UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

TRADE AND DEVELOPMENT REPORT, 1989

PART TWO

THE LEAST DEVELOPED COUNTRIES

Specially prepared in this form for the Second United Nations Conference on the Least Developed Countries

UNITED NATIONS

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UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT
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TRADE AND DEVELOPMENT REPORT 1989

PART TWO

THE LEAST DEVELOPED COUNTRIES

UNITED NATIONS
New York, 1990

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Contents

Page

Explanatory notes ... *vii*
Abbreviations ... *ix*

Part Two

THE LEAST DEVELOPED COUNTRIES

Chapter I

THE SPECIAL CHARACTERISTICS OF THE LDCs ... 3

A. **Introduction** ... 3
B. **Economic differences** ... 3
C. **Infrastructural and social differences** ... 7
D. **Gender-related differences** ... 8
E. **Geographical differences** ... 9
1. Land-locked countries ... 9
2. Island LDCs ... 10
F. **Environmental differences** ... 11

Chapter II

STRUCTURAL ADJUSTMENT PROGRAMMES IN THE LDCs ... 13

A. **Introduction** ... 13
B. **Improving the efficiency of resource use and allocation** ... 15
1. External sector policies ... 15
2. Demand-management measures ... 17
3. Mobilization of domestic savings ... 18
4. Foreign direct investment ... 19
5. Improving the efficiency of public sector enterprises ... 20
6. Impact of the measures to improve the efficiency of resource use and allocation ... 20

Page

Chapter III

OVERVIEW: EXPERIENCE OF EIGHT LEAST DEVELOPED COUNTRIES 23

A. **Introduction** 23
B. **Results of structural adjustment** 25
1. *Balance of payments management* 25
2. *Growth and structural transformation* 28
3. *Social development* 31
4. *Special issues* 32
5. *International issues* 33
C. **Conclusions** 35

Chapter IV

EXPERIENCE OF INDIVIDUAL LEAST DEVELOPED COUNTRIES WITH ADJUSTMENT 37

A. **Bangladesh** 37
1. *Introduction* 37
2. *Adjustment in the 1980s* 38
3. *International support* 40
4. *Impact of the adjustment programme* 40
5. *Conclusions* 41
B. **Lesotho** 42
1. *Introduction* 42
2. *The adjustment programme* 43
3. *Impact of the adjustment programme* 44
C. **Malawi** 44
1. *Introduction* 44
2. *The adjustment programme* 45
3. *Impact and evaluation of recovery programmes* 46
4. *Conclusions* 49
D. **Nepal** 50
1. *Introduction* 50
2. *The adjustment programme* 50
3. *Implementation of adjustment policies* 51
4. *Impact of the adjustment programme* 53
5. *Conclusions* 54
E. **Niger** 54
1. *Introduction* 54
2. *The adjustment programme* 55
3. *Impact and evaluation of recovery programmes* 57
4. *Conclusions* 59
F. **Sudan** 59
1. *Introduction* 59
2. *The adjustment programme* 60
3. *Performance since 1978* 61
4. *Conclusions* 62

Page

G. **United Republic of Tanzania** *62*
1. Introduction *62*
2. Adjustment programmes *63*
3. The impact of programmes *63*
4. Conclusions *66*
Bibliography *67*

Annex

Annex Arrangements in support of structural adjustment in LDCs in the 1980s *71*

List of text tables and boxes

Table *Page*

1 Selected economic and social indicators for LDCs and other country groups ... *4*
2 Main measures taken in the context of IMF-supported adjustment programmes in selected LDCs ... *14*
3 Evolution of import volume and real investment per capita in selected LDCs ... *28*
4 Evolution of debt service ratios in selected LDCs ... *32*

Box

1 Devaluation, inflation and growth ... *16*
2 Designing structural adjustment programmes ... *17*
3 Privatization of PSEs ... *19*

Explanatory notes

Classification of countries and territories

Unless otherwise indicated, the following classification of countries and territories has been used in this Report. It has been adopted for the purposes of statistical convenience only and does not necessarily imply any judgement concerning the stage of development of a particular country or territory:

Developed market-economy countries (DMECs): Australia, Austria, Belgium, Canada, Denmark, Faeroe Islands, Finland, France, Germany, Federal Republic of, Greece, Iceland, Ireland, Israel, Italy, Japan, Liechtenstein, Luxembourg, Netherlands, New Zealand, Norway, Portugal, South Africa, Spain, Sweden, Switzerland, United Kingdom, United States.

Socialist countries of Eastern Europe: Albania, Bulgaria, Czechoslovakia, German Democratic Republic, Hungary, Poland, Romania, USSR.

Socialist countries of Asia: China, Democratic People's Republic of Korea, Mongolia.

Developing countries and territories: All other countries, territories or areas not specified above.

Generally speaking, sub-groupings within geographical regions and analytical groupings (e.g. Major petroleum exporters, Major exporters of manufactures and Least developed countries (LDCs)) are those used in the UNCTAD *Handbook of International Trade and Development Statistics 1988.**

Latin America corresponds to the *Handbook* grouping "Developing America" and thus includes the Caribbean countries.

South Asia includes Afghanistan, Bangladesh, India, Myanmar (formerly Burma), Nepal, Pakistan, Sri Lanka and *East Asia* includes all other countries in *South and South-East Asia* as well as countries in *Oceania.* In general, data for the People's Republic of China exclude Taiwan Province.

Commodity classification

Unless otherwise stated, the classification by commodity group used in this Report follows generally that employed in the *Handbook of International Trade and Development Statistics 1988.*

* United Nations publication, Sales No. E F.88.II.D.11.

Other notes

In the tables and in the text: references to "countries" are to countries, territories or areas as appropriate; references to annex tables are to the tables in the statistical annex (annex 5). References to *TDR* are to the *Trade and Development Report* (of a particular year). For example, *TDR 1988* refers to *Trade and Development Report, 1988* (United Nations publication, Sales No. E.88.II.D.8).

The term dollar ($) refers to United States dollars, unless otherwise stated.

The term 'billion' signifies 1,000 million.

The term 'tons' refers to metric tons.

Annual rates of growth and change refer to compound rates.

Exports are valued f.o.b. and imports c.i.f., unless otherwise specified.

Use of a hyphen (-) between dates representing years, e.g. 1965-1966, signifies the full period involved, including the initial and final years.

An oblique stroke (/) between two years, e.g. 1980/81, signifies a fiscal or crop year.

One dot (.) indicates that the data are not applicable.

Two dots (..) indicate that the data are not available, or are not separately reported.

A dash (-) or a zero sign (0) indicates that the amount is nil or negligible.

A plus sign (+) before a figure indicates an increase; a minus sign (-) before a figure indicates a decrease.

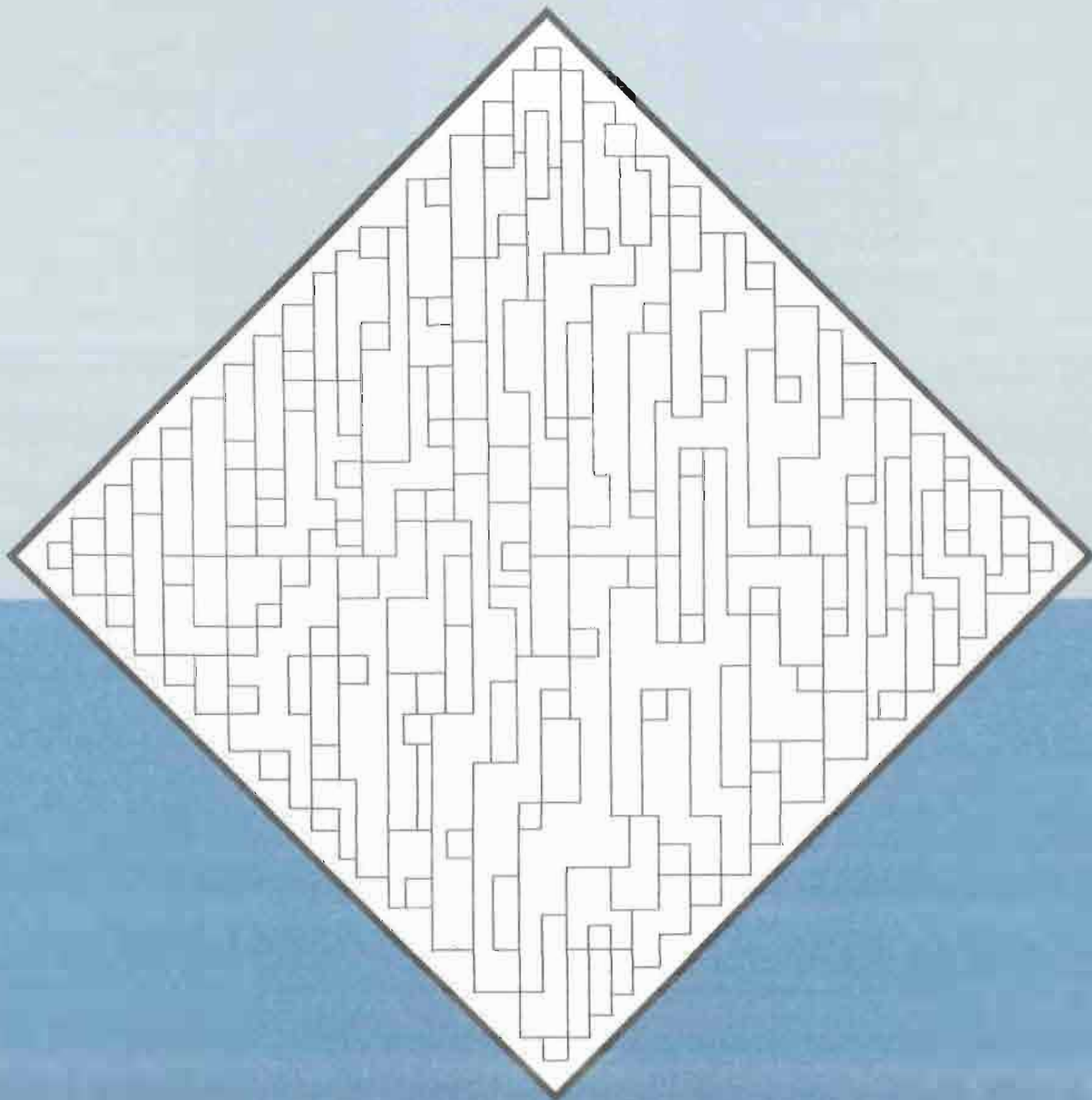
Details and percentages do not necessarily add up to totals, owing to rounding.

Abbreviations

ASEAN	Association of South-East Asian Nations
BOP	balance of payments
c and f	cost and freight
CCCF	Compensatory and Contingency Financing Facility
CEPAL	Economic Commission for Latin America and the Caribbean (Comisión Económica para América Latina y el Caribe)
c.i.f.	cost, insurance and freight
CMEA	Council for Mutual Economic Assistance
DAC	Development Assistance Committee (of OECD)
DMEC	developed market-economy country
ECAs	export credit agencies
ECE	Economic Commission for Europe
ECGD	Export Credits Guarantee Department (United Kingdom)
ECLAC	Economic Commission for Latin America and the Caribbean
ECU	European currency unit
EEC	European Economic Community
EMS	European Monetary System
ESCAP	Economic and Social Commission for Asia and the Pacific
ESCWA	Economic and Social Commission for Western Asia
EXIM	Export-Import Bank (United States)
FAO	Food and Agriculture Organization of the United Nations
FDI	foreign direct investment
f.o.b.	free on board
FY	fiscal year
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GNP	gross national product
GSP	generalized system of preferences
ICCO	International Cocoa Organization
IDA	International Development Association
IDB	Inter-American Development Bank
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFIs	international financial institutions
ILDC	island developing country
ILO	International Labour Office
IMF	International Monetary Fund
ISIC	International Standard Industrial Classification of All Economic Activities
LDC	least developed country

LIBOR	London Inter-Bank Offered Rate
MFA	Multi-Fibre Arrangement
MTNs	multilateral trade negotiations
MYRA	multi-year rescheduling agreement
NMP	net material product
ODA	official development assistance
ODF	official development finance
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
PSE	public sector enterprise
SAF	Structural Adjustment Facility
SAL	structural adjustment loan
SAP	Structural Adjustment Programme
SDR	special drawing right
SIGMA	System for Interlinked Global Modelling and Analysis
SITC	Standard International Trade Classification (revision 1)
SNA	System of National Accounts
SNPA	Substantial New Programme of Action for the Least Developed Countries for the 1980s
TNC	transnational corporation
UNCTAD	United Nations Conference on Trade and Development
UNCTC	United Nations Centre on Transnational Corporations
UNDP	United Nations Development Programme
UNDRO	Office of the United Nations Disaster Relief Co-ordinator
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development
USTR	United States Trade Representative
VAT	value added tax
VER	voluntary export restraint
WHO	World Health Organization
WIDER	World Institute for Development Economics Research
WIPO	World Intellectual Property Organization
WMO	World Meteorological Organization

THE LEAST DEVELOPED COUNTRIES



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THE SPECIAL CHARACTERISTICS OF THE LDCs

A. Introduction

This chapter reviews the structural characteristics of the least developed countries which serve to differentiate them from other developing countries.[1]

These differences may be seen in the broad economic sphere, but also (and arguably more importantly) in the social, geographical and ecological spheres. The discussion which follows takes up each of these themes in turn.

B. Economic differences

The primary characteristics of the LDCs have been set out in the very definition of this group of countries: low levels of income, literacy and industrialization. Compared with other developing countries, the LDCs show striking differences in these indicators. Thus, per capita income in 1986 was but one quarter of that in the developing countries;[2] adult literacy rates were hardly greater than half those in the developing countries; and the share of manufacturing in total GDP was less than half that in the developing countries. These comparisons indicate very clearly the width of the gulf that separates the LDCs from the developing countries, not to speak of the developed world.

The gap is not limited to these three indicators. There are also those vital factors for the development of a country - the savings and

[1] The General Assembly has identified 42 countries as the least developed among the developing countries on the basis of their very low per capita income, very low literacy rate and low contribution of manufacturing industries to GDP. With a combined population of 381 million, these countries are: Afghanistan, Bangladesh, Benin, Bhutan, Botswana, Burkina Faso, Burundi, Cape Verde, Central African Republic, Chad, Comoros, Democratic Yemen, Djibouti, Equatorial Guinea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Lao People's Democratic Republic, Lesotho, Malawi, Maldives, Mali, Mauritania, Mozambique, Myanmar (formerly Burma), Nepal, Niger, Rwanda, Samoa, Sao Tome and Principe, Sierra Leone, Somalia, Sudan, Togo, Tuvalu, Uganda, United Republic of Tanzania, Vanuatu and Yemen.

[2] Comparative data are mainly taken from UNCTAD, *The Least Developed Countries - 1988 Report* (TD/B/1202) (United Nations publication, Sales No. E.89.II.D.3, 1989); and UNCTAD, *Handbook of International Trade and Development Statistics*, 1988 (United Nations publication, Sales No. E/F.88.II.D.11). The major indicators discussed are summarized in table 1 in the present chapter.

Table 1

SELECTED ECONOMIC AND SOCIAL INDICATORS FOR LDCs AND OTHER COUNTRY GROUPS

Indicator	*Year/ period*	*LDCs*	*All developing countries*	*Developed countries* [a]
A. Economic				
GDP per capita	1980	227	900	9838
(in 1986 dollars)	1986	221	884 [b]	11080 [b]
Annual growth of GDP per capita ($)	1980-1986	-0.7	-0.3	2.0
Share of investment	1980	19	25	22
in GDP (per cent)	1986	14	22	21
Exports per capita ($)	1980	26	255	1235 [c]
	1987	22	192	1631 [c]
Share of primary commodities	1980	69	19	19
in total exports (per cent)	1985	65	21	16
Imports per capita ($)	1980	51	209	1364 [c]
	1987	46	182	1701 [c]
Share of agriculture	1980	46	16	4
in GDP (per cent)	1986	46	18	3
Active population in agriculture	1980	77	59	8
(per cent of total population)	1987	73	56	6
Arable land and land under permanent crops (per cent	1980	6	10	12
of total area)	1986	7	11	12
Output per worker in	1980	339	660	10931
agriculture (in 1986 dollars)	1986	366	796	12043
Annual growth of per capita agricultural production (per cent)	1980-1987	-0.6	0.2	0.2
Share of manufacturing	1980	9	18	27
in GDP (per cent)	1986	9	21 [d]	24 [d]
Annual growth of per capita value added in manufacturing (per cent)	1980-1986	-2.1	-1.4	0.6

(For source and notes see end of table.)

investment rates. Whereas the investment rate for the developing countries was of the order of 22 per cent of GDP in 1986, it was no more than 14 per cent in the LDCs, only three fifths that level. The discrepancy in the savings rate was even greater, the average rate for the LDCs in the period 1980-1985 being only one quarter of the average for the developing countries.[3]

This low savings rate derives from the very low per capita income indicated above. Since a very large proportion of the LDC population lives at subsistence level, it is physically impossible for them to save more than a tiny fraction of their income.

At the sectoral level, the differences persist. Thus, the share of agriculture in LDCs' GDP is almost two and a half times greater than in the developing countries,[4] yet per capita agricultural production in the LDCs has been declining in the 1980s in contrast to the slight

3 Investment was nevertheless able to proceed owing to the very significant inflows of foreign aid received by the LDCs.

4 The differences are similarly marked for the other main sectors of economic activity. Thus, industry represents only

Table 1 (concluded)

SELECTED ECONOMIC AND SOCIAL INDICATORS FOR LDCs AND OTHER COUNTRY GROUPS

Indicator	*Year/ period*	*LDCs*	*All developing countries*	*Developed countries* [a]
B. Social				
Life expectancy at birth (years)	1980-1985 [e]	47	53	73
Infant mortality rate (per thousand)	1980-1985 [e]	132	100	18
Average daily calorie intake per capita	1979-1981	2032	2352	3308
	1984-1986	2048	2404	3361
Adult literacy rate (per cent)	1980	27	50	99
	1985	32	58	99
Primary school enrolment (per cent)	1980	57	84	101
	1986	55	87	103
Percentage of population with access to safe water	1980	30	45	99
	1985	34	53	99
Physicians per 100,000 of population	1980	8	36	182
	1984	11	45	204 [b]
Telephones per 1,000 of population	1980	2	21	537
	1986	3	29	603
Radio receivers per 1,000 of population	1980	60	111	1062
	1986	91	171	1185
Energy consumption per capita (kg of coal equivalent)	1980	54	459	6076
	1986	58	516	5853

Source: UNCTAD secretariat calculations, based on international and national sources.
a Developed market-economy countries.
b 1985.
c Including socialist countries of Eastern Europe.
d Based on a sample of countries for which data are available.
e Based on census data for the census year in the period 1980-1985 for the various countries.

growth recorded in the developing countries, and the same is true of per capita food production.[5] The failure of food production to match population growth has led the LDCs to import almost twice as much food, proportionately, as the developing countries. At the same time, the LDCs' export markets remain more closely tied to those countries with which they have traditional links than do those of the developing countries: LDC exports to EEC are twice as large, proportionately, as those of the developing countries, whereas the share of their exports to Japan and to North America in total LDC exports is less than half the comparable share of the developing countries. At the same time, the LDC market in developing countries is only two thirds as large, proportionately, as the intra-developing-country market.

The increasing *marginalization* of the LDC group in the world economy is evident from the evolution of its world export market share, which in 1987 was only a quarter as large as it had been two decades earlier. Moreover, this marginalization occurred even vis-à-vis other developing countries, whose export market share remained roughly stable over the same period (that of the major petroleum

12 per cent of GDP in the LDCs vs. 32 per cent in the other developing countries; for services, the shares are 39 and 45 per cent respectively.

5 The difference is not accounted for by population growth, since although population in the LDCs is rising rapidly, its growth rate is only marginally higher than in the developing countries as a whole. However, the share of arable land under permanent crops is only two thirds as great in the LDCs as in the developing countries.

exporters declining slightly, from 7.1 per cent to 6.3 per cent, and that of the other developing countries rising slightly, from 13.0 per cent to 14.1 per cent). The relative decline of the LDCs is even more marked in the current decade, since the value of their exports in 1980-1988 grew at a rate that was less than a sixth that of the non-oil exporting developing countries. This result derives from the unfavourable evolution of the prices of the products - mainly primary commodities - exported by the LDCs, which declined at the rate of 1.7 per cent per annum over the 1980-1988 period, and from the more rapid growth of the volume of exports of the non-oil exporting developing countries, which more than tripled over this period.

The concentration of the LDCs' export structure is quite remarkable. Not only do the top ten exporters account for 67 per cent of total LDC exports (1986), as contrasted with the bottom ten, whose share is a meagre 2 per cent,[6] but these exports are, as indicated above, heavily concentrated on a very limited number of goods. In fact, whereas primary commodities account for 32.5 per cent of the total exports of the non-oil exporting developing countries (1986 data), they make up fully 65 per cent of the LDCs' exports.[7] This explains their extreme sensitivity to the fluctuations in the prices of primary commodities, fluctuations which are, it need hardly be said, entirely beyond their control, given their very small share of global primary commodity exports.

A further economic characteristic which distinguishes the LDCs from other developing countries is their extremely heavy dependence on imports of manufactured goods, which are hardly produced in their fledgling and fragile economies, and of food, which is not produced in sufficient quantities in many of them.[8] These two categories account for fully three quarters of LDCs' imports. Thus, the trade deficit of the non-oil exporting developing countries represents a much smaller share of imports than does that of the LDCs. Even in the early 1980s, when the former countries were running very substantial trade deficits in order to ward off the effects of the global recession, the deficit of the LDCs was proportionately more than twice as large; and more recently it has been running at rates five-to ten-fold that of the non-oil exporting developing countries.[9] Moreover, the stock of debt[10] of the LDCs, the servicing of which is affected by, and affects, the current account, amounts to three quarters of GDP in the LDCs as contrasted with about half in the developing countries as a whole. And even though much of the debt of the LDCs is contracted on concessional terms, the low level of their exports means that the burden of debt service in relation to export earnings is considerably higher (at about 33 per cent) than for the developing countries as a whole.

Factors related to the labour force also distinguish the LDCs from the other developing countries. Thus, the rate of population growth in the LDCs is faster than that of developing countries (2.6 per cent per annum, compared to 2.3 per cent per annum) and, as a result, the total dependency rate[11] is increasing (although at a lower level than in developing countries as a whole), while its growth indicates that it has tended to decrease in developing countries. A further labour force difference derives from the preponderance of the agricultural sector in the LDCs, where almost three quarters of the labour force finds employment, i.e. about 30 per cent more than in the developing countries. When workers in the mining and fisheries sectors are added, close to four fifths of the LDC labour force are seen to be employed in the primary, mainly subsistence, sector.

6 Interestingly, this does not particularly distinguish the LDCs from other developing countries, for the share of the top quarter non-oil exporting developing countries in the total exports of this group (which corresponds proportionately to the top ten in the LDC group) is, at 68.4 per cent, slightly higher.

7 For 23 of the 42 LDCs for which data on export concentration were available, the Hirschmann index stood above 0.5 in the mid-1980s (by comparison, only one OECD country - Norway - had an index over half this value) and, of these, for 14 of the 19 LDCs for which 1970 data were available, that index had actually risen by the mid-1980s over its 1970 level - indicating still greater export concentration.

8 In 25 of the 36 LDCs for which FAO provides data, the cereals self-sufficiency ratio (defined as the ratio of total cereals production to total availabilities for domestic consumption of cereals) declined over the period 1970 to 1986. See *The Least Developed Countries - 1988 Report, op. cit.*, table 8.

9 It should be noted that the trade deficit for the LDCs has been remarkably stable as a share of imports over the current decade, at just over 50 per cent. The changes vis-à-vis the non-oil exporting developing countries arise because of the sharp reduction in the deficits of the latter countries.

10 Including short-term debt and IMF credit.

11 Defined as the ratio of the population aged 0 to 14, and 65 and over, to the population between 15 and 64 years of age inclusive.

C. Infrastructural and social differences

Nor are the striking differences between LDCs and the developing countries limited to purely economic indicators. Indeed, the indicators of social characteristics show an even greater divergence on many counts. For instance, the LDCs are significantly less urbanized than the developing countries. Their more rural nature is translated into such communications-related indicators as the number of telephones and radio receivers, the circulation of daily newspapers per thousand inhabitants and the number of post offices open to the public. It is equally to be seen in the energy consumption indicators which are significantly more weighted towards wood products than electricity, coal, oil or gas. Thus, whereas the average inhabitant of an LDC consumes nine times more wood products for energy purposes than the average developing country inhabitant, he uses hardly more than a tenth as much of the commercial sources of energy.

It should further be noted that a major structural characteristic of the economies of the LDCs is the exceedingly weak physical infrastructural base. The poor country-wide network of transport and communication linkages has helped to perpetuate an often stagnant dualistic economic structure. Development has tended to occur in a few monetized urban enclaves in relative isolation from the rural subsistence sector, where the overwhelming majority of the population and the natural development potential are located. Road vehicles, not being tied to a specific route, provide greater flexibility than do railways, a particularly vital characteristic for the LDCs where one of the major tasks is to provide accessibility to isolated communities and to exploit natural resource potential. Yet according to available data, 19 of the LDCs have a road network density of less than 60 km per 1000 km^2. This is significantly lower than the level of many other developing countries.

Moreover, there are several LDCs with no rail infrastructure whatsoever. In general, the railway network in LDCs is sparse, with extremely low density, and data for 18 LDCs indicate that eight of them have a railway network density of less than 2 km per 1000 km^2. Insufficiency of rolling stock and poor track superstructure and alignments are widespread and the facilities for maintaining them are inadequate. The handling facilities for containers and the marshalling facilities are equally inappropriately equipped. Skilled manpower is scarce at certain technical and management levels. Although many other developing countries face similar problems, these are sharply reinforced in the LDCs by their overall vulnerability, acute lack of financial resources and very limited operational ability to cope with the technological demands of modern railway management systems.

As regards air transport, most LDCs already have one international airport but the domestic aviation infrastructure is often lacking. Terminal facilities, including handling equipment, are also in many cases insufficient. The inadequate surface distribution systems, the low levels of traffic and the directional imbalance of freight flows impose severe constraints on the LDCs' ability to expand air-cargo capacity at economic rates. Available traffic data on 21 LDCs indicate that 14 of them recorded freight volumes of under 10,000 tonnes and seven of over that figure in 1986. Moreover, the upward trend observed in the expansion of air traffic volumes in many developed and developing countries in recent years is applicable to very few LDCs. During the period 1982-1986, the growth of traffic volumes either stagnated or declined sharply in several LDCs.

Nutrition and health-related measures also show a sharp cleavage between the LDCs and the developing countries. Thus, proportionately only half as many children in the LDCs have been immunized against diphtheria-pertussis-tetanus (DPT) as in the developing countries and the infant mortality rate is one quarter as high again. With regard to the availability of treatment for common diseases and injuries and of essential drugs at the first level of contact, i.e. local health care, the coverage rate in the LDCs in the mid-1980s was only two thirds that of the developing countries. LDCs are also less well endowed as regards the coverage rates of attendance during pregnancy and at childbirth.

Access to safe water is also considerably less widespread in the LDCs than in the developing countries. And the average daily calorie intake is 15 per cent lower in the LDCs than in the developing countries.

The educational situation repeats this depressing story: adult literacy rates in the LDCs are barely more than half those in the developing countries, and school enrolment ratios compared with those of the developing countries are only two thirds at primary level, one third at secondary level, and as little as one quarter at post-secondary level. In addition, LDCs devote only three quarters as much of their GDP to public educational expenditures as the developing countries.

Consequently, in 31 LDCs for which data are available, the number of illiterates aged 15 years and over was approximately 110 million in the early 1980s as compared to 95 million in the early 1970s,[12] so that during the past two decades the campaign to eradicate illiteracy may be said to have been more successful in spreading literacy than in ending illiteracy[13] in the LDCs.

Moreover, the situation as regards the quality of education is very serious in many LDCs. Studies carried out in Ethiopia, Guinea and the United Republic of Tanzania,[14] as well as evidence regarding other LDCs, show that the expansion of basic education has been accompanied by a lowering of standards, owing to poor physical conditions, the low level of teacher training and the lack of books and stationery. Cutbacks in education and teacher training budgets have been extensive in LDCs in the 1980s, and there are high repeater rates in the primary school system of many of these countries.[15]

Another social indicator which points to significant societal differences is the ratio of children (aged 0-14) and old people (aged 65 and over) to the total population; this measure is a fifth again as large in the LDCs as in the developing countries, implying a proportionately heavier burden on the working members of society.

D. Gender-related differences

Attention is increasingly being paid to the role of women in the process of development. Here, as elsewhere, there are striking differences between the LDCs and the developing countries as a whole.

Thus, even in the fundamental activity of child-bearing, major differences are to be found. The average total fertility rate of women in the LDCs is over half as high again as in the developing countries. Moreover, marriage and child-bearing occur earlier in the LDCs than in the developing countries: 45 per cent of all women between the ages of 15 and 19 years are already married in the LDCs as compared to only 39 per cent in the developing countries.[16] In addition, although marriage is increasingly being delayed in some parts of the developing world, patterns of early and arranged marriage have been slow to change in most LDCs. And only 10 per cent of LDC women use a contraceptive method as compared with 49 per cent for the developing countries.

12 UNESCO, *Development of Education in the LDCs since 1970: A Statistical Study* (CSR-E-42) (Paris, January 1983), p. 5.

13 P.H. Coombs, *The World Crisis in Education. The View from the Eighties* (Oxford University Press and New York, 1985), chap. 9, pp. 265-283.

14 UNESCO, *Educafrica*, No. 11, 1984.

15 In Bangladesh primary schools, only one in five students entering the system emerges literate. In Comoros, the educational reform to improve the quality of education carried out since 1985 has meant a reduction of enrolment in primary schools and a reduction in the number of teachers. In rural Mali, there are only six textbooks per hundred students, and seven out of twenty schools have no books at all. (See *The Least Developed Countries - 1988 Report, op. cit.*, p. 69).

16 In Guinea and Niger, this figure rises to over 80 per cent, while in Bangladesh 90 per cent of women aged 20 to 24 have been married before the age of 18, and two thirds have already become mothers by that age. All data and findings in this section are drawn from a paper prepared for the UNCTAD secretariat by Ruth Dixon-Mueller entitled "Women and development in the LDCs: Assessment and proposals for action", 15 May 1989

Although infant mortality rates have declined in both LDCs and developing countries, the LDC rates remain 32 per cent higher than those in the developing countries and the maternal mortality rates 20 per cent higher. Moreover, with an average life expectancy at birth of 47 years, the life span of women in the LDCs is fully eight years shorter than that of their counterparts in the developing countries.

Differences appear also in literacy rates. Whereas in the developing countries, about one half of the women and about two thirds of the men are literate, in the LDCs fewer than one quarter of the women and about half of the men are literate, the proportion being much lower for women than for men. Thus, not only are women in the LDCs much less likely to be literate than women in the developing countries, but the gender gap is wider in the LDCs. This is due in part to the fact that girls in the LDCs are only half as likely to attend primary schools as girls in the developing countries and only two thirds as likely as boys from the LDCs to do so. These differences persist in the secondary and tertiary levels of education, becoming, indeed, even more pronounced (girls in LDCs having an enrolment rate of 9 per cent at secondary level and 0.7 per cent at tertiary level, as compared with 31 per cent and 4.6 per cent in the developing countries).

Finally, some economic data may be presented. Thus, as is to be expected in countries in which three quarters of the population live in rural areas, in most LDCs about four out of every five economically active women are employed in the primary sector. In 1980, 79 per cent worked in agriculture, 8 per cent more than in the developing countries. Correspondingly, the share of women workers in the non-agricultural labour force in the LDCs is, at one quarter, slightly smaller than that in the developing countries.

E. Geographical differences

Fifteen of the LDCs are land-locked and nine are small, remote island countries. These geographical characteristics constitute an additional development constraint.

1. Land-locked countries[17]

The land-locked LDCs, though located at or near the centre of their continents, are on the periphery of the world economy and thus have limited access to international trade. This hampers their access to the major markets for primary products and to the primary sources of industrial goods. More than one third of the 42 LDCs are land-locked and these constitute three quarters of the 20 land-locked developing countries. Land-lockedness is therefore a peculiarly LDC phenomenon. Furthermore, most of the land-locked developing countries are situated in the African region where, as indicated in the next section, natural disasters have crippled economies that are already highly vulnerable. Land-locked LDCs and their transit neighbours have therefore not only had a limited capacity to expand the network of transit corridor systems but have also failed to maintain existing facilities, a difficult enough proposition given that the port nearest to the capital city or major commercial centre of, for example, Afghanistan, Burkina Faso, Burundi, the Central African Republic, Chad, Mali, Niger and Uganda is at least 1,000 kilometres away.[18] Their exports and imports thus entail travel over long distances, often involving 40 to 60 days, through the territories of their transit neighbours, over which they have, of course, no control.

This situation has rendered many of the land-locked developing countries highly vulner-

[17] For a more comprehensive discussion of these issues see, "Report of the *Ad Hoc* Group of Experts to Study Ways and Means of Improving Transit-Transport Infrastructure and Services for Land-locked Developing Countries" (TD/B/1002) (1984); "Progress in the implementation of specific action related to the particular needs and problems of the land-locked developing countries" (A/42/537) (1987); "Land-locked developing countries: their characteristics and special development problems" (UNCTAD/ST/LDC/5 and Corr. 1), report prepared at the request of the UNCTAD secretariat by David M. Nowlan, 1985.

[18] Among the non-LDC land-locked developing countries, only for Mongolia and Zambia are these distances as great or greater (see A/42/537, *op. cit.*, table 1, for the actual distances).

able to disruptions of transit routes resulting from technical breakdowns, natural disasters, labour disputes, political upheavals in their coastal neighbours or international conflicts. The emergence of monopolies - with their high transit cost implications - is an additional risk of heavy dependence on one outlet. Once again, this characteristic is peculiar to the LDCs: the non-LDC land-locked countries have in every case at least three alternative routes to ports, and are therefore much less vulnerable.[19]

Additional freight costs, lengthier transport times and unpredictable transport risks have several effects: they narrow the range of primary commodity exports and thereby decrease the total volume of exports, reduce the degree of processing before export, raise the proportion of imports from regional suppliers and increase the instability of export earnings. Since each of the land-locked LDCs has only a small share of the world market for any particular export commodity, it cannot influence world prices. Consequently, the value of its exports at the border is determined by subtracting expected transport costs (transport time, risks of delay, risks of damage and expected foreign exchange fluctuations) from the expected world market price. Similarly, the value of imports at each country's border is determined by adding transport costs to factory-gate prices in the country of production. In particular, the double penalty of lower export prices and higher import prices retards the commercialization of peasant agriculture, as the monetary returns from producing export crops are lower and the costs of consumer goods that are imported or manufactured locally using imported inputs are higher. It also weakens the land-locked LDCs' relative capacity for development by limiting their capability to import the necessary capital goods and production inputs more than in the case of other developing countries.

Although the added difficulties of being land-locked permeate every aspect of the development process, their impact on the evolution of external trade is particularly severe with respect to export development since such difficulties limit the range of potential exports and markets in which goods can be competitively and profitably traded. The land-locked countries' import bills are also very high, owing to high transport costs. The combination of these factors can evidently have a significantly adverse effect on the terms of trade of such countries.

2. *Island LDCs*

The most basic characteristic of island LDCs (ILDCs) is their smallness. Indeed, the non-island LDC country with the smallest land area (which happens to be the Gambia: 11,295 km^2) is more than five times larger than all but two of the nine island LDCs.

The very small land area of many of them tends to limit their agricultural potential, and is associated with water supply constraints. Similarly, the small land area - as well as the geological formation - of most ILDCs implies that they have limited mining potential. (The lack of natural resources of ILDCs should, however, be qualified by the potential afforded by the vast Exclusive Economic Zones which many of them have acquired under the Convention on the Law of the Sea.)

Proneness to natural disasters, owing to both meteorological and geological hazards, is another characteristic of ILDCs. Tropical cyclones are a particularly frequent and damaging type of disaster in island LDCs. Many islands are also subject to earthquakes and volcanic eruptions. Mention should also be made of the likely effects on islands of the expected global climatic changes known as the "greenhouse effect".[20]

Transport and communications are the most obvious aspect in which islands differ from continental countries. The fact that islands cannot connect with the road or rail network or with the water and electricity distribution system of a neighbouring country makes delivery more expensive than in most continental countries, however small. Furthermore, most ILDCs are archipelagoes, which suffer from additional transport and communi-

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19 For example, the main corridor linking Rwanda to the port of Mombasa in Kenya was disrupted on several occasions following political unrest in Uganda during the late 1970s and early 1980s. Rwanda was compelled for some considerable time to airlift part of its cargo to and from Mombasa. More recently, Rwanda began using a new corridor via Lake Victoria to Mombasa. Although it is a high-cost road water/rail route, whose physical infrastructure is underdeveloped, it is a vital "insurance route".

20 It is being predicted with increasing confidence that in the next 30 to 50 years the mean surface temperature of the globe will increase by 1.5°C to 4.5°C. One of the consequences of this will be a rise in the sea level, through thermal expansion, by 20-140 cm. This will affect all coastal areas, destroying human habitat and vital infrastructure, but would be particularly catastrophic for the small low-lying islands, some of which could disappear altogether. An increase in water temperature would also widen the cyclone belt and produce more violent cyclones.

cation constraints. This problem is particularly acute in the many scattered small ILDCs (for example, Maldives, Kiribati) and makes their national economic and social integration particularly difficult.[21]

Island LDCs must hold larger stocks of a wide range of goods, including such essentials as foodstuffs, fuel and spare parts, than most areas with easier and more immediate access to supplies, and must allow for longer delivery periods. These stocks, as well as time spent in transit, involve economic costs. In fact, small islands, being final destinations and irreversible markets from which goods, once delivered, cannot economically be shipped out, often suffer from shortages, since only minimum quantities for which there is an assured market are ordered from overseas.

The small economic size of most ILDCs means that they have reduced opportunities to take advantage of economies of scale, given indivisibilities in certain sectors. This tends to lead to high unit costs in social and physical infrastructure, so that these countries have to devote a greater share of their financial and human resources to providing basic infrastructure and services than larger countries and thus suffer from an unavoidable cost disadvantage in international competition and in promoting their development.

Another effect of smallness and of the critical minimum size for many economic activities is specialization in just a few export lines. This is apparent in the relatively high merchandise concentration indices in the ILDCs: the average number of products exported by them in 1985 was ten (excluding Haiti, for which the number was 56, given the proximity of the United States market) as compared with 22 for the LDCs as a whole, 104 for a lower-middle-income developing country such as Kenya and 173 for Singapore.

F. Environmental differences

A further characteristic of the LDCs, which it is difficult to quantify in the present state of data-gathering, is their environmental fragility. Because of its ramifications and implications, environmental degradation in LDCs, should it continue, can in fact not only compromise but even nullify the LDCs' development efforts. This phenomenon has multiple manifestations which are inter-related: steady deterioration of the earth's natural environment, drought and its sequels and other natural disasters. Land misuse and overuse, which is a characteristic of the economically weak LDCs, and constitutes the inevitable response of a very poor rural population trying to cope with its subsistence needs, causes continuing environmental degradation in these countries. Thus, declining fertility and soil erosion lead to lower agricultural productivity, which forces a growing population to clear forest and to extend cultivation into marginal lands as a means of meeting food needs, which in turn reduces agricultural productivity, and so on. Deforestation is exacerbated further by the heavy dependence on fuelwood in many LDCs. Fuelwood demand is, for example, estimated to be 2.5 times the sustainable yield in Ethiopia and twice the yield in Sudan.[22]

Drought has been an environmental phenomenon of particular concern to many LDCs in recent years. Although the LDCs account for only half of the African countries, drought is reported to affect nearly three quarters of them, i.e. 27. Surveys carried out in the West African region (including Burkina Faso, Mali and Niger) indicate that average rainfall has diminished considerably over the past 15 years as compared with the period 1934-1984.[23] Indeed, the fear has been expressed by environmental experts that drought episodes in Africa - and disproportionately in the LDCs - might in the future occur as often as every three

[21] An idea of the cost of the territorial discontinuity of archipelagoes may be obtained from the cost of completion of the 3.4 km causeway between Betio (Kiribati's main commercial centre) and Bairiki (the main administrative centre), opened in June 1987, which was more than $A 10 million (about $US 6.7 million), a figure of the order of one fifth of the country's GNP.

[22] Lester R. Brown *et al.*, *State of the World 1986 - A Worldwatch Institute Report* (New York and London, Norton, 1986), p. 24.

[23] *West Africa* (London, 30 May 1988), p. 968.

years.[24] Tragically, given the fragile environment of the LDCs, even improved rainfall in the aftermath of a drought episode has adverse side effects in some of them. Thus, in Africa, good rains since late 1985 provided exceptionally favourable breeding conditions for grasshoppers and locusts. Finally, it should be noted that, although drought is a natural phenomenon due to various climatic and meteorological factors, there is evidence that it may be induced by man-made devegetation.[25] A study commissioned by WMO and UNEP concludes that the interaction of naturally-recurring drought with the prevalent land-use practices of the LDCs can result in desertification.[26]

Environmental deterioration in the LDCs has been compounded by floods, cyclones, seismic disasters, civil strife and mass population movements. On the basis of long-term information (1960-1981) on the number of disasters and people killed, 15 LDCs have been identified by UNDRO as among the vulnerable and disaster-prone countries.[27] Of these, Bangladesh is by far the most disaster-prone, suffering 80 per cent of all the disaster-induced deaths recorded in the LDCs during 1960-1981. Disaster mortality tends to be higher the lower the income of the country affected.[28]■

24 *Marchés tropicaux et méditerranéens* (Paris, 28 August 1987), p. 2289.

25 See "Countries stricken by desertification and drought", report of the Secretary-General of the United Nations (A/41/346; E/1986/96) (9 June 1986), paras. 12-13.

26 Kenneth Hare, *Climate and desertification: a revised analysis*, World Climate Programme (WCP-44) (January 1983), pp. (ix) and 102.

27 UNDRO, *Disaster prevention and mitigation*, vol. 12 (1986), table 3.

28 UNDRO asserts that certain patterns emerge from the analysis of the effects of natural disasters: "the amount of damage and lives lost usually bears a close relationship to the prevailing level of economic development. The smallest and the poorest countries are affected most severely by natural disasters, and the poorest and most disadvantaged members of a disaster affected community are likely to experience the most serious consequences" (*ibid.*, p. 6).

STRUCTURAL ADJUSTMENT PROGRAMMES IN THE LDCs

A. Introduction

Chapter I has enumerated a number of characteristics that set the LDCs apart from other developing countries, and that make their economies much more fragile and vulnerable to external shocks, as well as to a limited range of policy choices. In the light of these characteristics, and in order to assist the LDCs to transform their economies towards self-sustained development and enable them to provide at least internationally accepted minimum standards of living for all their citizens, the international comunity established at Paris, in 1981, the Substantial New Programme of Action for the 1980s for the Least Developed Countries (SNPA), which entered into force just as the global recession of the 1980s was taking hold. In consequence, during the 1980s, the LDCs have been faced with the challenge of both carrying out the structural transformation of their domestic economies, and of dealing with a mounting debt burden and growing payments difficulties. These objectives have been pursued against a background of shrinking foreign-exchange receipts due to slackening world demand, depressed commodity markets, growing protectionist pressures, insufficient expansion of concessional financial flows, and the virtual stoppage of commercial bank lending. To attain these two objectives, major policy reforms, in the context of structural adjustment programmes, have been launched in LDCs, aimed essentially at improving the efficiency of resource use and allocation, enhancing the contribution of the various sectors to GDP, strengthening the physical infrastructure, and improving institutional capabilities in the field of development planning and policy. Table 2 summarizes the measures which have been adopted.

The present chapter draws heavily on the UNCTAD secretariat's work programmes for the least developed countries and in particular on *The Least Developed Countries - 1988 Report*, which has just been published.[29] The chapter uses these materials to consider the characteristics of structural adjustment programmes and provide instances of the measures adopted and the extent of their application among LDCs. This is necessarily a generalized treatment covering a wide range of countries. In order to obtain greater insight into the functioning and impact of structural adjustment programmes in the LDCs, chapter III presents an overview of experience in eight of them.

[29] TD B 1202, *op. cit.*

Table 2

MAIN MEASURES TAKEN IN THE CONTEXT OF IMF-SUPPORTED ADJUSTMENT PROGRAMMES IN SELECTED LDCs

Country	*Depreciation and/or exchange rate flexibility*	*Reducing govt. expenditure*	*Improving tax collection /new revenue*	*Tightening monetary and credit policies*	*Introducing flexible interest rate policy*	*Expanding role of private sector (including privatization of parastatals)*	*Improving efficiency of public enterprises*	*Liberalizing pricing and marketing of goods*	*Stimulating agricultural production*	*Promoting export diversification*
Bangladesh	X	X	X	X	X (implied)	X	X	X		X
Central African Rep.		X	X (implied)				X		X	
Gambia	X	X	X	X	X	X	X	X	X	X
Haiti		X	X				X	X		X
Malawi	X	X	X	X				X		
Mali		X	X			X	X	X	X	
Niger		X	X	X		X	X	X	X (implied)	X (implied)
Sierra Leone	X	X		X	X		X	X	X	
Somalia	X	X		X	X	X	X	X	X	X
Sudan	X	X	X	X				X	X	
Togo		X	X	X		X	X	X	X	
Uganda	X	X	X		X (implied)		X	X	X	X

Source: UNCTAD, *The Least Developed Countries - 1988 Report, op. cit.*, table 1.

B. Improving the efficiency of resource use and allocation

LDCs operate under severe resource constraints and need to overcome persistent external disequilibrium. Accordingly, the mobilization and efficient use of available resources has become a priority policy objective for these countries. The policy reforms undertaken include external sector adjustments, demand-management measures, mobilization of domestic savings and of human resources, promoting the role of the private sector, and improving the efficiency of public enterprises. A number of LDCs have carried out reforms in this regard in the context of upper-tranche stabilization programmes agreed upon with IMF; several of them are studied in detail in later sections of this report. Other LDCs have put in place programmes of a similar nature but outside the framework of formal IMF agreements; one such country (Botswana) is the subject of a case study for this report.

During the period from mid-1981 to June 1989, 27 LDCs[30] implemented stabilization programmes negotiated with IMF and, for that purpose, received support through stand-by arrangements (typically of 12-24 months' duration) and/or the recently established IMF Structural Adjustment Facility and Enhanced Structural Adjustment Facility (see annex). Case studies on seven of these countries appear in chapter IV below. The programmes have been increasingly supported by complementary long-term credits granted by the World Bank[31] and by regional development banks (see annex).

1. External sector policies

Exchange rate devaluation has been one of the key elements, if not a precondition, of the adjustment programmes negotiated with IMF, as a means both of enhancing the international competitiveness of locally produced goods and of encouraging import substitution. In conjunction with exchange rate devaluation, quantitative restrictions have tended to be replaced by customs duties; concomitantly, the marketing of exportable commodities has been liberalized so as to allow local producers to respond more directly to the stimulus of world market signals.

The number of LDCs whose currency depreciated in real terms with respect to the United States dollar increased from two in the period 1970-1975 to 31 in 1980-1985. Of these LDCs, nine are members of the CFA zone. Some of the devaluations recently carried out have been of a sweeping nature.[32] And in some countries an auction system for the allocation of foreign exchange has been established which determines the foreign exchange rate according to supply and demand conditions reigning in the market for foreign exchange at particular times. Whether these measures, a standard part of adjustment programmes, are the most appropriate ones to be taken in economies as fragile and weak as those of the LDCs is the subject of box 1, which considers a recent study examining the short-run effects of devaluation in poor economies; the conclusions reached there cast some doubt on the effectiveness of devaluations in this context (see also box 2).

30 Twenty-two LDCs have launched adjustment programmes supported by stand-by and or extended arrangements entered into with IMF: Bangladesh, Burundi, Central African Republic, Ethiopia, Equatorial Guinea, Gambia, Guinea, Haiti, Lao People's Democratic Republic, Malawi, Mali, Mauritania, Myanmar, Nepal, Niger, Samoa, Sierra Leone, Somalia, Sudan, Togo, Uganda, and the United Republic of Tanzania. Of these, 17 have also secured credits from the Structural Adjustment Facility or the Enhanced Structural Adjustment Facility of IMF. In addition, five LDCs (Benin, Chad, Guinea-Bissau, Lesotho and Mozambique) have secured credits from the Structural Adjustment Facility but have not entered into stand-by arrangements during the period in question.

31 Twenty of the 27 LDCs have received World Bank adjustment loans and credits. In addition, Sao Tome and Principe, while still negotiating a credit from IMF, embarked in June 1987 on a structural adjustment programme supported by World Bank credits and Burkina Faso received a sector adjustment credit in 1985.

32 Examples include Sierra Leone (floating of the leone since 1986, entailing an 85 per cent depreciation); Sudan (44 per cent in 1987); the United Republic of Tanzania (68 per cent in 1986); Guinea-Bissau (60 per cent in 1987); the Gambia (53 per cent in 1986); and Sao Tome and Principe (55 per cent in 1987). In Guinea, the replacement of the syli by the Guinean franc, undertaken in January 1986, was tantamount to a drastic 94 per cent devaluation.

Box 1

DEVALUATION, INFLATION AND GROWTH

Devaluation is one of the central policy prescriptions of the adjustment programmes designed by IMF and the World Bank and implemented by the LDCs in an effort to improve the balance of payments and the allocation of resources within the country. Numerous studies have been made of the impact of devaluation on inflation and short-run output growth, some showing positive, others negative, effects. In a recent study, [1] it is argued that an important reason for these mixed results is that previous studies did not explicitly recognize the possibility of varying effects of devaluation on countries at different stages of development. Taking an approach similar to that argued in this report, the article contends that one should expect a stronger effect from devaluation and inflation on short-run output growth in the low-income developing countries than in richer developing countries, [2] for the same basic reasons as suggested in this report: their comparatively small and inefficient financial markets, their poor resource bases, their low agricultural productivity, the limited scale of foreign investments in them, the relatively sluggish response of the economy to stimuli, their heavy debt-servicing burden, and their weak currencies. Moreover, it is argued, the effect of devaluation on output growth in the short to medium term in the low-income countries is likely to be negative because of these economies' dependence on imported raw materials and other inputs.

The analysis undertaken is based on a model in which the rate of growth of GDP in the selected developing countries is related to proportionate changes in the real value of foreign currency, unanticipated changes in the inflation rate, and the rate of growth of real GDP in the industrialized countries (the latter to test for the effect of cyclical disturbances in these economies on output growth in the developing countries). The sample, based on data from 1960 to 1985, was split into two equal groups of ten low-income and ten "upper middle" income countries, the former containing seven LDCs (plus Zaire, Kenya and Ghana). It is thus very close to a test for the effect of devaluation and inflation on LDCs, in comparison to richer developing countries.

The empirical results of the study show that, whereas the effect of devaluation on output growth in the upper-middle-income countries is mixed (negative in the first year, but positive in the other years with the long-run effect very small - a 10 per cent devaluation causing output to decline by 0.4 per cent), the effect in the LDCs is consistently negative, and much stronger (the long-run effect of a 10 per cent devaluation being a full 6 per cent decline in output). In addition, the effects of devaluation on the growth of exports, imports and foreign direct investment respectively were studied. It was found that devaluation in the LDCs had neither a significant positive effect on exports or foreign direct investment, nor a significant negative effect on imports. This provides strong support for the view, put forward in this report, that the fragile economic structure of the LDCs creates particularly difficult problems for the design of structural adjustment programmes.

Effects on GDP growth in the LDCs of devaluation, inflation and the business cycle [a]

(Regression coefficients)

	Explanatory variable			
Dependent variable	*Change in real exchange rate*	*Same, lagged one period*	*Unanticipated inflation*	*Business cycle*
GDP	-.373*	-.227*	.311	.349*
Exports	.093	.099		
Imports	-.104	-.125		
Foreign direct investment	.084	.118		

Source: G.I. Nwanna, *op. cit.*, tables 1 (p. 335) and B (p. 342).
Note: * = statistically significant at 5 per cent level or better.
a These results relate to a sample of ten low-income countries, of which seven are LDCs: Bangladesh, Ethiopia, Togo, Sierra Leone, Malawi, Sudan and United Republic of Tanzania. The remaining three countries are: Zaire, Kenya and Ghana.

1 G.I. Nwanna, "Devaluation, unanticipated inflation and output growth: A comparative aggregate analysis", *Economia Internazionale*, vol. XL, No. 4 (Nov. 1987), pp. 329-343.
2 These are identified as having per capita incomes of between $1,500 and $6,000.

DESIGNING STRUCTURAL ADJUSTMENT PROGRAMMES

Much of the controversy regarding structural adjustment programmes in the LDCs turns around the timing, dosage and mix of policies to promote growth with adjustment, the need for and basic structure of such programmes and the instruments employed not being disputed. That the usual IMF-supported stabilization programmes are often excessively deflationary is widely recognized. It is therefore of interest to note that an IMF staff member has recently published a paper which examines the question of how to improve the design of adjustment programmes so as to avoid excessive inflation and to provide for some growth, especially in circumstances where net capital inflows are limited and the currency is being depreciated. [1]

Chand notes that the basic model employed by IMF to solve for the permitted amount of credit expansion consistent with a given balance of payments target focuses exclusively on the balance of payments and assumes that the level of output is somehow fixed outside the model. This creates the potential for an inconsistency between the assured growth rate and the BOP target; this in turn means that certain of the "performance criteria" employed by IMF, in particular with regard to monetary growth, might not be realized, leading to the suspension of IMF funding. Since this is a fundamental defect of the IMF model, and not of the LDC economy, it is vastly more reasonable to adjust the model accordingly than to adjust the economy. Chand undertakes to do this by modifying the model to allow for endogenously-determined nominal income and capacity growth.

When this is done, the result is quite striking. First, the "adjusted" model reflects the impact on an LDC economy of an external shock much better than the standard IMF model And, secondly, the extended model shows clearly that adjustment programmes alternative to the "orthodox" IMF programmes do a much better job of achieving "adjustment with growth". As regards the "quality" of the model, when a shock combining three serious effects on an LDC economy (10 per cent decline in export earnings (e g from a price fall), doubling in external debt service charges (e.g. from an interest rate increase), and the complete cessation of net capital inflows (e.g. from repayments to IMF and/or World Bank) is imposed, the standard IMF model shows no response at all - it is as though the shock had not occurred: aggregate demand is, according to the model, unaffected; so too is the demand for money and the permissible credit expansion, and no exchange rate adjustment is required. Yet clearly this is unrealistic. The "adjusted" model, however, shows a decline in real growth, a deterioration in the balance of payments and the need for exchange rate adjustment (or import controls), as would be expected.

Since the "adjusted" model is clearly a better representation of what happens in an LDC economy when external shocks are imposed than is the standard IMF model, it is of interest to see how it would deal with various proposed adjustment programmes. Chand examines two such programmes which have the same balance of payments, real growth, government revenue and inflation targets The "orthodox" programme restricts domestic money demand expansion and imposes import liberalization immediately. The result is that the BOP worsens significantly relative to its target, and nominal and real GDP fall well short of target; the inflation target is, however. reached (see table below). By contrast, the alternative programme does not restrict money demand so tightly, and reduces the degree of import liberalization by phasing it over a longer period. The result is that *all* targets are met, only the budget deficit showing a (very slight) deterioration by comparison with the outcome of the "orthodox" programme.

2. *Demand-management measures*

As part of the package of structural reforms to deal with their unsustainable levels of external and fiscal imbalances as well as high rates of inflation, a large number of LDCs have had to implement demand-management measures aimed at reducing public expenditure, increasing public revenue and containing credit and monetary expansion. In this regard, a major role has been played by privatization, the subject of box 3.

Box 2 (concluded)

DESIGNING STRUCTURAL ADJUSTMENT PROGRAMMES

These results suggest strongly that there could be a very considerable payoff in terms of the welfare of the people of the LDCs to a thorough-going search on the part of the IFIs for improved adjustment policies.

Models of the adjustment process

(Percentage change)

Variable	*Initial equilibrium*	*Shock effects without adjustment ("adjusted" model)*	*Target*	*Adjustment programmes*	
				Orthodox programme	*Alternative programme*
BOP (reserves)	0.0	-3.7	-1.5	-3.3	-1.5
Nominal income	15.0	6.7	15.0	6.2	15.0
Real income	4.6	-3.3	4.6	-3.5	4.6
Inflation	10.0	10.0	10.0	10.0	10.0
Budget deficit	-2.9	-3.5	n.a.	-2.5	-2.6
Money demand	3.0	1.3	n.a.	1.2	3.4

Source: Chand, *op. cit.*, table 2.

1 S.K. Chand, "Toward a growth-oriented model of financial programming", *World Development*, vol. 17, No.4 (April 1989), pp. 473-490.

3. *Mobilization of domestic savings*

Although domestic savings represent only a modest share of total investment for most LDCs, many LDCs have introduced policies to encourage the growth of domestic savings by households and by Governments. They have also introduced measures to reduce capital flight, though it is recognized that a sound, growing domestic economy and a realistic exchange rate are the best ingredients for discouraging such outflows.

In most LDCs, the tax base is rather narrow, and taxes on imports and sales and excise taxes on a very limited range of consumer items provide the bulk of tax revenues. Many LDCs have, therefore, in the context of their adjustment programmes, made efforts to make the tax system simpler and more broadly based, to reduce tax leakages by streamlining the tax administration and by reinforcing customs departments,[33] and to reduce the dependence of government revenue on import taxes. To increase non-tax revenues, which derive mainly from earnings of public enterprises and revenue from services provided by the Government, several LDCs have instituted programmes focused on improvement, privatization and liquidation, where appropriate, of public and parastatal enterprises, and on fees and prices of public sector goods and services as well as on recruitment policies. Efforts have also been made to limit recurrent expenditures by streamlining administrative services, by introducing user participation in the cost of social services, particularly health services, and, in several cases, by rescheduling external debt.

[33] A serious problem arises from the reduction in tax revenue ensuing from import-compressing measures. Lower imports not only affect the volume of import taxes but also have negative consequences for investment in productive capacities, thus adding losses in income, either as taxes or as non-tax revenues, to the direct losses in import duties.

Box 3

PRIVATIZATION OF PSEs

In Africa, Togo is regarded as a pioneer in the policy of privatization of PSEs, instituted in 1985. Since then, the Government has offered various other parastatals for sale, lease or joint venture to foreign investors. Such divestiture has been achieved in the case of the country's only steel mill, its oil refinery, a dairy and two textile mills. In Guinea-Bissau, whose economy was once almost completely controlled by the public sector, 90 per cent of the outlets of two leading retail chains had been privatized by the end of 1986; since then, all foreign trade monopolies except for cereals have been abolished. In Malawi, a wide range of price and tariff adjustments were undertaken in 1987 alongside the decision to divest the Agricultural Development and Marketing Corporation of all its holdings in other companies and agricultural estates. Even the country's only nominally private-dominated corporation, Press Holdings, has also been restructured under World Bank guidance. Similarly, Lesotho's National Development Corporation is pursuing a policy of divestiture of viable PSEs. Burundi set up a national service in charge of overseeing the reform of the PSEs called for in the country's structural adjustment programme, which consist of the usual three-pronged approach (rehabilitation, privatization or liquidation).

In Equatorial Guinea's reform programme, both foreign and local capital are buying out PSEs in the fields of air and sea transport, banking, agriculture and forestry. Guinea's commitment to the privatization of PSEs has already resulted in the sale of two agro-industrial units (quinine and tea), a printing shop and a soft-drink plant; further sales are planned of larger PSEs, such as a textile complex, a brewery and the national fuel board. Of its 54 PSEs, Niger has earmarked 5 for liquidation, 16 for privatization, 5 others for retention but under private management, and 10 for restructuring. In Chad, Cotontchad, the marketing board of the country's major export staple, began a major cost-cutting exercise in 1986, involving a salary freeze along with a 50 per cent personnel cut, a ceiling on the volume of purchases equal to the 1985 level, the removal of subsidies on cotton-growers' inputs, the closing of one half of the country's cotton gins and the introduction of stricter management procedures. In Mali, the restructuring has perhaps shown the most vivid quantifiable results: after 15 years of deficit, the PSEs yielded a CFAF 2 billion ($6.7 million) surplus in 1987. The liquidation in 1988 of the trading firm SOMIEX, the single largest deficit producer, should further improve the country's record in this regard. Conversely, joint ventures have been successful in attracting new financing, promoting exports, achieving higher productivity, and, it is claimed, maintaining employment.

In the Pacific LDCs, the improvement of PSEs' efficiency has also become a central objective of government policy. Thus, in Kiribati, where subsidies to PSEs absorbed as much as 6 per cent of GDP in 1986, the Government is imposing stricter controls on PSE budgets and has introduced more flexible pricing policies. In Samoa, the Government set profitability targets for PSEs as from 1988 to ensure termination of budgetary subsidies for current operations. Moreover, the Government is studying the possibility of establishing a holding company, which would assume responsibility for all PSEs with a view to streamlining their management or implementing the Government's divestment of its interests.

4. *Foreign direct investment*

Faced with a very limited savings capacity, a mounting debt-service burden, slow growth and even stagnation of export earnings and concessional flows, as well as with the virtual collapse of commercial bank lending, LDCs have been turning towards foreign direct investment as a means of securing financial resources for their economic development and structural transformation. Many LDCs have thus undertaken a reform of their investment codes, or are in the process of doing so, with a view to encouraging the establishment of foreign enterprises and to allowing the employment of foreign manpower. A number of LDC Governments are also providing a variety of production incentives to attract foreign investment, such as the liberalization of profit repatriation rules, the offer of tax holidays, and the granting of special foreign exchange and tax privileges to enclave assembly operations for exports.

However, despite some positive developments in this field, LDCs have in general not been successful in attracting foreign direct investment: in the period 1980-1985, direct investment flows from the DAC member countries to the LDCs amounted to only $516

million (less than $65 million on an average per year).

5. Improving the efficiency of public sector enterprises

The budgetary and economic impact of the losses suffered by public sector enterprises (PSEs) in many LDCs has impelled their governments to undertake, in the context of their structural development programmes, thorough reviews of these PSEs with a view to selecting one or more of the following options: (a) increasing operational efficiency by way of management reforms and greater operational autonomy, including pricing policy ("streamlining"); (b) privatization; and (c) liquidation.

The problems affecting the PSEs in LDCs, as in many other developing countries, have been largely rooted in management structures and objectives that were both lax and lacking in productive orientation.

Firstly, the payroll was bloated by the hiring of excessive and frequently unqualified staff, a policy which was pursued as a way of overcoming unemployment pressures. Secondly, under-pricing of the final output or service was often imposed on PSEs as a means of relieving inflationary pressures and avoiding consumer discontent. Thirdly, to the extent that PSEs enjoyed single-channel importation or export marketing rights - coupled with privileged access to scarce foreign exchange, often at significantly overvalued exchange rates for the domestic currency - they were able to offset their losses. However, for most PSEs such offsets were not feasible.

Such factors have led to repeated and growing operational deficits in many LDCs' PSEs and to a lack of incentive for investment and modernization. The drain on public finances caused by the current losses suffered by PSEs has not generally been compensated by higher growth impulses in that sector or by relief on the balance of payments side. In four LDCs analysed by the World Bank[34] (Myanmar, United Republic of Tanzania, Bangladesh and Nepal), the share of value added by PSEs represents only a small fraction of their share of national investment, while PSEs have accounted for a growing share of all developing countries' external debt, a trend that is also likely to apply to the LDCs among them. To the extent that PSEs have accumulated large amounts of debt, they are unlikely to be privatized unless such debt is largely or wholly written off before privatization or transformation into joint ventures takes place. The write-offs would have budgetary implications which, in the short term, would contradict the deficit-reducing policies concurrently pursued by the governments. Privatization by way of foreign-controlled enterprises - frequently the only viable bidders - presents obvious political problems when the PSE concerned is viewed as occupying a sensitive position in the national economy, either by virtue of the essential nature of the output provided or the service rendered or on account of the negative employment effect that full or partial privatization usually implies. Furthermore, some of the early privatizations involving purchases by foreign interests rapidly became a political embarrassment to the governments concerned.

While it remains true that local private investment interests and entrepreneurs are often not available or are not ready to respond to privatization opportunities in LDCs, it is also true that the supporting finance made available internationally and/or bilaterally to LDC governments endeavouring to reform and rehabilitate their PSEs has often been pitched at modest levels compared with the task at hand.

6. Impact of the measures to improve the efficiency of resource use and allocation

It is difficult to ascertain on objective grounds the actual impact of the national measures described in this section, which have been taken with a view to improving the efficiency of resource use and allocation in the context of the adjustment programmes, both those negotiated with IMF and those carried out outside the IMF framework. Indeed, the issue of the effectiveness of adjustment programmes has become the subject of a vigorous debate, including among international institutions. Thus, a recent joint report by the World Bank and UNDP[35] on sub-Saharan Africa concluded that "domestic difficulties, including structural rigidities and institutional weakness, as well as poor policies, have limited the ability of sub-Saharan Africa to adjust from

34 *World Development Report 1988* (New York, Oxford University Press, for the World Bank), 1988, pp. 2 and 3.

35 *Africa, Adjustment and Growth in the 1980s*, World Bank/UNDP (Washington, D.C., 1989).

the exceptionally good years of the late 1970s and early 1980s" (p. 2), but that nevertheless "the evidence of the past three years leaves room for optimism" (p. 3) as regards countries following Bank/Fund prescribed adjustment programmes. By contrast, the Economic Commission for Africa[36] argues that "all indicators are to the effect that structural adjustment programmes are not achieving their objectives" in Africa and that this has given rise to "frustrations on all sides", primarily because "the performance indicators of these programmes do not correspond to Africa's basic development objectives".[37]

No attempt is made in the present study to adjudicate this debate but, in assessing the effectiveness of these stabilization programmes, it is useful to note that empirical evidence indicates that the performance of the 12 LDCs[38] which have had consecutive programmes throughout most of the 1980s does not differ significantly from that of the LDCs as a whole. Only three of them registered a higher average annual rate of growth in 1980-1987 than that of the LDCs as a whole (2.3 per cent), and only two improved their growth performance in 1980-1987 as compared to the 1970s. On the other hand, as regards the current account deficit, its value as a proportion of the value of exports of goods decreased markedly or steadily in two thirds of them. Inflation rates were in turn reduced significantly between the 1970s and the 1980s in half of these LDCs, whereas they increased noticeably in the other half.

The above data do not suggest any consistent relation between the existence of adjustment programmes on the one hand, and economic performance in terms of growth rates and improvement in current account and in inflation rates on the other hand, and leave open the question of the adequacy of these programmes for the LDCs. To the extent that the new measures ensure greater efficiency in the management of resources and redress price and inter-sectoral distortions, they are likely to have beneficial effects upon the level of output in LDCs and upon the capacity of these countries to overcome present external and fiscal disequilibria. Nevertheless, as the first generation of adjustment programmes reaches completion, it is becoming apparent that these programmes, as currently defined, could bring about undesired effects, particularly in terms of high social costs and of weakening the LDCs' ability to achieve long-term economic development. Since, however, it is extremely difficult to go beyond this broad observation on the basis of aggregated data, the next chapter is devoted to a detailed review of the specific experiences of eight LDCs in the context of structural adjustment programmes, so that more pointed conclusions can be drawn.■

[36] United Nations Economic Commission for Africa, *African Alternative Framework to Structural Adjustment Programmes for Socio-Economic Recovery and Transformation* (E/ECA/CM.15/6/Rev. 3) (April 1989), p. 24.

[37] Indeed, it needs to be asked against which framework such programmes should be evaluated. Against the performance of the adjusting countries in the previous period? On this score it can be argued that the programmes had to be adopted precisely because the economic conditions (internal and or external) were no longer the same as in the previous period, and that previous policies were no longer tenable; performance may therefore differ from one period to another, not so much because of differences in the effectiveness of policies but rather because of differences in economic conditions. Furthermore, any effects observed have to be attributed carefully to the recession or the adjustment process itself. Or again, should such programmes be evaluated against the performance of LDCs that have not adopted adjustment programmes? It can be argued that these LDCs have not had to implement such programmes precisely because they were facing less adverse conditions, or simply because their policies already contained the kind of measures that are embodied in the typical adjustment package: again, performance may therefore vary because of differences in economic conditions or because adjustment measures have been in operation for a longer time in these other LDCs than in those that have formulated adjustment programmes.

[38] Namely, Bangladesh, Central African Republic, Gambia, Haiti, Malawi, Mali, Niger, Sierra Leone, Somalia, Sudan, Togo and Uganda.

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OVERVIEW: EXPERIENCE OF EIGHT LEAST DEVELOPED COUNTRIES

A. Introduction

This overview is based on the experiences of eight least developed countries[39] with adjustment over the past decade. Of the eight LDCs for which detailed assessments are made, only one (*Botswana*) adjusted its economy without recourse to the IMF and structural (or sectoral) adjustment programmes with the World Bank and was able to maintain its economic and social progress, helped by the recovery of the diamond market after the early 1980s. Some initiated an adjustment process (e.g. *United Republic of Tanzania*) of their own design and later adopted IMF/World Bank programmes. In other countries, their first stabilization programmes did not succeed (in Bangladesh's case, an Extended Fund Facility was withdrawn by IMF in 1983) and they had to restart the process. The adoption of stabilization and adjustment programmes (either structural or sectoral) with the Fund and the Bank during the 1980s reflects the now predominant pattern among adjusting LDCs.

The focus of the analysis will therefore be on the adjustment phase. In making judgements and drawing conclusions about the impact of adjustment on the development paths specific to LDCs, however, two caveats must be added. Firstly, since adjustment follows a period of global recession around the period 1979-1982 which was accompanied by the debt overhang, care must be taken when attributing findings to the adjustment process alone. Although the counterfactual ("without adjustment") can never be completely known or perfectly constructed, the prior existence of a recessionary period (and its sequels) is a reality. Secondly, the adjustment process is relatively recent. In many cases, the substantial adjustment programmes started only in 1986 (Bangladesh, Nepal and Niger effectively and the United Republic of Tanzania under its formal programme); Lesotho's did not begin until 1988. A three-year period, or less, is thus rather a short time in which to identify and trace the results of the adjustment process. While the effects of some stabilization efforts can be captured and observed, most economic and social effects involving structural change and transformation can only be seen over longer periods probably even than those experienced by countries like Malawi (which began structural adjustment programmes in 1981) or Sudan (1983 onwards).[40]

Difficulties with the time-scale have already been acknowledged, *inter alia*, by the World Bank in its ten-year review of

[39] Bangladesh, Botswana, Lesotho, Malawi, Nepal, Niger, Sudan and United Republic of Tanzania. These reviews were undertaken by consultants at the request of the UNCTAD secretariat. Those for Botswana, Lesotho, Malawi, Niger and United Republic of Tanzania were carried out by the Overseas Development Institute, London, under the supervision of Adrian Hewitt, and for Bangladesh and Nepal by Mr. Abdus Samad, of the Ministry of Planning of Bangladesh. The review for Sudan was prepared by Mr. K. Kohli, former Chief Economist of the Asian Development Bank.

[40] Both Malawi and Sudan already had IMF programmes in earlier years.

adjustment lending,[41] which admits that adjustment is a longer process than was originally anticipated. Reform packages, however, are beginning to pay greater attention to the time needed to take effect; they are also being seen in a much broader context as regards the scope of their impact. Not only are short-term stabilization programmes viewed as the prelude to structural adjustment, but the latter process itself is recognized as having to encompass social and distributional questions as well as targeting key macroeconomic aggregates. For instance, another recent World Bank report,[42] while recognizing that economically strained countries and their policy-based lenders experienced a general preoccupation with macroeconomic imbalance and the debt crisis that often overshadowed poverty concerns, now asserts that given the time and effort required to turn deeply troubled economies round, it would be normally, politically and economically unacceptable to wait for resumed growth alone to reduce poverty.

Attention has increasingly been drawn to the fact that certain adjustment policies - devaluation, price decontrol and budgetary cuts affecting social services - may adversely affect particular poverty-stricken groups which, without compensatory programmes, have no access to the potential benefits of economic reform. Moreover, the early adjustment programmes are now viewed as having neglected the impact on the poor. Thus, adjustment now encompasses policies that supplement demand-management and growth-oriented approaches with clearly defined poverty reduction elements both within the programme of adjustment and as compensatory measures. Such shifts in the application of adjustment policies are crucially important to LDCs, where large portions of the population live in absolute poverty,[43] and where evident symptoms of poverty - high infant mortality and disease, extensive malnourish- ment, widespread illiteracy and substantial unemployment - are prevalent. They are in line with the SNPA, which has structural transformation as a key element, and aims at providing adequate minimum standards for the poor: LDC populations are generally so poor that they cannot postpone progress on the latter in favour of more decisive action on the former.

Among the characteristics of LDCs are not only their massive poverty but also their extreme vulnerability to natural disasters. In the 1980s, under recession and in adjustment, it is essential to recognize that disasters - natural and man-made - were constantly occurring (and in many cases with greater frequency or severity). Most notable among the sample have been: drought in Niger, floods and cyclones in Bangladesh, and an earthquake in Nepal. In addition, civil strife in Sudan, an influx of refugees into Malawi, and transit and trade problems for Nepal imposed further constraints on their economies. No adjustment programme reviewed provided for such contingencies. However, a programme that makes no allowance for them is inappropriate.

In viewing the adjustment process and assessing its validity for the 1990s, it is also essential to recognize that the early 1980s saw major changes in the climate of international trade and finance as it affected developing countries as a whole and LDCs in particular, and that these changes conditioned the recessions which most LDCs then experienced. Major elements in these changes were:

- a fall in demand for, and hence world prices of, many raw materials, which depressed LDCs' export earnings and weakened their import and debt servicing capacities;
- increased protectionism, affecting exports and potential new exports of LDCs such as garments (Bangladesh);
- major world payments imbalances - those of the rich countries far outstripping those of LDCs;
- increased world interest rates impinging on debt service;
- an inadequate volume of ODA flows and insufficient debt relief to these countries;
- a strengthening of the conditions attached to aid;
- a contraction of commercial bank lending and private foreign investment.

41 *Adjustment Lending An Evaluation of Ten Years of Experience,* World Bank Country Economics Dept. (Washington, D.C., 1989).

42 World Bank, *Strengthening Efforts to Reduce Poverty (1989).*

43 The study of Bangladesh - the largest LDC in terms of population - finds 51 per cent of the population below the poverty line, and 60 per cent of the rural population in "absolute poverty".

B. Results of structural adjustment

1. Balance of payments management

(a) Devaluation

Devaluation is a common feature in LDCs' stabilization and adjustment programmes, but the sample shows a wide range of applications. In *Nepal*, devaluation of the rupee in November 1985 (by 15 per cent) preceded the stabilization programme as such, the currency being devalued as a prelude to agreement on an IMF stand-by in December 1985. In *Malawi* there was a tradition of active exchange rate management; the Government had kept the Malawi kwacha close to its trade-weighted parity, yet in the 1980s under adjustment programmes it introduced more severe devaluations. In *the United Republic of Tanzania*, while devaluations were applied during the 1982-1986 period, it was after 1986, under the IMF and World Bank-sponsored economic recovery programme, that much larger devaluations were carried out.

The case studies do not attribute much weight to the devaluations themselves in stimulating exports or avoiding inflation, but they certainly created some short-term hardships, not only in the urban areas. Economic difficulties, however, appear to have been somewhat eased owing to the support given by new resource inflows, in particular from international financial institutions. In the case of the United Republic of Tanzania, aid had been slowed down until it undertook to devalue the shilling substantially and reached an agreement with IMF.

There is yet more diversity in the sample of LDCs. *Bangladesh*, which had had a dual exchange rate since 1977, continued to maintain this under structural adjustment although the devaluation of the taka between 1984/1985 and 1987/1988 (by about 20 per cent) did succeed in narrowing the gap between the two, to about 5 per cent. Nevertheless, all exports and most non-aid imports have continued to use the secondary market. In *Sudan*, the current account improved with devaluation although debt service was made even more difficult. Lastly, *Niger* represents yet another kind of case. With a regional currency, the CFA franc, devaluation was not an available instrument. The Government had to resort instead to dampening aggregate demand and reducing public expenditure by other means which, however, proved to be equally harmful to the poorer sections of the population. *Botswana*, for its part, has proved to be an example of a monetary and foreign exchange system that worked well during the 1980s.

(b) Domestic demand management

Domestic demand restraint was commonly exercised through a number of policy instruments; however, budget cutbacks (or strict ceilings on the rate of growth of budgetary expenditure in nominal terms, usually in highly inflationary conditions) constituted the policy that had the most immediate primary and secondary effects. The case studies show that governments tended to make cuts fall disproportionately on the development budget rather than the recurrent budget; moreover, attempts to enhance fiscal revenue were much less successful than fulfilment of requirements to trim government spending. Examples of this phenomenon include *Bangladesh*, *Malawi*, *Nepal* and *Sudan* - though in Sudan's case the increased current expenditure is attributable, *inter alia*, to the civil strife.

This finding, however, has serious implications for the recovery process, and is a significant warning signal for LDCs. For it should not be assumed that recurrent government expenditure failed to be restrained because governments were unwilling or unable to shed or freeze civil service posts and to reduce the public wages and salaries bill. There is considerable evidence that they complied, quite fully, with requirements to disband, restructure or privatize inefficient or loss-making public corporations (*Malawi*, *Niger*, *Bangladesh*, *United Republic of Tanzania*, especially after 1986, and *Nepal*). Instead, a major component of the build-up of recurrent expenditures was the need

to keep debt service current: thus in many cases the recurrent costs of public services were being cut back in favour of redirecting tax revenues to service external debts. On top of this, new investment (the development budget) was being cut as a priority.

These factors are often more significant than the fact that overall public spending appeared to be sustained at relatively high levels in some LDCs, since the cutbacks were applied where LDCs aiming for minimum living standards and sustained recovery as a complement to the adjustment and transformation process could least afford them, *viz.* in the social services provision. Moreover, standards among those in absolute poverty could hardly be raised when cost-recovery schemes were being introduced or when subsidies that were essential to maintaining minimal nutritional standards were removed. Provision of health care, education, a safe water supply and sanitation, all with necessarily substantial public components, especially in LDCs, is now a feature of the design of newer structural adjustment programmes, and extra funds are being raised internationally to support complementary or compensatory programmes targeting the poor.

Secondly, there must be substantial concern over the economic recovery prospects of very poor nations whose development spending has been cut back as part of the adjustment process. This concern flows from the budgetary compression observed above, but not only from that. National funding of development projects in most LDCs is relatively insignificant compared with donor aid funding. But LDCs need to maintain a substantial level of infrastructural investment in order to avoid further deterioration of their already impoverished economies, to improve prospects for sustained development and to make provision for adequate maintenance and running costs. With domestic budgetary resources reduced and diverted elsewhere, the national contribution to both items has been inadequate under adjustment. Moreover, an even more important constraint has been the inadequacy of the supply of concessional aid and lending from abroad for new investments. As part of the adjustment process itself, new aid flows are being increasingly directed towards policy reform and thus used relatively less for capital investment. Moreover, the budgetary cutbacks, which have left inadequate provision for local counterpart funding of projects (as in Bangladesh), may mean that many of the aid commitments merely rest unused in an ever-growing project aid pipeline.

(c) Export incentives

In addition to strict domestic demand management, structural adjustment for LDCs has meant improving the incentives to export. The need to expand export revenues, apart from improving the import capacity, was justified by rising debt service requirements (and arrears): for most LDCs, the major part of the debt service was payable to government creditors and the international financial institutions themselves. In a case such as *Sudan*, however, debts service was on debts substantially incurred to commercial lenders (in the 1970s when Sudan's economic potential, especially as a food exporter to the Gulf region, attracted such lending). Since debt service due was already at approximately the level of Sudan's total commodity earnings, the export expansion task set in such circumstances was enormous, and was not achieved. As most LDCs are, like Sudan, endowed with only a relatively narrow range of primary commodities to export, the effects of agricultural and general export product diversification (which forms part of most of the structural adjustment programmes) have proved to be at best medium term, when successful. On the other hand, the stabilization measures, the devaluations and the programmes for reintroducing broader price incentive schemes for crops, have had more immediate effects in stimulating supply response as regards traditional commodities.

(d) Price signals and commodity problems

Where supply responses had become distorted and suppressed, the pricing measures referred to above did produce an effect, e.g. in the *United Republic of Tanzania* both pre-1986 and after the formal adjustment programme was introduced. However, in *Sudan* and *Malawi*, the structural adjustment programme did not adequately address the unfavourable bias against smallholders; in Sudan, emphasis remained placed on large-scale irrigated export agriculture, while in Malawi the tobacco estates continued to have preferential access to resources and to enjoy concessions.

Moreover, the price signals, which were meant to stimulate export volume and to provide the resources for sustained growth and transformation, proved to be an inadequate instrument in the case of a number of LDCs that faced unstable and falling commodity demand. This applies to tropical beverages, jute, leather, minerals and tobacco. While the "fallacy of

composition" arguments have by now applied with great force to cocoa producers, similar trends are already evident in the case of coffee exports (United Republic of Tanzania), jute (Bangladesh) and tobacco (Malawi). In the case of *Malawi*, too, price changes as between food and export commodities, and changes in fertilizer pricing policy, which also affected the mix between crops, caused havoc in the supply responses of farmers and eventually contributed to unaccustomed food supply difficulties. Similarly, many of *Niger's* adjustment problems are attributable to the collapse of uranium prices - a commodity which formerly supplied 80 per cent of exports and 41 per cent of government revenue. This distorted the whole productive economy and estate management, and so adjustment out of this dependence - a form of "Dutch disease"[44] - was clearly in order. However, the programme does not seem to have significantly restored Niger's growth or restructured the economy.

(e) Manufacturing export expansion

While LDCs are characterized, *inter alia*, by low levels of industrialization, this has not prevented some of them from diversifying into export of manufactures, and this (with services) should form part of any comprehensive adjustment package. The case studies of *Bangladesh* and *Nepal* show, however, that, while they did successfully expand non-traditional exports more rapidly than those of traditional commodities, investment in new capacity for the export of garments nevertheless confronted serious market access barriers, despite the GSP concessions which LDCs are supposed to enjoy and the almost infinitesimally small share of the world garment trade which they represented. Because of these continuing restrictions, this policy of export expansion and diversification has had only limited success.

(f) Labour migration

Many LDCs' stocks of human resources have been brought into play during the period of adjustment by being given a further export orientation in the form of service flows. In countries like Lesotho, Botswana, Sudan and Bangladesh, migrants' remittances are a significant non-merchandise flow, which has helped to reduce the debt service ratio. However, migrants' remittances, while a useful source of foreign exchange, are too vulnerable to be seriously contemplated as a means for a country to grow out of debt, and cannot be a basis for economic transformation. If export earnings are to be the locomotive of growth rather than a means to keep debt service current, they need to arise from product lines that reflect comparative advantages after investments in physical and human capital have taken place; these could be traditional exports, with enhanced efficiency in production, marketing and distribution, or new products.

(g) Import compression and investment implications

In nearly every case *imports* have been substantially cut back, adversely affecting investments (see table 3). The purpose of adjustment programmes has indeed been to permit a more market-oriented discrimination among different import items, and there is some evidence that this is beginning to happen as a result of liberalization. Only in *Nepal* have imports risen more rapidly than exports, and that was mainly in the early 1980s before adjustment programmes began. Given the modest results of import liberalization, it is questionable whether such a policy ought to be linked - as it often has been - to export liberalization in the case of LDCs. Their essential industries are so fragile that even the most basic infant industry arguments are not sufficient.

Of far greater concern than providing a market-based choice of imported inputs should be the overall level of import availability, and in nearly every case this was very depressed, compared not only with levels in the 1970s but with the start of the adjustment programmes. Given that LDCs were already operating at a very low level with essential imports comprising a large proportion of their total imports, the studies show that the continuing import compression predicated on the external stabilization approach to adjustment, and the absence of rapid economic recovery, have meant that al-

[44] This term refers to the decline in the Netherlands' export competitiveness which followed the discovery of the Groningen gas fields in the early 1970s. The decline is attributed to the appreciation of the real exchange rate which follows a rapid infusion of foreign exchange from a "new" export, and leads to a contraction of the traditional export sectors and inflation in the non-traded sectors. It should be noted that, in a recent paper (N.C. Benjamin *et al*, "The 'Dutch' disease in a developing country", *Journal of Development Economics*, vol. 30, No. 1 (1989), pp. 71-92), it has been argued that the standard "Dutch disease" results can be reversed in a developing country where there is imperfect substitutability between domestic and imported goods.

Table 3

EVOLUTION OF IMPORT VOLUME AND REAL INVESTMENT PER CAPITA IN SELECTED LDCs

(Annual average percentage change)

	Import volume		*Investment*	
Country	*1970-1980*	*1980-1987*	*1970-1980*	*1980-1987*
Bangladesh	0.0	1.8	2.1	0.8
Botswana	8.9	-1.8	3.0	-2.9
Lesotho	12.6	-5.8	19.6	1.6
Malawi	0.8	-8.3	0.4	-13.3
Nepal	1.9	4.6	..	..
Niger	10.4	-9.2	5.0	-17.4
Sudan	1.8	-10.9	5.1	-6.9
United Rep. of Tanzania	-2.8	-8.1	-0.5	-8.8
All LDCs	1.0	-2.3	3.0	-4.5
Memo item: Non-oil exporting developing countries	3.4	0.0	..	..

Source: UNCTAD, *Handbook of International Trade and Development Statistics, 1988*; World Bank data, and national sources.

ready poor countries have entered a low-level equilibrium trap, with their future growth constrained by low import capacity, a period of disinvestment and poor maintenance of capital, especially in terms of imported input requirements.

2. *Growth and structural transformation*

(a) Growth record

Adjustment programmes are implemented to restore economic growth as well as to move the external account into balance but there is as yet little evidence in the case of LDCs that the formal adjustment programmes are succeeding in achieving the first objective. As the earlier analysis indicated, most of the progress towards external balance has been achieved by the method of demand restraint and import compression. With export expansion proving more elusive and few new funds going into investment, it is not surprising that output recovery and growth is usually observed to have been at best modest. This applies to LDCs that have undertaken formal adjustment programmes over the last few years (*Niger*, the *United Republic of Tanzania* - despite some initial upturns - *Bangladesh* and *Nepal* - whose growth was better but well below long-run potential) and to those in a longer policy-based lending arrangement: *Malawi* appeared to be recovering in 1984 but GDP growth has been flagging since then; *Sudan's* record - though also influenced by non-economic factors - has been consistently worse.[45]

[45] Incidentally, it is in other countries *not* undertaking adjustment programmes that much more acceptable growth rates for LDCs can be observed. Available data show that some non-sample LDCs (*Maldives*, *Bhutan* and *Lao PDR*) without adjustment programmes (Lao PDR agreed to an IMF programme only in 1989) experienced high average GDP growth rates in the 1980s: Maldives 12.0 per cent, Bhutan 6.3 per cent and Lao PDR 4.8 per cent (1980-1987 averages). See also "Review of economic and social development of the least developed countries in the ESCAP region in the 1980s and recommendations and proposals for the 1990s" (A/CONF. 147/DR/3/Add. 1) (3 March 1989).

The performance of larger LDCs such as *Bangladesh*, despite export successes, seems to have been below potential. Its average GDP growth over the period 1979/1980 - 1987/1988 is calculated at 3.8 per cent (compared with a population growth of 2.2 per cent); no significant growth stimulus has yet arisen directly from the adjustment programme, though there are hopes that this will filter through as a result of increased efficiency in resource allocation and mobilization (including support from donors) in the 1990s. Similarly, *Nepal's* average growth rate of 4.9 per cent during the period 1980-1988 is only the equivalent of 2.2 per cent per head and has yet to rise as a result of the adjustment programme.

(b) Sectoral impact: the example of agriculture

Agriculture is, and will remain, the key sector determining the growth, employment absorption and recovery of the majority of the LDCs. Most of the structural transformation anticipated also has to occur in agriculture-based economies. Exceptions like *Lesotho* (where migrant labour is an important source of employment and foreign exchange flow) and *Niger* and *Botswana* (where mineral exports dominate foreign exchange earnings) do not negate this pattern, for rural production and employment opportunities still depend crucially on efficient agriculture in these countries, as does the satisfaction of local consumption needs.

Given that adjustment programmes have placed great emphasis on agricultural policy reforms (and even more on export-oriented agriculture), the record of success in LDCs so far seems rather modest, though their efforts have not been assisted by generally depressed international commodity prices. In *Sudan* the poor recovery of agriculture under adjustment policies is attributed to neglect, in policy reform also, of the less "modern" rainfed agriculture sector, which generated some two thirds of agricultural GDP, in favour of the large-scale irrigated sector (on which many of Sudan's debts were incurred in the late 1970s). Even in the sugar sector, the restructuring of four government sugar plants was less successful than the steady progress of one privately managed plant. Sudan's agricultural export potential and its recovery in exports have also been hampered by the fact that the products in which it could produce and trade at a comparative advantage - foodgrains, oilseeds and even cotton - are precisely those whose world prices are distorted as a result of agricultural subsidies in affluent countries.

Malawi seems to have produced one of the best results of adjustment in the agricultural sector. This is because, throughout the late 1960s and 1970s, before Malawi undertook its first adjustment programme, the Government had given priority to agriculture and had a long tradition of agricultural export promotion. Industry was not favoured over agriculture, nor was import substitution encouraged, and Malawi managed its exchange rate to benefit agricultural exporters when it undertook its first IMF programme in 1979, followed by three World Bank SALs. These focused on price reform in agriculture, the liberalization of marketing and the gradual restructuring and disbandment of agricultural parastatals. What they seem not to have addressed adequately was the crucial distortion that arose between estate and smallholder agriculture, to the latter's disadvantage. In fact the estate sector, which already had the benefits of extensive land holdings, tax concessions and implicit subsidies via the banking system, and which was in many cases rather less efficient, benefited further from the devaluations and the continuation of cheap labour policies. Massive but irregular changes in the producer prices of smallholder crops, plus a plan under adjustment, which was eventually dropped, to withdraw fertilizer subsidies over a very short period, introduced completely new distortions into smallholder agriculture. Farmers responded first by switching into maize, producing a massive food surplus, which was not always exportable, and then into other crops, which contributed to domestic food shortages just at a time of refugee influx. Remoter farms went back to subsistence agriculture. Malawian farmers clearly responded to price signals, but the net result was not to strengthen the agricultural economy, nor yet to address the distortions between sectors within agriculture.

The *United Republic of Tanzania's* experience appears to give greater support to the maxim that agriculture-focused adjustment programmes are required, but the evidence is available only on the early impact. The structural adjustment programme of 1981-1984 was not a success, as the period was beset by three seasons of drought. Although government policy in those years did not favour major devaluations, which in the Government's view would not assist even export-directed agriculture, reforms in this direction were gradually introduced. The Economic Recovery Programme since 1986, in addition to devaluation, has operated mainly through producer price increases in the agricultural sector. Export crops have responded more

consistently than domestic food crops, but neglect of key support sectors (fertilizer, seeds, technology, irrigation, extension) and linkages (processing and the domestic supply of inputs) indicates that price reforms alone will not produce sustained growth and recovery in agriculture, let alone structural change and transformation within the sector.

The early results of adjustment in *Bangladesh* and *Nepal* are also mixed as regards agriculture. Taking movement towards food security as a major SNPA goal, the studies found that during the period of adjustment Nepal had ceased to be a net food exporter while food self-sufficiency was still a very remote prospect for Bangladesh; nutritional standards instead have been falling in a country where agriculture (mostly rainfed) represents 50 per cent of GDP and employs 75 per cent of the population.

(c) Improving the public/private mix

Formal adjustment programmes have all aimed at reducing State intervention in the productive economy, and at releasing the forces of private entrepreneurship, whether at the level of the smallholder farmer or in the industrial domain. In so far as adjustment programmes have been designed on a common pattern, it is questionable whether the standard model of deregulation and privatization should necessarily apply to LDCs. If these countries are least developed, it is partly because they have so far proved unattractive to entrepreneurs and investors. This is not just an issue of foreign private investment and lending; LDCs also tend to lack a domestic entrepreneurial class, let alone local capital, to exploit any market opportunities that can be identified. For both reasons, it therefore appears that in LDCs public bodies often operate in productive sectors simply because without them no private entrepreneur would fill the vacuum. They also have a socio-economic role to play in, for example, the remoter areas which would be less attractive to firms with profit as the main objective, as well as the responsibility to provide longer-term investment support and the sort of social service provision that is itself a long-term investment in human capital. The argument that the public/private mix in LDCs ought to be different from that in other developing countries, and should be tailored to each LDCs' circumstances, is therefore persuasive.

Nevertheless, adjustment programmes have correctly identified inefficiencies in the public sectors of a number of the LDCs studied, and have taken action to reform, restructure, privatize or disband them. They have also required budget cutbacks in government expenditure. Private enterprise divestiture was a major programme in *Bangladesh's* adjustment. In *Malawi*, the adjustment programmes have only recently started to come to grips with two parastatal or near-parastatal institutions which, together, apart from introducing obvious inefficiencies into the resource allocation and mobilization process, had shifted the benefits of production, especially in agriculture, away from smallholders. On the other hand, the current share of public expenditure in GDP in countries like Bangladesh and Nepal (at 16 per cent and 20 per cent respectively) is well below the levels in the mature "mixed economies" of the OECD countries. It is indeed questionable whether the pruning of the public sector *per se* is desirable, especially as it is the vehicle for investments, future economic growth and structural transformation.

(d) Debt burdens

LDC debt burdens are an issue increasingly receiving international attention and action. Despite retroactive terms adjustment measures taken by developed countries pursuant to Trade and Development Board resolution 165 (S-IX), adopted over a decade ago, to address the issue of ODA bilateral debt, and improvements in rescheduling terms, notably by Paris Club creditors,[46] there remains ample scope for debt relief, including debt reduction and rescheduling (see table 4). If the LDCs' debt service had not risen so much absolutely (and also as a share of exports or total foreign revenues), their enforced focus on export expansion and import restriction in the first half of the 1980s, at the expense of domestic investment and recovery, would not have been required. In most of the sample countries it is the debts owed to the international financial institutions that now weigh most heavily.

Botswana, *Nepal* and *Lesotho* have kept their debt service ratios at manageable levels as compared to most LDCs. The situation of the other LDCs under review - most particularly Sudan, which is the largest debtor - call for urgent arrangements with main creditors, including commercial banks and IFIs.

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[46] See section 5(d) below.

Table 4

EVOLUTION OF DEBT SERVICE RATIOS IN SELECTED LDCs

(Percentage of exports of goods and services)

	1980	1982		1986		1987	
Country	LT [a]	Total	LT [a]	Total	LT [a]	Total	LT [a]
Bangladesh	10	23	15	45	31	40	27
Botswana	5	10	9	5	5	4	4
Lesotho	2	3	3	5	5	4	4
Malawi	22	36	25	50	36	41	27
Nepal	5	8	4	10	10	9	9
Niger	14	39	37	49	44	49	40
Sudan	10	25	13	79	62	50	29
United Rep. of Tanzania	17	22	13	30	22	42 [b]	37 [b]
All LDCs	12	20	14	33	25	28	21
Memo item:							
Non-oil exporting developing countries	..	22	19	21	19	..	..

Source: UNCTAD, *Handbook of International Trade and Development Statistics*, 1987 and 1988 issues, and information provided by the OECD secretariat.

a Long-term debt only. Total debt includes short-term debt and use of IMF credit.

b Estimated.

3. *Social development*

(a) *Distributional effects*

Limited survey data in LDCs and developing countries as a whole means that there is very little hard evidence so far of the distributional effects of structural adjustment programmes. Data and findings generated by UNICEF have tended to concentrate on the consumption and welfare effects of adjustment (and the recession which preceded it) on the poor, while data on the income effect of the stimulus to production and resource mobilization arising from adjustment are much harder to trace, especially in the early years of adjustment. However, it is now recognized that most adjustment programmes are not distributionally neutral. If fully applied they tend to benefit the rural and productive agricultural population at the expense of urban dwellers. In practice, urban interests tend to introduce impediments to any such full application, the result being a new set of distortions.

In most LDCs, a large proportion of the population is rural, and already lives near to subsistence level. Some adverse results have been observed in the studies of adjustment. In *Bangladesh* structural adjustment may have skewed income distribution by reducing employment and earnings opportunities for low-income households and increasing the prices of basic goods. In *Niger* it has yet to benefit the rural smallholder majority. Bodies such as the World Bank and IMF which design and facilitate adjustment programmes now concede that without complementary or compensatory actions, or an in-built distributional element targeting the poor, adjustment can and does leave the poor worse off.

(b) *Education, health and sanitation*

The evidence on the social impact of adjustment on nutrition, education, health and sanitation is partial and scattered. Most of the findings may be just as well the result of the

recession itself as of the failure of adjustment, and in the majority of cases it is premature to show social indicators. For example, although infant mortality changes year by year, and only a few years would be needed to assemble "with-adjustment" comparative data, child health standards and the quality of educational output (as opposed to changes in numbers enrolled) take much more time to observe and assess. Nevertheless, some important findings emerge from the case studies, the most solid observations being those based on government spending.

In *Bangladesh* for instance, government expenditure on health was stable and, on education, increased in the primary sector, but expenditure on sanitation declined. The more relevant indicators in this context are expenditures in terms of their shares in GDP. Under adjustment, Bangladesh experienced modest growth, which was just ahead of the population increase, so primary education growth represented an advance in absolute terms. This was also achieved in *Botswana* through a cautious policy of State spending. In either case, however, unlike some more developed countries, there was little prospect that the private sector would supply or compensate for any shortfall in social services that resulted.

Worryingly, the Bangladesh study also found lower nutritional standards under adjustment and little progress in the alleviation of poverty in general. In *Malawi*, which was already rather disadvantaged in respect of public provision of social services, it was only because the Government did not introduce new cost-recovery schemes in education and health that the impact of adjustment on the poor was not worse.

The eight studies unearthed little evidence that the rural landless and other underprivileged groups took advantage of the price signals introduced by adjustment to move into wage employment or to become entrepreneurs.

(c) Basic human needs in LDCs

Thus, the studies provide cause for concern that one of the key tenets of the SNPA, namely, to increase the provision of fully adequate and internationally accepted minimum standards for the poor, is not being satisfied under adjustment. This means that supplementary investment must be channelled towards the poor, but the objective could also be partly achieved through increasing general infrastructural investment in social services, transport and distribution. Although the latter would not of itself improve the distribution of income, as the poor are users of these services, increasingly so in the more remote areas, their needs would be partly addressed.

4. Special issues

(a) Regional factors

While LDCs in general are distinguished by their poverty, lack of industrialization and low adult literacy levels among a range of other factors, a number of them suffer from particular disadvantages which further condition the results of the adjustment process. One such issue is the regional factor. Some LDCs have very long borders with non-LDCs. The case studies show that a neighbouring economy can have a significant, though unanticipated, effect on the success or failure of an adjustment programme, yet the phenomenon is entirely or largely out of the control of the LDC itself.

In *Niger's* case, Nigeria's adjustment was a further factor for which Niger had to adjust, but adjustment programmes were not designed to accommodate this regional dimension. Both *Lesotho* and *Botswana* had appreciable levels of dependence on regional employment and income flows (migrant labour and remittances), as had *Sudan* with respect to the Gulf States. *Nepal* has had to accommodate disruption in its external trade due to the lapse of trade and transit treaties with India in 1989.

(b) Land-locked and remote LDCs

The regional factor and other factors (such as dependence on a major neighbouring economy) are also features of *land-locked* LDCs. But the clearest case of land-lockedness affecting adjustment is that of *Malawi*. The traditional direction of Malawi's import and export trade was via south-eastern ports, including Mozambique's ports of Beira and Nacala, and the initial country of transit for most of the traffic was Mozambique. Civil strife there required Malawi to reroute the bulk of its export trade, increasing its c.i.f. costs and causing a deterioration in its export competitiveness. New transit transport routes had to be developed to the north and south-west and the costs of both the new investments and the additional charges on

longer transit routes had to be absorbed during a period of adjustment; some of the post-1985 recession is clearly attributable to this. It is fortunate that, since independence, Malawi had begun to develop a road system in its northern region. Such investments are now contributing to the facilitation of rerouted transit traffic, but the northern transit route will take several years to become fully operational.

(c) Refugees

While some LDCs are themselves subject to internal conflicts that produce refugee flows, the impact of adjustment programmes is also crucially affected by the influx of refugees into LDCs. The case studies show examples of this in *Sudan* (over 1 million refugees from neighbouring countries) and *Malawi* (over half a million, the equivalent of one tenth of the national population). Such influxes of refugees present delicate political and social problems for the host government. Their presence places an added strain on the economies of adjusting countries. Since LDCs tend to be particularly vulnerable to such refugee flows as well as to natural calamities, allowances for this eventuality need to be made in the design of adjustment programmes, or at least their terms and conditions should be relaxed to cope with the consequences.

5. International issues

(a) Aid

International adjustment programmes include IFI financing (generally provided in tranches) as a quid pro quo for the rapid implementation of policy reform, often with co-financing from other donors (bilateral and multilateral). For most LDCs, this financing is on concessionary terms (IDA credits and IMF, SAF and ESAF drawings). As regards co-financing from other donors, the aid in question is not necessarily wholly additional.

Aid flows to LDCs rose from $7.5 billion in 1981 to $11.7 billion in 1987 and have been increasingly in the form of quick-disbursing programme assistance. Nevertheless, the extra aid resources directed to LDCs (especially in Africa) do not appear to have been sufficient to support their adjustment efforts. Furthermore, the share of grants in aid commitments and disbursements declined in countries pursuing adjustment programmes. In several cases scarcity of counterpart local currency has constrained aid absorption.

(b) Market access

LDCs have striven to liberalize their imports and exports as part of the adjustment process, even when infant industries might legitimately deserve protection, or regional trade development might favour special trading arrangements rather than complete liberalization. But the studies provide evidence that LDC exports were confronting protectionist barriers: *Bangladesh* garments have been facing quotas in the United States market; *Nepal's* textiles could not be exported freely to OECD markets, even with GSP concessions; while *Sudan's* actual and potential exports of three commodities - foodgrains, edible oils and cotton - for which world markets were distorted as a result of restrictive trading practices on the part of developed countries.

(c) Compensatory finance

Given the vulnerability of LDCs owing to their dependence on commodity exports,[47] compensatory finance is a particularly relevant instrument in the short term. The APC countries can claim additional aid flows from the EEC under the Stabex scheme if a downward fluctuation in earnings is established for a particular commodity traded with the Community. Moreover, the EEC now allocates up to about Ecu 10 million per year under a companion scheme to LDCs that are not signatories of the Lomé Convention. In 1988, just over half the Ecu 19 million claims of *Bangladesh*, *Haiti* and *Nepal* was paid under this mechanism. But, in contrast, relatively few LDCs have made use of IMF's compensatory financing facility owing to its hard terms and its association with policy conditions. For the same reason, LDCs may not benefit from the new Compensatory and Contingency Financing Facility (CCFF), which includes a contingency allowance for rises in

[47] For 23 of the 42 LDCs for which data on export concentration were available, the Hirschmann index stood above 0.5 in the mid-1980s (by comparison, only one OECD country - Norway - had an index over half this value), and of these, for 14 of the 19 LDCs for which 1970 data were available, the concentration index had actually risen - indicating still *greater* export concentration over its 1970 level by the mid-1980s.

interest rates and natural disasters. In 1988, Switzerland unilaterally introduced an earnings stabilization scheme on bilateral trade from which LDCs will benefit.

(d) Debt relief

With the emergence of new schemes and proposals for debt relief, progress has been made for LDCs beyond that achieved a decade ago with the retroactive terms of adjustment (RTA) measures. In 1987, the Paris Club introduced significantly longer terms of repayment (up to 20 years) and an extension of the grace period, from which eight LDCs benefited. In 1988, renewed efforts to ease the debt burden of the poorest countries led to the agreement reached at the Toronto summit and implemented by all Paris Club creditors, involving three options in setting grace and repayment periods and interest rates.[48] Four LDCs have benefited from this "menu" approach in 1988 (see also box 7 in Part One, chapter II).

The scope of the "menu" approach, however, remains limited in so far as: (i) the option implying extension of repayment periods is not concessional; (ii) eligibility is in principle confined to low-income countries undertaking internationally agreed structural adjustment programmes (and thus does not apply to all LDCs); and (iii) the measures, instead of dealing with the overall stock of debt, affect only debt service due during the consolidation period and do not apply to loans contracted after the cut-off date.[49] Moreover, it should be noted that multilateral negotiations under the Paris Club do not include the OPEC members and socialist countries of Eastern Europe, which are important bilateral creditors for a number of LDCs.

A further important point in this context is that the Paris Club negotiations do not include multilateral creditors, to which LDCs owe a considerable part of their obligations.[50] Indeed, the only measure which has been taken to cope with LDCs' multilateral debt is the recent establishment by the World Bank of a reserve fund (to be financed out of repayments on IDA credits) to help pay the interest on past World Bank non-concessional loans on behalf of countries that are now eligible only for concessional IDA assistance. Five LDCs are currently eligible under this scheme.

(e) Policy conditionality

Finally, it is important to recall that, through their policy advice, multilateral institutions have come to exercise an important - even over-riding - influence on the economic policies of the majority of the LDCs, and that the adoption of Bank/Fund-designed structural adjustment programmes has in many cases become a precondition for securing fresh donor funding or debt relief.[51] The case study of the United Republic of Tanzania shows how bilateral aid is itself made conditional upon acceptance of a Bank-Fund programme - and its accompanying conditionality. An important issue affecting LDCs is therefore that of the conditionality attached to policy-based lending. The use of resources under certain facilities is subject to numerous and comprehensive prescriptions which preclude access by some LDCs because of the difficulties of complying with the conditions. Difficulties also arise from "inconsistent requirements of different creditors and multilateral institutions",[52] or what might be

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48 These are:

(1) reducing moratorium interest rates on the whole rescheduled debt by 3.5 percentage points or by half, whichever is the less, with a 14-year repayment period, of which 8 years is the grace period;
(2) writing off one third of the debt service falling due in the consolidation period (principal and interest) and rescheduling the balance over 14 years, of which 8 years is the grace period, with moratorium interest charged at market rates;
(3) extending repayment periods for the whole rescheduled debt to 25 years, of which 14 years is the grace period, with moratorium interest charged at market rates.

49 This is unchangeable and has become very distant for many countries after repeated reschedulings.

50 At end-1986, service payments in respect of concessional and non-concessional debt to multilateral agencies (including use of IMF credit) are estimated to have reached $1.3 billion, exceeding one third of LDCs' total debt service payments.

51 "Bilateral donors have relied on these institutions [IMF and the World Bank] for guidance as to the design and adequacy of such programmes and for management and advice in the supporting financial programming through the consultative group process and in the context of Paris Club operations". There was now "a recognition of the central role of the World Bank and the IMF in the whole process of policy-based lending". OECD, *Development Co-operation, 1987 Report* (Paris, 1988), p. 129.

52 See Communiqué of the Intergovernmental Group of Twenty-Four to the Development Committee of the World Bank (24 Sept. 1988), para. 13.

called onerous cross-conditionalities.[53] Conditionality attached to policy-based lending to the LDCs should rather be made more flexible, and better adapted to the special circumstances and requirements of these countries.

C. Conclusions

The review of LDC experience, as summarized above, provides a number of conclusions regarding the design and impact of structural adjustment programmes in the LDCs. These conclusions are set out below:

- Adjustment has begun relatively recently and in general has come after a period of major recession; thus evidence of firmly attributable effects will not become stronger until later.
- Meanwhile, even allowing for the fact that the initial changes of policy cause some unavoidable damage to vested interests but also to vulnerable groups, the adjustment programmes have so far produced mixed results and achieved, at best, limited success. The specific characteristics of individual LDCs were not always adequately taken into account in the design of these programmes, and external financial aid to these programmes remained insufficient.
- The reviews, however, also reflect a concern that adjustment for LDCs has too often focused on demand restraint measures, which have reduced already poor economies to operating at an even lower level of output.
- The strong emphasis given by adjustment programmes on redirecting resources from public bodies to private entrepreneurs is also called in question. The programmes need to take into account that LDCs in general have a very poorly developed entrepreneurial class and depend on public institutions to sustain both development and welfare provision.
- Devaluation, which is a common feature in LDCs' stabilization and adjustment programmes, appears to have produced little effect in stimulating exports.
- The reviews do not provide any firm indication that current adjustment strategies are building up the linkages required to assist in the long-run transformation of LDC economies. The adjustment strategies adopted, by focusing so strongly on short-term balance of payments management, may have neglected to develop the longer-run potentials of the national economy.
- There has also been neglect of the human resource potential in LDCs. Social services have suffered under adjustment, partly because of cuts in governments' development budgets and insufficient maintenance and operational support.
- The adjustment programmes have also failed to make provision for the flexibility to adapt - as the vulnerable LDCs must inevitably do - to unforeseen factors, be they internal, regional or global in origin, which are beyond the control of the LDCs.
- Additional financial resources directed to LDCs appear not to have been sufficient to support their adjustment efforts. Moreover, the share of grants in aid disbursement has declined and conditions attached to aid have become stringent.
- Adjustment programmes have not taken the problems of debt sufficiently into account in their design.
- Finally, in taking adjustment as a precondition for development, when in reality the former has concentrated on short-term payments equilibrium including debt service, the adjustment strategies have not, generally, succeeded in facilitating long-run development. The sort of changes that are required need additional resources, a longer time-frame and careful sequencing in policy implementation.■

[53] For examples within and between the Bretton Woods institutions and their supporting governments acting as donors, see Sidney Dell, "The question of cross-conditionality", *World Development*, vol. 16, No. 5 (1988).

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EXPERIENCE OF INDIVIDUAL LEAST DEVELOPED COUNTRIES WITH ADJUSTMENT

This chapter reviews the adjustment programmes that have been implemented in seven LDCs and analyses their impact on the economies of those countries.[54]

A. Bangladesh

1. *Introduction*

Bangladesh is poorly endowed with natural resources: apart from fertile agricultural land, other exploitable resources are natural gas and fisheries. With a per capita income of about $170 in 1988, income and consumption levels in Bangladesh are some of the lowest among the LDCs. The production structure is undiversified and economic growth is largely determined by the performance of agriculture, which contributed 47 per cent of GDP and provided 71 per cent of employment in 1986. Agricultural output is dependent on the monsoon and is vulnerable to weather uncertainties. A series of natural calamities - drought, floods and cyclones - have wrought havoc in agriculture in recent years. The manufacturing industries (the share of which was 8 per cent of GDP in 1986) have performed poorly in the 1980s. Because of this sector's strong linkage with agriculture, the faltering performance of the latter has had adverse effects on manufacturing output by reducing the supply of raw materials and lowering rural incomes. Depressed international demand for jute goods and leather, and quota restrictions on exports of garments have resulted in lower capacity utilization in these industries.

The gross domestic savings rate of about 2 per cent (a national savings rate of 5 per cent) of GDP and the heavy dependence on foreign capital flows for financing investment are major structural constraints for Bangladesh's economy. More than one half of gross domestic investment is financed by foreign grants and loans from bilateral and multilateral sources. The country's export base is small (about 6 per cent of GDP) and undiversified. There is a high degree of concentration on a limited number of primary and semi-finished products which suffer from both supply inelasticity and income inelasticity in the importing countries. The earnings from traditional exports (jute, jute goods, tea and leather) stagnated in the 1980s.

The country faces an extremely difficult demographic situation: a population of 107.9 million in mid-1988 (82 per cent living in the rural areas) in a total area of 143,998 sq. km makes Bangladesh an extremely densely populated nation. The high rate of population growth has not only led to excessive pressure on limited arable land but also exacerbated the problems of poverty and unemployment.

[54] It draws, like chap. III, on the reviews prepared by consultants at the request of the UNCTAD secretariat (see footnote 39 of chap. III).

Growing landlessness and lack of employment opportunities in the rural areas have accelerated rural-urban migration. Poverty is widespread, nearly 51 per cent of the population are below the internationally-defined poverty line, with 60 per cent in the rural areas living in absolute poverty. Malnutrition is endemic, being particularly acute among children under 5 years of age and pregnant or lactating mothers. An underlying factor behind the massive poverty and low household incomes is the substantial overt and disguised unemployment of the labour force. About a third of the country's labour force was estimated to be unemployed in mid-1985 and since then job opportunities have fallen sharply behind the numbers of new entrants into the labour market. The social indicators, such as a life expectancy of 55 years, an infant mortality rate of 116 per thousand, a low level of human resource development, an adult literacy rate of 33 per cent, a high rate of dropouts from the school system and extremely low participation of girls in education, show that living standards are extremely unsatisfactory in Bangladesh. Most people are exposed to health risks (e.g. water-borne diseases) owing to limited access to safe drinking water and grossly inadequate sanitation facilities. Per capita energy consumption in Bangladesh is very low, and the bulk of it is supplied by the traditional fuels. The rural population's access to modern transport and communication facilities is still limited.

2. *Adjustment in the 1980s*

Soon after launching its Second Five-Year Plan (1980-1985), Bangladesh was forced to shift to adjustment for various reasons. The economy experienced a sharp decline in GDP growth, export shortfalls, a massive deterioration in the terms of trade (by over 30 per cent in 1980/81 and 1981/82) and declining flows of concessional assistance. Added to these were a series of natural disasters which compounded economic management difficulties. Faced with unsustainable budget and external deficits, Bangladesh embarked upon an adjustment programme in mid-1983. The adjustment package included measures for mobilization of domestic savings and reduction of public expenditures by the phasing out of subsidies and slashing of public investments. In agriculture, a medium-term food production plan was launched and land reforms introduced. Various incentives were instituted to promote export expansion. A decentralized administrative system was established to support rural development, and a number of studies were initiated in the energy, water resources, transport and financial sectors with a view to the development of appropriate sectoral policies.

In 1985/86, the authorities undertook a stablization programme under a stand-by arrangement with IMF. This was followed by negotiations for an IMF Structural Adjustment Facility (SAF) in 1986/87 for the period 1986/87 to 1988/89, which was later extended to 1989/90. The medium-term structural adjustment programme is aimed at improving real per capita income while lowering the rate of inflation and making significant progress towards balance of payments viability. The programme is also being supported by various sectoral and policy-based credits from IDA and ADB.

The policy package of the structural adjustment programme contains elements of demand management policies aimed at reducing current account and fiscal deficits as well as measures for strengthening the directly productive sectors through greater reliance on market mechanism. The emphasis is on expanding the role of the private sector in the domestic economy.

Over the past few years, the Bangladesh authorities have implemented a wide range of measures under the structural adjustment programme.

(a) *Government revenues*

In order to raise more revenue, significant fiscal measures have been introduced during the last three years. These measures include changes in the coverage and rates of existing taxes, the introduction of new taxes and improvements in the tax administration. Major import tariff reforms were implemented in 1987/88 and 1988/89 to eliminate discrimination against export industries. A system of tax rebates on imports of intermediate goods has been introduced. Cost recovery was implemented for public services in irrigation, electricity, transport, communications, education and health. Measures for improving the tax administration included the strengthening of the National Board of Revenue and establishment of Task Forces to tackle smuggling. The report of the World Bank-sponsored tax reform study is now under consideration by the authorities.

(b) Reduction of public expenditures

The Government has taken measures to restrict current expenditures by delaying salary adjustments of public servants, postponing new recruitment, and reducing subsidies and transfer payments. In the capital budget a variety of measures have been taken to improve efficiency in resource allocation. The most significant measures are: (a) a reduction in the projects portfolio in the public sector; (b) the introduction of a "core programming" system to protect priority projects against resources uncertainty; and (c) improvements in the project approval and implementation system. Increased allocations have also been provided for operational and maintenance outlays in priority sectors. In 1989, the World Bank completed a "Public Expenditure Review in Bangladesh", which is expected to serve as a framework for public resources management in the next plan period.

(c) Public enterprises

The authorities have taken measures to enhance the efficiency of the public enterprises and to put them on a sound financial footing through divestiture/rehabilitation, price adjustment and the introduction of a performance-monitoring system. Under the divestiture programme, a large number of industrial units in jute, textiles, chemicals, food, steel and engineering were sold to the private sector and, since 1986/87, 49 per cent of the shares of selected PEs have been offered for public subscription. Rehabilitation of retained public enterprises in jute, textiles, fertilizers, paper and newsprint, and power plants was completed. The capital structure of several PEs was improved by an infusion of capital and the conversion of debt into equity. Administered prices of sugar, paper, newsprint, fertilizers, gas, electricity, transport and petroleum products were raised to pass on increased costs to the consumers. By the end of 1987/88, a performance contract system was established in five enterprises.

(d) Monetary measures

Net credit to the Government and public enterprises was reduced, while bank credit to the Government fell by 2.4 per cent in 1986/87 and a further 1.7 per cent in 1987/88. The Bangladesh Bank has raised nominal interest rates to maintain the real interest rate at positive levels. It has restricted refinancing facilities for the commercial banks and shifted to qualitative methods of credit control. A number of private banks and insurance companies have been permitted to operate, and government-owned commercial banks have been denationalized in order to expand the role of the private sector in financial intermediation. Since 1986/87, a credit recovery plan has been launched for collecting overdue agricultural and industrial loans.

(e) The exchange rate and external borrowing

Devaluation has been a key element of the stabilization/adjustment package negotiated with IMF. The taka, which is pegged to a basket of trade-weighted currencies, was depreciated about 20 per cent between 1984/85 and 1987/88. Progress has been made in narrowing the gap between the official exchange rate and the exchange rate in the secondary market (by November 1988 the premium in the secondary market over the official rate was reduced to 2 per cent from 6.5 per cent in 1986/87). In view of the growing debt service burden, the authorities have maintained strict limits on non-concessional borrowing (eg. loans carryng high interest rates and short maturities).

(f) Agriculture and food

In agriculture, steps were taken to expand the role of the private sector in inputs delivery, to reduce subsidies and to increase producers' incentives. Subsidies on fertilizers were withdrawn and on irrigation equipment reduced. Wholesale and retail trade in fertilizers are in the private sector and farmers can buy irrigation equipment individually or jointly. Procurement prices of various crops have been raised periodically to provide growers' incentives. Efforts have been made to strengthen linkages between agricultural research and extension. Food subsidies under public distribution have been substantially reduced, and subsidized food is now directed to the rural poor and the vulnerable groups. The Government is seeking to ensure food security by stabilizing consumer prices through open-market sales and the maintenance of a critical minimum reserve stock of foodgrains. The programmes/projects for afforestation and development of fisheries and livestock are being implemented with donors' assistance.

(g) Industrial and trade policy

The New Industrial Policy announced in July 1986 envisages a leading role for the private sector in the country's industrial development. Sanctioning procedures are now greatly simplified. An Investment Board has been set up recently to approve all cases of foreign investment and provide support services to the sponsors. In order to improve access to intermediate inputs and capital goods, trade liberalization measures have been implemented. These measures include introduction of a passbook system, improved availability of foreign exchange, tariff reforms, etc. Bangladesh has also put into practice a number of incentive schemes for exporters, i.e. a cash subsidy to exporters under the Export Performance Benefit (EPB) Scheme, bonded warehouse facilities, duty drawback, export credit guarantee and the Export Processing Zone at Chittagong.

(h) Energy

Bangladesh has focused its energy policy on (i) development of natural gas reserves by drilling new wells and expanding the distribution network, (ii) exploration of oil and gas, (iii) energy conservation in industry, transport and other uses, and (iv) rural electrification. Public sector investment in gas production, power generation and fertilizer production have received priority. Prices of gas and electricity have been raised to generate more resources for investment in the energy sector. A plan of action for the restructuring of public sector agencies involved in gas and electricity is being implemented to improve their efficiency.

3. International support

The performance of the Government in the implementation of the Bank-Fund adjustment package was expected to serve as a catalyst to mobilize additional resources from bilateral donors and multilateral financing agencies . There is very little evidence that this has happened in Bangladesh. The trends of aid commitments show marked year-to-year variations and stagnation over a longer period. Within the aggregate trend, new commitments by bilateral donors, especially non-aid group sources, have declined. However, net disbursements in real terms have increased during the adjustment period. The composition and quality of the aid given have become more unfavourable for Bangladesh. The share of fast disbursing non-project aid (food and other commodities) fell sharply from 60 per cent in 1982/83 to 39 per cent in 1986/87. Given the country's limited capacity to provide matching local currency, the change in aid composition has worsened the problem of aid absorption. The quality of aid has also deteriorated following a decline in the share of grants associated with the increased conditionality of the policy-based lending programmes of multilateral financial institutions. The share of grants in total disbursements has declined from 53 per cent in 1979/80 to 43 per cent in 1988/89. Consequently, the country's indebtedness has increased. Bangladesh already has a very heavy debt service burden, and this trend will impair its future import capacity as the prospects for rapid export growth are not bright. The response of foreign private investment to various concessions and facilities extended by Bangladesh remains rather limited. The country has received very little international support in terms of either market access or compensation for export shortfalls. The quota restrictions on exports of ready-to-wear garments in major markets have hampered the growth of this promising industry.

4. Impact of the adjustment programme

In evaluating the impact of the adjustment programme, it is very difficult to distinguish the effectiveness of the programme from the impact of changes in external factors. Moreover, the adjustment programme is still in force and will not come to an end for some years. Nonetheless, tentative observations can be made. The adjustment programme seems to have been more successful in reducing budget and current account deficits. By 1987/88, the budget deficit was reduced to 7.5 per cent of GDP from about 11 per cent in 1982/83, despite the disruptive effects of the floods in 1987 on the government budget. Similarly, the current account deficit was brought down from over 10 per cent to less than 6 per cent of GDP. This was achieved through compression of imports, and rapid growth of non-traditional exports and workers' remittances. Moreover, the inflation rate was reduced to around 10 per cent.

The growth of GDP averaged 3.8 per cent per year between 1979/80 and 1987/88, which was well below the programme target and the potential of the economy. In 1988/89, the growth rate of GDP has been less than the

population growth rate, signifying a decline in per capita income. The reduction of public investment in agriculture and increased prices for fertilizers and irrigation equipment, coupled with restrictions on agricultural credit, have impeded agricultural growth. The progress made towards food self-sufficiency has been inadequate and imports of foodgrains rose sharply in recent years because of severe floods. The manufacturing industries have also performed poorly owing to depressed domestic and external demand.

Contrary to the programme target, gross domestic investment dropped drastically from 17 per cent of GDP in 1979/80 to 12 per cent in 1987/88. A falling revenue surplus (government savings) and restrictions on borrowing from the banking system lowered public sector investment, while the private sector failed to pick up the slack. The decline in net investment following the earmarking of resources for post-flood rehabilitation, and poor maintenance of capital, have diminished Bangladesh's future economic growth.

Despite a strong commitment on the part of the Government to improve the situation of the poor, the adjustment programme has contributed very little to furthering poverty alleviation and attaining human resource development targets. Unemployment has increased further in recent years. Per capita food availability fell to 448 grams per day in 1987/88 from 496 grams in 1984/85. Together with high prices, this has reduced the access of the poor to food supplies. In addition, the level of public expenditures on education, health and drinking water, which remained constant, has restricted the access of the poor to basic services.

In sum, the adjustment policies have not advanced Bangladesh's transition to self-sustained development over the longer term. The burden of adjustment has fallen more severely on the poor and disadvantaged households. Added to this the adjustment policies have produced misallocation effects such as deterioration of physical assets due to an inadequate maintenance budget, and a deceleration in the off-take of fertilizers and use of irrigation equipment following price adjustments and imposition of restrictions on agricultural credit. Contraction of public investment in infrastructure, especially irrigation and drainage facilities and human resource development, has also diminished the country's long-term development prospects.

5. *Conclusions*

In the case of Bangladesh, the adjustment programme is still being implemented and it is premature to come to firm conclusions about the success or failure of the programme. The Bank-Fund-supported adjustment programme has thus far produced mixed results. Nevertheless, the structural problems in Bangladesh are deep-seated and complex and can only be tackled by pursuing growth-oriented adjustment over a sufficiently long period. Moreover, the design and thrust of the Bank-Fund adjustment package suffer from several weaknesses. Firstly, the focus of the programme is on short-term external balance and demand management policies. Insufficient attention has been paid to domestic supply responses and investment in infrastructure and human resource development. Secondly, very little attention is given to the social consequences of the programme, especially the distribution effects. Thirdly, there is a strong bias towards privatization and reliance on market mechanism. Market imperfections are well known in a country like Bangladesh. Moreover, as in most LDCs, a dynamic entrepreneurial class is lacking. The responsibility of the public sector to provide long-term investment support, particularly for human resource and infrastructure development, should be recognized. The standard policy package, which has a better chance of success in organized economies, is unlikely to achieve the desired results in a disaster-prone, subsistence economy. Lastly, there is considerable rigidity in the time-frame for implementing the policy package. There should be flexibility in sequencing the implementation of various measures, and recognition, for example, that institutional reforms take time to design, legislate and administer.

B. Lesotho

1. Introduction

Lesotho is a small mountainous country completely encircled by South Africa. Its economy has few natural resources; only 13 per cent of the land is cultivable and there are no known significant mineral deposits apart from small quantities of diamonds.

The economy is heavily dependent upon remittances from the migrant labour force in South African gold and coal mines. Migrants' remittances amount to some 50 per cent of GNP and are the main source of income for over a third of all households. Agriculture is the primary source of income for a further third of households, in the form of either subsistence production or sales of food staples, wool and mohair.

The economy of Lesotho grew rapidly during the 1970s, with real GNP growth of 8 per cent per annum. Growth was based upon a substantial increase in the level of migrants' remittances, the development of diamond mining, and a high level of development assistance, allowing for a sizeable expansion of government services and employment. The industrial sector, however, remained small and its development was constrained by the small size of the domestic market and by the competition of tariff-free imports from neighbouring South Africa. During the 1980s, GNP growth slowed markedly, and real per capita income started to decline. The main causes of economic decline were the reversal of favourable factors from the previous decade and continuing economic dependence upon South Africa. Diamond mining on a commercial basis ceased in 1982, and from 1984 onwards the growth of migrant workers' remittances became sluggish. In addition, agricultural production fell as a result of prolonged drought between 1983 and 1986.

GDP growth has been more buoyant since the mid-1980s as a result of deficit-financed increases in government expenditure, but has been directed largely towards imported consumption goods or investments in transport and its accompanying infrastructure, and in livestock. Consequently, major imbalances started to appear in the economy. The government deficit rose to 12 per cent of GDP in 1985/86 and to 20 per cent by 1987/88, contrasting sharply with improvements in the fiscal position between 1982/83 and 1984/85.[55] The major factors contributing to the increased deficit were a significant rise in recurrent expenditure and stagnation of customs revenues (some 65 per cent of recurrent revenue) from the Southern African Customs Union between 1984/85 and 1987/88. Increased government borrowing from both domestic and foreign sources pushed the current account into deficit (9 per cent of GNP in 1987/88), and from 1986 onwards the absolute level of foreign reserves was in decline, falling to less than four weeks' import coverage by the end of 1988. Public foreign debt increased sharply over the 1985-1988 period as expenditure on loan-financed projects accelerated and the maloti depreciated against the dollar. The debt stock was, however, largely on concessional terms and the debt service ratio remained relatively low. The Lesotho Government increasingly relied upon funding from the domestic banking sector to finance expenditure.

During 1988, the advent of the $2 billion Highlands Water Project has brought considerable new activity to the capital, Maseru, although the economy has been slow to respond to the potential manufacturing linkages in the construction and building material industries. In 1987 and 1988, small export-oriented manufacturing businesses grew rapidly, mainly in the footwear and clothing sectors. Consequently merchandise exports more than doubled from 1986 to 1988.

Perhaps the most serious economic problem in Lesotho is that of unemployment. The annual addition of 20,000 entrants to the workforce compares with an estimated 3,000 new formal sector positions within Lesotho and a stagnant level of migrant mining employment. The relatively high investment level of over 18

[55] The government deficit fell from 59 million maloti in 1981/82 to M 17 million in 1984/85 before rising to M 161 million in 1987/88.

per cent of GNP (1985-1987 average), coupled with low growth of output and employment, suggests that significant changes will be required to set the economy on a path to self-sustained growth and development.

2. The adjustment programme

The Lesotho authorities realized that an adjustment programme, whether formally negotiated with an international institution or carried out alone, would have to respond to two distinct objectives:

- firstly, to increase the productive capacity of the domestic economy to confront the serious employment problem and simultaneously to reduce the vulnerability of the Lesotho economy to changes in neighbouring South Africa; and
- secondly, to address the emerging fiscal crisis and its resultant balance of payments problems by a combination of expenditure restraint and improved tax collection.

The Fourth Five-Year Plan 1986/87 - 1990/91 signified the realization of the economic problems that faced Lesotho, and proposed a number of measures to improve domestic productivity, i.e. the implementation of land reform with the introduction of leasehold forms of land tenure, the development of urban services and planning and the reorganization of government planning functions to allocate capital funds more effectively. To stimulate industrial production, an export-financing agency was announced to provide guaranteed loans to the private sector. However, the results of the first two years of the Plan were not up to expected levels and the Government, together with IMF and the World Bank, designed a new set of policy adjustment measures. A SAF agreement was concluded with IMF in June 1988 for the period 1988/89 - 1990/91 for the amount of SDR 10.6 million.

The adjustment programme supported by the SAF is a "standard" IMF adjustment package, albeit in a somewhat reduced form. Lesotho's economic dependence upon South Africa inhibits the use of the independent monetary and exchange rate policy which is frequently the centrepiece of an IMF adjustment programme. The standard prescription of currency devaluation is therefore rendered invalid as the maloti is fixed at par to the rand by arrangements in the Common Monetary Area agreement, and is arguably unnecessary given the sharp depreciation of the rand against major currencies from 1985 onwards.

Over the the three-year period, GDP was targeted to grow at an average of 4 per cent per annum (against population growth of 2.7 per cent per annum). Changes in fiscal policy were assigned a leading role in the adjustment programme. Revenues were programmed to rise from 40 per cent to 47 per cent of GDP over the programme period by the introduction of income taxes for migrant workers, increases in sales tax, cost recovery in health and education and increases in duties, fees and charges. A policy of restrained recurrent expenditure was advocated. Increases in grant-funded projects and a standstill in the contracting of new external non-concessional borrowing were also to contribute to a reduction in the overall government deficit from an estimated 20 per cent of GDP in 1987/88 to 4 per cent by 1990/91. The operating performance of public enterprises (mainly utilities) was intended to improve over the Plan period by means of tariff increases and better monitoring and evaluation. The major quantitative benchmarks for evaluating performance during the SAF were limits on total domestic credit from the banking system, in order to be consistent with a reduced current account deficit and increases in official reserves.

Sectoral policies articulated for the adjustment programme were built on the Fourth Five-Year Plan. Implementation of grazing fees was foreseen to reduce livestock pressure upon overgrazed communal land. In industry, support was enunciated for export-oriented industry without substantive policy changes apart from measures to attract foreign investment, which included the simplification of administrative procedures through the formation of a one-stop investment promotion unit. Although the debt stock as a proportion of GNP had doubled to 37 per cent over the five years up to 1987/88, projections of debt service in relation to government revenue did not indicate problems.

During the first year of the adjustment programme there was some slippage in its implementation, notably as regards fiscal and domestic credit targets. Annual credit targets were exceeded halfway through the financial year, while the overall annual government deficit was estimated to have remained unchanged at around 20 per cent of GDP. The standstill on contracting new non-concessional debt was not observed and new foreign commercial loans to the parastatal sector were guaranteed by the Government. However, performance on legislative reform and revenue-generating measures was far better.

Targets did not refer in great detail to the second and third years of the programme, although reference was made to implementation of migrants' income taxation and to civil service efficiency reforms. Migrant workers account for nearly 60 per cent of regular wage/salary earners and at present are not liable for income tax either in Lesotho or in South Africa.[56] As regards the civil service, although a recruitment freeze has been in place intermittently since 1981, the government establishment continued to grow slowly throughout the 1980s. With wages and salaries accounting for 50 to 60 per cent of government current expenditure, attempts at expenditure control could not have been accomplished without an eventual rationalization of employment numbers, particularly if real wages were to be raised to maintain and attract skilled personnel.

3. *Impact of the adjustment programme*

It would be premature and probably impossible to evaluate the magnitude and direction of impact of an adjustment programme after only one full year of operation. However, the central adjustment policies during 1988/89, which concentrated upon domestic credit restraint and, in particular, upon a reduction of the government deficit and indirectly the current account deficit, clearly have not been implemented.

Tax reform was in general carried through, and a significant improvement in the level of revenue was projected. However, improvements in expenditure control did not appear until towards the end of the fiscal year, by which time it was clear that the government borrowing targets could not be met. Delayed control of current expenditure also had undesirable side-effects as ministries found they could not meet staff costs and in certain cases had insufficient funds for essential supplies; for example, the budget for rural drugs was exhausted within six months and budgets for casual labour were exhausted in a similar period. The major causes of the budget over-run were weak expenditure control, combined with the implementation of a pre-agreed salary review at the same time as the adjustment programme.

However, positive results were also achieved during the first year of implementation of the adjustment programme, notably the growth in real GDP, which was larger than anticipated, and the mobilization of new donor funding. The financing needs for Lesotho's structural adjustment programme and development strategies were examined at a Round Table Conference held in December 1988. The intentions of financing expressed by the participants reportedly indicated that these requirements will be adequately covered in the immediate period ahead. In June 1989, IMF approved the second annual arrangement for Lesotho under the SAF.

C. Malawi

1. *Introduction*

Even prior to the initiation of adjustment programmes, Malawi pursued policies of agricultural export promotion and had relatively undistorted exchange rates. Structural adjustment did not involve any dramatic change in economic philosophy. Agricultural exports were instrumental in the initially impressive economic performance of the 1970s when Malawi was considered to be an example of what could be achieved by a small, resource-poor country through market-oriented policies and a a relatively efficient bureaucracy.[57]

By the end of the decade, however, exogenous shocks resulting from increases in oil prices and interest rates, combined with drought, falling prices of key agricultural exports, and escalating external transport costs due to the disruption of routes through Mozambique, exacerbated underlying struc-

[56] However, a small capitation fee is levied at border crossings on migrant workers.

[57] For discussion of the background to the adjustment programme in Malawi, see Kydd (1988).

tural weakness in the economy. Severe imbalances appeared in the economy, the balance of payments deteriorated, the budget deficit widened and borrowing increased.

A first stand-by arrangement and a Compensatory Financing Facility drawing was agreed with IMF in 1979, but were inadequate for the necessary major restructuring of the economy. In the early 1980s, therefore, the Government entered into negotiations with IMF and the World Bank for further stand-by and structural adjustment funds. A new IMF stand-by agreement came into operation in 1980 and the first structural adjustment loan (SAL) was agreed with the World Bank in 1981. Since then there has been an IMF Extended Financing Facility arrangement (1983) and two more structural adjustment loans (1983 and 1985). In recognition of the difficulties encountered in implementing macroeconomic reforms, the World Bank is currently experimenting with sectoral adjustment initiatives. A SDR50.6 million credit for a trade and industry sector adjustment was agreed in June 1988 and discussions with the Government concerning a possible agricultural sector credit were to open in early 1989. Malawi, in July 1988, became the first beneficiary of IMF's Enhanced Structural Adjustment Facility under an arrangement to the value of SDR55.8 million.

2. *The adjustment programme*

IMF support has been conditional throughout on fiscal and monetary restraint and currency depreciation. Initial lack of success in meeting balance of payments objectives, however, coupled with the deep-seated structural causes of disequilibrium, led to the negotiation of a series of more concessional structural adjustment loans from the World Bank.

Conditionality associated with these loans has varied. The first loan required only a commitment to raise charges made by parastatal enterprises and to decontrol prices and wages. The second was more stringent, requiring substantial increases in the producer prices of export commodities and some reform of the large-scale private sector. By 1984, the economy appeared to be recovering and the arrangements for the third loan departed from the previous format in that they included funding from bilateral donors. Conditionality was more relaxed and revolved around a concern to improve the performance of parastatals. In particular, there was pressure to raise the productivity of the estate sector and to improve the efficiency of agricultural marketing through, *inter alia*, the privatization of a number of the activities of the Agricultural Development and Marketing Corporation (ADMARC).[58] Emphasis was also placed on diversifying production, particularly of exports.

The economic recovery experienced in 1984 began to weaken after 1985, substantially as a consequence of the deteriorating situation in neighbouring Mozambique, which resulted in considerable increases in the freight costs associated with moving commodities in and out of the country. Consequently, the appropriateness of the objectives attached to previous loans was reassessed, and a sectoral adjustment credit for trade and industry was agreed with the World Bank in June 1988. This is oriented towards the liberalization of external trade, the promotion of domestic competition and support for small-scale industry. Negotiations are currently (1989) under way for an agricultural sector adjustment credit.[59]

The principal components of the programmes implemented by the Malawian Government include devaluation and reduction in government spending. The main vehicle for reducing the latter, however, has been through cut-backs in development, rather than in recurrent expenditure. Moves to decontrol prices have been relatively slow, at least in the early stages of the programme, and efforts to promote export production within the agricultural sector have had to be tempered in response to consequent food deficits. Efforts to improve the efficiency of the quasi-public sector and to privatize parastatal activities have also met with some difficulties.

58 ADMARC is the agricultural marketing parastatal, and the principal institution concerned in the move towards privatization.

59 The implications of the reform programme in Malawi have been well documented. See, for example, Collier (1988); Kydd with Hewitt (1986); Kydd and Hewitt (1986); Kydd (1988); Winter (1984).

3. Impact and evaluation of recovery programmes

(a) External balance

Prior to the emphasis on structural adjustment, Malawi maintained its currency close to the market value. This has been an important facilitator of agricultural growth in the past, and has greatly simplified the task of implementing policy reforms since the ensuing periodic devaluations were a continuation of previous policies. The effectiveness of policy in this respect is reflected in the fact that, since 1980, changes in the nominal rate mirror those in the real effective rate of exchange.

Currency depreciation has been a central instrument in correcting the severe balance of payments deficit of the late 1970s. The deficit was reduced from over 22 per cent of GDP in 1980 to approximately 5 per cent in 1987. In 1984, the overall balance turned into a surplus to the extent of 4 per cent of GDP. Also important in reducing the deficit has been the contraction in domestic demand leading to a fall in the demand for imports. It is the latter, rather than an improvement in export performance, which appears to have contributed most to reducing the current account deficit. The value of imports has fallen substantially since 1980 relative to GDP, while that of exports has shown no discernible trend.

One consequence of the stagnation in export earnings has been that the debt service ratio has also grown to substantial proportions. With no immediate prospect of an improvement in the export performance, particularly given the continuing and expensive re-routing of external trade, and with the debt burden still growing, the problem of debt servicing is likely to remain. Malawi has already rescheduled its external debt several times during the 1980s.

It is difficult to separate the extent to which this unfavourable situation is due to external influences, such as deteriorating terms of trade and the closing of the Beira corridor, or to the design of the early adjustment programmes. At the same time, it is apparent that early structural adjustment policies failed to address the underlying problems of the agricultural sector, particularly those stemming from past over-reliance on, and over-protection of, the estate sector. It is reasonable to conclude, therefore, that current debt service problems are attributable to both inclement external influences and the sequencing of adjustment-related reforms. In this respect it is noticeable that, since the introduction of SAL III, there has been a shift in emphasis towards more sector-specific reforms.

(b) Budget deficit and State corporations

The growth of government deficits to substantial levels in relation to GDP necessitated the mobilization of domestic revenue and more stringent control of public expenditure. The tax schedule was reorganized, many personal allowances were eliminated and marginal tax rates increased. The objective of increasing the proportion of revenue from taxes on incomes and company profits was not noticeably fulfilled, however. Attempts to control government expenditure met with some success, although reductions occurred primarily in development rather than recurrent expenditure, where the high salary component and the political implications of reducing the number of government employees raised apparent problems. The development budget was, to a great extent, financed by aid flows.

The objective was both to dampen and restructure demand, and this was only partially achieved. As a proportion of GDP, consumption changed little throughout the period, although there was some shift from government to private consumption. The main impact of austerity measures fell on investment, and particularly on private investment, with savings showing no particular trend. A related aim of the programme was to introduce greater control over monetary growth, and in particular over the rate of domestic credit expansion. This was largely unrealized apart from the initial reversal of trend over the early part of the decade. Although nominal interest rates have risen, except in 1985 they have remained negative in real terms. The rate of inflation fell in 1982 and 1985, but rose dramatically to 25 per cent in 1987.

Malawi's fiscal problems have been aggravated by the financial problems of the parastatals. These companies have not been able to service their debts and the Government, which guaranteed their foreign debt, incurred substantial costs in meeting their interest and amortization payments.

As a consequence of the conditions attached to SAL III, a two-pronged programme of institutional reform was drawn up. The first component related to the financial restructuring of ADMARC. Previous studies of Malawi's key development institutions, carried out under SALs I and II, had identified

ADMARC's financial problems as being primarily caused by over-investment in illiquid equity capital, over-diversification out of agricultural sector investments and poor performance of its chosen portfolio. Since mid-1987, in an effort to restore its financial viability, the Corporation has pursued a programme of asset rationalization with the aim of achieving a smaller, more profitable and less illiquid core portfolio.[60]

SAL III also included a complementary revision of crop trading operations, with the primary objective of increasing marketing efficiency through allowing private traders to compete with the Corporation. An improvement in ADMARC's financial position was to be achieved through reducing the number of its buying points, closing down the smallest 20 per cent. Private traders were to be allowed to operate under licence, and export licences were to be available at the discretion of the Ministry of Trade, Industry and Tourism. Private trader activities would be monitored through a licensing system.

From the beginning, the liberalization has been fraught with difficulty. Many of the problems are the result of inadequate planning and impact analysis and the lack of a clear concept of ADMARC's future role. At the same time, the problems do not provide a critique of liberalization *per se*; rather, they point to difficulties in implementation.

(c) The agricultural sector

The agricultural sector in Malawi is characterized by a clear-cut distinction between the large-scale estate sector and the smallholder sector. The former has, since the mid-1960s, enjoyed considerable subsidization and preferential access to resources and markets. It enjoys a legal monopoly in production of the superior types of tobacco, and a virtual monopoly of tea and sugar production. The expansion of the estate sector has been the linchpin of government agricultural policy since 1965. Although there are significant obstacles to change in this sector, it is recognized that the present low land utilization rates reflect a misallocation of resources.

The economic crisis of the early 1980s manifested itself within the agricultural sector - in stagnating production, declining food security and falling agricultural export earnings, the latter caused by a deterioration in international terms of trade for Malawi's traditional export crops. The recovery programme therefore addressed the need for increased and diversified agricultural exports by means of producer price incentives and, for the estate sector, an export credit facility; the restructuring of ADMARC and the liberalization of domestic trade in agricultural commodities; and the removal of the fertilizer subsidy. There were also proposals, as part of SAL III, to review estate expansion, to provide an estate credit and extension service, and to review the land tenure system.

The impact of economic recovery programmes on the agricultural sector has been diverse. In the estate sector, the principal influence has been through devaluation and trade liberalization. Being primarily engaged in export crop production and responsible for their own marketing and input supplies, estate producers have benefited from higher producer prices in terms of domestic currency and more liberal access to foreign exchange and therefore imported inputs. They have also benefited from a continuation of the cheap labour policy previously pursued by the Government, which contributes greatly to Malawi's comparative advantage in export crop production. The sector is affected by management problems and low levels of productivity, however, and one of the principal stumbling-blocks for the reforms has been the limited extent to which these benefits have been reflected in output growth. Moreover, estate production has been liable for export taxes on an *ad valorem* basis for some time, and rates have recently been increased as part of the macroeconomic measures designed to reduce the size of the government deficit.

In the smallholder sector, because of ADMARC's dominant role in price setting and marketing activities, devaluation and external trade liberalization have had relatively little influence. These reforms inevitably affect policy decisions concerning producer price levels. ADMARC's other policy objectives, including the safeguarding of national food security and the protection of rural incomes, have not been notably successful and there is a serious deterioration in nutritional standards in most of the country.

The high price responsiveness of smallholder agriculture in Malawi is well documented, although it is usually manifest in changes in cropping pattern rather than increases in overall production. This is primarily due to resource constraints which limit the opportunities for raising productivity, either of land or of labour. The influence of relative price changes is therefore profound. In order to boost export earnings, under SAL II relative

[60] See Pryor (1987) for a review of ADMARC's functions.

price shifts were initiated in favour of smallholder cash crops such as cotton, groundnuts, pulses and burley tobacco. Because of the unacceptable decline in the production of food crops that ensued, however, this policy has since been reversed.

Relative changes in the price of inputs as well as of products have also occurred. With significant increases in the real price of fertilizers as a result of the SAL III Fertilizer Subsidy Removal Programme, fertilizer-using crops (maize) became much less profitable in comparison to unfertilized crops (groundnuts). This four-year programme was introduced in 1986, in line with the general move towards increased cost recovery. However, the programme has since been suspended indefinitely. At the same time, sharp increases in the landed costs of pesticides for tobacco and cotton added to production costs for these crops.

Reference must also be made to the liberalization of agricultural marketing in 1987, which cannot fail to have a substantial impact on smallholder markets. At present there is insufficient evidence on the nature of any resulting changes.[61] Nonetheless, it is likely that the impact will be significant. In particular, liberalization will affect the regional distribution of product markets; less profitable remote locations have been abandoned by ADMARC and, since they have never been attractive to private traders, a marketing vacuum has occurred. It follows that an increase in subsistence production would be expected in these areas. This will influence both the regional distribution of income and, through the reduction in production of marketable surplus, national food security.

(d) Human capital and basic needs

Social services in general, and the health sector in particular, have historically received relatively low priority in Malawi, and social indicators are low. Current policies now give increasing attention to the social services sector. The elements of Malawi's structural adjustment programmes with a potential direct impact on the health service are those promoting reductions in the government budget deficit and cost recovery in the service provision. To date, the latter has not been implemented. Government development expenditure on health actually increased from 0.89 per cent of the total in 1979 to 2.98 per cent in 1987, while recurrent expenditure remained roughly constant as a proportion of the total. In fact, over the period 1979-1987, the latter increased as a proportion of GDP from 1.24 per cent to 1.60 per cent. It must be pointed out, however, that the overall government budget has been pruned as a result of macroeconomic reforms, so these proportions mask a decline in absolute expenditure. In addition, the real value of nominal expenditure per capita has been eroded by inflation.

Education was also given relatively low priority in the government budget in the past. Illiteracy rates remain high, particularly in the rural areas. During the adjustment period, development expenditure has been protected from budgetary cuts and teachers have been excluded from public sector employment cuts, although this may not have been enough to maintain facilities in the face of a rapidly growing school age population. Education's share of the recurrent budget declined from 12.7 per cent in 1979 to 9.3 per cent in 1987, although development expenditure increased from 6.1 per cent to 9.8 per cent over the same period. Given the historical neglect of the sector, coupled with the proposals to increase school fees as part of the cost recovery programme, it appears likely that the opportunity cost of primary education make this even less accessible to large sections of the population.

The central issue with regard to the provision of basic needs concerns the ability of households, particularly rural households, to achieve some measure of food security. For a large proportion of rural families, this is reflected in the extent to which off-farm activities provide them with adequate resources to purchase sufficient food. It is estimated that between 75 per cent and 95 per cent of rural households dependent on off-farm earnings are unable to acquire sufficient income for this purpose. As a result, Malawi's rural population has a poor average level of nutrition, and nutritional deficiency is a principal contributing cause of a dominant fraction of preventable mortality.

In so far as the recovery programme can be said to influence this situation, it should be noted that increases in the real price of maize, occurring at a time when traditional methods of family support are breaking down, and when the problem of inadequate alternative income-earning opportunities has not been addressed, can only add to the number of "at risk" households. In fact, while the incidence of seasonal malnutrition may be declining, permanent stunting, caused by inadequate food intake over a prolonged period, appears to be increasing.

[61] See, nevertheless, Kandoole *et al* (1987).

(e) Public infrastructural investment and maintenance

A key platform of the post-Independence Government has been the uniform development of all three regions of the country and the removal of spatial imbalances through investment in transport infrastructure. Accordingly, the transport sector has traditionally received as much as 30 per cent of the government development budget. Funds have been used to extend the road network into the Northern Region and other previously isolated areas and to increase the proportion of tarred road. The relative importance of transport expenditure in the government budget has not changed significantly as a result of the economic reform programme, remaining at around 30 per cent of development expenditure, and 3 per cent of recurrent expenditure.[62]

Being an export-oriented, land-locked country, Malawi is heavily dependent on international trade, and cheap and reliable external transport links are consequently essential to the economy. The cutting of supply routes through Mozambique has disrupted Malawi's external trade and proved very expensive. Thus, the structural adjustment programme includes funding for the creation of a "Northern Corridor" route to the Tanzanian coast which will upgrade the Lake Malawi ports, improve the road system through northern Malawi to the United Republic of Tanzania and create bonded port facilities at Dar es Salaam. This route will not be completed for some years, however, and other investments in transport infrastructure will consequently be limited by the need to reduce development expenditure in line with the reduction in the budget deficit.

4. Conclusions

Malawi's economic reform programme has progressed through a number of discernible phases, each with its own key objectives. SAL I focused exclusively on the principal macroeconomic indicators, while later loans had broader objectives that recognized the importance of institutional support, and accordingly included provisions for sector policy reviews, export credit facilities, transport infrastructure and an estate extension service. Thus, it is apparent that there has been a gradual broadening of the reform programme objectives.

To a great extent, the problems that beset the Malawian economy at the outset of the adjustment process still remain, in spite of the fact that the environment for implementing such a package of measures has been relatively conducive, with little basic change of economic policy required and a central Government committed to it. Consequently, shortcomings in performance reflect weaknesses in package design and unfavourable external factors rather than implementational failures. GDP growth has faltered since 1985, monetary growth continues unabated, and the key external imbalance has not been brought under control.

There are considerable difficulties associated with attempting to attribute causality to events that have shaped the Malawian economic performance. It is realistic to assume, however, that external factors, particularly declining world commodity prices and higher transport costs due to disrupted international transport routes, have been highly significant in inhibiting Malawi's return to growth, as has the influx of refugees from Mozambique, exacerbating existing strains on scarce resources. Furthermore, major constraints arise from the poor natural resource endowment and the weak linkages between the largest sector, the small-scale agricultural sector and the wider economy. The limited achievements of policy and institutional reform must be viewed in the context of these deep-seated constraints to economic diversification.

Export industries, both primary and agro-processing (the latter accounting for two thirds of manufacturing industry), have clearly benefited from devaluation. At the same time, shortcomings in the adjustment approach adopted can be identified in a number of areas, such as the following:

- policies relating to private sector development;
- subsidy policy;
- policies to promote growth in the small-scale agricultural sector, e.g. in respect of credit and extension packages and land distribution;
- the pace of reform, which has tended to limit the potential benefits derived from the programme. For example, retail price de-control and foreign exchange allocation revision have proceeded more slowly than the implementation of demand management measures designed to promote private sector expansion. This de-coupling has limited the ability of the manufacturing sector to respond to the changing structure of incentives.

[62] Malawi Government, *Statement of Development Policies, 1986-96.*

Two sections of the population have experienced an unambiguous deterioration in their economic position during the adjustment period. The recovery programme stipulated the de-control of non-agricultural prices coupled with wage restraint. The objectives were to encourage private sector growth while maintaining a competitive export sector and control over the domestic wage bill. As a result the purchasing power of wage earners has been seriously eroded in real terms. In addition, many part-time farm households, lacking access to suitable support services and restricted in resource access, remain unable to produce the more remunerative commercial crops. They have consequently been faced by a deterioration in their food security position, as the combined purchasing power of their activities has declined in the context of a rising maize price.

D. Nepal

1. *Introduction*

Nepal, a land-locked country with a land area of 147,187 sq. km, is endowed with few natural resources. After more than three decades of development efforts, per capita income stood at $170 in 1988. About 94 per cent of the country's 18 million inhabitants in mid-1988 lived in the rural areas, with a significant number distributed sparsely in the inaccessible hills. Rapid population growth (2.7 per cent per annum) has resulted in a deteriorating land/man ratio, cultivation of sub-marginal land and over-exploitation of forest resources. Agriculture dominates the economy, providing 60 per cent of GDP, 90 per cent of employment and 75 per cent of exports. Traditional agriculture is primarily rainfed; irrigation facilities cover only 15 per cent of arable land and hence agricultural output is highly vulnerable to weather uncertainty. Supplies of fertilizers, seeds and pesticides are both irregular and expensive. Weak producers' incentives coupled with inadequate agricultural research and extension services are responsible for low productivity in agriculture. Manufacturing industry, dominated by small and cottage enterprises, contributes about 5 per cent of GDP and employs only about 4 per cent of the labour force. The small size of the domestic market, instability in the supply of raw materials and stiff competition from imports adversely affect capacity utilization in most industries.

Nepal's export base is small, consisting mainly of agricultural and semi-processed products with merchandise exports comprising 5 per cent of GDP (rice, pulses, jute, leather, handicrafts and, more recently, garments and handknotted woolen carpets). The country's dependence on imports for consumption, current production and investment is substantial. More than half of the external trade is with its neighbour, India. The country shares a long and open border with India, is separated from sea routes, and is influenced in many respects by the developments in the Indian economy. Gross fixed investment is around 19 per cent of GDP, of which a quarter is financed by foreign aid.

The country's difficult terrain, its land-locked status and meagre natural resource base have combined to make the task of improving the living standards of the Nepalese people an especially onerous one. About 43 per cent of the people are below the poverty line, with about 68 per cent in the hills and Terai regions living in absolute poverty. Lack of employment opportunities in the hills has accentuated out-migration in recent years. Malnutrition is widespread, particularly among children, and in general people are inadequately protected against diseases. The low level of human resource development in Nepal is mirrored in low life expectancy (46 years), a high infant mortality rate (139 per 1000 live births) and an adult literacy rate of 26 per cent.

2. *The adjustment programme*

Nepal launched a stabilization/adjustment progamme in 1985, the background to this being the severe internal and external imbalances experienced by the country in the early 1980s. Real GDP growth rate fell from 8.3 per cent in 1980/81 to 3.8 per cent in 1981/82 and became negative in 1982/83. Severe drought followed by floods in the Terai regions reduced the agricultural surplus and the

output of agro-based industries. Nepal's export earnings suffered substantial shortfalls, receipts dropped to $115.4 million in 1981/82 and to $81.9 million in 1982/83 from $134.4 million in 1980/81. Against this, import payments rose sharply. Increased import payments, coupled with the deterioration in the terms of trade and falling tourist receipts, widened the current account deficit to 5 per cent of GDP in 1982/83 as compared to 1 per cent in 1980/81. In the absence of adequate concessional assistance, the current account deficit had to be financed by depleting international reserves, which came down to 2 months' imports in 1982/83 from 8 months' in 1980/81.

The budget deficit grew rapidly as revenue collection lagged behind expenditures, rising from 1.6 per cent in 1980/81 to 12.3 per cent of GDP in 1982/83, which was financed by borrowing from the banking system. Monetary expansion in the face of supply shortages accelerated the rate of inflation, which averaged 13 per cent during 1980/81 to 1982/83, significantly higher than the previous record. In view of the continued worsening of the internal and external imbalances, the Government adopted a stabilization programme in 1985. In November of that year, the Nepalese rupee was devalued by 14.6 per cent. The Government entered into a stand-by arrangement (SDR 18.65 million) with IMF on 23 December 1985 in support of the programme. A Structural Adjustment Loan (SDR 40.9 million) was negotiated with the World Bank in 1987, the programme period covering 1986/87 to 1990/91. This was aimed at providing complementary resources to suppport the stabilization programme and to stimulate growth and structural changes over the medium term. In 1987/88, the Government entered into an arrangement with IMF for a Structural Adjustment Facility (SDR 26.1 million) during the period 1987/88 - 1989/90. The World Bank approved a second Structural Adjustment Loan (SAL-2) for Nepal in June 1989 (SDR 46.2 million).

The structural adjustment programme has been aimed at sustaining a higher GDP growth rate over the medium term while curbing inflation and reducing the current account and fiscal deficits. To these ends, demand management policies were to be complemented by growth-oriented structural measures. These measures included:

- mobilization of domestic savings to support an increase in investment;
- financial reforms for improving efficiency in resource allocation;
- promotion of growth in agriculture and preservation of forests;
- stimulation of non-agricultural growth through a more liberal industrial and trade regime;
- reform of public sector enterprises and parastatal bodies; and
- improvement of the implementation of development projects.

3. *Implementation of adjustment policies*

The authorities in Nepal have been vigorously pursuing the implementation of adjustment measures. The progress made thus far is summarized below.

(a) Demand management measures

(i) Fiscal measures

To raise fiscal revenues, the Government implemented a revenue mobilization programme, designed with IMF technical assistance, to widen the tax base and rationalize the tax structure. Significant tax measures were introduced in the period 1985/86 - 1987/88. These included changes in the coverage and rates of existing taxes, the introduction of new taxes, the rationalization of tariff rates and improvements in tax administration. Emphasis was placed on taxing domestic output and income, and specific rates were converted into *ad valorem* rates to enhance tax elasticity. In 1988/89 budget, measures were introducted to increase the share of direct taxes (maximum income tax rates were reduced, a new flat rate corporation tax was instituted, and changes were made in rates on urban houses and land). Major tariff reforms were introduced in 1987/88 and 1988/89 to eliminate discrimination against export industries and to provide more effective protection for domestic import-substituting industries. A system for auctioning commercial import licences was introduced, with the premium accruing to the exchequer. To improve the tax administration, the Government took steps to introduce a unified revenue service and to train tax officials. Specialized revenue units were set up for collection purposes in the Kathmandu area and for major companies and small taxpayers. To increase non-tax revenues, cost recovery measures were strengthened in irrigation, forestry, transport, electricity, telephones, education and health.

The Nepalese authorities adopted measures to contain the growth of recurrent budget expenditures by a salary freeze for public servants, restrictions on new recruitment and the reduction of subsidies. A 25 per cent salary increase was granted in 1988/89 after a three-year freeze. Nevertheless, increased outlays on transport operations and maintenance as well as on health and education, and growing debt service payments, exerted pressure on the revenue budget. The Government took several steps to improve project implementation and speed up the disbursement of project aid. A "core programme" covering about 70 per cent of the development budget was identified and programme budgeting procedures applied to all projects in agriculture, irrigation, forestry, power and transport. Measures were also taken to expand the authority of project managers over spending decisions and to set up monitoring units in the line ministries. An apex trouble-shooting unit was established in the Cabinet division to review implementation issues and resolve inter-agency problems.

In order to improve the financial performance of the public enterprises (there are 60 fully State-owned enterprises), the prices of sugar, paper, fertilizers, gas, electricity, transport and petroleum products were raised progressively. The enterprises were given autonomy in fixing prices and in management decisions. Limits on public enterprise borrowing from the banking system were established. Detailed action plans to revamp the Nepal Food Corporation, Agricultural Input Corporation, Oil Corporation and National Trading Limited were initiated. Furthermore, 45 industrial units were earmarked for closure or divestiture.

(ii) Monetary policy

Since 1985/86 net credit to the Government and the public enterprises was reduced and more credit provided to the private sector. The Nepal Rastra Bank maintained the real interest rate at positive levels to attract domestic savings into financial assets. From May 1986, the commercial banks were allowed to set interest rates freely. Two new foreign commercial banks were established in the adjustment period and the number of bank branches rose to 406 in 1986/87 from 241 in 1979/80. A credit recovery plan for collection of arrears on agricultural and industrial loans was launched, and the Government provided subsidies to public sector corporations to clear their overdue loans. A financial sector reform programme has been initiated recently, aimed at improving the management of commercial banks and establishing a secondary market in government securities.

(iii) External sector

The Nepalese rupee was devalued by 14.6 per cent in November 1985, and since May 1986 a flexible exchange rate pegged to a basket of currencies has been maintained. The rupee was depreciated by 27 per cent altogether between 1984/85 and 1987/88. In conjunction with devaluation, import liberalization measures were implemented (quantitative restrictions were replaced by an import tariff, and an open general licensing system introduced), and exporters were given incentives (tax rebates, duty drawback, bonded warehouse facilities) to respond to international market opportunities. In order to prevent any significant increase in debt service obligations, the authorities are keeping strict control over the contracting or guaranteeing of non-concessional borrowings.

(b) Sectoral policies

(i) Agriculture and forests

The reform measures in agriculture have focused on:

- improving production incentives;
- enhancing the availability and reliability of inputs;
- developing irrigation; and
- strengthening key institutions for research and extension.

The retail and wholesale distribution of fertilizers is now carried out by private dealers and co-operatives (Sajhas). Fertilizer subsidization is limited to sales in the isolated parts of the country by the Agricultural Inputs Corporation. In order to provide growers' incentives, procurement prices for paddy, sugarcane, cotton and tobacco were raised periodically. The practice of levy was eliminated. There is now no subsidy on public distribution of foodgrains in the Kathmandu area. Measures were also taken to improve the seed supply by encouraging greater private sector participation. A National Agricultural Research Co-ordination Committee was set up for co-ordinating agricultural research activities.

The deforestation of hill forests has created serious environmental degradation. In

order to reverse the trend of deforestation, the Government imposed a ban on exports of timber and launched programmes for the reforestation of protected forests, afforestation with community participation and the resettlement of families who had encroached upon the forested hills. The Nepalese Government has also undertaken a number of projects to develop the country's vast hydropower potential in order to alleviate the shortage of fuelwood, particularly in the hill areas.

(ii) Manufacturing industries

The New Industrial Policy, announced in October 1987, is outward looking, providing incentives for exports as well as import substitution activities. The Government has assigned an expanded role to the private sector in industrial development by liberalizing investments and imports, and reforming tariffs.

Sanctioning procedures have been greatly simplified and trade liberalization measures introduced. A Pass Book system for importing industrial raw materials has been introduced since 1986/1987. Industries with less than 20 per cent import requirements are now able to obtain industrial licences automatically. Moreover, an open general licensing system has been introduced for a large number of products.

The Government simplified the tariff structure in 1987/88 and introduced a uniform effective protection rate of 30 per cent for all industries. Tariff rates have been rationalized into three categories; 5-15 per cent for industrial raw materials according to the degree of processing, 20-30 per cent for consumer goods and 30-50 per cent for luxury goods imported from countries other than India. The authorities have offered various incentives for promoting the expansion of exports, especially of manufactured commodities, in recent years.

(iii) Energy

Nepal's energy development programme consists of: (i) the expansion of electricity generation capacities by harnessing its vast hydro-electric potential; (ii) the reforestation of protected forests and afforestation in the hill areas with community participation; (iii) the development of alternative sources of energy by installing biogas plants, and the sale of solar collectors and heaters, and; (iv) exploration for petroleum and coal with donors assistance.

In the Seventh Plan period, two major hydro-electric projects are scheduled to be commissioned. In addition, a number of small-sized power plants are being installed in the private sector. Prices of electricity and petroleum products have been increased to mobilize domestic resources. Steps are also being taken to reduce system loss in power distribution through technical improvements and the collection of power bills.

4. Impact of the adjustment programme

Nepal's output recovery and growth performance were better in the 1980s compared to previous decades, with real GDP growing by 4.9 per cent per annum between 1979/80 and 1987/88. However, GDP growth fluctuated widely, reflecting the fragile state of agriculture (agricultural output declined in 1982/83 and the growth rate was barely 1 per cent in 1986/87 owing to drought). In the 1980s, Nepal ceased to be a net exporter of foodgrains, and per capita domestic production of foodgrains declined between 1980 and 1987. Increased prices of fertilizers, seed and pesticide shortages, and ineffective support prices, coupled with insufficent investment in irrigation, were major constraints on agricultural productivity. Manufacturing industries performed relatively better, as value added increased by about 10 per cent per annum from a low base. New capacities in several import-substituting industries (cement, sugar, paper, synthetic textiles) and increased exports of garments and woolen carpets kept industrial output buoyant, while import liberalization and tariff reform assisted industrial growth and diversification.

The budget deficit averaged 10 per cent of GDP in the adjustment period as compared to 12 per cent in 1982/83. Contrary to the assumptions of the adjustment programme, gross fixed investment as a ratio of GDP has remained constant at 19 per cent over the adjustment period. In this period, the country's aid dependence increased, reflecting the limited success of the efforts to mobilize domestic savings. Furthermore, the demand management policies seem to have had little success in reducing the rate of inflation. Given the country's dependence on imports, the devaluation of 1985 was immediately transmitted into the price level and the inflation rate spiralled to 15.9 per cent in 1985/86, and little progress was made in bringing it down in the subsequent years. The disruption of bilateral trade and transit routes with India after the lapse of the

trade and transit treaties between Nepal and India in March 1989 has aggravated the inflationary situation.

Little progress was made in reducing the current account deficit, which stayed at 5 per cent of GDP during the adjustment period. Import payments grew by an annual average rate of 20 per cent, with IMF and World Bank programme assistance, as compared to an export growth rate of 9 per cent between 1980/81 and 1987/88. Moreover, export receipts continued to remain highly unstable though non-traditional items (ready-made garments, woolen carpets, leather shoes) registered an impressive growth in recent years. The share of grants in aid disbursement dropped sharply from 60 per cent in 1979/80 to 32 per cent in 1987/88, and consequently Nepal's indebtedness increased in the 1980s. Debt service payments on medium- and long-term borrowings rose to 7.8 per cent of the export of goods and services in 1987/88 as compared to only 1.6 per cent in 1980/81.

The distributional impact of the adjustment measures is less clear. Poverty and malnutrition are widespread and persistent. Only 86 per cent of calorie requirements are currently supplied. Calorie deficiency is further complicated by protein and iodine deficiencies. Prices of foodgrains rose during the adjustment period as a result of an increase in producers' prices and the removal of the subsidy on public distribution. New employment opportunities lagged behind the growth of the labour force when there was already a backlog of unemployed. Despite the Basic Needs Programme, there has been very little increase in public expenditures on health, education or the water supply. The health services are short of drugs, essential supplies and health workers. A high dropout rate, low enrolment of girls and shortages of teachers and technical manpower are major weaknesses of the educational system. The Nepalese people living in the hills and rural areas have extremely limited access to safe drinking water supply as well as to transport and communication facilities.

5. *Conclusions*

The Nepalese Government seems to have made serious efforts to implement various reforms under the adjustment programme. These steps have enhanced the efficiency of resource allocation and use, and improved development planning and policy. The programme was more successful in reducing the budget deficit than in promoting stable growth or balance of payments viability. The continued high rate of inflation casts doubt on the effectiveness of devaluation and other demand management measures, given Nepal's heavy dependence on imports and its land-locked situation. The success of Nepal's outward-looking strategies is conditioned by the goodwill of its transit neighbours. The country's long-term agricultural development (for satisfying both basic needs and export development), the solution of energy shortages, and environmental protection would require major investments in irrigation, hydropower generation and distribution, and afforestation. Industrial growth and diversification will largely depend on raising the purchasing power of the Nepalese people and protecting domestic infant industries. The satisfaction of basic needs and human resource development will need increased budgetary expenditures on education, health and drinking water supplies. In view of the country's geographical disadvantages and lack of a domestic entrepreneurial class, it is questionable whether strong emphasis on privatization will support the country's long-term development and provide minimum standards for the poor.

E. Niger

1. *Introduction*

Niger is, in many ways, typical of countries of the Sahelian region of Africa: the economy is dominated by rainfed agriculture, with the resource base being reduced by soil erosion and the extension of cultivation and grazing into areas of low fertility, which facilitates the occurrence of drought. Population is rising rapidly and, in most years, outstripping increments to national output, particularly with respect to food. These two factors have led to an increasing reliance on food imports, both

concessionary and commercial. The manufacturing sector is in turn poorly developed; a substantial proportion of it, and of the "modern" industrial sector in general, is owned by the State and has sometimes been inadequately managed. At the same time, a unique influence on the Niger economy is provided by the uranium industry, which grew very rapidly during the latter half of the 1970s, and on which the economy has become very heavily dependent.

The background to the economic crisis that precipitated the adjustment programme is a reflection of the indeterminacy of international commodity markets, and the vagaries of climate. The early years of the 1970s witnessed prolonged and damaging droughts which, in turn, led to a steep decline in GDP, largely as a result of falling agricultural production. By the middle of the decade, the weather pattern became more favourable, engendering a recovery in agricultural output. In addition, the international demand for uranium rose significantly following the oil price increases and world interest in diversification of energy sources, leading to rising prices and expanding production. As a result, the economy experienced a period of rapid growth during the latter half of the decade, when public sector deficits and the level of imports rose substantially.

The development of the economy became uni-dimensional, however, with economic activity largely dependent on the mining sector. Eighty per cent of export earnings and 41 per cent of government revenue were in fact derived from uranium production. Consequently, the contribution of the "modern" sector to GDP grew from 27 per cent in 1975 to 36 per cent in 1980. The rapid increase in government revenues had its counterpart in a swift rise in investment, which attained 17 per cent of GDP by 1981-1983, two thirds of this being public sector investment. There was a concomitant increase in both the number and the activities of public sector enterprises, with parastatals accounting for 11 per cent of GDP and 50 per cent of public sector employment by 1980. At the same time, the continued difficulties encountered in attempts to raise agricultural output meant that rising domestic incomes were reflected in growing demand for food imports. These imports were primarily of rice and wheat, commodities not produced in Niger, and the consequent shift in consumption patterns added to the problems of import dependence experienced when the downturn in economic activity occurred.

Both the clemency of rainfall patterns and the buoyancy of international commodity markets proved to be short-lived, and the period of growth came to an abrupt end at the close of the 1970s, leaving the economy dangerously exposed, with an overstretched public sector, a large budget deficit and an increasing current account deficit. The magnitude of these problems was exacerbated by a severe drought in 1984, leading to a fall in food production of between 30 per cent and 40 per cent, the decimation of cattle numbers and a further deterioration in environmental conditions. A rapid escalation in cereal imports resulted. An additional disruption to economic activity was caused by the closing of the Nigerian border. This further impaired agricultural productivity, since 40 per cent of the country's population live in the Frontier Zone, agriculturally the most productive.

Thus, after a period of positive growth during the 1970s (1.5 per cent), GDP declined in three consecutive years, i.e. 1982-1984, including a 14.7 per cent decline in 1984 alone. The deterioration in the terms of trade following the decline in world demand for uranium is reflected in a fall in the 1980-based index to 63.5 in 1981 and to 60.6 in 1985. Production of uranium dropped by 22 per cent between 1981 and 1983, and gross investment declined from an average of 17 per cent of GDP in 1981-1983 to an average of 9 per cent in 1984-1986. In addition, by 1983 the current account deficit had grown to 9 per cent of GDP, and, although imports fell, the external debt rose to 55 per cent of GDP, with a debt service ratio of 33 per cent (from 22 per cent in 1980). The economic deterioration had a direct impact on the growth and performance of parastatal activity: by 1983, the losses of these enterprises had increased to 13 per cent of government revenue, and they were responsible for almost half the external debt, the latter underwritten by the Government.

2. *The adjustment programme*

Negotiations with IMF began in 1983. Four stand-by credits were negotiated between 1983 and 1987, followed by two Structural Adjustment Loans (covering the period November 1986 - November 1989) from the World Bank, and Agricultural Sector Assistance from USAID (March 1985 - August 1987). A SAF arrangement with the IMF became effective in November 1986, and was replaced by an ESAF arrangement in December 1988. IMF credits were conditional on the reduction of the budget deficit by dampening aggregate demand, and on a move towards external account equilibrium by a mixture of expenditure reduction and switching. As devaluation is not a national

policy option (Niger is a member of the CFA franc zone), the main emphasis fell on the former. In addition, there was a slowdown in government borrowing and more rigorous control over foreign loans. Fiscal revenue was increased, primarily through the introduction of indirect taxes. Recurrent spending was curbed and development spending reduced. Public sector wages were frozen and non-wage expenditures reduced. An important target was thus to achieve greater fiscal prudence through better management of public resources.

The first phase of the Structural Adjustment Programme (SAP) ran from 1986-1988 and involved a credit of SDR55 million. A supplementary sectoral adjustment programme was specifically aimed at public enterprise reform. An additional assistance of $29 million from USAID covered the period from March 1985 to August 1987 and was designed to promote agricultural productivity. In many respects the objectives of IMF and SAP credits overlapped, although the latter maintained the additional and familiar objectives associated with longer-term supply-side reform of improved resource allocation, reduced parastatal activity and lower public sector employment.

The first Structural Adjustment Loan (SAL) aimed at facilitating the following measures:

- Restrictions on recurrent spending, with greater emphasis on goods and services and limitations on the salaries and wages component. In this respect, cost recovery measures were to be introduced;
- The establishment of a three-year investment programme over the period 1985/86-1987/88 favouring both productive sectors as well as the rehabilitation of the economic and social infrastructure; this programme was subject to annual reappraisal;
- Increased mobilization of fiscal resources, including the introduction of VAT from January 1986 and measures involving higher petrol taxes and customs duties for a range of products. In addition, a series of studies was launched to review the investment and commercial practices of public sector enterprises;
- The introduction of, or increase in, cost recovery measures, particularly with regard to education, health and irrigation;
- Improved management of the external debt. This included an undertaking not to contract debts at a rate of interest greater than 5 per cent, or with an amortization period of less than 12 years.

The second SAL was focused on the Programme of Adjustment for the Public Enterprise Sector (PASEP). This aimed at reducing the role of government in economic activity through privatization of public enterprises and incentives to the private sector, coupled with fostering greater efficiency within the remaining parastatals particularly through the promotion of competition.

Incentive policies aimed at the private sector involved a gradual liberalization of market prices covering a wide range of goods and services. The number of products subject to price control was reduced, and prices of commodities still produced by the public sector were raised to cover costs, with the exception of petroleum. The private sector was encouraged to participate in all areas of economic activity hitherto subject to public sector monopoly. In this respect, restrictions on the formation of private companies were repealed. In addition, the administered price regime for imported products was simplified and product coverage reduced. In May 1987, the system of supplementary tariffs was dismantled.

In 1985, parastatals had been provided with a new legal status enabling them to determine their objectives and to clearly demarcate roles and responsibilities, thus clarifying previously cloudy, and therefore inhibitive, terms of reference. It was further decided, following the recommendations of reviews carried out prior to the second phase, to privatize, either totally or partially, 16 public enterprises, and to suspend the activities of four others, including the formal credit institution Caisse Nationale de Crédit Agricole (CNCA). Three were integrated within the Ministry of Animal Resources, and, of the remaining 25, ten were subject to a programme of restructuring. The latter enterprises were those responsible for 95 per cent of financial losses and 45 per cent of public sector production.

Initiatives influencing the rural sector stemmed both from USAID and the SAPs. They involved the following principal measures:

- The reorientation of investment programmes towards small-scale projects using local resources and promoting group participation. In addition, an emphasis on the vetting of projects, current and future, to avoid recurrent cost problems. Priorities were to be given to projects promoting the exploitation of comparative advantage, and the protection of the environment;
- The second area of reform involved cereal marketing policy. The parastatal hitherto responsible for cereal pricing and marketing, OPVN, had its role reduced through

the liberalization of its marketing activities as early as 1984, i.e. prior to the USAID loan and SAPs. Marketing monopoly was further reduced by opening the importation of cereal imports to the private and co-operative sectors. The number of OPVN selling points were simultaneously reduced, as were the parastatal's stockholding activities. Official prices for the two main cereal staples, millet and sorghum, were abolished, and, in the case of domestic market saturation, cereal exports were liberalized. Only in certain zones, mainly pastoral, were the retail activities of OPVN permitted to continue;

- With regard to cost recovery measures, a programme to reduce or abolish subsidies was introduced. For example, subsidies on agricultural equipment were discontinued and those on fertilizers gradually reduced to a maximum of 15 per cent of the final price;
- Reform of the rural credit system was a further objective. Following the suspension of the CNCA, a new system of formal rural credit provision is under review;
- Co-operatives were promoted, particularly with regard to marketing, storage and input supply.

In other sectors, particularly those concerned with the provision of social services, the accent of the reforms was on cost recovery and expenditure limitation. In the health sector, para-medics, traditional medicine and the growth of rural sanitation were given priority, and limitations placed on hospital expenditure and the import of medicines. User charges were introduced for hospital treatment. Cost recovery measures were also introduced in education, together with an attempt to stimulate the development of private sector schools.

In general, the record of programme implementation in Niger is reasonably satisfactory, particularly with regard to reform of the public enterprise sector and liberalization of economic activity. Parastatal activity has been substantially reduced, cost recovery initiatives introduced, and the corresponding measures taken to encourage the private sector. Attempts to cut public spending have been only moderately successful, however.

3. *Impact and evaluation of recovery programmes*

After a strong decline in GDP during 1984, largely as a result of the drought, the economy recovered through agricultural expansion in 1985-1986, due to an improvement in rainfall patterns. This growth was insufficient, however, to return GDP to previous levels. Real GDP declined by 2.2 per cent during 1980-1986, as compared to a positive, 1.5 per cent, growth in the 1970s. To a large extent this was due to the continuing shocks experienced by the Niger economy, notably with regard to the depressed world uranium market.

(a) The external balance

The achievements of stabilization policy are illustrated by the reduction in the budget deficit from 7.1 per cent to 3.6 per cent between 1983 and 1986, and in the current account deficit from 9.7 per cent to 2.3 per cent. Inflation over the same period also decreased significantly. The sharp contraction in domestic demand consequent upon government deflationary measures, coupled with the decline in the mining sector and the impact of falling unofficial trading activities with neighbouring Nigeria, are the primary causes of these movements towards economic equilibrium. Official exports have not grown, and unofficial exports may well have declined in response to the rising value of the exchange rate vis-à-vis the Nigerian naira.

In fact, providing incentives to export production by using conventional adjustment measures is not a viable option in the case of Niger. The country is a member of the West African Monetary Union (UMOA), which has a common currency, the CFA franc, the latter being convertible at a fixed parity with the French franc. Consequently, independent currency devaluation is not possible. Even so, the official CFA rate fell against a basket of currencies over the 1981-1987 period, partly reflecting the depreciation of the French franc.

More possibilities for reform exist with regard to other factors influencing trade, particularly those associated with tariffs. In this respect, the tariff system remained intact until as recently as 1987 and increased in severity over the relevant period, although some liberalization has been introduced. A system of quantitative controls is still maintained, however, and although export taxes were simplified in 1986 and measures were taken to encourage re-exports, the efforts made so far to liberalize trade have been limited.

(b) Budget deficit and State corporations

The reorganization of government receipts and expenditure, a condition for IMF credits, undoubtedly achieved a degree of internal balance. Government borrowing and domestic credit expansion were also brought under control. With regard to revenues, these were raised through the imposition of indirect taxes and higher import taxes, while tax rates on income and profits remained unchanged. Thus, there was an increase in the regressivity of the tax system. This reorganization had other repercussions as well, being very unequal in sectoral impact, as discussed below. The deflationary impact of spending cuts also fell disproportionately on the various sectors of society.

With regard to the reorganization of public sector activity, 12 of the 16 proposed privatizations have been accomplished. The reduction of monopoly activity with regard to public sector marketing activities has proceeded expeditiously. Privatization, whether partial or total, coupled with measures to liberalize the market frameworks of the remaining parastatals, have contributed to an improvement in the competitive framework, although it is too early to judge the extent to which the public and private sectors have each responded to such initiatives. As noted above, a special World Bank loan was utilized to remove parastatal losses from the government budget.

(c) The agricultural sector

The dominant influence on the agricultural and food sector in Niger has been, and remains, the rainfall pattern. Observations over the last decade and a half show price response to be very weak, with year to year fluctuations in output primarily determined by the extent of the rains. Marketed output has varied between 10 per cent and 20 per cent of total production, although unrecorded transactions at the village and the border levels may be much higher.

As noted above, food imports have expanded persistently since the droughts of the early 1970s, and food aid has grown as a proportion of these imports. This reliance on imported foods other than local millet or sorghum for staple cereal intake has created a dependence which is likely to prove hard to reduce. Certainly, none of the policy changes that have affected the rural sector appear, as yet, to have had any influence in this respect.

(d) Other productive sectors

In assessing the changes that have taken place in recent years, it is apparent that sectors have differed substantially in the way they have been able to respond to the prevailing economic climate. The rural sector, which includes both small-scale farmers and graziers, is predominantly undercapitalized and subject to the vagaries of the weather. Value added fell during the adjustment period, as did the sector's contribution to GDP. Within the urban sector, the "modern" sub-sector primarily produces non-tradeables such as buildings and public services (although some textiles and household utilities are also produced). Its record has been one of stagnation: a fall in value added followed by a slight recovery. Only in the urban informal sector has growth been unequivocal.

The "modern" or formal sector is significantly dependent on imports of intermediate goods from industrialized countries, which have increased in price as a result of the depreciation of the CFA franc against major world currencies. Part of the sector's output, on the other hand, is sold domestically (e.g. textiles, soap, household equipment) and competes directly with imports from Nigeria, which have fallen in price as a result of the relative appreciation of the CFA franc vis-à-vis the naira. The extent of this squeeze on profitability is demonstrated by comparing the parallel exchange rate of the naira with the official rate for industrial suppliers. The ratio fell by 63 per cent between 1981 and 1987. As regards the urban informal sector, its inputs are primarily of domestic origin, and not therefore subject to the same pressures as those of the "modern" sector. In addition, informal producers are better able to adjust costs in response to rising input prices, nominal wages being more inflexible in the formal sector and production more capital intensive.

(e) Human capital and basic needs

The principal impact of the structural adjustment programme in this respect has been through the reduction in public spending. Social spending on education and health care has fallen in real terms, but less than for other categories of spending. It is still too early to evaluate the impact of cost recovery measures in education and the change of emphasis in health spending, or even the extent to which these policy changes have been implemented.

The main social consequences of the programme have been felt through changes in relative prices and revenues. In this respect, as discussed below, there has been a shift in relative incomes from rural to urban, and within the urban sector from formal sector incomes to those in the informal sector.

4. Conclusions

The overall implications of the adjustment programme are difficult to gauge, either for the economy as a whole, or for individual groups and sectors within the country. This is due, in part, to the recent nature of many of the policy initiatives, and the time it takes for structural measures to permeate through the economy. It should be remembered that the adjustment programme (i.e. as compared to stabilization) did not begin until 1986.

It must be said that the stabilization measures undertaken at the instance of the IMF have undoubtedly been instrumental in reducing the extent of the disequilibrium in both the external account and the government budget. In addition, the breakup of some public sector monopolies and general rehabilitation of the public sector, although still incomplete, present a more solid foundation for future growth. With regard to the long-term aims of the adjustment programme, such as renewed growth through an expansion of the private sector, it is apparent that, in the case of Niger, there are two powerful influences both of which are currently beyond governmental control, namely, the rainfall pattern and the limited price-responsiveness of the domestic economy.

The recent economic problems of Niger are similar to those besetting many small economies in that they stem, in part at least, from dependence for foreign exchange earnings on a single, highly unpredictable international market. The enormity of the task of export diversification in such a resource-poor country (with the exception of uranium), is compounded by the type of policy inhibitors discussed above. Hence the need for complementary measures to facilitate structural adjustment.

F. Sudan

1. Introduction

Sudan is the largest African country, with an area of 2.5 million square kilometres. With a population of 22.6 million (1986) it has a very low population density of only 9 persons per sq. km.

The Sudanese economy is essentially agrarian. Approximately 30 per cent of the land is cultivable and agriculture comprises the main source of income. It contributes about one third to total GDP and provides a livelihood for 70 per cent of the population. The share of the manufacturing sector in total GDP is only about 7 per cent while its share in total employment is about 4 per cent.

Domestic and external factors have contributed to the economic crisis in Sudan. In 1972, the Government embarked on a large-scale programme of public sector development, which included the nationalization of a large part of the productive and commercial sectors of the economy. With generous external assistance, public investment rose by nearly 50 per cent in real terms between 1972/73 and 1973/74, and doubled again the following year. Economic growth averaged approximately 10 per cent from 1973/74 to 1975/76.[63] A Six-Year Plan for Economic and Social Development was begun in 1978. The Plan provided for an investment of $7.4 billion to be financed almost equally from domestic and external resources. The average annual growth of GDP was projected at 7.5 per cent for this period. Agriculture was to grow at 6.5 per cent and industry at 9.5 per cent.

The increase in investment led to high aggregate demand and an increase in imports. After 1976, foreign aid declined, but expansionary government policies were continued through domestic borrowing. This contributed to high rates of inflation. The trade

63 The fiscal year ends on 30 June.

deficit, which had been a negligible 0.2 per cent of GDP in 1972-1973, grew to 8.0 per cent in 1977-1978. During this period, ambitious projects were launched. The economic climate worsened in 1978/79 as the budget deficit increased to 9.5 per cent of GDP. The debt situation had become a major concern with payment arrears accumulating rapidly, and inflation was already at 26 per cent in 1978/79. GDP declined by the record amount of 12. 9 per cent. The Government was therefore obliged to reassess its development strategy and policy objectives. Between 1978 and 1985, the Government implemented several stabilization and adjustment programmes supported by IMF and the World Bank.

2. *The adjustment programme*

In 1978, a stabilization and adjustment programme was formulated with the assistance of IMF and the World Bank, and included an agricultural rehabilitation programme. The principal elements of this programme were (1) to maintain GDP growth at 4 per cent per annum; (2) to reduce inflation from 26 per cent in 1978/79 to 10 per cent by 1981/82; (3) to reduce the current account deficit on the balance of payments from $451 million in 1978/79 to $400 million by 1981/82; (4) to eliminate approximately $200 million in external payment arrears and to improve debt management; (5) to restore output in the agricultural irrigated subsector and restructure its cost recovery system; (6) to introduce an Export Action Programme; (7) to prepare a realistic Three-Year Public Investment Programme; and (8) to increase government revenues to 18 per cent of GDP.

The Sudanese Government implemented several important policy measures in support of those targets. They included substantial and frequent adjustments in the exchange rate, increases in nominal interest rates, substantial price increases spread over the years for several commodities (petrol, sugar, wheat, cotton seed, cement) and reform of the price structure in the irrigation sub-sector.

However, despite these measures, the economic situation continued to deteriorate. Substantial divergences between proposed programme targets and actual performance led eventually to a deadlock with IMF in 1981. It took almost a year before the new IMF stand-by agreement of February 1982 was approved, following the implementation of a comprehensive package of exchange rate, fiscal and credit policy measures. Later that year, the Government issued a comprehensive policy document,[64] which formed the basis for discussion at the World Bank Consultative Group Meeting in Paris in January 1983.

Three annual PPED documents were formulated (PPED I,II,III), each containing a Three-Year Public Investment Programme (TYPIP). The goals and proposed policy measures were basically the same in each case and were not substantially different from those of the previous adjustment programmes. The specific goals of the Government were to: (i) maintain per capita GDP; (ii) increase agricultural output by an annual average of 5 to 6 per cent; (iii) expand cotton exports by 7 per cent annually; and (iv) increase capacity utilization in the industrial sector.

In agriculture, the programme measures were confined to the irrigation sector with the object of increasing cotton production and improving the cost recovery system in the individual schemes. Rain-fed agriculture accounts for almost two thirds of the total contribution of agriculture to GDP, yet there were very few proposals for its rehabilitation or improvement under the adjustment programmes. A target of 5 to 6 per cent in total agricultural production was set, but there were no specific measures to ensure its achievement. In the industrial sector, the PPED stressed capacity utilization in the sugar and textile industries in which major investments were made. Textiles were given substantial relief in the form of subsidized raw cotton and debt relief. For the Public Non-Financial Enterprises (PNFES), efforts made under the adjustment and stabilization programme to improve performance included price increases and reduction or abolition of subsidies. The Government was also to privatize several enterprises and close those with persistent losses. This, however, was not carried out under the formal IMF and World Bank Agreements.

In the areas of demand management and resource mobilization, the objectives were to: (i) reduce the share of consumption in GDP by 4 per cent between 1981/82 and 1984/85; (ii) eliminate the current budgetary deficit by 1984/85; (iii) increase total government revenues to 16 per cent of GDP and tax revenues to 12 per cent of GDP by 1984/85; and (iv) reduce inflation to 10 per cent by 1984/85.

In the external sector, the major objectives of the PPED exercise were to: (i) reduce the current account deficit as a percentage of

64 "Prospects, Programmes and Economic Development, 1982/83 - 1984/85 (PPED)".

GDP; (ii) obtain sufficient capital assistance and debt relief to close the overall balance of payments gap; and (iii) prevent the re-emergence of external payment arrears.

3. Performance since 1978

(a) Budgetary situation

Despite the above measures, the economic situation continued to deteriorate. Under the stabilization and adjustment programmes, improved budgetary performance was projected through higher taxation and reduced current expenditure. In 1978/79 government revenue constituted 16.6 per cent of GDP and despite various measures it declined to 10.5 per cent in 1986/87. This was caused mainly by a shift in the composition of imports in favour of essential consumer goods which carry low duty rates. Tax collection capability has also deteriorated. Furthermore, non-tax revenue declined from 2.2 per cent of GDP in 1978/79 to 1 per cent in 1985/86. This was mainly due to a deterioration in the performance of public sector enterprises. In 1986/87, non-tax revenues rose sharply to 3.7 per cent of GDP as a result of improved collection of dividends and interest from public enterprises as well as fees and charges from the public. Government expenditure, which stood at 22.1 per cent of GDP in 1978/79, increased to as much as 26.6 per cent in 1984/85 and has since remained around 23.5 per cent. The increase in government expenditure resulted from a large government bureaucracy, the conflict in the south which is draining government resources and an increase in interest payments on foreign loans.

(b) Balance of payments situation

During the stabilization and adjustment programmes there was a decline in the current account deficit and a temporary improvement in the overall external balance. The composition of exports has remained essentially unchanged. Export earnings consistently declined from a level of $795 million in 1981 to $445 million in 1985 (and to $266 million in 1987). Imports have been steadily reduced since 1981, with 1985 imports totalling $573 million. This represents 35 per cent of the total value of imports in 1981. Owing to the drastic reduction in imports, the trade deficit fell dramatically from $845 million in 1981 to $128 million in 1985.

(c) Agricultural production

In the agricultural sector, the rehabilitation programme was confined to the irrigation sub-sector, mainly to increase cotton production. There has been varied success in the agricultural sector. During the 1970s, cotton production dropped from 1.2 million bales to 0.6 million bales. This trend was reversed in the early 1980s when production exceeded one million bales during the period 1982/83-1984/85. This exceeded the IMF and World Bank target fixed under the adjustment programme. The increase was due to several factors including (i) rehabilitation of irrigation schemes; (ii) the introduction of individual accounts on the tenants; (iii) substantial increases in procurement prices; and (iv) increased cultivation of medium staple cotton with higher yields than traditional staple cotton.

(d) Industrial production

In the industrial sector, efforts to increase sugar production have been successful thanks to the joint venture Kenana sugar factory which became operational in 1980/81 and whose capacity utilization has steadily increased over the years. Capacity utilization in textiles, most of which is in the private sector, has remained low despite incentives such as concessional prices on cotton and cheap credit. In general, industrial productivity is low and heavily dependent on imports. Thus, the immediate task for the Government would be to improve the capacity utilization of viable industries, keeping in mind that (i) the industries should not be import dependent; and (ii) they should cater to the needs of the large majority of the population. The obvious choice on this basis would be industries that process agricultural goods and those which provide inputs for agriculture or are related to agricultural equipment and machinery. Such an industrial policy would contribute to a reduction in regional disparity and promote greater economic activity throughout the country, thereby lessening the excessive dependence on the capital, Khartoum, which currently accounts for 70 per cent to 80 per cent of total industry in the country.

4. Conclusions

In retrospect, the stabilization and adjustment programmes implemented with the assistance of IMF and the World Bank during the period 1978-1985 did not succeed in any of their major objectives. The basic premise that devaluation would improve export performance, although the current account balance had declined due to the drastic reduction of imports, was unfulfilled. The period was marked by a vicious cycle of inflation and devaluation. The balance of payments situation remained adverse, and the Government could not pay most of the maturing loans and interest on past debt. The capitalization of unpaid repayment obligations and new borrowing led to increasing debt liability, with total debt amounting to $9.4 billion by the end of 1986. In 1985/86, the interest ($559 million) and the principal ($654 million) together were more than two and a half times total commodity export earnings in that year.

Between 1985 and 1988 the Government of Sudan was in continuous consultation with IMF and the World Bank with a view to preparing a structural adjustment programme taking into account previous experience. However, no agreement was reached and Sudan was declared ineligible for IMF facilities. Moreover, the net disbursements of aid to Sudan, which reached a peak in 1983, declined substantially in subsequent years. Contrary to expectations, the production structure of the country did not undergo any significant changes and the capacity of the country to finance future developments from its own resources deteriorated. Sudan is currently embarking on a new phase of development with the formulation of a Four-Year Programme for Salvation, Recovery and Development (1988/89-1991/92), and enhanced international support is needed to supplement and encourage national efforts for recovery.

G. United Republic of Tanzania

1. Introduction

The United Republic of Tanzania is poorly endowed with natural resources, less than 10 per cent of its land is under cultivation, and, except in the north and south-west, it has only one rainy season, which limits farmers to one planting, and annual variations in rainfall. It has some natural gas reserves, and minerals contribute less than 1 per cent of GDP.

Per capita GDP was around $270 in 1980. Output and exports were undiversified during the 1970s: agriculture contributed 40 per cent to 45 per cent of GDP and over 85 per cent of employment. Agricultural exports accounted for nearly 80 per cent of foreign exchange earnings from exports of goods and were dominated by coffee and cotton, which alone represented 36 per cent in 1980. In 1980, manufacturing contributed just 11 per cent of GDP, and most manufacturing output and exports were of processed agricultural products. For all these reasons, the economy was highly vulnerable to "external shocks", especially the prices of oil imports, and of coffee and cotton exports.

However, as the provision of basic needs was a priority, the country surpassed the LDC average for all social indicators except secondary school enrolment in 1975-1980. Its adult literacy rate was 79 per cent (1980) compared to an LDC average of 27 per cent.[65]

Between 1977 and 1981, the United Republic of Tanzania suffered a 30 per cent fall in its terms of trade; combined with drought and declining export prices and production, this led to economic collapse. Imports and manufacturing output fell, fiscal revenue dropped by 25 per cent, the Government increased borrowing from banks to make up for the shortfall, and money supply and inflation soared.[66]

Global recession continued to depress the economy in spite of efforts to adjust in 1982-1985. Demand for the country's main

[65] UNCTAD, *Least Developed Countries - 1987 Report*, tables 57B C D E; on adult literacy, see World Bank, *World Development Report 1983* and UNESCO, *Statistical Yearbook* (1985 and 1986).

[66] For a further discussion see Green (1986), Ndulu (1987) and Stewart (1986).

exports fell, reducing export earnings, and the terms of trade deteriorated. By 1986, the economy improved owing partly to low oil prices in 1985-1987, and also to a temporary rise in coffee prices.

In 1982-1985, the country implemented its Structural Adjustment Programme (SAP) without IMF support, although negotiations with IMF proceeded throughout this period. After introducing many IMF-style measures in 1984-85, the Government negotiated with IMF in August 1986 an 18-month stand-by credit of SDR64.2 million, in support of the Economic Recovery Programme (ERP).[67] The World Bank provided a multi-sector rehabilitation credit in 1986, and in 1987 agreement was reached on a three-year arrangement under IMF's Structural Adjustment Facility.

2. *Adjustment programmes*

The two adjustment programmes, the SAP and the ERP, contained many similar elements. Both aimed at restoring balance in the current account and the budget, reducing inflation and restarting growth. Both relied on additional foreign exchange inflows to finance imports (preferably in the form of import support aid), which would boost capacity utilization, rehabilitate infrastructure and supply exporters with inputs. Both were intended to increase fiscal revenue and cut growth in expenditure by limiting the agricultural marketing authorities' losses, reducing public sector employment and shelving some projects. Both aimed at restrictions on money supply by reducing government borrowing from banks to finance the budget deficit, and reduce inflation.

The SAP included several measures similar to those in the ERP, notably devaluation by 12 per cent in 1982, 20 per cent in 1983 and 37 per cent in 1984; real agricultural producer price rises in 1984 and 1985; and the ending of maize subsidies in 1984. However, several ERP measures were more dramatic: faster devaluation of the shilling, increases in agricultulral producer prices and lower growth in minimum wages; and cuts in money supply growth and the budget deficit. The ERP also contained additional measures: rises in consumer prices of price-controlled goods; and in nominal interest rates.

Nevertheless devaluation was gradual under the ERP; consumer prices were not completely decontrolled; minimum wages were not frozen; user charges on social services were confined to secondary education; budgetary and monetary targets were softened; and reforms of parastatals were postponed, subject to study.

3. *The impact of programmes*

The SAP appears to have been ineffective in filling the country's *current account* gap. It had two strategies for doing so: attracting additional (especially fast-disbursing) aid flows, and increasing agricultural exports. As discussed below, aid was not forthcoming without an IMF-agreed programme. Agricultural exports collapsed in 1985, owing to a fall in world prices and in coffee production. In spite of incentives, non-traditional exports also fell during 1981-1985, following shortages of imported inputs and spare parts. Import compression was resorted to in order to reduce the external imbalance, but was highly inappropriate given the "import strangulation" of the economy that already existed.

The ERP had three additional strategies: devaluation and incentive prices to increase agricultural exports, and debt rescheduling to reduce debt service. Devaluation was the main issue preventing an IMF agreement in 1982-1986.[68]

Agricultural exports, however, did not rise as expected. The lifting of International Coffee Organization coffee export quotas and higher prices pushed up exports in 1986, and record production helped cotton in 1987, but other crops were hindered by transport and processing problems, and the decline in world prices. There was some diversification as regards manufactures and other non-traditional exports, and a marked improvement in tourist revenues. Yet total exports remained below the levels reached in the years 1980 to 1982. Over the first two years of the ERP, exports fell short

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67 Two IMF programmes in 1979-1980 and the domestically-designed National Economic Survival Programme (NESP) of 1981 were too short-lived to have any major effect on the economy. For details on the NESP, see Green (1983). For more details on the 1979-1980 IMF programmes, see Ndulu (1987), pp.26-27; Biermann and Fontaine (1987); and Green (1983) and (1986) (p.43). The 1980 programme broke down after three months, owing to breaches of the targets for government borrowing from banks, and external payments arrears.

68 See Green (1983), Jamal (1986), Malima (1984), Singh (1986).

of targets and imports had to be cut to meet the current account target.

The SAP relied on cuts in expenditure of 16 per cent between 1983 and 1985 (the original target was a cut of 22 per cent). Due to higher aid flows, the ERP was able to budget for higher real expenditure in each of its first two years, without raising the deficit, thus enabling greater investment to be made in all productive sectors.

Neither programme included large-scale measures to reform *parastatals*. Under the SAP there were marginal layoffs and improvements in auditing procedures until 1984-1985, when responsibility for purchasing agricultural produce was transferred from parastatals to co-operatives. Until 1988, the ERP continued the gradual liberalization of marketing and attempted to reduce agricultural marketing parastatal losses, but reform of industrial, mineral and financial parastatals was delayed.

Agriculture was the key sector in both programmes. The SAP relied on increasing inputs, improving marketing, payment and collection procedures and extension services; and raising budget expenditure on agriculture (from 13 per cent in FY1982/83 to 28 per cent in 1984/85). Producer price levels were maintained in real terms for food crops, and raised only marginally for export crops, reflecting a new emphasis on the latter. Inputs were given priority in foreign exchange allocation, but distribution problems reduced their availability. Export crops were, however, discouraged by appreciation of the real exchange rate, though export duties were removed during 1980-1984.[69] Co-operatives faced the same transport and input supply problems as parastatals and were unable to boost export supply.

The effects of the SAP on production are difficult to separate from those of drought in the 1981/82, 1982/83 and 1983/84 seasons. Subsequently more rain, real producer price increases, and improved availability of inputs brought higher maize production, substantially reducing food imports. By 1985/86, these factors (and advance notice of price rises for 1986/87) were beginning to increase marketed production of export crops, notably cloves, coffee and cotton. But the foreign exchange shortage hampered transport and processing, making export volumes insufficient to offset lower world market prices, and agricultural export earnings fell sharply.

The ERP has relied much more on producer price increases. The effects on production levels were mixed: 1986/87 saw record food production, enabling 60,000 tons of maize to be exported. However, in 1987/88 and 1988/89 maize and rice production fell by 10 per cent annually. Larger price rises in 1987/88 were outweighed by drought in some areas, which occurred again in 1988/89. Export crops responded more favourably, subject to input availability and collection/payment speed. However, price incentives have elicited a substantial supply response in individual crops only, not an aggregate response throughout the sector.

The ERP initially did not give priority to investment in fertilizers, seeds, technology, irrigation, replanting and extension. By 1988, aid was being channelled to increase fertilizer production; a World Bank loan for agricultural research is likely to improve seed and technology use; and sub-sector loans were boosting replanting. However, there had been no overhaul of extension services. Programmes to combat soil erosion and deforestation in order to maintain the cultivability of the land have also been a low priority. This is of great importance, since all those factors are crucial to the long-term growth of agriculture and of the economy as a whole.

Agriculture was also held back by the poor performance of manufacturing in producing inputs and processing farm products. Manufacturing output in real terms fell by 26 per cent between 1980 and 1986, and its contribution to GDP dropped by one third. Under the SAP, real output and capacity utilization fell in every year except 1984; by 1985 many industries had closed and capacity utilization was at only 20 per cent to 30 per cent. This decline was largely due to shortages of spare parts, fuel and capital equipment as a result of lower imports. In 1987, under the ERP, import allocations for intermediate goods rose dramatically: real output grew by 4.2 per cent (though the contribution to GDP continued to fall) and capacity utilization rose.

The impact of the programmes on *health and education* may be judged by the percentage of government expenditure, and by changes in social indicators. During the first two years of the SAP (1982-1984), expenditure was maintained at the levels of 1980/81, i.e., 11 per cent to 12 per cent for education and 4.5 per cent to 5 per cent for health, helped by the maintenance of aid to these sectors by donors. But in 1984-1986, expenditure on education fell to 7 per cent, and on health to 3.5 per cent. In

69 See Addison (1986) and Stewart (1986).

the first year of the ERP, outlay on education fell to 6.4 per cent, and on health to 3.7 per cent. While actual figures for 1987/88 were not available, the overall budget estimate for social infrastructure dropped from 19.3 per cent to 14.6 per cent, indicating 24 per cent cuts in spending.[70]

Health and education indicators (such as the the under-five mortality rate, life expectancy, and adult literacy) have not yet reflected these spending cuts. But the infant mortality rate, which is more immediately sensitive to adjustment, appears to have risen. Other negative effects have been falls in primary and secondary school enrolment; these are due to declining expenditure on education, parents keeping children out of school to work on farms, and to secondary school fees introduced as an ERP measure in 1987 and increased in 1988.[71]

Other *basic human needs* have suffered under adjustment programmes. Nutrition indicators, such as the percentage of infants with low birth-weight, or the percentage of malnourished children, have worsened in the 1980s, but the daily per capita caloric supply has improved. Access to safe drinking water has continued to rise each year, but at a slower rate than in the 1970s, and government expenditure devoted to water and housing has fallen in real terms. These indicators have varied with drought and food production, without any trend.

Infrastructural investment and maintenance suffered from both low import levels and inadequate budgetary allocations for rehabilitation and maintenance under the SAP. Transport and communications deteriorated owing to lack of fuel and spare parts, undermining the distribution of inputs and collection of produce from rural areas. Industry faced frequent shortages of power and water supplies, as a result of drought and fuel scarcity.

The ERP brought about a substantial improvement in foreign exchange availability and an increase in development expenditure. Donors launched large new packages of aid for infrastructure: 55 per cent of the 1987 increase in aid commitments went to infrastructure, raising its share of commitments from 22 per cent in 1986 to 31 per cent in 1987. Road transport was the highest priority: a special consultative group meeting was held in December 1987, and pledged $350 million for trucks, spare parts and roads. Few effects were seen by 1988 - agricultural inputs and exports were still constrained by transport problems, but bottlenecks are expected to decline by 1990-1991. Much of the finance went into rehabilitating main roads, rather than building feeder roads for rural areas; funds were too scarce for both.

Neither the SAP nor the ERP achieved a balance between short-term stabilization and longer-term growth. The SAP introduced few sectoral reforms except in agricultural input distribution, produce collection and marketing, and parastatal auditing procedures, though these were main elements of the programme. The ERP had not undertaken any major reform of the industrial or financial sectors by 1989: both sectors were the subject of study and various action programmes being drawn up.

However, in general implementation of the ERP has proceeded relatively satisfactorily. GDP, which grew on average by less than one per cent during 1980-1985, experienced a growth of 3.8 per cent in 1986, 3.9 per cent in 1987 and 4 per cent in 1988. The Government has been successful in meeting its short-term fiscal targets containing the budget deficit and limiting net borrowing from the banking system.

An important reason for the greater success of the ERP in achieving its targets was its ability to attract more external finance. Under the SAP private and official capital inflows decreased. Bilateral and multilateral net ODA disbursements fell from $707 million in 1981 to $506 million in 1985, and net flows of all official capital fell to $569 million in 1985. The Government failed to achieve its aim of increasing the percentage of aid devoted to import support. In 1984-1986, many donors began to withhold aid until agreement had been reached with IMF. There were few signs of any private capital inflow, apart from small amounts under import licences.

In contrast, net disbursements of ODA increased substantially under ERP. ODA disbursements reached $690 million in 1987 and $888 million in 1988. However, disbursements were still well short of projected levels in 1986/87 and to a lesser extent in 1987/88. Among the aid announced in 1988 was $22 million from the World Bank and Sweden to refinance World Bank interest payments; the United Re-

[70] See The Economist Intelligence Unit, *Country Profile* ...., 1988, based on Bank of the United Republic of Tanzania figures. The World Bank (*World Development Report 1988*) and UNICEF (*The State of the World's Children*, 1988 and 1989 editions) give slightly higher figures as estimates for 1985/86 and 1986/87, but the trend is similar.

[71] See UNICEF, *op. cit.*, and World Bank, *op. cit.*, and EIU Country Reports (1988 and 1989).

public of Tanzania was one of eight sub-Saharan countries to benefit from this initiative.

There is little evidence so far that the ERP has increased private flows. Foreign companies have, however shown interest in privatized management of hotels, tea estates and oil prospecting.

Under the SAP, debt service of about $550 million was paid between 1982 and 1985. The rest was allowed to fall into arrears in order to maintain import levels, and external payments arrears grew rapidly, from $100 million at end-1981 to $750 million at end-1985; as a result, premiums on trade credit grew between 40 per cent and 50 per cent. Between 1980 and 1988, OECD countries cancelled debts of over $500 million and waived $25 million of interest, and the United States allowed $25 million to be repaid in local currency.[72]

The ERP agreement with the IMF allowed Paris Club rescheduling: in 1986, the Paris Club rescheduled $1.1 billion (including $400 million in arrears) over ten years. In 1988, the United Republic of Tanzania became one of the LDCs to benefit from the Toronto agreement on new Paris Club terms.

4. Conclusions

Both the SAP and the ERP have illustrated that adjustment takes a longer time than originally projected, and have failed to achieve many of their aims. The ERP's relatively greater success remains fragile: it is both vulnerable to drought and world commodity price trends, and dependent on large amounts of external aid and debt relief.

The ERP has relied so far largely on short-term measures, except in agriculture and infrastructure. Many of the harsher adjustment measures (budget cuts, price decontrol, agricultural marketing reforms) began already under the SAP.

The next stage of adjustment will be far more problematic. If the programme is to be genuinely appropriate to long-term growth and sustainable development of the country, it will have to tackle major structural problems. Foremost among these will be sustained agricultural supply increases, which will require large investment in fertilizer, seeds, oxen, tractors, feeder roads, irrigation and extension. The risk of environmental degradation must also be avoided.

Exports of traditional agricultural products are unlikely, without sustained world price increases, to solve the current account problem or to provide sustained growth independent of aid. For this reason, domestic food self-sufficiency and export diversification into non-traditional agricultural, industrial and mineral products, and tourism, will need more emphasis.

More broad-based reforms of the parastatals seem to be required. The top priority would appear to be agricultural marketing, but reorganization of industrial and financial sectors must follow.

Sustainable adjustment would also require more emphasis on health, education, other basic human needs and the distributional consequences of the programme. Without this, growing unemployment, a deterioration in human capital and a decline of living standards for the poorest in rural and urban areas cannot be avoided. Efforts to restrain population growth will also need to be strengthened.

The final requirement for sustained adjustment with growth will be further increases in debt relief, and in commitments and disbursements of aid, as increases in long-term private capital are unlikely, except in specific attractive sectors, at least over the short to medium term.■

[72] For debt service and cancellations see UNCTAD, *Least Developed Countries - 1988 Report*, *op.cit.* For external payment arrears, see Green (1986).

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ARRANGEMENTS IN SUPPORT OF STRUCTURAL ADJUSTMENT IN LDCs IN THE 1980s
(As of June 1989)

Amounts in SDR millions (unless otherwise indicated)

	IMF arrangements				World Bank loans and credits								
	Stand-by/Extended Facility		SAF/ESAF		Structural adjustment				Sector and other adjustment				
						Amount				Amount			
Country	Period	Amount	Period	Amount	Date of approval	IDA	African Facility [1]	Co-financing [2]	Date of approval	IDA	African Facility [1]	Co-financing [2]	Purpose
Bangladesh	July 1979-July 1980	85											
	Dec.1980-Dec.1983 [3]	800 [4]											
	March 1983-Aug. 1983	68.4											
	Dec. 1985-June 1987	180	Feb. 1987-Feb. 1990	201.3					June 1987	147.8			Industrial policy reform
Benin			June 1989-June 1992	21.9					May 1989	33.5			Private sector development
Burkina Faso									Feb. 1985	13.8		France/CCCE (3.2); Netherlands (2.1) F.R.of Germany/GTZ (2); France/FAC (1.7)	Fertilizers
Burundi	Aug. 1986-March 1988	21	Aug. 1986-Aug. 1989	29.9	May 1986	13.2	14.3	Japan (11); Switzerland (7.7);					
					June 1988	64.9		Japan (18.1); F.R.of Germany (6); Saudi Arabia (2.9)					
Central African Republic	Feb.1980-Feb.1981	4											
	April 1981-Dec. 1981	10.4 [5]											
	April 1983-April 1984	18 [6]											
	July 1984-July 1985	15											
	Sept.1985-March 1987	15 [7]			Sept.1986	12.3	14						
	June 1987-March 1988	8	June 1987-May 1990	21.3	June 1988	28.9		ADF (25)	July 1987	11.5		Saudi Arabia (2); Japan (6)	Cotton sector

(For source and notes see end of table.)

ARRANGEMENTS IN SUPPORT OF STRUCTURAL ADJUSTMENT IN LDCs IN THE 1980s
(As of June 1989)

Amounts in SDR millions (unless otherwise indicated)

	IMF arrangements				*World Bank loans and credits*								
	Stand-by/Extended Facility		*SAF/ ESAF*		*Structural adjustment*				*Sector and other adjustment*				
						Amount				*Amount*			
Country	*Period*	*Amount*	*Period*	*Amount*	*Date of approval*	*IDA*	*African Facility* [1]	*Co-financing* [2]	*Date of approval*	*IDA*	*African Facility* [1]	*Co-financing* [2]	*Purpose*
Chad			Oct. 1987-Oct. 1990	21.4									
Ethiopia	May 1981-June 1982	67.5											
Equatoria Guinea	July 1980-June 1981	5.5											
	June 1985-June 1986	9.2 [8]											
			Dec. 1988-Dec. 1991	12.9									
Gambia	Nov. 1979-Nov. 1980	1.6											
	Feb. 1982-Feb. 1983	16.9											
	April 1984-July 1985 [10]	12.8 [9]											
	Sept. 1986-Oct. 1987	5.1	Sept. 1986-Sept. 1989	10.9	Aug. 1986	4.3	9.9	United Kingdom (4.5); African Development Fund (9)					
			Nov. 1988-Nov. 1991	20.5 (ESAF)	June 1989	17.9							
Guinea	Dec. 1982-Nov. 1983	25 [11]											
	Feb. 1986-March 1987	33 [12]			Feb. 1986	22.9	15.6	F.R. of Germany (9.4); Japan (27.8); France (26.7); Switzerland (4.8)					
	July 1987-Aug. 1988	11.6	July 1987-July 1990	40.5									
					June 1988	47.0		ADF (12); Japan (11.2)					

(For source and notes see end of table.)

ARRANGEMENTS IN SUPPORT OF STRUCTURAL ADJUSTMENT IN LDCs IN THE 1980s
(As of June 1989)

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	IMF arrangements				World Bank loans and credits								
	Stand-by/Extended Facility		SAF/ ESAF		Structural adjustment				Sector and other adjustment				
						Amount				Amount			
Country	Period	Amount	Period	Amount	Date of approval	IDA	African Facility [1]	Co-financing [2]	Date of approval	IDA	African Facility [1]	Co-financing [2]	Purpose
Guinea-Bissau									Dec.1984	10.1		Switzerland (Swf 4.5 mn.)	Economic recovery programme [13]
			Oct. 1987-Oct. 1990	5.3	May 1987	8	4	Switzerland (5.2); Saudi Arabia (3.2); African Development Fund (11.3); IFAD (5.3)					
					May 1989	18							
Haiti	Oct. 1978-Oct. 1981 [15]	32.2 [14]											
	Aug. 1982-Sept.1983	34.5											
	Nov. 1983-Sept. 1985	60 [16]											
			Dec.1986-Dec.1989	30.9					Mar.1987	32.8			Economic recovery
Lao People's Dem.Rep.	Aug. 1980-Aug. 1981	14											
Lesotho			June 1988-June 1991	10.6									
Malawi	Oct. 1979-Dec.1981 [17]	26.3											
	May 1980-March 1982	49.9 [18]			June 1981	36.7 [19]							
	Aug. 1982-	22											

(For source and notes see end of table.)

ARRANGEMENTS IN SUPPORT OF STRUCTURAL ADJUSTMENT IN LDCs IN THE 1980s
(As of June 1989)

Amounts in SDR millions (unless otherwise indicated)

	IMF arrangements				World Bank loans and credits								
	Stand-by/Extended Facility		SAF/ ESAF		Structural adjustment				Sector and other adjustment				
						Amount				Amount			
Country	Period	Amount	Period	Amount	Date of approval	IDA	African Facility [1]	Co-financing [2]	Date of approval	IDA	African Facility [1]	Co-financing [2]	Purpose
Malawi (continued)	Aug. 1983								Apr. 1983	4.6		IFAD (10.3)	Smallholder fertilizers
	Sept.1983- Sept.1986 [21]	81 [20]			Dec 1983	51.9							
					Dec 1985	28.0	37.3	F.R. of Germany/KfW (6.4); Japan/ OECF (22.6) United States/ AID (15)					
	March 1988- May 1989	13.0	July 1988- July 1991	55.8 (ESAF)									
					Jan 1987		8.4	Japan (17.7); United Kingdom (7.5); F.R. of Germany (5)	June 1988	50.6		OECF (30) USAID (25) ADF (19.5) EEC (16)	Industrial and trade policy adjustment
Mali	May 1982- May 1983	30.4							June 1988	29.4		Japan (38.7) Saudi Arabia (5.9) ADF (45)	Public enterprise sector
	Dec. 1983- May 1985	40.5											
	Nov. 1985- March 1987	22.9 [22]											
	Aug. 1988- Oct. 1989	12.7	Aug. 1988- Aug. 1991	35.6									
Mauritania	July 1980- March 1982 [24]	29.7 [23]											
	June 1981- March 1982	25.8											
	April 1985- April 1986	12											
	April 1986- April 1987	12	Sept. 1986- Sept. 1989	23.7									
	May 1987- May 1988	10			June 1987	11.7	21.4	Saudi Arabia (4.8) F.R.of Germany (2.8)					
			May 1989- May 1992	50.9 (ESAF)									

(For source and notes see end of table.)

ARRANGEMENTS IN SUPPORT OF STRUCTURAL ADJUSTMENT IN LDCs IN THE 1980s
(As of June 1989)

Amounts in SDR millions (unless otherwise indicated)

Country	IMF arrangements				World Bank loans and credits								
	Stand-by/Extended Facility		SAF/ ESAF		Structural adjustment				Sector and other adjustment				
						Amount				Amount			
	Period	Amount	Period	Amount	Date of approval	IDA	African Facility [1]	Co-financing [2]	Date of approval	IDA	African Facility [1]	Co-financing [2]	Purpose
Mozambique									May 1985	45.5			Economic rehabilitation programme I
			June 1987-June 1990	42.7					Aug. 1987	54.5	(18.6)	Switzerland (11.2)	Economic rehabilitation programme II
									May 1989	68 2			Economic rehabilitation programme III
Myanmar	June 1981-June 1982	27											
Nepal	Dec. 1985-April 1987	18.7											
			Oct. 1987-Oct. 1990	26.1	March 1987	40.9							
					June 1989	46.2							
Niger	Oct. 1983-Dec. 1984	18											
	Dec. 1984-Dec. 1985	16											
	Dec. 1985-Dec. 1986	13.5	Nov. 1986-Nov. 1989	21.4	Feb 1986	18.3	36.6						
	Dec. 1986-Dec. 1987	10.1							June 1987	46	15.4		Public enterprise sector
			Dec. 1988-Dec. 1991	50.6 (ESAF)									
Rwanda	Oct. 1979-Oct. 1980	5 [25]											
Samoa	Aug. 1979-Aug. 1980	0.7 [25]											
	June 1983-June 1984	3.4											
	July 1984-July 1985	3.4											

(For source and notes see end of table.)

ARRANGEMENTS IN SUPPORT OF STRUCTURAL ADJUSTMENT IN LDCs IN THE 1980s
(As of June 1989)

Amounts in SDR millions (unless otherwise indicated)

	IMF arrangements				World Bank loans and credits								
	Stand-by/Extended Facility		SAF/ESAF		Structural adjustment				Sector and other adjustment				
						Amount				Amount			
Country	Period	Amount	Period	Amount	Date of approval	IDA	African Facility [1]	Co-financing [2]	Date of approval	IDA	African Facility [1]	Co-financing [2]	Purpose
Sao Tome and Principe					June 1987	3.1	2.3	African Development Fund (8.5)					
Sierra Leone	Nov. 1979-Nov. 1980	17											
	March 1981-Feb. 1984 [27]	186 [26]											
	Feb. 1984-Feb. 1985	50.2 [28]							June 1984	20.3		IFAD (5.4)	Agriculture
	Nov. 1986-Nov. 1987	23.2	Nov. 1986-Nov. 1989	40.5									
Somalia	Feb. 1980-Feb. 1981	11.5 [29]											
	July 1981-July 1982	43.1											
	July 1982-Jan. 1984	60											
	Feb. 1985-Sept. 1986	22.1											
	June 1987-Feb. 1989	33.2	June 1987-June 1990	30.9					June 1989	54.2			Agriculture
Sudan	May 1979-May 1982 [31]	427 [30]											
	Feb. 1982-Feb. 1983	198 [32]											
	Feb. 1983-March 1984	170							June 1983	46.4			Agriculture rehabilitation
	June 1984-June 1985	90 [33]											

(For source and notes see end of table.)

ARRANGEMENTS IN SUPPORT OF STRUCTURAL ADJUSTMENT IN LDCs IN THE 1980s
(As of June 1989)

Amounts in SDR millions (unless otherwise indicated)

	IMF arrangements				World Bank loans and credits								
	Stand-by/Extended Facility		SAF/ ESAF		Structural adjustment				Sector and other adjustment				
						Amount				Amount			
Country	Period	Amount	Period	Amount	Date of approval	IDA	African Facility [1]	Co-financing [2]	Date of approval	IDA	African Facility [1]	Co-financing [2]	Purpose
Togo	June 1979-Dec. 1980	15 [34]											
	Feb. 1981-Feb. 1983	47.5 [35]											
	March 1983-April 1984	21.4			May 1983	36.9							
	May 1984-May 1985	19											
	May 1985-May 1986	15.4			May 1985	28.1							
					Aug. 1985		9.7						
	June 1986-April 1988	23.0											
	March 1988-April 1989	13.0	March 1988-March 1991	26.9	Mar. 1988	33.0		ADF (17.3); Japan (20.8)					
			June 1989-June 1992	46.1 (ESAF)									
Uganda	Jan. 1980-Dec. 1980	12.5											
	June 1981-June 1982	112.5											
	Aug. 1982-Aug. 1983	112.5							Feb. 1983	63.5		Italy/DCD (10)	Agriculture rehabilitation
	Sept. 1983-Sept. 1984	95 [36]											
									May 1984	47.2			Reconstruction
			June 1987-June 1990	69.7					Sept.1987	50.9	18.8	United Kingdom/ODA (16)	Economic recovery
			April 1989-April 1992-	179.3 (ESAF)									

(For source and notes see end of table.)

ARRANGEMENTS IN SUPPORT OF STRUCTURAL ADJUSTMENT IN LDCs IN THE 1980s
(As of June 1989)

Amounts in SDR millions (unless otherwise indicated)

	IMF arrangements				World Bank loans and credits								
	Stand-by/Extended Facility		SAF/ESAF		Structural adjustment				Sector and other adjustment				
						Amount				Amount			
Country	Period	Amount	Period	Amount	Date of approval	IDA	African Facility [1]	Co-financing [2]	Date of approval	IDA	African Facility [1]	Co-financing [2]	Purpose
Un.-Rep. of Tanzania	Sept.1980-June 1982	179.6 [37]											
	Aug. 1986-Feb. 1988	64.2	Oct. 1987-Oct. 1990	74.9					Nov. 1986	41.3	38.2	F.R. of Germany (17.3); Switzerland (9.2); United Kingdom (7.3)	Multi-sector rehabilitation
									Jan.1988	22.5	(26.0)	Saudi Arabia (4)	Multi-sector rehabilitation

Source: Various issues of: IMF, *Annual Report* and *Survey*; World Bank, *Annual Report* and *World Bank News*.

1 Special Facility for sub-Saharan Africa; amounts in parenthesis are expressed in millions of dollars.
2 Including special joint financing and bilateral support; amounts in millions of dollar equivalents.
3 Extended Facility arrangement, cancelled as of June 1982.
4 SDR 580 mn. not purchased.
5 SDR 2.4 mn. not purchased.
6 SDR 13.5 mn. not purchased.
7 SDR 7.5 mn. not purchased.
8 SDR 3.8 mn. not purchased.
9 SDR 10.2 mn. not purchased.
10 Cancelled as of April 1985.
11 SDR 13.5 mn. not purchased.
12 SDR 6 mn. not purchased.
13 SDR Supported by IMF (SDR 1.88 mn. purchase in first credit tranche).
14 SDR 21.4 mn. not purchased.
15 Extended Facility arrangement.
16 SDR 39 mn. not purchased.
17 Cancelled as of May 1980; SDR 20.9 mn. not purchased.
18 SDR 9.9 mn. not purchased.
19 World Bank loan.
20 Original amount decreased from SDR 100 mn. SDR 24 mn. not purchased.
21 Extended Facility arrangement; cancelled as of August 1986.
22 SDR 6.6 mn. not purchased.
23 SDR 20.8 mn. not purchased.
24 Cancelled as of May 1981.
25 Not purchased.
26 Including an increase of SDR 22.3 mn. in June 1981. SDR 152 not purchased.
27 Extended Facility arrangement; cancelled as of April 1982.
28 SDR 31.2 mn. not purchased.
29 SDR 5.5 mn. not purchased.
30 SDR 5.5 mn. not purchased.
31 Extended Facility arrangement; cancelled as of February 1982; SDR 176 mn. not purchased.
32 SDR 128 mn. not purchased.
33 SDR 70 mn. not purchased.
34 SDR 1.75 mn. not purchased.
35 SDR 40.3 mn. not purchased.
36 SDR 30 mn. not purchased.
37 SDR 154.6 mn. not purchased.

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