

The Nature of SAPs and Experiences with Reform

- 9 The successive oil price shocks of the 1970s and associated debt accumulation, together with high world interest rates, slackening demand and declining commodity prices in the early 1980s were the origins of economic policy reforms. Growing external and internal imbalances were compounded by tightening capital markets. Starved of private capital and faced with growing disequilibrium, developing countries turned to the Bretton Woods Institutions (BWI) – the World Bank and the International Monetary Fund (IMF) – for assistance, which increasingly was offered only on the basis of structural adjustment conditionality, incorporated in the specific policy reform packages known as Structural Adjustment Programmes (SAPs).
- 10 Over 70 developing countries have submitted to these adjustment packages which typically share one common characteristic – substituting open economy policies for the now discredited inward-looking ones. In certain cases the reforms were completely packaged by the BWIs and accepted passively by the reforming countries, while in other cases ownership rests with the reforming country. In Ghana, for example, an Economic Management Team comprising a small group with the finance minister as head was formed by the head of state, to think out the reforming issues. The dismantling nature of the initial decisions made it easier to formulate policies, negotiate with the BWIs and adopt these reforms with a significant degree of political autonomy.
- 11 It is convenient to separate the reform packages into two components: on the one hand, those policies aimed at the restoration of macroeconomic stability (stabilisation) and, on the other hand, those policy measures that are designed to alter the boundaries between the public and private sectors and the way in which the different sectors of the economy are structured and operate (structural adjustments).
- 12 Generally, stabilisation issues have centred on instituting policies that will lower inflation, restore positive growth in output, and regularise the external payments position. Inflation management in the SAP has usually involved maintaining a strict monetary and fiscal stance. Price controls which had restrained output growth in the years before the SAP were also liberalised. Further, SAP also realigned exchange rates to offer international competitiveness to the country's exports.
- 13 The implementation of structural adjustment policies has been very slow. This has involved changing legal and institutional frameworks as well as attempts to alter the general structure of the productive economy. Thus, reforms were introduced in institutions such as the civil service and the financial sector. In the civil service, there was redeployment and retrenchment of workers to trim the structure of the

service and to cut down the public wage bill. Other adjustment measures included privatisation and divestiture of state owned enterprises.

- 14 The bulk of reforms so far was not only administratively simple but had relatively more manageable political costs which, moreover, could be handled within existing institutional arrangements. Price level surges following devaluation or increases in unemployment that come with tighter fiscal and monetary policies are not targeted at any particular group in society and may be perceived, or at least explained, as meant to be one-shot occurrences. In contrast, layoffs in a privatised steelworks and the elimination of subsidies on fertilisers, insecticides or other farm inputs are permanent changes with costs falling on specific groups. Moreover, those affected are easier to mobilise politically than the widely dispersed segments that bear the brunt of macroeconomic adjustment.
- 15 The strategy of shrinking the state called for the redeployment of public sector employees. Previous policies adopted to assuage popular frustration, in several instances, had contributed to the dismal economic performance of the pre-reform period. Public employment had become the preferred instrument for dealing with chronic unemployment and the non-existence of social safety nets. But the result was an over-extended public sector, high indebtedness, and, eventually, bankruptcy of public finances, more poverty, and even greater inequality.
- 16 The explosive combination of mounting unemployment, high inflation, and no usable institutions to channel state support to the poor had left several governments with no alternatives but to soak up unemployment through public payrolls. The tragedy was that this very use of public employment to provide what was at best temporary respite from social ills became a barrier to more effective and sustainable solutions to these problems. How best to tackle the problem was most uncertain but what was not in any doubt whatsoever, with the launching of the reform programme, was the inevitability of massive redeployment and layoffs. Equally certain was the high political cost of labour retrenchment. Whatever the expected gains to society as a whole, it was clear to the reforming governments that those adversely affected would be badly hurt by the loss of income. And as they lost incomes they could be expected to turn against the reform process. Compensatory measures by way of end-of-service payments and retraining schemes were instituted to minimise the destabilising consequences of reform.
- 17 Compensatory measures used in SAPs have usually been either complementary policies or direct subsidies and transfers. The former, such as export incentives, have proved both reliable and non-problematic. In contrast, direct subsidies and transfers – as with trade policy – which can have positive effects, have subsequently constituted problems when they have to be reduced or withdrawn.
- 18 Evaluations of the experience with SAPs have produced mixed results. Most of the success achieved so far has been in regard to reducing inflation and restoring economic growth. The broad strategy typically followed has been focused on shrinking the state and rejecting policies that depended on the discretionary decisions of poorly-paid, poorly-trained bureaucrats. Agencies in charge of policing compliance with thousands of

officially set prices, of administering import licenses, foreign exchange controls, trade quotas, and the screening and evaluation of foreign investment proposals, for example, were done away with. Strong fiscal discipline, widespread deregulation of trade and investment, and divestiture and privatisation of state-owned enterprises contributed to an increase in price stability and the restoration of growth.

- 19 The 1993 evaluation report of the Operations Evaluation Department (OED) of the World Bank rated only 39 out of the 68 adjustment programmes as satisfactory. The report found about 57 per cent of the programmes to have low ownership. Yet, borrower ownership is widely acknowledged as a critical prerequisite for successful reform. An important finding of the OED report was that the World Bank itself, given its predominant role especially in Africa, needs to strengthen its understanding of political economy issues through regular assessments of the impact of adjustment on various constituencies and to support efforts to bring the private sector and other groups into the process.
- 20 A review of the Enhanced Structural Adjustment Facility (ESAF) in a paper published by the IMF pointed to the difficulties of measuring the impact of adjustments. It found that clear-cut conclusions for differences in adjustment performance are difficult to draw. Among other things, this is because countries faced diverse circumstances, making it difficult to disentangle the effects of insufficiently comprehensive policy changes from those of adverse exogenous factors.
- 21 Common findings in the reviews are that the implementation of SAPs has been almost always favourable to the external account; that the influence on aggregate investment has been neutral to negative, and that on balance the influence on national income has been neutral. The preoccupation with the short-term, involving the implementation of 'Stage I reforms' or what one reviewer called 'the decree-driven, hard-to-decide, but simple-to-execute macroeconomic shocks,' has also been a recurring observation.
- 22 In the area of trade reform, initiating and sustaining a rapid pace has been possible where interests that were negatively affected could be controlled or influenced by the government (Mexico). The experience with sequencing and packaging suggests that stabilisation before or simultaneously with trade reforms is likely to increase the credibility of the overall reform effort (Ghana). macroeconomic failures have often led to reversals in trade policy (Nigeria, Poland, Senegal). Gradualism provided the requisite opportunity for firms to adjust to the new environment thus constituting a form of compensation.
- 23 Contrary to the sentiments expressed in the UNICEF study : 'Adjustment with a Human Face', insulating the poor from the effects of adjustment has not been a political imperative. Social reforms, including poverty alleviation and gender focus, have had to be advocated separately for consideration, largely on moral grounds. Some advocates have argued that even if compensating the poor is not politically significant in the short-run, doing so can help create new bases for support that can be valuable to political leaders. The economic benefits of social reforms, particularly in education and technical training, have also been canvassed on the grounds of the

increasing role of human capital in the emerging technologically sophisticated production processes. Finally, giving greater attention to the productive role of women both directly and as mothers, has been increasingly advanced in the reform agenda.

- 24 Most of the reforms undertaken so far share three identifiable characteristics. First, the reform decisions centred mostly on changing the rules that determine macroeconomic behaviour. Secondly,

these macroeconomic reforms could be adopted by the executive branch in relative isolation from the rest of the political system and were administratively simple to execute. Thirdly, the new policies implied the dismantling of existing agencies without requiring their immediate replacement. The defining characteristic of Stage I reforms then is the dominance of stabilisation measures, although the relatively easier aspects of structural adjustment were undertaken as well.