Economic Structural Adjustment Programme (ESAP)'s Fables II

Southern Africa Report

SAR, Vol 11, No 4, July 1996
Page 8
"Zimbabwe"

ESAP'S FABLES II

BY RICHARD SAUNDERS

Richard Saunders is SAR's Zimbabwe correspondent.

Zimbabwe's Economic Structural Adjustment Programme (ESAP), launched in 1990, was meant to herald a new era of modernised, competitive, export-led industrialisation. But despite a high-performing economy in its first decade of independence, the country now appears firmly lodged in a quagmire of mounting debt and erratic growth in the wake of five years of ESAP-mandated reforms.

In a short time, ESAP's World Bank-inspired reforms has ripped into the existing economic and social infrastructure, shifting the focus of many mass-oriented development social programs away from redistribution towards management of defined and limited, even declining, public resources. Now, as Zimbabweans await the unveiling of a follow-on, second five-year program, rising popular displeasure with ESAP has brought pressure to bear on the government and its international backers for the re-evaluation of what has proven in practice to be a treacherous model of development.

When ESAP was first introduced, the government claimed it was the only alternative to continued production bottlenecks, stagnant local demand and a worsening unemployment problem that threatened to become politically troublesome. Zimbabwean industry was an easy convert, but the country's political leadership was less easily swayed. In the 1980s, Zimbabwe had been a star performer in Africa in the provision of social services and in the reconstruction and development of its public infrastructure. Average life expectancy was on the rise; childhood mortality was down, and other measuring sticks such as the literacy rate and the technical skills capacity were encouraging. Moreover, most of this social growth was financed by government without jeopardizing relative macroeconomic stability.

But from the mid-1980s the ruling party maintained that the future development of the country would depend upon the leading participation of the local private sector and capital inflows from overseas. So it did not come as a shock when the first phases of ESAP were announced, starting with government's budget statement in July 1990. What did come as a surprise was the rapidity with which the program undermined the relative stability of Zimbabwe's social economy.

Zimbabwe's adjustment program contained the usual collection of Bank-inspired reforms - trade and currency de-regulation, devaluation of the Zimbabwe dollar, movement towards high real interest rates, the lifting of price controls, chopping of "social spending" and removal of consumer subsidies. All were standard ingredients of "liberalisation," as were the Bank's and IMF's increasing emphasis on reduction of the government deficit, civil service reform and shedding of public enterprises. And finally, there was the string of large loans and credit facilities from the Bank, the IMF and international donors, aimed at supporting the country's balance of payments and government's plans for substantial private sector infrastructural development. At the outset, it was estimated that roughly US$3 billion over five years would be needed from overseas donors to make the reforms work. Zimbabwe would spend its way into a new free market on borrowed money.

Government and its bankers said the new investment would be focused on modernizing the manufacturing sector which would enable the country to compete in international markets and earn the hard currency needed to pay back ESAP's underpinning foreign loans. An optimistic target of 5% annual growth in GDP was set by the Bank and government. Meanwhile, government fiscal restraint elsewhere, involving reduction in services, divestment of public corporations and layoffs in the government sector, would reduce the state's deficit from the usual 10% to 5% or less. The government admitted this risked higher unemployment and higher consumer prices in "the short term," but Zimbabweans were promised a rising real standard of living, long-term employment expansion and a modern, growing, internationally-competitive economy.

But in a country where local production was highly integrated and often efficient, and where a large state provided a range of quality social services, the reforms represented more peril than promise for most.

An experiment gets out of control

As it happened, neither the market reforms, nor the different measures that were meant to offset their effects on the most vulnerable, went according to plan. At the same time as parts of the Zimbabwean private sector displayed worrying signs of deindustrialization, and the public debt spiralled upwards, the standard of living of most Zimbabweans was also plummeting to levels not seen in 25 years.

The initial economic shock treatment undertaken with ESAP's launch in the early 1990s hit the business sector and ordinary Zimbabweans very hard, and the impact of these measures was greatly exacerbated by the severe drought of the early 1990s. In 1992, after two consecutive poor rainy seasons, the economy contracted by at least 7.5%, with all sectors in Zimbabwe's agriculture-based productive sector affected. At the same time, price control relaxation saw inflation explode and consumer demand shrink, by as much as 30%.

One result was a sharp decline in average real wages. It was the beginning of a trend that would see, by the mid 1990s, average real earnings fall to the lowest levels since the early 1970s. ESAP, one study concluded, was quickly bringing the Zimbabwean working class to the brink of widespread destitution. In the rural areas, the majority population was often forced to depend on government food aid. By the end of the drought in November 1992, more than half the population of the country was receiving some form of drought relief assistance from government.

However, the return of rains in 1993 did not improve the situation, making it clear that the ESAP reforms themselves were the leading factor in undermining ordinary people's standard of living. Loan agreements emanating from ESAP have stretched the country's foreign and domestic debt to unmanageable proportions. And ESAP's deficit-cutting fetish has led to the state's slashing of real per-capita social spending throughout the 1990s, and the marked undermining of local industry by government's greater - not smaller - role in one part of the private sector, financial markets. Forced to borrow heavily from local markets to finance reforms and service the deficit, government ended up distorting financial flows. Heavy public sector demand crowded-out private sector borrowing, and kept real interest rates punishingly high.

The combined outcome of chaotic fiscal policy and increased competition from imports is the development of a worrying pattern of deindustrialization, amid a pattern of spiralling government deficit and debt.

Social cuts and their consequences

The primary response to the continued government deficit and climbing debt servicing was increased pressure to cut real spending on public services, including the cost of overall government administration itself. In this regard, it soon became clear that the fine attention to technical details which were part of the economic reform process was missing when it came to devising, implementing and reforming programs involving the "social" aspects of adjustment.

Moreover, there was a shift in emphasis in the redesign of the state's social programs, away from a concern with issues of equity and access, towards a system of management driven primarily by the problem of how to administer the supply of services given defined, limited resources. The negative social and economic consequences of this shift were immediately and abundantly clear for ordinary Zimbabweans. Of particular note was the rapid deterioration in the country's acclaimed health and education sectors.

Health care

Public expenditure on health care declined by 39% in 1994-95. This decrease implied diminished spending on common drugs, extension and preventative health services, specialist facilities and treatment, and other components of quality health care delivery. At the same time, the government's stricter enforcement of a user fees system erected barriers to health care in the way of poorer social groups who were, typically, those most in need of health services.

Worrying developments included a growth in perinatal mortality, accounted for by a variety of factors, including the increasing incidence of unbooked expectant mothers and "babies born before arrival," and decreased access to prenatal consultancies, equipment, necessary facilities and, not least of all, drugs. A more widespread, essential problem involved diminishing drug supplies. Between 1988/89 and 1993/94, the real value of the national revolving drug fund, allocated to the agency that supplied approximately 80% of drugs dispensed to public and private health institutions, declined by 67%, resulting in shortages and the growing use of private channels to secure drugs and equipment.

In 1992 doctors and nurses began referring to "ESAP deaths," described as deaths caused by the inability of patients to pay for the minimal length of time in the hospital, or for prescription medicine. The Minister of Health, Dr. Timothy Stamps has acknowledged that only one in ten Zimbabweans can afford to pay for their own health care. Yet fees remained in place, largely at the insistence of ESAP policy makers.

Meanwhile, accounts from rural clinics and hospitals have urgently noted the near collapse of health care services under the weight of cutbacks and imposed self-reliance. Professional morale and service delivery within the public health system has wilted. Many doctors, nurses and technicians have been tempted into the higher-paying, better equipped local private sector, or out-of- country altogether.

The inevitable result has been the rapid entrenchment of a two-tier health care system, in which those most in need and least able to pay have been increasingly marginalised from quality services.

Education

The same contradictions between cost savings and rising social need have emerged to threaten the country's celebrated post-independence advances in primary and secondary education. In the primary sector in particular, real per capita spending and average spending per pupil fell to the lowest levels since independence.

While government's declining investment undermined the quality of education, its imposition of user fees effectively barred easy access to education for hundreds of thousands of students from poorer households. The overall result of fee imposition was a decline by as much as 5% in enrollments by children in urban primary schools, despite a growth in the potential school-going population.

Over time, the government has established a relief system and in 1995, government spent $53 million helping 265,000 students with tuition and examination fees. But this still fell far short of the actual basic need, and did not begin to address additional heavy school attendance expenses including school levies, materials, uniforms and other costly items. And the economic benefit to government from the imposition of cost-sharing fees? In 1992-93, educational charges raised only $50 million - or 0.5% of budgeted government expenditure.

(Anti)-social dimensions of adjustment

To offset any negative impact of ESAP on poorer Zimbabwean households and retrenched public sector workers, government introduced the Social Development Fund (SDF) to assist poor households with school fees, health fees and food money subsidies. Retrenched civil servants were to be assisted with retraining and seed capital for entry into the private sector. But for the most part these new programs were less carefully planned and implemented than other components of ESAP and were to prove largely ineffective in cushioning the impact of reform on ordinary Zimbabweans.

The funds allotted to the SDF fell far short of matching the rate of government cuts in the social sectors of health and education. Spending cuts in the executing government agency hampered implementation of the SDF assistance. It was made the responsibility of potential beneficiaries to apply to the SDF for relief and there was considerable general confusion, even among government officials, as to what criteria qualified an applicant for assistance, and how screening should be carried out. Application paperwork was cumbersome, especially for the less educated who also tended to have less access to information on the programs. Co-ordination among the different relief schemes, which evidently had an overlapping target clientele, was poor.

The result was that a small proportion of those who were eligible for assistance were reached with resources that were, in any event, insufficient to offset the impact of government cuts.

Continued reduced overall real spending by government now points to systematic and increasing shortfalls in social infrastructure investments. The one exception in this regard - large real growth in capital spending (much of it construction) - has been heavily dependent on donor injections of capital, and has raised further questions about how government will manage to meet new recurrent expenditures in a period of public service retrenchments and declining recurrent spending. The seemingly apparent solution - that recurrent expenditure on the social sector could be increased in real terms - runs counter to ESAP's overriding policy objective, of continued and tightening budget restraint.

Fallout and fracturing

Promising rapid economic growth, expanding employment opportunities and a hands-off, efficient state, ESAP fell far short of its main macroeconomic targets. In reality, growth slowed and became more erratic, averaging only 1.2% (not the 5% envisaged) over 1991-94, a disappointing performance only partly due to the droughts of 1992 and 1995. In fact, a range of indicators reflect the entrenchment of deeper and systemic problems in the "reformed" economy, including high inflation (which has stubbornly remained above 20%, averaging 28.8% in 1991-94, instead of falling to the projected 10%) and a continued substantial government deficit (which has fluctuated around 10%, averaging 8.8% of GDP in the early 1990s, far above the 5% level anticipated by the World Bank in 1990).

Most Zimbabweans have experienced these changes in terms of employment and falling standards of living. The Zimbabwe Congress of Trade Unions estimated that about 55,000 jobs were lost up to 1995 - about double the figure estimated by government. Real incomes for those still in the formal sector dropped sharply during ESAP (and they continue to fall), undermined by persistently high inflation and slow growth in most wage packets. In the burgeoning informal sector of hawkers, small scale and backyard production, cross-border traders, streetkids, prostitutes and others, real incomes probably fell even more sharply. The public sector, too, has suffered unprecedented job losses and falling real salaries. About 22,000 public service employees have been retrenched, alongside large cutbacks in real recurrent expenditure on services. But though the state may be "smaller" in terms of personnel, it is not necessarily more efficient.

Declining conditions of work and uncompetitive pay have chased many better-skilled public servants out of government, feeding a growing popular perception that government's main economic policy is being driven by "foreign experts." Among those who feel most threatened and disenfranchised by the new anti-social planning regime, and who are most critical of it, are trade unions and civic organisations. Public sector associations, in particular, have complained increasingly that corporate planning within government services is being imposed by the World Bank and IMF, without regard to the views or suggestions of those who actually work in the system.

Foreign consultants and their agencies appear to have direct and largely hidden access to government decision-making processes. Some see evidence of this influence in the formulation and funding of government's latest coping "social" program, the Poverty Alleviation Action Plan, which will depend centrally on the input of several hundred million dollars and other support from the Bank and a collection of other donors. What does seem incontrovertible, is the augmented financial leverage afforded expatriate institutions - governmental, multilateral and private - in light of the growing fiscal crisis of the Zimbabwean state.

Moreover, foreign agencies have shown increasing willingness to respond with pressure when government's actions do not meet with their satisfaction. In May 1995, the IMF backed up its demands for further spending cuts by withholding balance of payments support credits. Later, other donors including the Bank were to follow suit. The cruellest irony of ESAP is perhaps that a policy which aimed to halve the government deficit and finance a higher short- term debt through expanded industrialisation, in reality ended by doubling the national debt, putting additional pressure on the government deficit and stunting an anticipated process of locally- driven re-industrialisation.

Response from the grass roots

Ordinary Zimbabweans are sorely aware of this process of rapid national impoverisation - the most tangible outcome of the modernising experts' handiwork. And increasingly, Zimbabweans are making the links between ESAP, budget cuts and the decline in the national standard of living. Their responses to this deteriorating situation have come at different levels. On the one hand, there have been sporadic protests; on the other, there has been a growing institutionalised response from within civil society

As early as 1993, the country experienced its first "IMF" riots when the lifting of subsidies and decontrol of market prices sent the price of bread soaring 30%. A "bread boycott" by township consumers lasted more than two weeks, and saw running street battles between riot police, and women and youth. But though the standard price of bread dropped temporarily, the creeping power of the market ensued; and in January 1996 the price of bread was nearly double that which prompted rioting two years earlier. Other short-lived, often spontaneous protests over the negative market price effects of ESAP liberalisation have met with similar fates.

Trade unions have scrambled to maintain membership and bargaining strength in the face of hostile "liberalisation" measures, while indigenous business lobbies have applied pressure for government assistance in the face of their members' decimation by tough market competition.

Meanwhile, the large majority of Zimbabweans have turned away from their weakened government, [note the very low turnout in the recent election, for example - *ed.*] and focused on their own survival, reliant on their own pocketbooks. If most households had sufficient income, this new order would not pose as much of a dilemma. The reality is that diminished household incomes hold little likelihood of recovery to pre-ESAP levels, for many years to come. While the state continues to borrow heavily to pay back swelling debt obligations, most Zimbabweans will be compelled increasingly to make savings of a more basic sort to sustain their lives - and those of the next generation.

- 30 -