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The Impact of Structural Adjustment Programs (SAPs)

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1.0 INTRODUCTION

Before any serious critique of structural adjustment programs can be attempted, however, it is essential to explain just how they came about and to ask, why are so many Third World Nations behind on their debt payment? And why do the World Bank and the IMF exercise so much influence over their economies?

“Structural Adjustment” is the name given to a set of “free market” economic policies imposed on countries by the World Bank and International Monetary Fund (IMF) as a condition for receiving financial assistance. Basically Structural Adjustment Programs (SAPs) attach a number of stringent conditions to cash transfers and offer the IMF and World Bank a mode of gaining stronger influence over the economies of debt-strapped governments in the south.

There are differing views about SAPs from all quarters. While some are economical others are political. The argument from the World Bank and the IMF is that SAPs are a necessity to bring a developing country from crisis to economic recovery and growth. The belief is that the key to development is economic growth, which is driven by foreign investment. The resultant wealth, they claim, will eventually “trickle-down” or spread throughout the economy and eventually to the poor.

Other views are political like those of Susan George, A Fate Worse than Debt (New York: Grove Weidenfeld, 1990) “Debt is an efficient tool. It ensures access to other peoples’ raw materials and infrastructure on the cheapest possible term. Dozens of countries must compete for shrinking export markets and can export only a limited range of products because of Northern protectionism and their lack of cash to invest in diversification”. The IMF impose SAPs to ensure debt repayment in such a way that social spending and development must be cut back and debt repayment must be made the priority. In effect, the IMF and the World Bank demand that these poor nations lower the standard of living of their people.
Thitian Pongsudhirak from Chulalongkorn University in Thailand also shares this view about debt. He says that Structural adjustment came into its own with the 1982 debt crisis, when Mexico declared it was going to default on its debt payment. They were forced by the IMF to accept a programme that would give supreme importance to debt repayment over other national expenditure, ensuring Mexico diverted its energies towards exports and the foreign currency it would earn from them could then be channelled to its creditors, the banks.

In David Reed (Structural Adjustment, the Environment, and Sustainable Development, 1996), it is shown that three sets of issues shaped the debate over structural adjustment. The principal causes of the economic crisis experienced by most developing countries emerged in the early 1980s. The controversy was between the advocates citing adverse external conditions as the cause of the economic collapse on one side and on the other side there were those who stressed economic problems internal to individual developing countries.

Looking at the political viewpoint, there are some new democracy which have dictators who when in power accumulate wealth at the expense of the others. There are also many ethnic groups in some countries and they tend to play a major role in both the economic and political circle.

There were “externalists” and “internalists”, while the externalists based their claims on decades-long decline in the relative terms of trade, high real interest rates, and growing protectionism in Organisation for Economic Co-operation and development (OECD) countries, the internalists offered examples such as the highly inefficient economic performance of individual governments, deeply ingrained economic distortions, and widespread financial mismanagement.

Structural Adjustment Programs are designed to improve a country’s foreign investment climate by eliminating trade and investment regulations, boosting foreign exchange earnings by promoting exports, and reducing government deficits through cuts in spending.
According to the Halifax initiative, Structural Adjustment programmes (SAPs), were originally designed to stabilize the economies of developing countries. Apparently the Halifax initiative has it that SAPs have imposed harsh economic measures, which deepen poverty, undermine food security and self-reliance leading to unsustainable resource exploitation, massive environmental destruction, and population dislocation and displacement.

Some of the Structural Adjustment Programmes’ policies call for increased exports to generate foreign exchange to service debt. Developing countries’ most important exports, including timber, oil and natural gas, minerals, cash crops, and fisheries, are all derived from natural resource extraction. The resulting acceleration of resource extraction and commodity production might not be ecologically sustainable. Deforestation, land degradation and desertification, biodiversity loss, soil erosion and salinization, increased production of greenhouse gases, and air and water could be some of the environmental impacts that can be traced on the imposition of SAPs.

On the other side, there are some countries, which have performed or done well without the natural resources. Taking for examples China and Taiwan. Whereas China has natural resources, Taiwan has done well. Other countries that have done well without natural resources include Switzerland and Japan while a country like Canada could also be looked at in the same way as China.

The aim of this paper is to try and explain how and why Structural Adjustments came about and the influence of the World Bank and IMF in their economies by looking at the structural adjustment programs in the various sectors which include; trade, privatisation, mining, labour markets and employment, financial agricultural and the fiscal sector.
2.0 CHARACTERISTICS OF DEVELOPING COUNTRIES

The percentage of people living on less than US$1 a day (PPP) at 1985 international (purchasing power parity) prices is a widely used measure of poverty. A person is said to be poor if he or she lives in a household whose total income or consumption per person is less than the poverty line.

According to the World Bank Development Report of 1997 the low income economies are those with the Gross National Product (GNP) per capita of $ 765 or less; lower-middle-income, $766-$3,035; upper-middle-income, $3,036-$9,385; and high-income, $9,386 or more.

Some of the common characteristics of developing countries can be broadly classified as:
1. Low living standards
2. Low levels of productivity
3. High population growth rates and dependency burdens
4. High and rising levels of unemployment and underemployment.
5. Significance dependence on agricultural production and primary product exports
6. Dominance, dependence, and vulnerability in international relations

2.1 LOW LIVING STANDARDS

The vast majority of people in developing countries have generally a very low level of living in comparison to their counterparts in the developed nations and also in relation to the small elite groups within their own society. The low levels of living are shown in the form of low incomes (poverty), poor health, high infant mortality, inadequate housing, limited or no education, low life and work expectancy, and in many cases, a general sense of malaise and hopelessness (Todaro 1989).

The gross national product (GNP) is often used as a yardstick index of the relative economic well being of people in different nations. By 1988, the total national product of all the nations of the world was valued at more than U.S. $15,500 billion of which
more than $12,650 billion originated from the developed nations (Todaro 1989). Less than $2,850 billion was generated in the developing nations.

Taking into consideration the distribution of the world population, approximately 81% of the world’s total income is produced in the economically developed regions by less than 23% of the world’s people. More than three-fourths of the world’s population is therefore producing only 19% of total world output with almost 77% of the world’s population and subsists on less than 21% of the world’s income. The collective per capita incomes of the underdeveloped countries average less than one-sixteenth of the per capita incomes of the rich nations (ibid).

Many Third world countries have experienced slower GNP growth than the developed nations in addition to having lower per capita income. The 31 poorest countries of Africa, designated by the UN classification system as “least developed” for example showed an average annual real GNP per capita growth rate of minus 0.3% between 1965 and 1985.

On the other hand the member nations classified by the UN as “developing” showed an average growth rate of approximately 3.7% during the same period. By contrast, the average annual growth rate among all developed countries during this same period was 1.7% meaning that the income gap between the rich and the least developed nations widened at a rate of 2.0% a year [(1.7-(-0.3)].

All nations of the world show some degree of income inequality. There are large disparities between income of the rich and the poor in both the developing and the developed countries. Nevertheless, the gap between the rich and the poor is greater in the developing than the developed nations.

Comparing the share of the national income that accrues to the poorest 40% of a country’s population with that of the richest 20% as an arbitrary measure of the degree of inequality, countries like Brazil, Ecuador, Columbia, Peru, Mexico, Kenya, Venezuela, Sierra Leone, Philippines, and Malaysia have substantial income inequality; others like India, Tanzania, Chile, France and Denmark have moderate
inequality; and yet others like Taiwan, Libya, Israel, Canada, Japan, the United States, and Czechoslovakia have relatively lesser inequalities in their overall income levels of per capita income and degree of income inequality. The Philippines, with the same low per capita income as Taiwan, has a much wider disparity between the top 20% and the bottom 40% of the population, this phenomenon points to the fact that economic development cannot be measured solely in terms of the level of growth but also how the wealth is distributed (Todaro 1989).

There are two factors used to measure the magnitude and extend of poverty: (1) the average level of national income and (2) the degree of inequality in its distribution. The more unequal the distribution of national per capita income is, the greater the incidence of poverty. Similarly, for any given distribution, the lower the average income level, the greater the incidence of poverty.

In addition to struggling on low income, many people in Third World nations fight a constant battle against malnutrition, disease, and ill health. In the least developed countries of the world, life expectancy in 1998 averaged approximately 49 years compared with 57 years among other Third World countries and 73 years in developed nations (Todaro 1989).

Infant mortality rates (i.e., the number of children who die before their first birthday out of every 1,000 live births) average about 124 in the least developed countries compared with approximately 96 in other less developing countries and 15 in developed countries (ibid).

The attempt to provide primary school educational opportunities has probably been the most significant of all less developed countries development efforts. The largest share of the government budget in most developing countries goes to education.

In spite of some impressive quantitative advances in school enrolments, literacy levels remain strikingly low compared with the developed nations. Among the least developed countries, literacy rates average 34% of the population. The corresponding
rates for other Third World nations and the developed countries are approximately 65 and 99% respectively (Todaro 1989).

2.2 LOW LEVELS OF PRODUCTIVITY

In addition to low levels of living, developing countries are characterised by low levels of productivity in addition to low levels of living. Throughout the developing world, levels of labour productivity (output per worker) are extremely low compared with those in developed countries (ibid). Some basic economic concepts can explain this.

The principle of diminishing marginal productivity states that if increasing amounts of a variable factor (labour) are applied to fixed amounts of other factors (e.g., capital, land, materials), then beyond a certain number the extra or marginal product of the variable factor declines. The low levels of labour productivity can therefore be explained by the absence or severe lack of complementary factor inputs such as physical capital and/or experienced management.

For the labour to be productive according to this argument then domestic savings and foreign finance must be mobilised to generate new investment in physical capital goods and build up the stock of human capital like managerial skills through investment in education and training. Institutional changes are also necessary to maximize the potential of this new physical and human investment.

An old proverb says that “you can lead a horse to the water, but you can not make him drink”. This may be true to the underdeveloped nations since “you can create the economic opportunities for self-improvement, but without the proper institutional and structural arrangements you cannot succeed.”
2.3 HIGH POPULATION GROWTH RATES AND DEPENDENCY BURDEN

In 1990, of the world’s population of approximately 5.3 billion, more than three-fourths live in Third World countries and less than one-fourth in the more developed world (Todaro 1989). The birth and death rates are also different within the two groups. The birth rates in developing countries are generally much higher than in the developed world. The birth rates are on the order of 30 to 40 per 1,000 in developing countries while the figure is less than half in the developed countries.

The death rates (the yearly number of deaths per 1,000 population) in Third World countries are also high relative to the more developed nations, but this could be attributed to improved health conditions and the control of major infectious diseases in the developed world.

The average rate of population growth is now about 2.1% per year in Third World countries (2.4% excluding China) compared with population growth of 0.6% per year in the industrialized world. The implication of this is that children under the age of 15 make up 40% of the population in developing countries as opposed to 23% in the developed countries. On the other hand the proportion of older people is much greater in the developed countries. Children and old people are normally referred to as an economic “dependency burden” in the sense that they are non-productive and must be supported. The overall dependency burden is about one-third in the developed countries as opposed to half of the population in developing countries.
2.4 HIGH AND RISING LEVELS OF UNEMPLOYMENT AND UNDEREMPLOYMENT

There is relatively inadequate or inefficient utilization of labour in developing countries as opposed to developed countries. The underutilization could take the form of underemployment or open unemployment.

Underemployment occurs to those people who are working less than they could (daily, weekly, or seasonally) and also includes those who are working full-time but whose productivity is so low that a reduction in hours would have a negligible impact on total output. The other form is open unemployment whereby people who are able and often eager to work but for whom no suitable jobs are available.

Current rates of open unemployment in Third World areas average from 10% to 15% of the urban labour force. On the other hand those people aged between 15 and 24 years and have a substantial education is almost twice as high as the overall average.

Given recent and current birth rates in developing countries, the labour supply will be expanding for some time. To keep pace, then jobs have to be created at the equivalent rate. The rural-urban migration that is estimated at a rate of 5% to 7% then the urban areas labour force will grow even further.

2.5 SUBSTANTIAL DEPENDENCE ON AGRICULTURAL PRODUCTION AND PRIMARY PRODUCT EXPORTS

Most people in developing countries live and work in rural areas. Over 65% are rurally based, as opposed to less than 27% in economically developed countries. Correspondingly, 62% of the labour force is engaged in agriculture, compared with only 7% in developed nations. Agriculture contributes about 20% of the GNP of developing nations versus only 3% of the GNP of developed nations (Todaro, 1989).

The reason for the concentration of people and production in agricultural and other primary production activities in developing countries is the simple fact that at low income levels the first priorities of any person are for food, clothing and shelter. The large number of people in relation to available land is not the only reason for low
agricultural productivity but also the fact that LDC agriculture is often characterised by primitive technologies, poor organization, and limited physical and human capital inputs.

Most economies of less developed countries are oriented toward the production of primary products (agriculture, fuel, forestry, and raw materials) as opposed to secondary (manufacturing) and tertiary (service) activities. The primary products form their main exports to both developed and less developed countries. Except in those countries blessed with abundant supplies of petroleum and other valuable mineral resources and a few leading exporters of manufactured goods, basic foodstuffs, non-food cash crops, and raw materials alone account for most less developed countries exports.

2.6 DOMINANCE, DEPENDENCE, AND VULNERABILITY IN INTERNATIONAL RELATIONS

One of the factors that has contributed to the persistence of underdevelopment has been the transfer of First and Second World values, attitudes, institutions, and standards of behaviour to Third World nations for example the formation of Western-style trade unions; inappropriate educational structures, curricula, and school systems; the organization and orientation of health services in accordance with the Western “curative” rather than “preventive” model and the importation of inappropriate structures and procedures for public bureaucratic and administrative systems.

The highly unequal distribution of economic and political power between rich and poor nations is a significant factor contributing to the persistence low levels of living, rising unemployment, and growing income inequality in many less developed countries. The unequal strengths are manifested not only in the dominant power of rich nations to control the pattern of international trade but also in their ability often to dictate the terms in which technology, foreign aid, and private capital are transferred to developing countries.
Other factors contributing to these also could be the influence of rich-country social and economic standards on developing-country salary scales, elite life-styles, and general attitude toward the private accumulation of wealth. Such attitudes can often breed corruption and economic plunder by a privileged minority.
3.0 RATIONALE AND ROLE OF STRUCTURAL ADJUSTMENT LENDING

3.1 THE OIL CRISIS AND ITS ECONOMIC EFFECTS

The political and economic developments in the 1970s led to a rethinking of how to handle development issues in the third world in general and in Sub-Saharan Africa in particular. The first oil price hike of 1973 had slowed down growth in both developed and developing countries, although in Sub-Saharan Africa the economic slowdown was much more serious than in the industrialised countries (Toye 1994:24).

With the second price tripling in 1979/80, the oil exporters made a terrible blunder because demand in industrialised countries fell. This oil crisis contributed to bringing to power conservative governments in the USA, UK and West Germany. These were elected on a platform of implementing economic austerity programmes. Their economic policies led to a reduction of the demand for primary commodities from developing countries and thus undermining the growth of Third World exports in the 1980s (Toye 1994:25).

This resulted in a loss of foreign exchange, which was further worsened by a freeze of development aid by UK, USA and OPEC countries. To worsen the situation, the deflation experienced in the developed countries, led to a severe debt crisis.

The debt crisis had been building up in the 1973-80 period unnoticed by all parties involved, i.e. the commercial banks, the borrowing countries, and the international organisations for economic co-operation (Toye 1994:20). The announcement by Mexico in 1982 that it had suspended payments on its huge debt until a later date awakened the international financial community. There were fears that other countries would follow suit.

This led to a rise in interest rates to historic heights, encouraged by the conservative governments in the major industrialised countries. Interest rates rose from an average
of 1.3 percent in 1973-1980 to an average of 5.9 percent in 1980-1986 (Toye1994:25). This was not only a disaster to Sub-Saharan African (SSA) but also to OPEC countries, because they had invested most of the oil proceeds in low productive projects which could not generate enough resources to service their debts. The debt crisis led to a belief that stabilisation measures had to be enforced and that no future loans could be made without strict policy-conditions.

The other negative effects of the debt crisis includes the reduced availability of external finance to developing countries, especially a fall in private commercial lending from $ 30 billion in 1980 to $ 13 billion in 1987. Also Official Development Assistance (ODA) stagnated around $ 22 billion in the same period (Toye1994: 25). This made the deficits on the external balances entirely unsustainable.

The loss of foreign exchange to SSA during the 1980s as a result of increased interest rates lead to deteriorating terms of trade which rose from $2.8 billion in 1980 to $13.8 billion in 1987. The transfer of aid to these countries did not in any way compensate for the aforementioned losses in trade. This was the context in which SSA, specialising in the export of cheap raw materials and high debt, had to readjust its economy in accordance with the realities of the world economy from that time onwards.

The driving up of interest rates and the debt crisis of the post 1982 period affected GDP growth. Already, in Sub-Saharan Africa (SSA), the economic crisis was much more serious than in other parts of the world. **Growth of real GDP fell from 6.4 percent in 1965-73 to 3.2 percent in 1973-80** (Toye1994: 19). This was worsened by the already relatively high rate of population growth in SSA, which continued to rise further, and thus translating into a fall in the growth of real GDP per head from 3.6 percent to 0.3 percent (ibid). This meant that the level of living standards in SSA was on the decline. On one hand there was a virtual stagnation of SSA’s merchandise exports between 1973 and 1980, while on the contrary there was an outstanding improvement of 5.4 percent in the region’s terms of trade. It was this irony that gave rise to the view that internal factors, such as poor economic management and corruption rather than external factors such as the international trading environment,
were responsible for Africa’s poor performance. This justified the need for structural reforms in the economies of SSA countries. Up through the eighties, matters did not improve significantly. In fact, the GDP reduction in 1980 of 1.3 percent had deteriorated to 9.6 percent in 1987 (Toye1994: 21).

African countries experienced extremely low GDP rates throughout the seventies and eighties. Table 1 below shows that Gross Domestic Product (GDP) per capita in Sub-Saharan Africa grew by less than 1 percent from 1979-1992. By contrast, there was persistent growth in East Asia and the Pacific. The growth rate in South Asia was also far ahead of that of Sub-Saharan Africa.

**Table 1 Annual Growth of Real Per Capita GDP (Percent)**

<table>
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</tr>
</thead>
<tbody>
<tr>
<td>Sub-Saharan Africa¹</td>
<td>2.76</td>
<td>0.65</td>
<td>0.79</td>
<td>0.62</td>
</tr>
<tr>
<td>South Asia</td>
<td>1.88</td>
<td>2.38</td>
<td>3.09</td>
<td>2.26</td>
</tr>
<tr>
<td>East Asia and Pacific</td>
<td>4.41</td>
<td>2.05</td>
<td>5.70</td>
<td>4.75</td>
</tr>
<tr>
<td>Latin America and Caribbean</td>
<td>2.33</td>
<td>-1.09</td>
<td>0.54</td>
<td>0.87</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>2.40</td>
<td>-0.85</td>
<td>-1.80</td>
<td>2.24</td>
</tr>
</tbody>
</table>


The poor performance of Sub-Saharan economies led to a stagnation of exports from this part of the world. However, it can be argued that the weakness of export growth is also due to the lack of diversification into new, competitive industries and a loss of market share for traditional exports.

“Exports of primary products still represented approximately 80 percent of Africa’s exports in the 1980s, as they did in the 1960s, while overall export growth lagged behind other regions of the world (Sahn and Younger 1997: 2).

¹ Exclusive of South Africa
It is also worth noting that the Latin American and Caribbean countries performed just as poorly as their Sub-Saharan countries.

Table 2 below shows that Africa’s share of developing country and the world exports fell by more than one-half between 1975 and 1990. The table also shows that Africa’s market share for agricultural and food exports also declined acutely, dropping from 21 to 8.1 percent of developing country exports between 1975 and 1990. Not only did the share of primary products fall, by 1990, Africa’s share of developing country exports of manufactured goods had gone down to an alarming 1.1 percent compared to 7.8 percent in 1980.

Table 2 Sub-Saharan African Export Shares

<table>
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<tbody>
<tr>
<td><strong>Share in World export:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All commodities</td>
<td>2.1</td>
<td>2.6</td>
<td>1.5</td>
<td>0.9</td>
</tr>
<tr>
<td>Food, live animals, beverages, tobacco</td>
<td>3.8</td>
<td>4.1</td>
<td>3.7</td>
<td>2.2</td>
</tr>
<tr>
<td>Crude materials, oils, fats, mineral fuels</td>
<td>4.1</td>
<td>4.8</td>
<td>3.1</td>
<td>2.4</td>
</tr>
<tr>
<td>Manufactured goods, machinery, transport equipment</td>
<td>0.5</td>
<td>0.9</td>
<td>0.3</td>
<td>0.2</td>
</tr>
<tr>
<td><strong>Share in developing countries export:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All commodities</td>
<td>8.8</td>
<td>8.8</td>
<td>5.9</td>
<td>4.0</td>
</tr>
<tr>
<td>Food, live animals, beverages, tobacco</td>
<td>21.1</td>
<td>13.3</td>
<td>11.1</td>
<td>8.1</td>
</tr>
<tr>
<td>Crude materials, oils, fats, mineral fuels</td>
<td>8.2</td>
<td>9.0</td>
<td>7.7</td>
<td>7.1</td>
</tr>
<tr>
<td>Manufactured goods, machinery, transport equipment</td>
<td>6.6</td>
<td>7.8</td>
<td>1.7</td>
<td>1.1</td>
</tr>
</tbody>
</table>

Source: United Nations, various years
Source: World Bank 1995c (Sahn, Dorosh, and Younger 1997:2)

Table 3 shows a comparative study of investment-to-GDP ratios. The investment-to-GDP ratios of Sub-Saharan Africa were comparable with those of East Asia and the Pacific and higher than those of South Asia from 1972-1978. However, a steady
decline in Sub-Saharan Africa in contrast with the increase in Asia resulted in gross domestic investment as a share of GDP being less than half that of South Asia.

Table 3 Gross Domestic Investment (Percent of GDP)

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</thead>
<tbody>
<tr>
<td>Sub-Saharan Africa</td>
<td>24.2</td>
<td>20.7</td>
<td>17.8</td>
<td>16.9</td>
</tr>
<tr>
<td>South Asia</td>
<td>18.3</td>
<td>21.6</td>
<td>23.4</td>
<td>23.5</td>
</tr>
<tr>
<td>East Asia and the Pacific</td>
<td>25.1</td>
<td>27.6</td>
<td>32.1</td>
<td>33.4</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>23.8</td>
<td>21.4</td>
<td>20.6</td>
<td>19.6</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>27.8</td>
<td>25.4</td>
<td>22.8</td>
<td>25.1</td>
</tr>
<tr>
<td>Europe and Central Asia</td>
<td>-</td>
<td>29.8</td>
<td>30.4</td>
<td>28.5</td>
</tr>
<tr>
<td>World</td>
<td>24.5</td>
<td>23.2</td>
<td>23.2</td>
<td>22.5</td>
</tr>
</tbody>
</table>

Source: World Bank 1995c
(Sahn, Dorosh, and Younger 1997:3)

Table 4 Trends in labour Productivity in Agriculture (Average Annual Percentage Growth)

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Sub-Saharan Africa</td>
<td>0.6</td>
<td>-0.9</td>
<td>0.8</td>
</tr>
<tr>
<td>Latin America</td>
<td>1.8</td>
<td>2.8</td>
<td>1.7</td>
</tr>
<tr>
<td>South and South East Asia</td>
<td>1.3</td>
<td>2.0</td>
<td>1.9</td>
</tr>
</tbody>
</table>

Source: Singh and Tabatabai 1993.
(Sahn, Dorosh, and Younger 1997:3)

Table 4 above shows that the growth in labour productivity was behind other regions of the world. This slow and stagnated growth was due to a decaying physical infrastructure, a failure to adopt new technology, a scarcity of productive inputs, and a
depletion of natural resources, all of which were manifestations of low savings rates and misallocated investment (Sahn, Dorosh, and Younger 1997:).

3.2 EXPORT-LED

Charles P. Kindleberger is one of the modern economists to discuss the impact of foreign trade on economic growth. He used the term “export-led growth” (Choi 1983: 122). First, he argues that exports are a leading sector serving to speed up the rate of domestic expansion. Secondly, growth is primarily generated internally and trade may slow down domestic expansion. Finally, exports may serve to balance the economy during a time when domestic output is expanding but internal demand is insufficient to absorb all the output (Choi 1983: 123).

The main element of Kindleberger’s export-led growth model is that an increase in foreign demand for a country’s exports, however it occurs, will stimulate the country’s domestic growth. When the economy is at full employment export expansion leads to an increase in incomes, which will be further expanded through greater saving and investment. If the economy is operating below the full employment level, expanded exports will allow resources to be drawn into productive uses.

Expanded exports permit firms to take advantage of decreasing costs through economies of large-scale production with or without full employment. If exports increase continuously over time, they serve to raise the growth rate of the economy. Thus export-led growth may establish a “virtuos circle” with the economy (ibid).

Kindleberger cites the economic growth of Britain in the nineteenth century as the classic example of export-led growth. Other examples include Sweden and Denmark after 1880; Switzerland, and Canada from 1900 to 1913; and Canada after 1945 (ibid).

However, Kindleberger also discusses the case where increased exports may retard growth when a nation is not able to adapt or transform its domestic resources to foreign trade. The expansion of exports may alter the distribution of income in favour
of groups whose consumption and savings patterns do not contribute significantly to economic growth.

Expanded exports may require heavy domestic investment, which, in turn increases demand for capital equipment from abroad and for basic raw materials. Increased imports will strain the country’s Balance of Payments account. The industrialisation of developing economies requires the establishment of new industries, but their development may be retarded by the competition of existing foreign imports.

A forced reduction in imports may foster the expansion of certain domestic industries. The removal of the competitive stimulus provided by imports may well lower incentives to innovate and invest. It may also lead to the establishment of inefficient industries, which are protected by high tariffs in order for them to stay in production (ibid).

Lamfalussy looks at the demand side to analyse the influence of the balance of payments on the rates of growth. The achievement of equilibrium or a surplus is of great importance because it enables governments to follow expansionist policies. It is assumed that the rapid growth of exports helps to overcome the balance of payments problem.

Increases in exports stimulate investment through accelerator effect. The increase in investment would have the consequence of increasing internal demand and at the same time would lead to favourable effects on productivity and a strengthening of a country’s international competitive position (ibid, p.124).

Lamfalussy looks at how fast saving responds to the rate of growth of income, especially in the corporate sector through the retention of a large share of the short rise in tax revenues not immediately matched by increased expenditure or offset by reduced tax rates. As long as exports keep on rising, the country would tend to maintain its competitive position and continue its rapid rate of economic growth.
Lamfalussy can cite the relationship between rapid growths in exports; investment, productivity and declining relative export prices as the essence of the export-led growth hypothesis. His model contributes to the theory of growth in an open economy since it encompasses many major aggregative forces that affect a country’s balance of payments. It is however disputable whether balance of payments considerations by themselves determine long-run growth rates as he assumes.

Export-led theory shows that exports can be relied on as a key factor in promoting economic growth. The general conception of economists is that a wide range of factors leads to the richness of nations. The three key factors are: the progress of technology, the accumulation of capital and the growth of markets.

The growth of markets, that put emphasis on the demand side, refers to growth of home market or foreign markets or both at the same time. The export-led theory focuses on the growth of foreign markets as a key factor in economic growth (Choi 1983:143). It is however disputable, to what extent this strategy can be relied upon in light of increased protection through the formation of “regional blocs” and other methods.

3.3 INVESTMENT LED

At the beginning of the second half of the last century, many developing countries had a view that capital formation was a key to economic growth and this was reflected in their plans and development strategies. Their development objective was to secure resources sufficient enough to be invested in order to generate a targeted rate of national income. It was assumed that faster growth rates would solve the unemployment problem and reduce the extreme income inequality. Lack of capital was therefore seen as the most important impediment to accelerated economic growth (Gillis, Perkins, Roemer & Snodgrass 1996: 299). The foreign aid donors of 1950s and 1960s also responded to that strategy. They failed to realise that many factors were responsible for the growth of an economy and that capital formation was just one of them.
The issue has been whether or not any change in policies that causes an increase or decrease in the investment ratio and the rate of growth of capital can have a permanent effect on long-term growth rate. Neo-classical growth theories deny that the rate of growth is directly dependent on the investment (savings) ratio. This is contrasted and it is shown by Harrod and Domar that permanent changes in the investment share has permanent effects upon the rate of economic growth (Choi 1983: 93-94).

“Investment generates income through the multiplier process and increases productive capacity by enlarging the capital stock” (Choi 1983: 95)

The enlargement of the capital stock leads to capital accumulation or formation. Capital formation is a key to economic growth in many ways. One way is that efficiency improvement and organisational change, which result in higher growth, results from new investment. Hence, investment serves as a medium for technical progress.

If investment is carried out as a matter of incurring costs to reallocate resources, then the efficiency with which this is done must affect the yield of investment and so the proportionate rate of growth in the long run. So long as new investment is occurring, reallocation of resources is occurring.

Organisational change in connection with new investment also generates dynamic forces conducive to economic growth. When a firm is growing rapidly through investment, there is a need to reorganise. This leads to efficiency and higher production as new methods of management are used to meet the new challenges in organisation, management and allocation of resources (Choi 1983: 97).

The limitation of this hypothesis include:

It is a well-known fact that capital is a necessary but not a sufficient condition of progress in economic terms. The flow of high investment does not guarantee rapid growth, but low investment limits rapid growth (Choi 1983:114).
3.4 IMPORT SUBSTITUTION

Developing countries have had declining world market for their primary products, growing balance of payments deficits on current account over the past two decades (Todaro 1989). In the same context there has been a general belief in the magic of industrialisation turned to an “import-substitution” strategy of urban industrial development.

The strategy entails erecting tariff barriers or quotas on the importation of certain commodities, then try to set up a local industry to produce these goods. The initial costs of production may be high as opposed to importing the same but the economic rationale put forward for the establishment of import substituting manufacturing operations is either that the industry will eventually be able to reap the benefits of large-scale production and lower costs (the so called “infant industry” argument for tariff protection) or that the balance of payments will be improved as fewer consumer goods are imported (Todaro 1989).

A combination of both arguments is normally advanced with the end result being that the infant industry will grow up and be able to compete in world markets generating net foreign-exchange earnings once it has lowered its average cost of production (ibid).

Protection and import substitution has sometimes resulted in real income losses in the developing countries and the abdication of the principles of free trade, over-valuation of currency and controls of trade have actually penalised exports and agriculture and rewarded industry and urban areas in Less Developed Countries (LDCs) (Ghatak 1986).

Ironically, “protection” has sometimes really meant the protection of the small sector of rich industrial monopoly capital at the expense of the vast agricultural sector where 70 to 90 percent of the people in LDCs live (Ghatak 1986).
However, the effects of multinationals on the economies of LDCs have been debated and the extend of “exploitation” is not always known just like it is difficult to accept the argument that the effects of the flow of foreign resources to less developed countries have always been harmful (ibid).

3.5 THE BRETTON WOODS INSTITUTIONS

The two organisations, The World Bank (WB) and its sister the International Monetary Fund (IMF), were both created at the post World War II conference in Bretton Woods, New Hampshire July 1944. It was here Britain, America and their wartime allies attempted to outline the post-war economic order. John Maynard Keynes headed the conference that aimed at building a currency system, that would prevent the devaluations and currency restrictions that fluctuated during the crisis of the thirties. The idea was that the countries would have fixed currencies, and then turn to the IMF in case of Balance of Payments (BOPs) deficit. The system worked until the late sixties when it more or less collapsed due to the weakened dollar (Dalhoff og Grell 1993:229).

The assistance is partly disbursed through loans that are given with the condition that debtor countries adhere to the IMF’s economic advice. Apart from providing financial assistance, the IMF has a surveillance function whereby it monitors the economic policies of all the member countries and provides policy advice (The Halifax Initiative 1998: 2).

The basic structure of the IMF is that each country makes cash subscriptions (called a quota) to the fund, the amount of which determines a country’s votes in operating the fund and the amount it is allowed to borrow. In terms of governance, the U.S, Japan, France and Britain more or less control the IMF with forty percent of the votes between them (The Halifax Initiative 1998: 3).

The World Bank’s primary mandate is poverty alleviation, originally designated for the post war Europe. Today, however, the World Bank is the primary financier of development projects in the developing world, and is also their largest creditor. It has
a wide-ranging mandate, from consolidating loans for large-scale development projects to providing structural adjustment loans, and sectoral adjustment loans to developing countries experiencing balance of payments problems (ibid).

3.6 FROM STRUCTURAL ADJUSTMENT LENDING TO ENHANCED STRUCTURAL ADJUSTMENT FACILITY

“Structural adjustment” is a new phrase, which had to be adopted by the world of development co-operation from 1980 onwards. The governments of Sub-Saharan African countries were given a new task which went beyond the normal tasks of economic management and that is, they had to take up measures which went beyond the correction of routine resource imbalances of a cyclical kind. They had to adjust to long-term changes as a condition for acquiring foreign exchange and spending it.

The term “structural adjustment” was not new but an old phrase first applied to the developed countries to mean

“Shutting down state subsidised industries such as leather, textiles and light engineering when competition with the emerging industries in developing countries became too costly (Toye1994: 24)”

It was implemented in Europe after World War II and lasted all through the seventies. During that period, countries, which were exporters of primary products, were advised to adjust their economies according to the changes that were taking place in world trade. This responsibility for industrial realignment in form of adaptation was placed on countries which were already the most economically advanced as a way of avoiding the damaging protectionist practices which had characterised the Depression era (Toye 1994: 18). This process of adjustment to long-term changes by the developed countries with conditional borrowing of foreign exchange was then also called “structural adjustment”.

The consequences of these economic trends were that the incidence of poverty rose in Africa during the 1970s in contrast to other regions of the developing world, living
standards are dismally low and health facilities are inadequate. It was as a result of these crises that new ways of approaching the development issues of Africa were initiated and put into practice from the early 1980s. These were to be called policy-based lending. They paved the way for what is popularly called Structural adjustment lending.

Conditionality is the backbone of structural adjustment lending. When a country fulfils the conditions of the IMF then it qualifies for the agency’s funds. Some of the conditionality relevant to Structural Adjustment programs (SAPs) include demand, supply, and growth and cross conditionality.

Demand conditionality is predominantly an “invention” of the IMF, which also has been keen to promote it in their approach to solving the balance of payments problems (Avramovic 1989:7). The overall “cure” has been, as the title indicates, to limit the aggregate demand.

First the IMF seeks to cut (government) expenditures, which can be beneficial to the SSA countries if these are primarily used on imports. On the other hand can a cut in social-, health-, or other welfare improving expenditures be catastrophic for the local population? There have been cuts in education and health in SSA recommended by the IMF. These are disastrous to the SSA countries because they decrease their national competitiveness in the long run as they affect negatively the growth of skills and skilled manpower.

Another means of this strategy is currency devaluation that should improve the competitiveness of the country’s export industries. At the same time it can diminish domestic consumption of imports in that these, ceteris paribus, become more expensive. The downside of devaluation is that imported goods used in the production process also become more expensive, thus evening out the currency advantages gained. However, the precise effect must be evaluated from country to country, depending on the nature of their industries.
A second possible negative effect is that debt obtained in foreign currency “increase”, i.e. foreign currency becomes more expensive.

Raising interest rates is also part of the strategy of obtaining a decrease in the aggregate demand (Avramovic 1989: 7). Assuming that it is based on the idea that higher interest rates will discourage credit financed buying, and encourage savings. This could be related to the theory of substitution effect, which is from basic economics (Varian 1993: 136).

The substitution effect refers to the actions where the consumer chose to consume more in period two and less in period one, as a result of a change in the relative price of consumption in the two periods. In the short term it could then cause demand to fall, however, it seems that the income effect theory has not been taken into consideration.

The argument behind income effect is that the consumer is a saver rather than a borrower, and therefore higher interest rates will make him better off. The consumer will then distribute his consumption to both periods. The question is then, which of the two outweighs each other so to speak. However. Keynes’ argument that consumption primarily depends on income and on the interest rates has survived much empirical testing.

The IMF has promoted the above while the World Bank has pioneered supply conditionality (Avramovic 1989: 7). It began in the small-scale sector focusing on project formulation and implementation. It was concerned with the price of the products sold by the project and how it was managed. With the structural adjustment programs, these ideas have now been extended to cover the entire economy. As opposed to the former conditionality that dealt with the demand side, the purpose of these schemes has been to stimulate the aggregate supply.

Growth conditionality is a more recent “invention” and focuses its attention on the private market or the expansion of such (ibid). Top on the agenda is privatisation of state owned enterprises and the rationalisation of those, which stay in government
hands. The latter can not be seen as a problem in that it must be in everybody’s interest that these run as efficiently as possible. Privatisation will lead to the efficient running of the privatised enterprises according to the IMF. However, it might lead to capital expatriation if foreign nationals buy the privatised enterprises, which is mostly the case. They might pull their profits out of SSA countries and repatriate them to their home countries. This action has a negative effect on investments.

The last type of conditionality is a combination of the former three-called Cross Conditionality (ibid). In this the lending conditions of each agency depend on the borrower having met the loan conditions on some other agency. In addition it involves both private and official lenders. The downside to this type of arrangement is that a breakdown between the borrowing country and the one of the lending agencies can have a domino effect in relation to the other parties involved (Avramovic 1989:8).

The different conditional ties are part and partial of the package offered to SSA by international donors from 1980 onwards. They also form the basis for a new era of engaging the declining economies of the Third World. They are part of the background to the policy based lending which dates back to the early 1980s.

After having carried out policy based lending in SSA in the 1980s, the IMF realised that the immediate need in most of these countries was to bring some order to external cash flow positions, through a combination of debt relief or rescheduling and new resource flows. The IMF reform programs that these countries had already undertaken had not made their external situations better. Their current account deficits (excluding transfers) averaged 12-14 percent of GDP; scheduled debt service was typically 35-40 percent of exports, and official reserves were low. It is this precarious situation that led to the setting up of the Enhanced Structural Adjustment Facility as a support arrangement for helping these low-income countries to address deep-rooted and persistent economic problems.

In the mid-1980s, the IMF realised that some of its low income members especially those in the Sub-Saharan Africa needed highly concessional financial support on a longer term basis than it was able to provide through its existing financing
mechanisms. According to the IMF, many of these countries were struggling with the legacy of development strategies based on state intervention, public ownership, and protectionism at the time they applied for ESAF. This strategy had suppressed entrepreneurship, promoted waste and corruption, and worsened their economies’ vulnerability to economic shocks. This meant that structural adjustment lending through structural adjustment programs was not enough for the economies of SSA to be self-sustaining. In response, the IMF set up the Structural Adjustment Facility (SAF) in 1986, and the Enhanced Structural Adjustment Facility (ESAF) one year later.

ESAF is a support arrangement through which the IMF gives assistance for 3-year structural adjustment programs aimed at fostering sustainable growth and strengthening the country’s external position. Its loans are highly concessional with an annual interest rate of 0.5 percent; repayments are made semi-annually, beginning 5 years and ending 10 years after disbursements.
4.0 TRADE POLICY

One of the key elements of the structural adjustment programmes was the trade-policy reform. Trade policies by the Bretton Woods institutions is based on the neo-classical notion of high relative supply elasticities that elicit speedy and sizeable responses in investment and output under improved price incentives and free markets (Hunt 1989:293).

Its intention was to spur export-led growth and generate foreign exchange by reducing and eventually eliminating barriers to trade that were seen as maintaining an anti-export in trade policies.

In addition to measures that support the export sector, the trade-reform package has typically included the removal of protection and support for firms producing for the domestic market, with the intent of eliminating those that are inefficient and non-competitive and that divert resources from export production.

The neo-liberals justify liberalization of trade on the promise that competition from imports leads to specialization and efficient allocation of resources while cleansing the economy of inefficient producers, thus removing the burden on society of sustaining such entities (ibid).

The small economies with greater openness is argued, tend to have higher shares of trade in their gross national product (GNP) than do large countries and gain more than those nations that restrict trade. It is also further argued that trade liberalization enhances the welfare of consumers and reduces poverty as consumers find opportunities to choose from a wide variety of quality goods and cheaper imports.

The link between trade and welfare is basically not automatic but depends on factors such as the sequencing and phasing of liberalisation. On top of this, there must be inbuilt mechanisms for distributing such benefits.
Towards these ends, quantitative restrictions on imports have been eliminated, import tariffs reduced, and a flexible exchange-rate policy typically put into effect (Oman 1994: 13).

Table 5. Objectives of the Trade Policy

<table>
<thead>
<tr>
<th>Area of Reform</th>
<th>Policy Objectives</th>
</tr>
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<tbody>
<tr>
<td>Tariff Structure</td>
<td>• Improvement of efficiency in trade and enhancement of gains from trade</td>
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<tr>
<td></td>
<td>• Reduction of disparities of effective protection to enhance efficiency in domestic production</td>
</tr>
<tr>
<td>Import Restrictions</td>
<td>• Facilitation of import of raw materials, intermediate goods and capital goods to stimulate industrial production</td>
</tr>
<tr>
<td>Export promotion</td>
<td>• Stimulation of growth and diversification of non-traditional exports</td>
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<tr>
<td></td>
<td>• Improvement in export finance</td>
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<td></td>
<td>• Promotion of backward linkages</td>
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<tr>
<td>Exchange Rate</td>
<td>• Strengthening of the balance of payments position</td>
</tr>
<tr>
<td>Management</td>
<td>• Unification of dual exchange markets to reduce distortions</td>
</tr>
<tr>
<td>Investment</td>
<td>• Liberalization and simplification of investment procedures to encourage greater flow of foreign investment</td>
</tr>
<tr>
<td>Sanctioning</td>
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</tbody>
</table>

Source: Bhattacharya, D. and Titumir, RAM(2001)

4.1 EXTERNAL TRADE AND FOREIGN EXCHANGE

The goal of trade policy was originally to integrate developing economies into the world economy through pursuance of an export-led development strategy as opposed to the inward-looking one of the post-world war era.
The policy reforms were carried out on the promise that the economies would benefit from dynamic efficiencies generated by free trade.

Most of the exports of developing countries are based on a few national resources and the items are produced with low-skill labour. Coupled with this is the increase in import growth, which intern leads to a falling term of trade and consequently both trade and current-account deficits are typical in most developing countries.

In many developing countries the benefits of export growth go mostly to the multinational corporations at the cost of domestic producers. There are a number of constraints, which can explain the lack of export competitiveness of domestic manufacturing firms. These include: poor infrastructure; lack of technical experience in competitive marketing; difficulties in obtaining export finance; restrictive policies occasioned by the business environment; and the lack of capacity to take advantage of the trade regime of the World Trade Organisation (WTO).


<table>
<thead>
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<th>Table 6 CURRENT ACCOUNT BALANCE</th>
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<tr>
<td>Uganda</td>
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<tr>
<td>Cameroon</td>
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Note: 2002 data are preliminary estimates

4.2 TRADE POLICY IN KENYA

Kenya was one of the first African countries to receive a Structural Adjustment loan from the World Bank in 1980, and has been engaged in Bank, IMF, and donor
supported adjustment programs in most of the past twenty years\(^2\). Kenya’s performance in implementing the policy reforms agreed with the donor community has been extremely mixed (O’Brien F.S. and Prof. T.C.I.Ryan, Aid and Reform in Africa).

In trade and liberalization the record shows backtracking in the early 1980s, moderate progress in the second half of 1980s and then a complete breakthrough in 1993-95. Kenya’s capacity to analyse its economic problems and design policy solutions has significantly outpaced its capacity to implement reforms (ibid).

The weak implementation can be attributed to a number of factors, which include the narrow circles of technocrats and politicians involved in policy formulation, weak capacity in the government to carry out comprehensive institutional changes, and the political influence of vested interests who benefit from the status quo (ibid).

Macroeconomic performance in Kenya since 1980 has been extremely mixed with fluctuations in the GDP growth rate, fiscal deficit, balance of payments deficit, and inflation.

The economic shocks of the late 1970s lead to Kenya’s fiscal deficit rising to 9.3 percent of GDP in the Financial Year (FY) 1981, the balance of payments current account deficit reached 11-12 percent of GDP in 1980-81, and the inflation rate—measured by the consumer price index (CPI)—increased from an average of 12 percent in 1977-81 to 18 percent in 1982-83\(^3\).

Due to this the government took the structural adjustment programs with the IMF support which succeeded in reducing the fiscal deficit to 3 percent in the FY 1983, but at the expense of investment and growth since GDP growth averaged 2.3 percent per annum during 1982-84. Although it must be noted that there was a severe drought in Kenya in 1984 which also affected growth rate.

\(^2\) http://www.worldbank.org/research/aid/africa/kenya2.html
\(^3\) http://www.worldbank.org/research/aid/africa/kenya2.html
A central aspect of the Structural Adjustment reforms in Kenya since 1980 has been the trade policy. Progress in Liberalization of the trade regime has been sporadic, with periods of significant progress followed by slower movements and even reversals, although following the major reforms of 1993-94; Kenya is one of the developing countries with the most liberal foreign exchange regimes4.

There was a division of labour between the IMF and the World Bank as far as other aspects of the structural adjustment programs are concerned to deal with for example external trade and payment systems. Conditionalities relating to the overall balance of payments gap and its financing, and the exchange rate, were incorporated in IMF programs, while quantitative restrictions on imports, tariffs, and foreign exchange licensing were incorporated in policy agreements with the World Bank. This did not always lead to perfect coordination of policy advice or the timing of policy action.

It is quiet debatable but it was unwise for the Bank to push for a rapid pace of import liberalization in the face of large macroeconomic imbalances, and at a time when the exchange rate was not yet being used to close the trade gap. The response to this initial effort at trade liberalization was disappointing. The share of exports of goods and services in GDP, which had declined steadily from 45 percent in the mid-1960s to around 30 percent in 1980-81, fell further during 1980-85. However, this was undoubtedly due in large part to the global recession of the early 1980s, but it must also be attributed to the limited amount of import liberalization and export incentives actually implemented and the on-off nature of the reform process.

In 1986, Kenya’s government outlining the country’s need for economic growth and development published Sessional paper number 15. The sessional paper number 1 made a strong case for export-promotion over import substitution. The second push to liberalize the trade regime began in 1988 and this was more successful.

Another reason for the success apart from the sessional paper number 1 could have been the fact that a World Bank study on the structure of industry and of effective

4 http://www.imf.org/external/NP/PFP/kenya/INDEX.HTM
5 http://en.wikipedia.org/wiki/Kenya_Airways
protection provided a better information base for setting tariffs than had previously existed.

There was a steady progress made in eliminating quantitative restrictions on imports and in reducing tariffs. Between 1987/88 and 1997/98 the maximum tariff was reduced from 170 to 25 percent, the number of tariff bands was reduced from 24 to 4, and the average tariff was lowered from 49 percent to 17 percent (O’Brien F.S. and Prof. T.C.I.Ryan, Aid and Reform in Africa). Kenya’s terms of trade declined by about 50 percent from the mid-1970s to 1990, and this was partially offset by a 40 percent depreciation in the real exchange rate in 1985-90.

The donor assistance has basically affected the timing and scope of the reform agreements but whether the reforms are carried out will depend on factors such as the domestic political factors and donor conditions and the amount of donor aid.

4.3 TRADE POLICY IN CAMEROON

The economic growth of Cameroon was strong until 1985-86 by conventional measures, relying on the production and export of natural resources and latterly on the expansion of the petroleum sector (Reed, Peter 63).

Owing to the simultaneous reduction in prices and lack of exploitable sites petroleum revenues dropped in 1985-86. During the same period the terms of trade for crops declined. The situation was aggravated by the fact that most of the export income was expressed in U.S. dollars, whose exchange rate against the CFA franc fell about 40 percent after June 1985 (ibid).

GNP fell in 1986-87, owing to a fall in the export earnings of agricultural produce and oil. The deflationary effects of the worsening terms of trade were offset by an increase in the budget deficit, which rose to 8.7 percent of the GNP. The first measures to
tackle the budget were announced in the Finance Law of 1987-88, promulgated (to be made known) in June 1987, which aimed at cutting spending.

There was a persistent weakness in primary commodity markets and its effects on public revenue frustrated attempts to halt the deterioration of the economic and financial situation. The outcome was a build-up of arrears on payments by the state and growing liquidity in the payments system. The resultant was a series of concerted efforts by the government and the International Monetary Fund (IMF) and the World Bank to take adjustment and reform programs.

There were Three Stand-by Agreements, which were made by the IMF in September 1988, November 1991, and March 1994. The Structural adjustment programs were approved by the World Bank in 1989 and renewed in essentially the same form in 1994.

The currency increased in value by about 30 percent in real terms from 1984-85 (July-June) to 1991-92 (Reed Peter, 63). Taking into consideration the increase in effective value of the CFA franc, the measures taken can be said to be too late and too weak. A sharp drop compounded the problems caused by this increase in the terms of trade. The tradable goods sector suffered a cost-price squeeze, public revenues fell, domestic arrears built up quickly, and the banking system found itself increasingly insolvent.

During the 7-year period, real GNP fell 30 percent, and real income per capita fell 50 percent. The external deficit has averaged 6 percent of GNP. The foreign debt has tripled to more than 60 percent of GNP, and the debt service ratio rose strongly to over 42 percent. Arrears on foreign payments have recurred.

The devaluation of the CFA franc took place in January 1994, long after the start of the other adjustment measures. Other key fiscal and structural measures agreed upon with the IMF were not implemented on time. These delays caused a short fall in non-oil-based revenue for the state, preventing compliance with other program obligations.
5.0 PRIVATISATION

State ownership have historically been based on the need to control strategic sectors, provide essential services, strengthen domestic economic growth and ensure key investments that the private sector are unwilling or unable to make.

Over the past two to three decades most developing and transition countries have experienced growing fiscal crises and foreign debt. The state enterprises and services have increasingly been labelled as inherently inefficient, a bottleneck to free competition and a constraint to private-sector-led growth.

Privatisation has been indiscriminately advocated as a way to enhance a country’s economic performance at both the macro and the micro, or enterprise, level, as well as improve a government’s fiscal position. Privatisation has been an important component of structural adjustment programs and has often been a pre-condition for loans since the second half of the 1980s from the World Bank and the IMF, irrespective of the extent or effectiveness of public ownership in a particular country.

Privatisation accelerated in the 1990s. In Europe this was sparked by the liberalisation of markets at the European Union level and budgetary constraints faced by government (Parker, 1999). Privatisation particularly gained momentum in the late 1980s and spread to a wide range of developing economies. Over the last decade a significant proportion of privatisation transactions have been in developing economies and have entailed sales of public utilities. Privatisation for the utilities sector have accounted for over a third of all transactions in developing economies since 1988. Between 1988-93 the value of sales for infrastructure industries amounted to US $30billion, compared to US $78 billion for all privatisation transactions in developing economies (World Bank, 1995(a), kikeri, 1998).

Admittedly, privatisation as a policy proceeded in the 1980s without much knowledge of either its impact or contribution to economic growth. Policy-makers in developing economies have often set a broader agenda for privatisation than the efficiency and resource allocation objectives that were implicit in the policy conditions of structural adjustment programs. The motives for privatisation have encompassed improved
fiscal equity and distributional performance, although the importance attached to each has varied between and within countries over time (UNCTAD, 1996, Yarrow, 1999).

Nevertheless, the link between privatisation and economic growth relates most directly to the microeconomic theories used to justify privatisation. At the heart of the debate are theoretical perspectives on the ownership issue drawn from property rights theory, public choice theory and principal agent analysis (Alchian, 1965; Tullock, 1965; Jensen and Meckling, 1976).

5.1 PRIVATISATION IN BANGLADESH

While the government began to de-nationalize the state-owned enterprise following independence, a large number of units were divested during 1975-81 though the average size and value of divested units was much greater during 1983-90 (c:/windows/temp/sap (f1). doc).

There are various methods of privatisation, which include the sale of assets, the sale of government shares, auctions and management contracts. In an analysis by the World Bank of the performance before and after privatisation of 13 enterprises that were privatised in the first half of the 1990s there was mixed results. Some firms increased their profits after privatisation, others continued to sustain and even increase their losses, and others went out of business or were shut down.

Taking the example of the jute mills in Bangladesh both the private and the public sectors have been equally sustaining losses, which have generally been attributed to the fact that production costs have tended to be higher than the export price of the jute because of the out-dated equipment in the mills (c:/windows/temp/sap (f1). doc). Given that both the private and the public firms were making losses then one can say that the problem is not with the ownership form but in the policy regime and management. Industry-wide data shows that labour productivity does not depend on ownership but it rather depends on managerial efficiency.

The social effects have also been devastating as about 89,000 workers were retrenched during the period 1995-1997, and a further sizable number of employees
were awaiting dismissal as a result of further privatisation. About 40 percent of the previously employed workers in the state owned enterprises have lost their jobs while there is a tendency to replace the permanent workers with temporary labour, which in turn reduces the overall job security of the employees who remain.

Basically when the laying off was done it was the less skilled that were laid off. According to the World Development Report of 1997, in 1995 there were 74 percent illiterate female adults as compared to 51 percent of their male counterparts. Taking the difference in illiteracy then the privatisation program was costly for the women since they tended to be the ones with little or no specialised skill and hence formed the majority of those laid off by the new owners.

There ought to have been some training programs for the retrenched workers for alternative employment opportunities. On the other side also, there have been reduced family earnings since also male household members have lost their jobs.

Basically the people who retained their jobs and maintained an adequate income stream were provided with a wider range of consumer choice as a result of privatisation although this process due to layoffs and higher utility rate and service fees adversely affected other households. Many jute-mill employees who had enjoyed reasonably good living conditions lost their jobs and they have suffered hardships as a result of privatisation. In such a situation it is difficult for them to feed their own children properly, send them to school and attend to their necessities. Some of the jute-mill workers resorted to selling their personal assets, including land passed down through their families for generations and whatever they accumulated over the years working in the mills.

Looking at transparency international statistic then one will find out that most countries that are on the bottom of the list are mostly developing countries. There are those who have perception that the privatisation in Bangladesh had been accompanied by corruption and lack of transparency.
The process of privatisation in Bangladesh showed some signs of corruption. There was no open tender and the valuation of the jute mills that were privatised were not done in a transparent manner. Some profitable state-owned enterprises became loss-making concerns prior to privatisation. The mills were sold at a very low price through what one can refer to as an unholy alliance between the owners and the policymakers. Other quarters has it that corruption took place in managing the mills even after they had been privatised. It happened that the owner himself overvalued the price of the purchased jute or other raw materials, as well as the machinery, and showed a loss on the balance sheet.

5.2 PRIVATISATION IN UGANDA

In Uganda, following the launching of the Economic Recovery Programme (ERP) in 1987, the government published a policy statement on Public Enterprise Reform and Divestiture (PERD) in November 1991, which outlined its privatisation strategy. The past performance of public enterprises had been poor due to the country’s violent political history and depressed economic situation. Of late, the reasons for their poor economic performance are multiple and complex. Among the major factors are the scarcity of foreign exchange which of course prevents the importation of raw materials to support production. There is also a shortage of spare parts and there is a need to replace the obsolete plants and Machinery.

Capacity utilization, sales revenue, tax contributions to the government, profitability, and product quality and diversification have all increased in comparison with the period prior to the privatisation process. There has been a positive trend in sales revenue over the period 1997-1999, when capacity utilization increased from 47 to 57 percent (http://www.saprin.org/uganda/uganda_forum1.htm). There has also been an increase in the supply of goods and services on the market following privatisation, as a number of firms have been established to satisfy local demand. Previously, there had been widespread shortages of most goods including products like sugar, soap and salt and much of what was available was imported.
Basically, privatisation involves the reallocation of property and property rights in a country. The local population often do have limited capital that can be invested in newly privatised firms in situations where there are not realistic possibilities to establish broad-based national ownership, or perhaps a lack of political interest in doing so, there is a danger of “selling off” the entire economy and polarizing the country between capital holders who are often foreigners or ethnic minorities and destitute wage earners. Although it should also be noted that foreign investment is a necessary tool for most developing countries to come out of their economic quagmire.

As in many countries, in Uganda the principal beneficiaries of the privatisation program have been foreigners, who obtained 75 percent of the total divestiture proceeds, while the locals only gained a 16 percent share but this can also be attributed to their lack of capital and poverty in most developing countries (ibid).

There has been inadequate expansion of the private sector, which has led to an increase in unemployment. On the other hand those who had been retrenched by privatisation have received little or no severance pay or training leaving them to seek survival in the informal sector. It could have been good if for example, prior to retrenchment of the workers there could be some sort of training for the retrenched workers. After the training they ought to have been given some compensation to do something else.

The newly privatised enterprises in Uganda did not provide job security or followed labour regulations. In a situation where there are many unemployed people it is difficult for the trade unions to work effectively despite the existence of international labour laws. There are others that content that the newly privatised enterprises have defied the constitution by not recognising trade unions and by firing union organizers. Government regulatory mechanisms and laws have been weakened.

The neo-liberal theory predicts an increase in national employment after privatisation as a consequence of attracting foreign direct investment and an improvement in overall efficiency. There have been some positive employment impact in some
enterprises but the impact at the macro level can be said to be lacklustre. Privatisations in Uganda has reallocated income at the national level but have failed to contribute to the macroeconomic efficiency.

Privatisation increased the wages of some of those who were able to keep their jobs but not all employees have benefited. Employees who retained their jobs in privatised firms received improved earnings and better benefit (like medical insurance cover and loan facilities) and they have a greater opportunity for career enhancement. The improvements have been made possible due to improved productivity and output, as well as to the growing number of foreign owned companies that tend to pay higher salaries than do local ones.

The expatriates have tended to receive the higher level jobs leaving Ugandans with the low level posts which are less paying but on the other hand there are chances that possibly there is a lack of technical expertise within the locals. The move towards rationalization of privatised firms worsened income distribution, since the most vulnerable group with low levels of education and low wages, most of whom are women were in fact retrenched in the process of privatisation.

Privatisation has significantly increased discontent among workers in the sense that improved pay has come with increased workloads and other performance criteria that can be detrimental to the workers.

The goal of creating a strong property owning middle class through the privatisation process was not achieved (ibid). A paltry number of Ugandans participated in the process of privatisation of the public enterprises, and the process has had a negligible impact on the well being of most of the population. The privatisation was poorly managed and lacked transparency. The privatisation process was not free from political interference, corruption and underhanded dealings in which foreigners and state officials were the only beneficiaries.
The bidding process had been unfair and biased in favour of certain entities. Although the government documented the way in which the divestiture proceeds were utilized, there remains suspicion that the proceeds have been mismanaged.
6.0 MINING SECTOR

The Structural Adjustment paradigm has its emphasis on the private sector and export orientation as the engines of growth, which have been vigorously applied to the developing countries. The World Bank has significantly increased its investments in and its lending and guarantees to the resource-extractive sector. It has also supported policies designed to liberalise and deregulate the mining sector, privatise state mining interests, attract private investment and enable a more favourable climate for private investment.

Countries with important mining sectors were obliged to shift their policy emphasis toward maximizing tax revenue and away from such previous goals as employment and control of national resources. This shift was to be achieved through a new division of labour in which governments restricted their role to industrial and mining sector regulation and promotion, leaving the ownership, operation and management of enterprises to the private sector.

Coupled with their support for adjustment policies, the international financial institutions have significantly increased their lending, investments and guarantees in support of the resource-extraction sector. These institutions allocated around US$ 51 billion to projects in the oil, mining and gas sector from 1995 through 1999. In addition their actions are a significant leverage of other sources of capital as shown in the table below.

Table 7: International Institution Credit Provided to the Resource Extractive Sector, 1995-1999

<table>
<thead>
<tr>
<th>Institution</th>
<th>Estimated Fossil Fuel &amp; Mining Totals US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Bank Group Total</td>
<td>5,950,000,000</td>
</tr>
<tr>
<td>World Bank (IBRD &amp; IDA)</td>
<td>3,681,500,000</td>
</tr>
<tr>
<td>International Finance Corporation (IFC)</td>
<td>1,458,300,000</td>
</tr>
<tr>
<td>Multilateral Investment Guarantee Agency (MIGA)</td>
<td>807,200,000</td>
</tr>
<tr>
<td>European Bank for Reconstruction &amp; Development</td>
<td>946,000,000</td>
</tr>
<tr>
<td>Organization</td>
<td>Amount</td>
</tr>
<tr>
<td>--------------------------------------------------</td>
<td>-----------------</td>
</tr>
<tr>
<td>Asian Development Bank (ADB)</td>
<td>2,025,000,000</td>
</tr>
<tr>
<td>Inter-American Development bank (IDB)</td>
<td>1,073,000,000</td>
</tr>
<tr>
<td>Export Credit Agency Financing of Upstream Oil and Gas Development (Not Mining) 1994-1999</td>
<td>40,500,000,000</td>
</tr>
</tbody>
</table>


6.1 MINING SECTOR IN GHANA

Within the framework of Ghana’s structural adjustment programs, the mining sector was a major target for reforms to address the concerns of the investors and financiers to arrest and reverse the decline of the industry and to achieve greater growth.

The adjustment policies and initiatives promoted by the World Bank included; privatisation of state mining interests, enactment of laws affecting the mining sector and the environment, and measures that lifted almost all fiscal burdens from the mining sector⁶.

Ghana’s first year of adjustment program focussed on increasing the worth of existing mines through rehabilitation. Funding was made available from multilateral and bilateral sources, which were guaranteed by the government.

The policy changes succeeded both in creating a favourable perception of the investment environment and in raising the volume and value of mineral output⁷.

Ghana is the most important producer of gold surpassed only by South Africa. Gold production had followed a downward trend in the post colonial period after mining was nationalized in 1961 and had dropped to its lowest point in 1984 but reached an all time record high in 1995. Foreign ownership accounts for 70 to 85 percent of the large-scale mining industry, which is a reversal of the situation prior to reforms when the Ghanaian government controlled 55 percent of all mining companies.

⁶ http://www.saprin.org/ghana/ghana_forum1.htm
⁷ http://www.wrm.org.uy/bulletin/54/Ghana.html
Some of the presumed and publicized benefits of increased mining sector investments include; that mining is the leading earner of foreign exchange in the country, provides substantial revenue to the government, as well as capital and social infrastructure to the public, generate direct and indirect employment, and contributes to local community development.

Gold has assumed a leading role in Ghana’s foreign exchange earnings. In 1994, gold exports amounted to US$ 549 million, which was 45 percent of total export revenue of US$ 1,215 million. This pushed cocoa (25 percent of total exports) to the second place (The World Bank Group).

While in gross terms mining is Ghana’s leading foreign exchange earner, its net foreign exchange contribution to the national economy has been minimal due to generous incentives and tax breaks given to investors and the fact that mining companies retain on the average about 75 percent of their export earnings in off shore accounts for various purposes. Most of the companies also do not pay corporate income taxes due to the virtual tax holiday they enjoy as a result of the generous capital allowances granted to them8.

The mining sector today has a relatively limited capacity to generate employment because surface mining operations are capital intensive with relatively low labour requirements, and all post adjustment-mining ventures have been surface mining.

The persistent decline in commodity prices especially gold has resulted in radical restructuring to reduce costs and many mines have reduced their labour force substantially.

The mining industry has been responsible for the high rate of unemployment found in surrounding communities in direct and indirect ways. The large-scale surface mining has taken large tracts of land away from farmers and the mining activities do not provide enough jobs to match the total number of people laid off from agriculture9.

8 http://www.saprin.org/ghana/ghana_forum1.htm
In the Tarkwa region in Ghana, the environment is undergoing rapid degradation due primarily to the high concentration of mining activities. The agricultural land are degraded and the traditional bush fallow system, which adequately recycled substantial amounts of nutrients and made the next cycle productive, can no longer be practised due to the inadequacy of the land. Large-scale mining activities have reduced the vegetation of the area to levels that are destructive to the biological diversity\textsuperscript{10}.

Between 1990 and 1998 the mining investment in Tarkwa led to the displacement of a total of 14 communities with a population of over 30,000. Some people had to migrate in search of farmland while others were relocated or resettled by the mining companies. The loss of nearby sources of potable water and firewood has also made the lives of community residents more difficult. Women now spend more time fetching water and gathering firewood, time which could have been devoted to other important livelihood activities.

There has been an increased cost of living within the communities living in the mining areas because there is a disparity in incomes in favour of mining company staff whose salaries are indexed to the dollar and drive the prices high. The mining industry has both pushed and pulled a significant percentage of the labour force out of agriculture and other income generating activities by eliminating farmland and holding out the promise of gainful employment. The consequent fall in food production in an area that is already densely populated accounts for the high food prices.

The national Ghanaian environmental policies have not been able to adequately guard and protect local communities from the adverse impact of mining operations. While the mining sector reforms were underway, very little was done to reform the existing environmental laws to deal with the destruction that was certain to arise from accelerated growth in the sector\textsuperscript{11}.

\textsuperscript{10} http://www.lwr.kth.se/Personal/personer/bhattacharya_prosun/garg/Project_Ghana.htm

\textsuperscript{11} http://www.miningwatch.ca/publications/Cdn_Cos_in_Ghana.html
6.2 MINING SECTOR IN PHILIPPINES

The Philippine Mining Act (RA7942) of 1995 liberalised the mining industry that permitted total private ownership of equity and control of mining projects\(^\text{12}\). Foreign companies that of course have the know-how control the mining industry and vast tracts of land are being opened up.

Large foreign mining companies are now allowed to explore and mine a maximum area of 81,000 hectares for a period of 25 to 50 years in exchange for a minimum investment of US$ 50 million in the country’s mining industry. Auxiliary rights and incentives are granted that allows unhampered mining operations and ensuring increased profitability.

As a result of the 1995 Mining Act, the number of applications for permits which are known as Financial and Technical Assistance Agreements (FTAAs) in the mining sector had grown to 115 by October 1997 and by mid 1999 there were 408 pending applications. The FTAA have been predominantly Australian, Canadian and American corporations, and in 1998 approximately 71 of the pending applications, including those that were approved covered indigenous peoples’ ancestral lands and in some cases ecologically critical areas.

In any community, the social organization is guided and directed by certain principles. In the Philippines, the concentration of mining operations has had an serious adverse impact on the social organization and cultural values of the people in the affected areas. Some of the concerns include; housing, unemployment, family disorganization, social dislocation, school dropout rates, prostitution and drug abuse among others.

These problems are not new but they have risen to a level that the population perceives to be threatening and the main cause has been attributed to the concentration of mining activities in the areas (ibid).

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\(^{12}\) http://www.saprin.org/philippines/research/phi_mining_sum.pdf
In general, mining tend to offer fewer job opportunities for women. The direct involvement of women in formal, large-scale mining is generally limited to support activities such as administrative, clerical and related jobs. For small scale mining and quarrying, women usually play subsidiary roles such as selling cooked food and assorted goods to male miners.

On Manicani Island in the Philippines, the bulldozing and burning of the mountains related to open-pit mining which deprived the residents specially the women of their source of raw material “tikog” and “bariw” used for weaving mats and hence of a source of supplemental income. Women are also the ones who carry the burden of caring for the sick. In Manicani there was an outbreak of respiratory diseases, which is attributed to the mining operations.

There had been unfair treatment when it came to compensation for people to be resettled or relocated since the compensation was given to the heads of the households who are traditionally men hence there have been cases of family abandonment (ibid).

The entry of the large-scale corporate mining activities in the Philippines has destroyed or rather altered the traditional and often ecologically compatible systems of shifting cultivation. People utilizing these systems have been confined to small areas and the fallow periods have been reduced or even eliminated leading to soil exhaustion, accelerated erosion, food insecurity and worsening poverty.

The mining activities that have entailed bulldozing mountains have resulted in the loss of topsoil and have thus affected the fertility of agricultural land. The mining operations are feared by the residents to have contributed to the island’s vulnerability to landslides, flash floods and other accidents, this is a particular serious problem given that the area is in the typhoon belt.

The principal elements of the environment land; water and air have been severely impacted by operations that employ methods such as open-pit mining banned in countries like the United States of America and Canada.
The nickel mining operation by Hinatuan Mining Corporation (HMC) in the Manicani Island in the Philippines is believed to have caused environmental problems such as effects to the soil geochemistry and the flora and fauna in the area. The residents on the island, which is considered as one of the major breeding grounds in the region for numerous varieties of fish, have noticed a tremendous decrease in the volume and varieties of marine life in the area after HMC operations began. The dwindling fish catch is also as a result of over fishing.
7.0 LABOUR MARKETS AND EMPLOYMENT

Adjustment policies like privatisation have had widespread impacts on employment but the structural adjustment programs have not directly addressed employment problems. They have neither included explicit strategies to stimulate production in those sectors that would generate high levels of employment.

It is through human labour that wealth is generated. Without labour there is no income, whether in cash or in kind, no consumer goods, no technology, capital or organization. There would be no production or distribution of wealth nor would markets exist without labour. It is not the market that determines the existence of labour but on the contrary without labour there cannot exist markets. The employment of labour can be done in a number of different ways.

Where the relationship between supply and demand are clearly articulated like in the “developed” economies work is usually salaried but such is not always the case everywhere. The labour market can co-exist with many types of workers and employment like small-scale rural producers, independent merchants, self-employed workers and non-paid family workers. Non-remunerated housework underpins work performed outside the home by other household members. Such work is however considered to be “non-economic” and whoever performs it is almost always classified as part of the economically inactive population.

With wages reduced through the interplay of supply and demand it was assumed that a country would become more competitive and attract investment because of the low labour costs despite the fact that competitiveness established on this basis can only be short term and quite tenuous as labour costs may suddenly be lowered elsewhere.

7.1 LABOUR MARKETS AND EMPLOYMENT IN ZIMBABWE

Zimbabwe had a population of 7 million people in 1980 and 11.5 million in 1997. The area covered by Zimbabwe is 390,580,000 square kilometres. In 1980 they had a GDP of US$ 6,679 million while in 1997 it was US$ 8,906 million. Correspondingly for
1980 and 1997 the GDP per capita was 954 and 774 while the average annual growth was –1.2 percent (The World Bank, World Development Indicators, 1999).

The economic reform programs were launched in Zimbabwe in 1991 but the growth has significantly slowed. Latin America and Africa are historically the two continents with the highest concentration of wealth. 70 percent of the land in Zimbabwe belonged to less than one percent of producers who also control 85 percent of the water resources.

In some areas in Latin America and Africa there has been some discrimination about the race between the colonial masters and the indigenous people. The Zimbabwean case is currently a bit different since they are currently having problems with land (ibid).

Zimbabwe has the eighth poorest distribution of wealth out of the 96 countries appearing in the World Bank’s World Development Report of 1999. Its deficit is 9.6 percent of GDP in 1980 but this is associated with the debt during the 1980s.

One of the most fundamental things to consider in Zimbabwe is the HIV/AIDS scourge, though this applies to most if not all developing countries, it is basically a global challenge. The life expectancy in Zimbabwe has dropped from 61 to 48 years. A proportionate percentage of the population is infected.

Prior to the structural adjustment programs, Zimbabwe grew rapidly in the 1960s and 1970s at approximately 2.9 percent annually. With a high population growth of 2.96 percent and a weakening of the economy during the 1990s growth only reached 1.6 percent. When the effect of the HIV pandemic and the recent political crisis are added to this mix the panorama becomes more critical.

The World Bank financed the Economic Reform Programs with the usual adjustment policies in Zimbabwe in 1991, which included among others privatisation and trade liberalization, which as in the Latin American countries brought about massive

http://developmentgap.org/saprin/zimbabwe_forum.html
closings of companies. As the businesses closed, the formal sector shrunk and the informal sector expanded, as this persisted there were fewer opportunities to obtain employment and poverty increased, while there was a growing phenomenon of people holding multiple jobs (ibid).

There was an oversupply of qualified workers. In spite of the closings and greater vulnerability of micro, small and medium-sized business due to economic restructuring, this sector has experienced the most growth, given the small amounts of capital such businesses need to operate and how easily they can enter the informal sector. This phenomenon also indicates the high birth and death rates of these businesses and the fact that, while they are vulnerable to crisis, they also serve as a refuge from it.

Given that labour force surveys are not undertaken on a regular basis, and when they are taken, the methodologies used and the types of data collected are so different that they defy comparative analysis (ibid). The Zimbabwe Congress of Trade Unions estimated the unemployment level to be at between 35 and 50 percent in 1997. The government’s Central Statistical Office concedes its own estimates are low, as neither discouraged job seekers who have not been actively looking for a job nor those who have worked even one hour in the previous week are included in the figures.

After a decade of adjustments, employment creation in Zimbabwe had stagnated before the current political crisis that took place. The average annual employment growth rates fell from 2.9 percent between 1991 and 1995 to only 0.3 percent from 1996 to 1999. By the end of the 1990s, 68 percent of the population was surviving on less than two dollars a day, as even those workers who do find full time jobs are no longer guaranteed a living wage. The collapse of wages has meant that many workers live far below the poverty line.

Upon signing its stabilization agreement with the IMF in 1993, the Zimbabwean government abandoned the relatively high minimum wage that it had established along with laws supporting collective bargaining, shortly after independence three years earlier. By the end of the decade and the institution of an adjustment program,
the government had begun to look at the labour market as any other market in need of deregulation. Wage flexibility was introduced, some restrictions on worker layoffs were abolished, and competition in the area of labour organizing was promoted.

The government in 1991 began to restructure a highly protective legal framework established in 1985. The labour relations Act was reformed so that the market would determine salaries and defined in individual contracts, as well as to facilitate employers’ ability to fire workers.

The requirement that employers inform authorities before firing workers disappeared, as did mechanism for reconciliation and arbitration between workers and management and recognition of collective bargaining contracts.

Real wages have decreased to the point that even those who have managed to find full time jobs are no longer guaranteed a living wage hence many workers live below the poverty line. The deterioration of salaries has been worst among the least skilled workers. In spite of the wage deterioration, the number of strikes reduced drastically after 1997 from 230 in that year to 130 in 2000.

7.2 LABOUR MARKETS AND EMPLOYMENT IN EL SALVADOR

There have been a number of consequences for the workers and their families due to the policy of introducing more flexibility into the labour market of El Salvador. The policy encourages the increased use of temporary and part time workers, which has made employment unstable.\(^{14}\)

The working hours in El Salvador have also become more “flexible”, often leading to longer workdays with no overtime pay. In some instances the “flexible” labour policy appears to be abused by employers who have taken advantage of the indifference of the Labour Ministry and the relative weakness of labour unions to violate labour laws. An example is the firing of union workers and their replacement soon after with non-union employees (ibid).

\(^{14}\) http://developmentgap.org/saprin/elsalfor.html
Basically El Salvador has grown significantly in the 1990s after the peace Accords were signed in early 1992. The GDP per capita increased from US$ 777 in 1980 to US$ 1,909 in 1997 (World Development Indicators, 1999).

El Salvador experienced profound economic stagnation during the 1980s because of the civil war. The recovery during the 1990s following the Peace Accords was accelerated with GDP per capita growing at 2.9 percent per year, with the help of a lower population growth rate of 1.5 percent.

However it must be noted that the situation has reversed since 1997 as the GDP per capita increased by barely 0.9 percent, coupled to this is the fact that the country experienced the adverse impacts of Hurricane Mitch at the end of 1998 and in particular of the earthquake in 2001.

In 1998 open unemployment had risen to 7.3 percent, urban underemployment was 17.4 percent and informal sector employment was 26 percent. Around two thirds of the economically active population earned less than the minimum wage, and half of those employed worked 45 or more hours a week. The figures for informal and precarious employment explain how very high levels of poverty can co-exist with relatively low levels of official unemployment.

About 19 percent of the population is deemed to be living in extreme poverty and 25.7 in relative poverty, meaning that 44.6 percent of the El Salvador population live in poverty conditions.

There has been some modification to legislation that has annulled some clauses containing positive discrimination towards women such as those outlining special conditions for pregnant women. The Second National Forum in El Salvador spotlighted the degrading situation faced by women now having to prove that they are not pregnant in order to be hired in the “maquiladoras” or being forced to sign illegal contracts in which the employee must agree to be laid off if she gets pregnant.
The weak labour laws in El Salvador have been used to exploit workers within the context of the adjustment program. The effect has been increased absence of employment contracts, greater work instability, salaries below minimum wage, work weeks of over 40 hours, reduced access to social security benefits, and failure to respect the right to organize or to uphold the rights of union members.

Increased efficiency and productivity is rarely rewarded with higher wages. The low salaries and long work days are having a harmful effect on workers’ health and nutrition and making it increasingly difficult for the workers to find affordable housing. The declining family income has forced more and more children to enter the labour force to supplement the decline. The children take the jobs that pay “apprentice” salaries that are far below the minimum wage although their duties are similar to those of regular adult employees.
8.0 FINANCIAL SECTOR

The financial sector liberalization is an integral part of the structural adjustment and economic stabilization. The concerns about financial sector inefficiencies, the failure of the sectoral policies that had been in place, and the desire of international and national financial interests to wrest control of the sector from the state were major motivations behind the shift toward a more market based approach to the management of the sector. The failure of the previous policies that had placed the financial sector largely under state control was the enigma behind the shift towards a more market driven system of financial management to stimulate economic growth.

The reform strategy promoted by the World Bank involved the liberalization of interest rates, the removal of entry barriers into financial markets, an end to directed lending, a restructuring of the financial sector and the adoption of measures to improve its supervision.

8.1 FINANCIAL SECTOR REFORMS IN NICARAGUA

Nicaragua was compelled to restructure its financial system in the 1990s. This was in the wake of a devastating war that had plagued the country. They were also compelled to re-establish links with sources of multilateral finance and they operated under precarious conditions of political and social turmoil. The economic stabilization and adjustment programs implemented in Nicaragua are the standard prescription applied by the IMF in over 60 countries in the south.

The stabilization and adjustment programs began in 1990 in Nicaragua and were initially financed by the United States Agency for International Development (USAID). The IMF took the lead in designing and implementing the program with a Stand-by Agreement in 1991.

The IMF prescriptions are intended to achieve stabilization and restart growth in indebted countries with serious structural problems. Although some people could have diverse opinions about this like Susan George whose views are quite political:

15 http://www.developmentgap.org/imfnicaragua.html
“Debt is an efficient tool. It ensures access to other peoples’ raw materials and infrastructure on the cheapest possible terms. Dozens of countries must compete for shrinking export markets and can export only a limited range of products because of Northern protectionism and their lack of cash to invest in diversification. Market saturation ensues, reducing exporters’ income to a bare minimum while the North enjoys huge savings. The IMF cannot seem to understand that investing in a healthy, well fed, literate population is the most intelligent economic choice a country can make.”

Susan George, A Fate Worse Than Debt, (New York: Grove Weidenfeld, 1990) pp143, 187, 235

Of course it is important for one or a country to pay its debt otherwise being not creditworthy might pose some serious repercussions later. Much of the foreign aid upon which Nicaragua remained highly dependent between 1991 and 1995, the foreign assistance represented an annual average of 29.9 percent of Gross Domestic Product (GDP) which was paid abroad as interest payments and amortization of foreign debt. The trade balance has shown some signs of improvement and the deficit has actually grown since 1990.

More foreign assistance has translated into more imports without economic recovery such that the trade deficit reached 35 percent of GDP in 1997, thus contributing to the debt burden.

Interest rates have risen to very high levels, and the new institutional structure favours short-term credit for speculative purposes rather than longer-term investments for productive purposes. Agricultural and industrial production groups that have been displaced by or subordinated to financial groups do not have many opportunities, especially medium-sized and small-scale producers.

The large industrialists in Nicaragua linked to the governing elite enjoy sufficient tariff protection and fiscal support to make their operations extremely profitable. The remaining sectors can be said to be in a disadvantaged situation and simply do not receive benefits. Due to this the boom that took place in private finance and in certain extractive activities with high short-term profitability and minimal investment contrast

16 http://www.globalissues.org/TradeRelated/SAP.asp
17 http://www.developmentsgap.org/imfnicaragua.html
with the stagnation of domestic production and the generalized deterioration in the conditions of that production (ibid).

Although the money supply has slowly grown since 1991, the amount of money in circulation has decreased. Much of the money supply is concentrated in the short-term deposits at high interest rates in particular in the dollar denominated deposits. Private banks control 66 percent of the assets in the financial system. Deposits grew at an annual rate of 41.8 percent between 1992 and 1995 while gross investment as a percentage of GDP increased at an average of just 10.8 percent. The limited growth occurred in the public sector and was mainly financed by foreign assistance.

8.2 FINANCIAL SECTOR REFORMS IN EL SALVADOR

Before the introduction of structural reforms in El Salvador in the 1990s, the financial sector was controlled by the state. In the context of the civil war in order to avoid a total collapse of the financial system, the Banks in El Salvador had been nationalized in 1980\textsuperscript{18}. The government, credit ceilings were established to ensure that certain levels of resources were channelled to specific sectors and there were restrictions as to who could carry out banking business, fixed the interest rates.

Despite the government support to the financial sector, the economy’s dismal performance deepened the lack of confidence in the banking system, which resulted in capital flight. This provided the justification for the re-privatisation of the banks in 1990-1991, as it was argued that private intermediaries would guarantee greater efficiency and competitiveness.

The country’s most conservative businessmen used their political influence and economic power to manipulate the financial sector reform process to serve their own interests, taking advantage of the deficiencies in the legal and regulatory mechanisms.

In order to privatise the banks, the government was forced to assume financial responsibility for all bad debts through the creation of the Fund for Financial

\textsuperscript{18} http://developmentgap.org/saprin/elsalfor.html
Restructuring and Strengthening. The privatisation process was supposed to
democratise the ownership of assets through the sale of bank stocks to a large quantity
of new stockholders that included bank workers and small investors. The country’s
elite to regain control of the majority of financial assets manipulated the process while
the taxpayers footed the bills for the bad debts19.

This is a clear case where a small group of private interests benefiting from non-
competitive practises that were enabled as a result of the financial sector reform. At
the moment, five banks control the lion’s share of the financial market.

The Multisectoral Investment Bank that was established in 1994 to promote the
growth of productive sectors has functioned with questionable lending criteria that
significantly favour commercial banks and their limited group of large clients thus
hurting particularly the rural and small-scale businesses (ibid).

An ideal for the privatisation of the banks was the democratisation of participation by
stakeholders although it has allowed greater concentration of the banking assets to the
most powerful families.

Following the privatisation of the banking system, the interest rate on loans of up to
one year term experienced a monthly increase rising by nearly 50 percent to 20.2 in
1996 although it declined and stabilized but it was at a higher rate than prior to
reforms. On top of this the banks are charging higher commissions when they approve
loans, special rates on overdue loans, and interest on top of interest.

It is also difficult to access formal sector credit due to the imposition of restrictive
requirements. More collateral has been required to receive credit and banks no longer
accept some assets as collateral. About 23.3 percent of the total loan portfolio of the
banking system was directed towards micro, small and medium scale enterprises
(ibid).

19 http://www.developmentgap.org/crisis.html
Despite the proliferation of gender related credit programs promoted by the Non Governmental Organisations (NGOs) and governmental agencies, most women are not able to satisfy loan requirements because they either are not property owners or they lack documentation and business records. Given that the women are unable to guarantee loan repayment in accordance with criteria established in the formal banking, they do not receive loans to invest in their businesses. This reduces their ability to continue their business activities at levels that would allow them to move from subsistence to accumulation.
9.0 AGRICULTURAL SECTOR

The agricultural sector is regarded as the backbone of most developing countries economies. The performance of the sector was deemed inadequate prior to the reforms by the international financial institutions for a number of reasons like overvalued exchange rate, inefficient operations of the parastatal agricultural marketing boards, production inefficiency and inequity in food grain distribution.

Agricultural sector reform policies have been implemented as part of the structural adjustment process in countries where agriculture plays an important especially in terms of exports. The policies pursued have varied from country to country depending on the principal reasons deemed to be inhibiting higher production levels and improved earnings in the sector.

The policies have generally included: removal of subsidies on agricultural inputs and credit; liberalization of producer prices; privatisation of state entities involved in marketing and the distribution of inputs and produce; liberalization of trade in agricultural inputs and commodities; and currency devaluation.

9.1 AGRICULTURAL SECTOR IN TANZANIA

The structural adjustment programs in Tanzania began in 1986 and there were other agreements, which were signed in 1987, 1991 and 1996. Agriculture is by far the most important sector in terms of employment (over 80 percent) and its contribution to GDP is over 60 percent. The agricultural sector contributes about 75 percent of foreign exchange earnings.

While agricultural production and exports have increased since the adjustment program began, so have rural poverty, income inequality, food security, malnutrition and environmental degradation. Due to this, Tanzania has become more dependent on foreign aid. The major elements of the adjustment programs in Tanzania have been devaluation, cuts in subsidies and trade liberalization.

The measures have dramatically increased the prices of inputs for the production of both food and export crops. Taking an example of the years between 1989 and 1992,

20 http://www.developmentgap.org/imftanzania.html
the price of fertilizers increased between 183 and 412 percent depending on the type of the fertilizer. During the same period the producer prices for food crops decreased.

Between 1985 and 1991, the producer prices for example maize fell by 30 percent while those for cassava fell by 32 percent. The corresponding fall in the prices for sorghum and millet, and beans were 40 percent and 6 percent. Although there have been increases in nominal producer prices for a number of crops during the decade of the 90’s devaluation and persistent inflation have more than wiped out these gains (ibid).

Since the state marketing and pan-territorial pricing programs were ended, the small farmers in remote areas have found it especially difficult to market their crops. The World Bank reports that, while “rich farmers negotiate selling prices with private traders, the poor sell in smaller quantities and at lower prices. Despite the problems the IMF Policy Framework Paper for 1995/96 to 1997/98 focuses on improving “marketing efficiency” rather than on fairness.

The interest rates are high and coupled with the privatisation of the Co-operative and Rural Development Bank; this has meant that credit for small-scale agriculture has virtually disappeared. According to the fund, the private (mostly foreign) banks now operating have restricted their activities mostly to trade financing in Dar es Salaam, avoiding the domestic lending activities and the rural areas (ibid).

Food security in Tanzania has diminished considerably under the IMF program. Part of the problem can be attributed or linked to the impact of drought on the already vulnerable agricultural sector. The removal of subsidies on fertilizers can also be blamed for the acute food shortages over the recent years in Tanzania. The problem of food insecurity has been exacerbated by the high and worsening degree of income inequality in Tanzania.

The economic situation of the poor has worsened. Between 1983 and 1991, the better off saw their incomes from agriculture rise by 279 percent, while the poor and the very poor experienced income decreases of 42 and 60 percent correspondingly. In
1983, the average adult equivalent income for the richest income group was 24 times
greater than that for the poorest group. By 1991, the figure was 1,454 times greater
due to the large proportion of the population with zero or even negative incomes.

The people living in households with income below the poverty line (over eight million people in 1991, or 42 percent of the population) had lower incomes in 1991 than in 1983. Given that people are desperate to produce on any available land, environmental degradation has increased.

Between 1980 and 1993, one-quarter of the country’s forest area was lost, exposing greater areas of land to wind and water erosion. Degradation is currently occurring at the rate of two percent per year. Forty percent of this loss is due to clearing of the land for cultivation while the other major cause is the cutting down of trees to plant tobacco, as tobacco cultivation has been encouraged under the adjustment programs to increase foreign exchange earnings.

9.2 AGRICULTURAL SECTOR IN GHANA

Under the structural adjustment programs there has been a shift in agricultural production in Ghana with more land and resources devoted to export crops and less used for the cultivation of basic food crops. The shift which was undertaken without the input or consent of farmers has led to a decline in domestic food production, reduced food security for the poor, lower agricultural investment and an increasing income disparity between export and domestic food producers which has exacerbated inequality\(^21\). Although even prior to the structural adjustment programs inequality existed.

Subsistence farmers who are the majority and constitute most of the staggering 80 percent of the poor who live in the rural areas have been the hardest hit. There seem to have been an emphasis for the production for export while the production for domestic requirement has been neglected.

\(^{21}\) http://www.saprin.org/ghana/ghana_forum1.htm
There has been a rise in input prices because of the removal of subsidies. Coupled to this, the liberalization measures have resulted in a flood of cheap imports, which have further harmed local food producers.

The high interest rates and changes in the lending policies of the agricultural development bank have contributed to a substantial reduction in agricultural investment, leading to declining productivity among food producers. The commercial banking sector hardly lends to the agricultural sector (ibid).

Devaluation and domestic inflation have led to higher food prices, which have not been matched by similar increase in wages. The people who are working have not regained their 1970-74 wage levels. With increasing layoffs, the one-third rural households that are net consumers of food are getting poorer and hungrier.

Women who produce approximately 60 percent of food have suffered disproportionately from the elimination of subsidies, the drying up of credit, and the surge of food imports resulting from trade liberalization. The fate of the rural manufacturing tied to the agricultural sector; such as small-scale food processing linger in jeopardy.
10.0 FISCAL REFORMS

The fiscal reforms have been a central part of structural adjustment package, which involves public expenditure controls, and more often cuts in spending on social services as a means of curbing budget deficit and reining in inflation. Structural adjustment policies have had a profound effect on all aspects of political, social and economic life in developing and transition countries.

The impact has been felt quite deeply in the social sector. Civil society organizations, often joined by the United Nations agencies like UNICEF (United Nations Children Fund), have been particularly critical of the impact on the poor of large budgetary cuts in such areas as health care and education carried out under adjustment programs over the past two decades. The social sector is also one of the areas in which the World Bank has found itself vulnerable to the charge that its policies are disproportionately hurting the poor.

The reforms have gone beyond cutbacks in social spending and have been applied to transform the social sector from one in which the state plays a major redistributive role to one that is subject to free-market forces. The consequent decline in the state’s ability to allocate resources to the social sector, as well as the general deterioration in access to affordable quality services by important population groups has resulted in a worsening of poverty and inequality.

Education and Health care are key social services affected by public sector reforms. As a result, the market forces for which the only criterion for success is profit maximization have been left to determine the access that much of the population can gain to key services such as education and health care. In the face of low wages and high unemployment levels, the imposition of user fees and the rising cost of services have increased hardships on the poor. The strategy of targeting subsidies to benefit only those in extreme poverty has failed to address the broader problems of the poor or to stop the growth of poverty and inequality.
10.1 FISCAL REFORMS IN UGANDA

Table 8: Share of Total Government Expenditure Allocated to Health Care and Education (1988-1998)

<table>
<thead>
<tr>
<th></th>
<th>1988/89</th>
<th>89/90</th>
<th>90/91</th>
<th>91/92</th>
<th>92/93</th>
<th>93/94</th>
<th>94/95</th>
<th>95/96</th>
<th>96/97</th>
<th>97/98</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education expenditure</td>
<td>10.0</td>
<td>8.4</td>
<td>8.0</td>
<td>2.3</td>
<td>6.4</td>
<td>5.8</td>
<td>12.0</td>
<td>11.5</td>
<td>14.6</td>
<td>16.6</td>
</tr>
<tr>
<td>Health care expenditure</td>
<td>2.6</td>
<td>2.6</td>
<td>2.6</td>
<td>0.8</td>
<td>2.3</td>
<td>2.3</td>
<td>4.7</td>
<td>5.7</td>
<td>4.2</td>
<td>4.3</td>
</tr>
</tbody>
</table>

World Bank Statistical Tables 2002

There has been an increase in both education and health care spending during the period under which adjustment programs have been in place although the health care has been experiencing some decline in the latter fiscal years.

Spending on health care has fluctuated under structural adjustment in Uganda, declining from 2.6 percent of government expenditure in 1988/89 to 0.8 percent in 1991/92. It then increased to 5.7 in 1995/96 only to fall again to 4.2 in 1996/97. It increased infinitesimally to 4.3 percent in 1997/98.

The share of education spending in total expenditure declined sharply from 10 percent to 2.3 percent between 1988/89 and 1991/92 and then increased to 16.6 percent by 1997/98.

Most of the increased spending in the education sector have been directed to the primary level, which began receiving 70 percent of recurrent expenditure for education following the implementation of the Universal Primary Education (UPE) program in 1997 and the increase in resources made available by the concerted efforts of donors and increase in domestic revenue as a result of the debt relief conceded through the Highly Impoverished Poor Countries initiative.

The devaluation of the local currency against the dollar had a particularly strong impact on health care as most medicines and medical equipments must be imported. Even in Uganda where there have been increases in spending for education and health
care, the negative effect of the rise in relative prices in these sectors has outweighed the positive effect of the spending increases. The cost of education and health care services at all levels are high\textsuperscript{22}.

Access to primary education in Uganda has improved while the access to secondary and tertiary education is skewed against the poor, as the burden of school costs at these levels must be borne primarily by parents.

The quality of education has suffered in Uganda despite the increased public spending and the implementation of the Universal Primary Education Program in 1997. The resources that have been provided to increase the numbers of teachers, textbooks and classrooms in the country have been overwhelmed by the dramatic upsurge in enrolment, which doubled at the primary level to over five million in comparison to the previous ten or so years. The ability to ensure adequate quality of education has become strained (ibid).

Despite the increase in the number of health facilities in Uganda, the utilization of these units remains limited as a result of a lack of medicine and insufficient staffing. The facilities serving poor areas of Uganda experience long periods without drugs in stock, which basically serve as a disincentive to seek treatment. Current budget ceilings also constrain the ability to respond to the need to improve poor quality service. There has been foot dragging with regard to the decentralization of the development budget\textsuperscript{23}.

The recruitment of specialized health workers such as laboratory technicians and dental assistants as required at lower level health facilities has proved to be problematic due to low wages. The qualified personnel more often than not opt to work in the urban areas where they have access to private clinics in which they can get additional income by taking on a second shift.

\textsuperscript{22} http://www.saprin.org/uganda/uganda_forum1.htm
\textsuperscript{23} http://www.saarin.org/uganda/uganda_forum1.htm
There have been minimal wage hikes for the health personnel due to budget increases in the mid 1990s but the salaries fall short of a living wage hence leading to low morale and poor quality of services as employees engage in other activities to supplement their low income hence despite the improvement in social spending, social indicators continue to reflect poorly on the health sector.

There is an insufficiency of revenue and other resources at the district and sub-district level needs some closer supervision as some get-rich-quick culture has negatively affected service delivery (ibid).

The cost sharing has made hospitals and institutes of higher learning too costly for the poor and those who cannot pay simply die. The cost sharing system is also being poorly administered in the hospitals and in areas where people are unable to pay, the local hospital has simply been closed.

10.2 FISCAL REFORMS IN ZIMBABWE

Public expenditures on health and education fell in the 1990s. Spending on health care dropped to 2.1 percent of GDP in 1996 from 3.1 in 1990. The government allocations to the Ministry of Health decreased from six percent of total government expenditure to about four percent. The per capita budget for health care fell from US$ 22 in 1990 to US$ 11 in 1996 (Central Statistical Office, 1985-1996 National Accounts). One can say that the public health budget may not be enough to meet the health needs given the drastic reduction.

| Table 9: Annual Earnings per Employee (in US$) in Health Care and Education |
|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Health Care                 | 4,321| 3,641| 2,742| 2,330| 2,183| 2,546| 2,408|
| Education                   | 4,934| 4,415| 3,259| 2,725| 2,386| 2,516| 2,249|

Source: Central Statistical Office, 1985-1996 National Accounts

The total education spending in Zimbabwe declined from 6.29 of GDP in 1986-87 to 4.82 percent in 1999. Allocations to education as a percentage of total recurrent
expenditure fell from 39 percent in 1999 to 21 percent in 2000. The per capita spending for education also declined in real terms from Z$ 37.83 in 1990 to Z$30.44 in 2000.

In Zimbabwe from 1991 to 2000 the Medicare price index rose by 2106.3 percent and the education price index rose by 857.2 percent as a result of extensive devaluations and inflation24.

School fees were reintroduced in Zimbabwe after a decade of free education following independence and this lead to a dramatic increase in dropout rates. The primary dropout rates were significantly higher throughout the 1990s and the numbers were higher for girls than for boys.

By the end of the decade, about 70 percent of the children finishing primary school was continuing on to secondary school. In the fourth and final year of lower secondary school there was an average dropout rate of 92 percent for males and 93.4 percent for females during the period 1990-97 (ibid).

The increases in school fees resulting from cost recovery measures in education have impacted negatively on girls. It has become expensive to take children to school and although parents prefer to send both male and female children to school, if they are forced to withdraw a child then the girl will usually lose out.

With the establishment of user fees for health care, the cost increases for patients were dramatic and in some cases it exceeded 1,000 percent. This impacted negatively on the utilization of health care services in both the rural and urban areas and especially for the poor.

The fees were raised in 1991 and again in 19993/94 and there was a marked decline in outpatient and prenatal care, prescriptions dispensed, admissions, and X-ray, lab and dental services. As a result, most people sought early discharge or absconded to save money.

24 http://developmentgap.org/saprin/zimbabwe_forum.html
The decrease in real per capita spending on education under adjustment in the 1990s has led to a fall in the real wages of teachers despite the fact that 90 percent of public spending on primary education goes to salaries. The remaining 10 percent goes to maintenance and repair of school infrastructure, the acquisition of furniture, textbooks and ongoing teacher training. The quality of education in Zimbabwe has basically been affected by the situation.
11.0 CONCLUSION
The oil crisis of 1973/74 and 1979/80 had a great impact not only to the low-income developing countries but also to the developed economies, which were non-oil producers. Coupled with this were the high interest rates and the debt crisis, which were not conducive to growth.

There was a need to reverse the trend in order for the economies to grow. It should although be noted that the oil crisis was not the only bottleneck to growth since even the oil producing countries in the developing economies like Angola, Cameroon, Gabon and Nigeria did not realise economic boom as a result of the increased petro-dollars.

This basically points to the fact that, not only were external factors responsible for the developing African and Latin American economic crisis but generally there was widespread economic mismanagement worsened by corruption and mal-administration.

To reduce the deficits in the balance of payments position then there was a need to liberalise the economies so as to reap the benefits of international trade. Increased production would mean that the surplus could easily be exported that would in turn improve the terms of trade and hence reduce the balance of payments deficits.

By liberalising their economies then it would be easy to attract Foreign Direct Investment (FDI) that of course improves the capital accounts position.

The primary exports of most developing countries are primary products and intermediate goods that are lowly priced as opposed to the manufactured goods imported. In the global market there is growing protectionist pressures and there has been emerging regional blocs like the European Union (EU), North Atlantic Free Trade Area (NAFTA), and ASEAN and the question is whether they will constitute building blocks or stumbling blocks.
The prevailing situation in most developing countries would require a shift from the structural adjustment programs though the intentions of the programs are good but more need to be done. The shift should help among others to reduce poverty and economic inequality. The policies should be geared towards having a healthy and growing domestic economies that produce good jobs at decent wages and also enhancing the rights and purchasing power of workers.

The small-scale agricultural farmers should be supported and so should be food security. All this should be done in an environmentally sustainable manner that ensures accessibility to basic needs to the entire population.

The export-led development strategy is good but there have to be some attention given to the investments that create local economic linkages. These ought to be on the other hand not import intensive so as to avoid current account deficits. The agriculturally based industries can add value to the exports while at the same time reducing the dependency on imports.

As much as the developing countries need foreign direct investment, there needs to be a policy as far as the multinational companies are concerned. The investments that contribute the much-needed capital should be encouraged and so should be those that contribute technology and know-how. This should help diversify the exports.

In order to best ensure that the provision of affordable and quality services such as water and electricity then such utilities should ideally remain under the state or local government ownership. If they have to be privatised then they should only be privatised partially. This is because such utilities are a contributor to poverty eradication. Also a sufficient level of spending should be maintained in the health-care and education.

In the mining sector, in order for the companies to have greater responsibility and accountability with regard to the environment then the legal and policy framework should be overhauled. It is only that some developing countries do not have environmental policies and one cannot put the whole burden on the companies but
also the host countries. There need to be fair and crystal clear guidelines as far as the rules are concerned and possibly the consent of the communities involved obtained.

The labour market and employment sector would be best served if all parties involved have some sort of a commission where the interests of all parties are taken into consideration. Given the high unemployment levels in the developing countries it might be difficult to have such tripartite agreements. The employment policy should also ensure that when workers are laid off especially the unskilled, then they are assured of their basic workers rights or possibly an opportunity to a job-training program.

The lowering of the interest rates should be one of the main goals of the financial sector although the policies should in turn bridge the gap between the borrowing and savings rate. The government needs the authority and legitimacy to regulate the private sector control over financial resources. This is in addition to curbing speculative behaviour that rocked the Asian Economies in mid and late 1990s. The lending by the governments should also extend to all the regions in the country.

The Structural Adjustments Programs (SAPs) are a necessary but not sufficient solution to the prevailing economic quagmire in the developing economies for them to attain and sustain economic growth, reduce poverty and reduce inequality.
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