the public sector performance through streamlining the sector and encouraging privatization.

There has been considerable shifts away from currency overvaluation towards currency flexibility, followed by improvement in incentives for agricultural crops for exports (increases in producer prices). There has been rapid surge of taxation philosophy that advocates shifts away from reliance on trade taxes towards intensified mobilization of domestic resources; emphasizing on indirect taxes. There has been an increasing awareness of the role of financial systems in economic recovery and development. There has been growing awareness of the narrowness of the agricultural base, both in terms of size and in relation to the range of commodities produced. There has been growing awareness that the low level of productivity in agriculture is a major cause for concern since the African countries depend so much on agriculture for mass employment, income, foreign exchange and government revenue. There has been growing recognition of the need to improve the management of the public service, to economically utilize human resources in general and to enhance the skills capabilities of women in particular, so as to give them the place they deserve in the Economic Recovery and Development.

While positive measures are being undertaken to translate the awareness into action, through, in particular, liberalization of the economy, flexibility in price control, privatization etc, in some countries, there exist a number of legal texts governing marketing and pricing policies. These legal texts which used to apply in the pre-recovery period, cause confusion to the implementation of the stabilization and adjustment programmes. There is, therefore, a further need to review the existing market-oriented legislations in order to provide new legal pronouncements that will spell out in details, the pricing framework and methodology for other affected fields.

As for the successes and failures of the adjustment programmes, it is important to differentiate between responses to mid-term demands or crisis and the responses to long-term crisis. While there can be claims for success in the short-term, in the long-run, the adjustments may lead to progressively diminishing growth and increasingly worsening effects upon the vulnerable groups and thus widening the poverty gap instead of reducing it. It is essential, therefore, that the adjustment programmes tightly close any loopholes that may give rise to vicious cycles whereby every step to adjust leads to further socio-economic imbalances.