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THE IMPACT OF THE STRUCTURAL ADJUSTMENT PROGRAMME ON SMALL- AND MEDIUM-SCALE ENTERPRISES IN ETHIOPIA AND ZAMBIA*

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* The views expressed in this paper are those of the author and do not necessarily reflect the views of the Secretariat of UNIDO. This document has not been edited.

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I. INTRODUCTION

1. A commentator on the current economic scene in the African region describes structural adjustment programmes as "the method by which African countries south of the Sahara are starting to move from socialism and stagnation to pragmatism and prosperity". In a nutshell, this summarizes the economic picture of both Ethiopia and Zambia at the time of launching the structural adjustment programmes and what the latter hope to achieve, namely prosperity. Both countries were characterized by centralized economic planning and control that resulted in socially expensive failures. Paradoxically, to bring down such centralized structures, it needed more central planning by the Government and that is how the structural adjustment programme was hatched to help bring about the desired changes in the economy.

2. Instead of the very rigid socialist policies of the 1970s and 1980s, the structural adjustment programme has committed the two countries to free market systems, removal of controls, subsidies, internal and external trade liberalization, balanced budgets, privatization, inducements to enhanced domestic savings and capital formation that ought to lead to more investment, and a restructured and motivated civil service that must be seen to work and deliver.

3. It may be a bit too early to try and evaluate the impact of the structural adjustment programme on the Ethiopian economy as it less than two years since it was formally launched. On the other hand, Zambia has put the economic reforms in gear for at least six years and certain trends have already emerged. It is not intended to compare the two countries, but since the brief evaluation of the impact of the reforms on the small- and medium-scale enterprise sector in those countries has been carried out at the same time, it may be unavoidable to make cross references between them. Nonetheless, this ought not to be construed as a comparison. In order to appreciate whatever impact the structural adjustment programme has had on the economies of the two countries so far, some background to the economic structures that led to the reforms needs to be provided.

Common economic characteristics

4. It is not by accident that both Ethiopia and Zambia had a number of economic characteristics in common; for such has been the design of most African countries currently undergoing economic restructuring. The economic background given hereafter for each of these two countries brings out the following common features which, with minor changes, equally apply to most African countries south of the Sahara.

(a) A widely expanded and inefficient public sector, together with a diminutive and shy private sector that was constantly discouraged by successive government economic policies. This resulted in inefficient allocation of resources and poorly conceived, unviable and usually expensive investments;

(b) To sustain such wasteful investments, the Government usually maintained rigid controls on the market system. This, in turn, led to serious distortions in the real values of goods, services, capital and labour;

(c) Overvalued exchange rates discouraged exports while misdirecting domestic consumption to imported goods;

(d) Rates of interest were artificially kept so low that domestic savings and the expected local capital formation were discouraged;

(e) Because of poor earnings and inadequate revenue generation, and in order to maintain public investments, both Ethiopia and Zambia allowed successive budgetary deficits that necessitated both internal and external borrowing. This, coupled with the very low rate of domestic savings, led to an inevitable over-supply of money in the people's hands, not matched by an equivalent production of goods and services. The result was serious internal inflationary pressure that discouraged exports even further;

(f) Monetary and fiscal policies in the two countries favoured increasing consumption of imported goods and the little that was locally manufactured. However, these policies did little to encourage agricultural production. Consequently, these countries remained net food importers with heavy drain on the meagre foreign exchange reserves that would have gone into importation of plant, spares and raw materials for local industry. With ever deteriorating external commodity prices, the two countries were perpetually forced to seek external donor support to their balance of payments.

The role of structural adjustment programmes

5. With the above gloomy picture in the background, representing economies that were devoid of growth pressures, with gross misallocation of national resources and marginal (or even negative) annual growth rates, the structural adjustment programme is meant to completely overhaul the economic system, remove distortions in the economy, loosen strangulation and thereby facilitate growth in the national economy. In a nutshell, a package of economic policies is applied to redirect resources more and more towards the productive sectors from consumption; decontrol the market mechanism and the exchange rate which, in turn, is expected to facilitate and encourage more exports and less imports.

6. By introducing tight fiscal and monetary policies, the immediate objective is to curb domestic inflation via reduced liquidity and thereby promote more domestic savings and hopefully capital formation. In particular, for both Zambia and Ethiopia, a cardinal aim of the economic reforms is to drastically reduce the very large public sector commitments and strengthen sharply the internal agricultural production. This would, in the medium term, reduce pressure on the meagre foreign exchange reserves and redirect them towards the necessary inputs for the domestic industry. In summary, therefore, the structural adjustment programme in Ethiopia and Zambia (as elsewhere) aims at:

(a) Removing imbalances and distortions from the economy;

(b) Institutional reforms that will streamline government commitments and management in a manner that will ensure efficiency and accountability;

(c) Strengthening of the market forces in a way that will enable them to take the lead in the distribution of national resources across the economy for maximum national benefit.

7. Based on the above, the structural adjustment programme may be defined as "a coherent and explicitly formulated set of internal economic policy measures and institutional reforms adopted by a country in order to eliminate the structural imbalances that affect its economy".

II. THE STRUCTURAL ADJUSTMENT PROGRAMME IN ZAMBIA

Historical background

8. Zambia inherited an economy significantly dominated by copper as the main source of revenue and livelihood for the Government and the general population since 1928. There was little agriculture, mainly subsistence peasant farming. The new independent Government maintained basically the same economic structure but soon embarked on rapid nationalization of most of the productive and distributive firms including mining. By the beginning of the 1970s, the country had attained the reputation of being one of the best examples of a socialized economy, characterized by monopolistic parastatals, excessively rigid government controls and an anti-agricultural urbanized social mentality. It was an economy propped up by one pillar - copper, and not at all sustainable from within even in the medium term, since the price of copper was out of the country's control.

Fall in copper prices

9. Zambia's economy started showing serious signs of weakness following the collapse of the copper prices on the international market at the end of 1974. By the end of that decade, the copper prices had sunk so low that the entire economic fabric of the country faced a disaster. For the first time in 1977, the Government realized that copper contributed absolutely nothing to its coffers. Indeed, the Government started frantic efforts at reforms but without much impact.

10. Hoping that the loss of copper revenue was temporary, the State proceeded to borrow heavily from both internal and external sources, basically to sustain the high standard of living for the people with a per capita income at US$550. The end of that period witnessed two devaluations which unfortunately did not usher in the desired upturn in copper earnings. Instead, the actual volume of copper production continued to decline, thus threatening the immediate future of the country's economy in the 1980s.

11. Because of rigid controls and an artificially high exchange rate for the kwacha, the economic adjustments needed to the changed copper situation were not forthcoming. The result was a drastic slow-down of the economy to negative growth in 1990, characterized by seriously reduced local capacity utilization, especially in the industrial sector.

Living standard

12. With the above scenario, the outcome was a heavy reduction in the people's standard of living by over 30 per cent to US$360 per capita income. It is believed that the situation could have been moderated if the economy had been responsive to market forces. Whereas deteriorating terms of trade were responsible for the fall in Zambia's national income, the World Bank believes the situation would have been offset by increased national output had the Government's economic policies been right. The country's average growth in gross domestic product (GDP) of 2.4 per cent per annum for the first post-independence decade is considered too low for a virgin country like Zambia with enormous potential resources in land, minerals, industry and manpower. A growth rate of 5 to 6 per cent per annum was expected, but the economy could only manage less than half of that expectation.

13. With an average population growth of 3.5 per cent per annum, the stage was already set for a declining standard of living.

Balance of payments

14. Zambia's economy has always been import dependent, especially in areas of basic consumption. Therefore, any negative change in the country's external balance of payments has a multiplying negative impact on the national economy. Over-dependence on copper for exports over-shadowed and in fact discouraged development of other sectors of the economy. In particular, non-metal exports (especially from agriculture and forestry) in areas where the country had comparative advantage were not encouraged or developed.

15. Therefore, with a fall of over 60 per cent in the international price of copper coupled with a drop of about 15 per cent in actual volume of production caused by various bottlenecks, the country's balance of payments is so bad that its import capacity in the 1990s has been awfully curtailed. Spares, raw materials, a host of consumers, intermediate and even some capital goods cannot be imported. In turn, this has adversely affected any possible rationalization and expansion of the existing manufacturing sector.

16. Zambia's heavy borrowing (US$500 million per annum) in the mid-1980s was not adequate to sustain its heavy import bill. The accumulated adverse balance of payments has outstretched the country's debt servicing capacity beyond its maximum limits. The short-term effect would be to depress the growth of the manufacturing sector including small- and medium-scale enterprises. These have had to face a shrunk domestic market due to a reduction in the people's purchasing power.

17. To sum up, the country's failure to readjust its economy to the realities of the 1980s stemmed from lack of appreciation that its economy had fundamental inherent structural distortions including parastatal monopolies, various rigid controls, a very small and frustrated private sector, dependence on one commodity for national income, heavy budget deficits, utter negligence of the agricultural sector, and lack of adequate utilization of its other natural endowments including human resources.

New macro-economic policy

18. Since 1982, the Government embarked on a programme to redress the imbalances that had plagued Zambia's economy for the past 15 years. The objective has been to create an enabling environment that will facilitate rapid privatization of the economy generally leaving behind a streamlined, well managed and very necessary public sector. Through a number of legal enactments, restructuring of the economy is under way including new fiscal and monetary policies, privatization of parastatals, investment reform, deregulation of both international and external regimes, restructuring of banking, insurance and trusts. All these and a host of other macro-policy measures are being implemented simultaneously.

Financial restructuring

19. The economy was characterized by very high inflation up to 200 per cent a year ago, very low domestic savings (hence negligible indigenous capital formation) and excessive imbalances arising from the Government's control of 80 per cent of the economy. One of the initial measures was, therefore, to liberalize the exchange rate which was K580 to the US dollar in June 1993 and K340 in October.

20. At the same time, early in the year, the base rate of interest rose quickly to 130 per cent per annum, but dropped to 80 per cent per annum in the third quarter. With right monetary and fiscal policies including the Government's cash budget for 1993, Zambia has managed to bring down the inflation rate to about 40 per cent.

21. Provided these policies remain in place and inflation is controlled, it is believed that imports in Kwacha terms will become too expensive for the local market and thereby facilitate the flow of domestically manufactured goods. Where dumping can be proved such as the alleged export subsidy of up to 30 per cent in South Africa and 9 per cent in Zimbabwe, such cases should be tackled bilaterally or through the international machinery such as the General Agreement on Tariffs and Trade (GATT).

Privatization

22. Like in Ethiopia, a very important aspect of Zambia's restructuring package is the privatization of the very large parastatal sector. Over 150 public firms are to be divested or sold. With technical assistance from UNIDO and other agencies, especially the United States Agency for International Development (USAID), the necessary legal machinery has been set up and the Zambia Privatization Agency already established.

23. It had been envisaged between the Government and the World Bank that by October 1993 the realized privatization would not be less than 10 per cent of the total gross turnover of all the parastatals put together. So far, what has been achieved including firm commitments amounts to 9.28 per cent. The process is likely to take a long time due to:

(a) The need to change the general attitude of the people;

(b) The necessity for public relations work as state divestiture must be carefully programmed.

24. Indeed, general apprehension that parastatals may end up in few private hands cannot be taken lightly. It may not be prudent to turn over the bulk of these public enterprises to selected few individuals, especially if the latter are not Zambians.

Investment Promotion Council

25. Under a new investment law, the Investment Promotion Council has been established, ostensibly to help stimulate and promote local investment. With it and assisted by experts from donor agencies, a capital market has been established.

26. The first stock exchange for Lusaka ought to be operational by the beginning of 1994. It is the expectation of the Government that such capital market will facilitate the participation of many Zambians in the proposed privatization programme and thereby help address anticipated socio-political effects of the exercise. The slow pace of privatization is therefore inevitable. The eight parastatals so far sold are small ones without much impact. Until the capital market takes root, probably not much meaningful divestiture may be done.

III. ECONOMIC REFORMS IN ETHIOPIA

27. After 17 years of centralized economy, Ethiopia with a per capita income of US$120 per annum remains among the poorest countries of the world. Despite its enormous agricultural potential and a big internal market of over 53 million people, it is estimated that only 4 per cent of the population have access to electricity and that primary school enrolment is not more than 36 per cent. Available records indicate that about 50 per cent of Ethiopians live below the poverty line.

28. At the end of the repressive economic policies of the military government, 30 per cent of the employable population remained idle. In addition, there are now 500,000 demobilized servicemen, 1 million displaced people, and more than 20,000 employees already retrenched from the public sector. These are features of the Ethiopian economy that have to be addressed.

29. Although Ethiopia is basically an agricultural country, the informal sector survived the military period and today remains the main employer in the urban sector. Unfortunately, growth in agricultural production had been reduced to only 1.2 per cent per annum as compared to a population growth rate of 3 per cent per annum. Available data show that there are about 800,000 private enterprises out of which only 32,000 are member of the Addis Ababa Chamber of Commerce. The rest are informal business economic activities. Accordingly, whatever policies that will address the current economic situation in Ethiopia must give special consideration to the small-scale industries including the informal sector together with agriculture.

Place for the private sector

30. The socialist Government completely discouraged growth of private business in the formal sector. Private entrepreneurs were deliberately kept small in terms of investment ceilings; and, indeed, corporate private establishments were officially discouraged. Only the informal business thrived. The Federation of Ethiopia Employers that catered for private investors mainly in the informal sector was disbanded. The labour laws were promulgated in such a way that they were biased against the employers but fully in favour of the workers. By implication only, small- and medium-scale enterprises could survive that business environment. Although it may be difficult to suggest any definite statistics on the contribution from the private sector to the economy, a recent European Economic Community (EEC) report has estimated it at only 5 per cent of GDP at the end of 1992.

31. Faced with this gloomy economic picture, the transitional Government of Ethiopia decided in 1991 to introduce a market economy. However, it will be a long time before the impact of this decision could be felt. What is truly noticeable is the fact that the new Government has, through the necessary reforms including the devaluation of the birr by 142 per cent, managed to stabilize inflation at a single digit from 45 per cent. In the short period of liberalization, Ethiopia's real output is estimated to have grown by 8 per cent in 1992/93.

Economic reforms

32. The civil war and repression that went with it left behind suspicion and bitter memories of the Government by the average Ethiopian. This dampened and in fact uprooted the spirit of entrepreneurship in the country. The best potential and active investors were forced to flee and settle outside the

country; and even now they are still fearfully reluctant to return home and repatriate whatever capital they may have. Hence, a major component of the economic policy reforms in Ethiopia should be a deliberate effort by the transitional Government to instil confidence in the many Ethiopians outside the country and woo them back home with their capital.

Policy direction

33. The transitional Government has not only promulgated but also implemented an overall economic development policy of free enterprises based on comprehensive macro- and micro-economic and structural reforms. These are aimed at removing as many as possible inconsistencies and distortions that did exist in the economy for 17 years. Carefully considered comprehensive legal measures have already been proclaimed. Their aim is to progressively move the economy away from centralized control to market orientation; growth of an enabling environment for free private enterprises; and deliberate shift of the State from direct involvement in productive ventures. The economic policy legislation in force includes:

(a) Investment proclamation to facilitate and promote investment in Ethiopia;

(b) Regional government proclamation which provided for new regional boundaries on an ethnic basis;

(c) Public enterprise proclamation that aims at privatizing most of the existing public sector enterprises;

(d) A labour code aiming at regulating the relationship between the employer and labour for the benefit of the economy;

(e) A banking and insurance law aiming at opening up these two industries to private initiative and competition. As of now they are under state monopoly;

(f) A tax law which has brought the country's tariff system in line with the rest of the world for the first time. This will have immediate inherent benefit of internationalizing Ethiopia's economy. It also contains detailed tax reforms essential for a free economy.

34. In addition, there have been other specific micro-economic measures taken to support the foregoing legislation. Crucial among them was the currency devaluation from birr 2.07 to birr 5.0 to the US dollar, a fall of 142 per cent.

35. For one year, the market forces have stabilized the currency as above; and this is supported by fortnightly foreign currency auctions. Other economic regimes liberalized so far include imports and exports, foreign exchange, trade etc.

Macro-economic management

36. Despite the very tattered economic background of the previous regime, the transitional Government, due to its commitment to the new domestic monetary and fiscal policies, has succeeded to stabilize inflation at less than 10 per cent despite a devaluation of 142 per cent. This in itself is a positive

achievement within a short time. In inflation management, Ethiopia is ahead of Zambia and several other African countries involved in economic liberalization. Indeed, Ethiopia's performance in economic restructuring in two years has been quite encouraging.

Immediate effects of restructuring

37. Generally, economic restructuring undertaken by the transitional Government has been well received by the entire business community as well as the general public. There is a general feeling (perhaps too early) that the country's economy is destined to revert to its pre-revolution buoyant status 20 years ago. However, full realization of the macro-policies may take some time due to certain sensitive issues that might take long to be resolved. In particular, matters related to privatization and government divestiture are likely to drag on for a long time.

38. Within two years, there has been such phenomenal growth in private enterprises that by May 1993 the Addis Ababa Chamber of Commerce had registered an increase of 66 per cent in its membership. Over 80 per cent of the new members have been small- and medium-scale enterprises employing less than BR100,000 in capital, and all private liberalization has facilitated more associations of private entrepreneurs mainly as lobbies on behalf of the members. Another direct effect of the liberalization policy has been privatization/disbanding of 10 formally non-performing public enterprises/firms.

Immediate negative effects and limitations

39. Although the liberalization of the domestic market including deregulation of prices has exposed the average consumer to all manner of goods (a visit to Markato tells it all), in the short and possibly medium term domestic industries engaged in import substitution may be hard hit, and some of them may have to close down.

40. Whereas the investment office issued 500 new investment certificates worth about BR3 billion, most of the proposed enterprises were not implemented due to various bottlenecks (including funding) yet to be addressed in the restructuring package.

41. Although the new environment is now conducive to founding of new private business and other associations, none of them has, over the last two years, received official registration due to slow development of the relevant supporting government machinery.

42. The internal investment atmosphere, although liberalized, is still not attractive enough to outside capital which has not yet started flowing in. Even those able Ethiopians displaced and living abroad (and they are many) are not yet confident enough to repatriate their capital back home.

43. A major bottleneck in possible future investments in Ethiopia is the postponement of the much needed land reform. Since all land property had been nationalized, any new investor finds it difficult to get land allocation from the Government. By July 1993, about 10,000 applicants were on the waiting list for plot allocation in Addis Ababa alone. The Government has postponed any meaningful land reform until the end of the transition period. This is a counter-productive decision since there cannot be major investment in industry, commerce or agriculture without assurance on land security. Any delay in land reform will be quite expensive unless the Government comes up with acceptable stopgap arrangements.

Privatization

44. Although the transitional Government is committed to divestiture and privatization, the actual area to be covered is so extensive that realization of the objective might take a long period. Despite the fact that so far 10 enterprises have been privatized, the necessary instruments to help in the exercise are yet to be developed. Foremost, there is need for a capital market, especially a thriving stock exchange, to assist the process of divestiture. Whereas Zambia has set in motion the necessary machinery for it, there is no indication that Ethiopia is making progress in that direction.

Accessibility to credits

45. There are only three state-owned banks in Ethiopia:

(a) Commercial Bank of Ethiopia

46. It is by far the largest bank in the country. Due to very stringent collateral requirements (250 per cent of desired loan) and deliberate bias against the private sector, the largest portion of its portfolio has been with the public sector enterprises. In fact, it is estimated that total global private sector borrowing in the country at the time of change-over in Government was no more than 3 per cent. Due to ongoing financial reforms, the bank has increased its lending to the private and cooperative sectors by a total of nearly 123 per cent. But public enterprises still receive the lion's share of the total credit. Despite the reduction in collateral requirements to 125 per cent of the loan, few private applicants do qualify.

(b) Agricultural and Industrial Development Bank

47. Mainly geared towards long-term credit requirements of industry and agriculture, it ended up over-committing itself to non-performing state enterprises. Today, the Bank is without resources due to an enormous bad debt. With a minimum loan level at BR 21,000 and a guarantee requirement of 125 per cent, the small-scale industry sector has not benefited from it.

(c) Housing and Savings Bank

48. The Bank gives mortgages of up to 25 years for housing. Since most of the private houses were nationalized, there has been no motivation for people to borrow from the Bank, and the Bank has remained idle for a long time.

49. Arising from the foreoging, private industry and especially small- and medium-scale enterprises do not have any meaningful credit facilities. Because of poor public sector management, industrial production had up to two years ago sunk very low. Even the few enterprises in the private sector could not realize their full capacities owing to lack of adequate (or any) support. In its new policy, the Government is vigorously working to restructure the financial sector with a view to addressing adequately the credit needs of the private sector including small- and medium-scale enterprises.

IV. PLACE FOR SMALL- AND MEDIUM-SCALE ENTERPRISES

50. Both Zambia and Ethiopia have hitherto not had specific official policies for the promotion and development of small- and medium-scale enterprises including the informal sector. It was noted that in Ethiopia the military Government, because of its socialist policies, treated the small-scale

industrial sector as a stepchild. In Zambia the previous Government had failed to enact any meaningful policy for the growth of the sector. In fact, it is understood that the new Government is currently in the process of enacting an umbrella industrial policy that will include the small- and medium-scale enterprise as part of the restructuring programme. Yet, legislation alone (such as what has been drafted for the Small Industries Development Organization (SIDO)) without the necessary enabling policy environment will not help at all the growth of the sector. According to the Ministry of Commerce and Industry, such a policy framework is being developed on the basis of the recommendations of a number of previous consultancy studies.

51. In Ethiopia, there is among the small-scale enterprise sector a general feeling of hope and expectation, since they see in the new policy of the transitional Government a special window for them. In the liberalized economy, the role of small- and medium-scale enterprises has been defined and their very existence officially acknowledged. The sector is eager to "go" as soon as the various supportive instruments have been put in place. According to the Ministry of Economic Planning and Development, detailed industrial development strategies are being drafted. They include a specific role for the small-scale enterprise sector including informal business activities. Their organization, institutional support, financing, special incentives, and their linkages with other sectors of the economy are all being worked out.

Restructuring of small- and medium-scale enterprises

52. In both countries consultancy studies are currently being undertaken with a view to determining the best policies and strategies that may be applied to the sector in the new economic environment.

53. A positive effort of the restructuring programme in the two countries is the official recognition given to the sector in the new national economic policy framework. In Ethiopia's economic policy during the transitional period, it is explicitly stated that "In conjunction with the encouragement of private capital, cottage industries should be accorded special attention ..... and adequate encouragement". But the document is silent on the specific strategies and measures to be applied to promote the sector. EEC has already finalized an initial consultancy study on the sector and is currently examining how to support it best. Other donors looking at the sector include the German Agency for Technical Cooperation (GTZ), the United Nations Industrial Development Organization (UNIDO), USAID, the World Bank and SIDA.

54. In Zambia, the new Investment Act exempts small-scale enterprises from paying customs duty on plants, income tax, rates and a number of other incentives. This is a positive outcome of the liberalization of the economy.

Institutions for small- and medium-scale enterprises

55. Ethiopia originally had the Handicrafts and Small-Scale Industries Development Agency (HASIDA) which was the main Organization for promoting small-scale enterprises including the informal sector. Unfortunately, owing to the policies of the previous Government, the agency could not perform since the Government discouraged it as it was involved in private sector development. Today, the agency has already been absorbed by the Ministry of Industry without any replacement. Donor agencies wish to see a specific institution(s), if possible in the private sector, responsible for small-scale industry development. The transitional Government is still looking into the matter. Meanwhile, the sector continues to suffer from lack of direction and specific institutional support.

56. In Zambia, there are three major institutions involved in the small-scale enterprise sector led by SIDO. Others are the Village Industries Services (VIS) and the Small Enterprises Promotion (SEP). Up to now, these institutions have operated within a fluid policy framework to the extent that they are all under-financed. With economic liberalization, the Government is re-examining them with a view to having them restructured in a manner that will suit the new environment. In particular, a legislation to restructure SIDO is already drafted and it is hoped, when passed, the institution will become stronger and more effective albeit probably with a changed name. In both countries, there is an urgent need to create a conducive environment that would encourage private agencies, including non-governmental organizations (NGOs), to enter the arena of small-scale enterprise promotion.

Credits

57. By far, lack of accessible credits for small-scale enterprises has been the main bottleneck in the two countries. In Zambia, the three above institutions have been the main players in addition to an ineffective credit guarantee scheme through the Bank of Zambia. In Ethiopia, the Agricultural and Industrial Development Bank was expected to be the main financier. However, due to official discouragement of private enterprises in the two countries, the institutions have not performed adequately for lack of sufficient funding. In both cases, and more so in Ethiopia, collateral requirements are so high that the average small entrepreneur may not meet them, more so when private ownership of land has been discouraged in the two countries.

58. Restructuring of the finance sector ought to give special consideration to the needs of the small- and medium-scale enterprises and their inherent weakness to compete for credits in the market. Whereas special umbrella institutions may be set up or restructured to specifically cater for the sector, such institutions ought to be re-oriented towards self-sustenance. To do this, they have to commercialize their portfolios but remain in the subject sector.

59. In addition, there is now more need than before for the commercial banks to open up special windows for the sector if only the Government through the Central Bank could induce them appropriately. A recent study on Zambia revealed that in 1988, of the total funds loaned for investment in the whole country, only 8.9 per cent went to micro-enterprises, falling to 3.6 per cent in 1989 - a very depressing picture indeed.

Industrial land

60. In Zambia, most of the urban land belongs to the State and in rural areas it is mainly trust land. In Ethiopia, all land belongs to the State. Obviously without land titles, long-term permanent developments are hampered, but more importantly, for small entrepreneurs that would be the best tangible collateral they could offer to credit institutions. The need for land reform in both countries has been identified, and it is hoped that in line with the economic reforms going on, land titles will be issued in the foreseeable future.

61. As mentioned earlier, lack of business premises is so critical that in Addis Ababa alone there were over 10,000 applicants for business plots by July 1993. There is no indication that at the moment the Government is giving any priority to this need which is considered politically sensitive. But it is also understood that the city of Addis Ababa has already earmarked eight industrial zones within the city. Private small entrepreneurs ought to be

considered for such zones albeit on a commercial basis, since in a market economy, land acquires its own intrinsic value and should be marketed like any other commodity.

62. In Zambia, there was not such high demand for business plots. SIDO and VIS have industrial estates in Lusaka and other towns. During this period of privatization, they may wish to consider selling the buildings to the tenants.

New enterprises

63. As a result of economic liberalization, there has been an upsurge of new small-scale enterprises taking advantage of the trend for privatization. As noted earlier, the Addis Ababa Chamber of Commerce registered an increase of 66 per cent in its membership between 1991-1993, and most of the growth was in the small-scale enterprise sector. Available data indicate that large-scale enterprises with investment of over BR100,000 grew by only 20 per cent during this period. Enterprises with investments of BR10,000 to BR100,000 grew by 181 per cent. Indeed, liberalization has had a dramatic impact on the growth of the small- and medium-scale enterprise sector in Ethiopia, mainly to cater for those affected by retrenchment, particularly from the armed forces and the very large public sector.

64. In Zambia too, there is evidence that there was a similar trend in the growth of new small-scale enterprises after liberalization. Figures supplied by Ecotech Consultants in Lusaka indicate that the per capita income for the informal sector households in rural and urban areas rose from K22 and K63 in 1985 to K527 and K2,198 in 1991. Also, in 1988/89, it had been estimated that about 40 per cent of household heads were self-employed in the informal sector while between 19 and 22 per cent were in the formal sector.

65. Another indication of the fast growth of small-scale and informal enterprises after economic restructuring in Zambia is from SIDO's published accounts. Between 1990 and 1992, their fixed assets grew from K27.9 million to K168.7 million, and their debtors from K20.8 million to K168.7 million. Although the actual numbers and value of loans disbursed is not available, the above figures show a rapid growth in the Organization's activities over the period of economic liberalization, thus implying more small- and medium-scale enterprise commitments including the informal sector.

Trade liberalization

66. In the short run, the two countries are experiencing a heavy influx of cheap imported goods. In Ethiopia, most of the goods come from the Far East, especially Hong Kong and some of them from Kenya through dubious routes. In Zambia, cheap goods are mainly from South Africa and a few from Zimbabwe.

67. Large- and small-scale enterprises that were engaged in import substitution or had a high import content in their manufacture have suffered from competition. The first casualty, especially in Zambia, was the textile and clothing industry. The very heavy influx of second-hand clothes (saraula or mitumba) has put many firms in this industry out of business. According to the Zambia Chamber of Commerce and Industry, up to 51 firms in the textile and clothing industry have virtually closed down during the last two years, many of them in the area around Livingstone and on the Copper Belt. This, in turn, has forced a number of small tailoring firms promoted by VIS and SIDO to close down, since their regular sources of raw materials had been forced out of business.

68. Other small industries that have suffered as a result of liberalization of imports i clude small rural soap and detergent units, jam and marmalade, certain hosi y products, sandals and cheap shoes. Some have had to suspend production, others have adjusted their manufacture in such a way as to face competition from imports both in quality and price which is good for the consumer.

69. The case of the textile and clothing industry in Zambia is complex. Whereas it may be true that there is apparent dumping of cheap clothing and textiles on the local market, it is also true that generally the industry in Zambia has had such limited capacity utilization that it has been inefficient. Its products are too expensive to compete.

70. The consumer cannot subsidize the industry for its inefficiency. It is for the same reason that the Government is reluctant to take any action to discourage importation of saraula for they come in to satisfy a very important segment of demand for clothing caused by the drastically reduced purchasing power of the Kwacha. Maybe a detailed study ought to be carried out to determine the effect of such imports of second-hand clothes on the local industry so that a suitable policy measure may be developed. The Chamber of Commerce and Industry has suggested that the tariff on saraula be increased to bring its prices in line with the domestic price of locally produced clothing. This may be considered in the light of the proposed study.

71. In Ethiopia, any negative impact of trade liberalization on the local small- and medium-scale industries was not immediately noticeable, since it may still be too early to be felt.

Deregulation of foreign exchange

72. The Chamber of Commerce and Industry in Ethiopia and Zambia emphatically felt that deregulation of the foreign exchange regime was in the best interest of the business community. However, the main foreign exchange earner in Ethiopia is coffee which had been run down by the previous regime for lack of adequate inputs. Earnings are now meagre and the country largely relies on balance of payments support from donors. Because of its scarcity, foreign exchange is allocated by the Ministry of Industry strictly on a priority basis. In addition, there are fortnightly foreign exchange auctions that assist in fixing the official rate of exchange. There is also a parallel foreign exchange market on which the rate is higher - R7.5 as against the official rate of BR5.0 to the US dollar.

73. In Zambia, with slightly improved agricultural production in the recent past, the foreign exchange situation is easing a bit. But its cost is so high in Kwacha terms that the problem remains how to get enough local currency to purchase it. The exchange rate K340 = US$1 in a tight monetary system makes it quite expensive for many business men to access foreign exchange.

74. In either country, those small- and medium-scale entrepreneurs who need foreign exchange find it quite hard to get it. In term of priority, most of them do not rank high. At auctions they find themselves not competitive enough. The alternative is the parallel market which is equally expensive. Those who were interviewed felt that the sector, because of its inherent weakness and vulnerability, ought to be given special consideration in matter of foreign exchange allocation. At the micro-economic policy level, the Government may wish to address this problem while retaining free competition within the sector itself.

Other general effects of the structural adjustment programme

75. The impact of the structural adjustment programme on the small- and medium-scale enterprise sector in the two countries has depended on a number of factors including:

(a) The degree of foreign exchange content in manufacture; for example, in small-scale soap-making where palm oil, caustic soda and tallow are imported, the effect of deregulation has been instantaneous. Increased input costs in local currency have made the price of locally made soap uncompetitive against imports from high tech production. Added to this are the difficulties encountered in obtaining foreign exchange from the market for importation of inputs;

(b) The extent to which the locally manufactured product goes into import substitution; toilet soap, plastic shoes, detergents, certain items of clothing will be adversely affected by trade liberalization on both internal and external regimes. However, specialized production for specific local demand has not only survived but more so benefited from the reforms because of higher domestic prices. Such production includes furniture, sheet metal products, traditional crafts etc.;

(c) Areas where the country had comparative advantage such as copper craft and batiks in Zambia, leather craft and processed fruit in Ethiopia, export values have become more attractive because of liberalized exchange rate leading to more exports;

(d) The extent to which the society may postpone consumption of given imports has affected the pattern of imports and their effect on the local industry. In both countries, many electronics and imported expensive clothing (including hats from South Africa to Zambia) are now out of reach to the average consumer. The demand has now switched to the basic needs. This, therefore, tends to generate the desired effect of redirecting resources to the productive sectors of the economy away from direct consumption;

(e) Privatization; because of the large size of the public sector in the two countries, it was a major market for some industries including bar soap, detergents, uniforms, certain ancillary spares etc. Privatization of the public sector will have the effect of shrinking the market and so adversely affect those units dependent on such market. With the ongoing retrenchment, the public sector market will continue to shrink even more and more; and producers of uniforms, stationery, furniture etc. who depend on such a market must diversify their manufacture. Restructuring and decontrol of the public sector has resulted in increased competition which, in the long run, will benefit the small-scale enterprise sector by forcing it to diversify, modernize and expand through adoption of more superior technology;

(f) Liberalization of foreign exchange; in both countries, availability of foreign exchange has been liberalized, and the official exchange rate co-exists with the inter-bank rate together with the parallel foreign exchange market (franco-valuta). In Zambia, the parallel market provided for up to K400 while the official rate was K340 to the dollar. In Ethiopia, the parallel market provided for up to R7.75 while the official exchange rate was BR5.0 to the dollar. This easy accessibility to foreign exchange along with the provision for retention accounts and the floatation of national currencies in search of the right values have all contributed to enabling the environment for exports. Small- and medium-scale enterprises are able to bid for foreign exchange just like everybody else albeit in an uneven playing ground. Provided they can obtain the necessary local currency (which has become scarce due to mopping up measures), small entrepreneurs should find it easy to import spare and other inputs according to their requirements and ability;

(g) Trade deregulation; the open door policy, as noted above, has led to unrestricted flooding of the domestic market with cheaper imports. Despite the currency devaluation, the resultant external prices are not yet high enough to give protection to locally produced items. Because of inefficiencies in domestic production, local prices have remained too high vis-à-vis external prices, thus facilitating an easy flow of imports.

76. Probably, the currencies might still be overvalued. It is because of this price differential that 71 per cent of the textile and clothing industry together with some units, among others, in Zambia have been forced to close down. In the process, some of the small- and medium-scale enterprises which depended on the affected larger industries for inputs or have a high import content have been adversely affected. But there are signs of rationalization and improvement of production to prepare them for more effective competition in the medium term.

V. WOMEN ENTREPRENEURSHIP

77. Traditionally, women did not play a meaningful role in the economic development of Ethiopia and Zambia. Their activities were mainly confined to social welfare groups and informal trading by the wayside and in street corners ("gulit" in Ethiopia) where they sold vegetables, fruit, food-stuff etc. The economic environment, as noted earlier, was not conducive to private entrepreneurship even if women had the will and ability to start viable enterprises and business. A recent survey in Zambia indicated that up to 1990/91, only 6 per cent of urban and 4 per cent of rural women had applied for any form of business loan. Due to social destabilization, the situation in Ethiopia was not easily discernible. However, it was estimated that at least 65 per cent of the Ethiopian women engaged in the informal sector had borrowed some capital.

78. Lack of self-confidence and encouragement from the husbands and the community at large were contributory factors to this apathy towards entrepreneurship by women. The few who had ventured into business showed desire to expand and diversify their business and production, and so became good examples to the others at the time of the reforms.

79. Apart from roadside trading, women were engaged in tailoring, import trade, hairdressing saloons, eating houses, and dealing in second-hand clothing (saraula or mitumba) and normal retail trade. The advent of economic reforms in the two countries has given a new dimension to women involvement in productive economic activities; and for this, new women groupings and organizations have been born. The Ethiopian Women Entrepreneurs Association was established about two years ago with the sole aim of promoting women entrepreneurs. With 450 members, their activities are mainly in the service sector whereby they control about 55 per cent of the imports (of general merchandise) and 34 per cent of exports. Records show that of the 150,000 licensed dealers, the majority are women engaged in foreign trade, especially in curios, souvenirs, ginger, garlic, spices etc. Evidently, their collective contribution to total Ethiopian exports is noteworthy.

80. In Zambia, apart from the few women enterprises and business so far promoted by VIS and SIDO, new organizations have now been started to support more women business activities. A successful credit support system for women was launched with the help of the local United Nations Development Programme (UNDP) office more than one year ago. Its purpose is to provide credits to women entrepreneurs without collateral with special emphasis on the illiterate and low income segment of the society. Based in the suburban areas of Lusaka, it is expected that the project (which helps 150 women entrepreneurs divided into 10 groups) will expand to other areas soon. Assisted by 5 trained women extension officers, the groups are successfully engaged mainly in agro-based activities such as poultry-keeping, commercial vegetable growing, tailoring, saraula trade etc.

81. One of the entrepreneurs engaged in tie and die business is very successfully exporting to South Africa against all high technology in that country. Despite the fact that these entrepreneurs get credits at the commercial rate of 80 per cent, not only have they been 100 per cent prompt in repayment but more so, they all now have saving accounts into which they keep their savings. Such grass-root women enterprises are worth government and donor support.

Problems

82. The cases cited above illustrate that there is enormous potential for women entrepreneurs in both countries. With proper inducements and environment, they have enormous capacity to absorb many school drop-outs and even some of those that may be affected by retrenchment. But they have difficulties including:

(a) Problems of quality and quantity of products because of poor orientation;

(b) Agricultural production is adversely affected by lack of adequate inputs and, in the case of Ethiopia, complete absence of mechanization;

(c) Apart from the two projects cited above, the bulk of women entrepreneurs does not have ready access to credits. So far, the sources of credits have been personal savings, family loans, informal rotating savings and loans (chilimba or iqubs), private money lenders and women associations. Because of limited resources, all such sources of credits have proved inadequate. Today, women entrepreneurs are expected to borrow from commercial banks which consider such lending risky. In addition, there are the usual problems of excessive collateral (125 per cent in Ethiopia) requirements which women may not meet.

83. In Zambia, 57.6 per cent of women interviewed needed credits for less than K10,000. Those who needed more than K100,000 constituted only 1.2 per cent which implied that the majority of potential and active women entrepreneurs were in informal business, many of them being in gulit or roadside trade. Most of them (67 per cent) needed credits for working capital; only 8 per cent wanted new equipment and 2 per cent for repair and modernization. All women interviewed confessed serious lack of business training and capacity building.

VI. IMPACT ASSESSMENT

84. The impact of the ongoing economic reforms in general and on the small- and medium-scale enterprises in particular varies between the two countries and between the countries and sectors. Whereas in Zambia the small-scale enterprise sector had hardly been supported by the State, in Ethiopia the policies were marxist and completely anti-private sector initiative. Accordingly, small- and medium-scale enterprises in the formal sector, being mainly private, were generally discouraged. Only the informal sector managed to survive but without any special government support, be it financial, institutional or management matters. Even HASIDA which was meant to give the necessary assistance was unable to perform because it did not receive the support needed from the Government. No wonder that it was among the very first institutions to be absorbed within the government structure to give way to a more pragmatic-oriented institutional framework to help resuscitate the sector.

85. As noted above, the new free economic environment in Ethiopia has given cause for optimism among small-scale entrepreneurs. A typical informal entrepreneur engaged in paper recycling using manual technology suggested that with the new conducive climate what he and others like him urgently needed was technological improvement and expansion of production to meet the needs of the expanded near empty local market. Unfortunately, he had nobody to turn to for help or even advice. He expected the current reform measures to specifically address the needs of small-scale enterprises both formal and informal. Like all small entrepreneurs interviewed, he cited the present land policy (where it all belonged to the State) as a negative factor in the growth of small- and medium-scale enterprises and hoped that the same would be reviewed soon.

Conducive policy environment

86. The optimism cited above was also widely evident in Zambia. According to both the Zambia Chamber of Commerce and Industry and the Small Industries Association of Zambia, the stranglehold on the growth of industry in general and small-scale enterprises in particular is no more. With costly imports because of trade liberalization, given the right technological combination along with local resource-based production, the small-scale enterprise sector has a significant contribution to make. What is urgently required (and is badly lacking) is a conducive policy environment that will facilitate the growth of the sector. The two countries have indeed recognized this need and are in the process of developing the policies. Because of the basic nature of the sector (especially informal activities) and the fact that the sector has potential to cover a wide spectrum of indigenous entrepreneurs across the country, and considering the great employment potential, particularly at this time of retrenchment, the Government of Ethiopia and Zambia may find it advisable to expedite action on policy formulation and enactment.

Financial intermediation

87. It has been mentioned earlier that in both countries the small-scale industry sector, because of the official policies of the past Government, was grossly starved of credits. Whatever institutions that were established (SIDO, SEP, VIS, HASIDA) were all ill-equipped to meet the demands of the sector for credits. As an illustration of this inadequacy, SIDO's published accounts contain the following extract:

Debtors	1991 (K)	1992 (K)
Hire purchase	56,073,274	151,396,549
Raw material	5,495,427	4,349,744
Staff	3,564,467	11,131,604
Prepayments	3,907,390	8,685,937
Others	2,685,234	5,849,180
Total	71,725,792	181,413,014

88. If the first two items are taken to represent actual additions to the gross portfolio, it is noted that in its tenth year of operation in 1992, SIDO had a global portfolio of K155.7 million as against K61.6 million in 1991 when the new Government came to power. Between the two years (or the two Governments for that matter), there was a portfolio growth of nearly 153 per cent, denoting the changed mood of the new Government towards the small- and medium-scale enterprise sector on the one hand and increased indigenous private entrepreneurship on the other. This is also confirmed by the growth of the government grant to SIDO over the same period from K6,841,186 to K13,658,114 representing a growth of 99.6 per cent. It is understood that other actors in the field have witnessed similar trends which undoubtedly augur well for the sector as a result of the current restructuring of the economy. The Draft SIDO Act read together with the Investment Act should hopefully go a long way to restructure the financing and promotion of small-scale enterprises in Zambia. It is particularly desirable that in both countries private institutions and NGOs be specifically encouraged and induced to actively participate in small-scale enterprise promotion. Experience in Kenya and other places has shown that the informal sector specifically responds well to such private sector promotional initiatives.

Informal credit

89. In the absence of formal credit, especially in Ethiopia, the small-scale industry sector, particularly the informal enterprises, did and continue to use personal savings, family and friends loans. As noted earlier, iquba or chilimba (informal rotating savings and loans) play an important role in satisfying the credit needs of the traditional informal sector in Zambia and Ethiopia, especially among women entrepreneurs. A recent survey in Addis Ababa indicated that about 80 per cent of the credit needs of the informal sector were met from family loans and personal savings, the balance from iqubs and money lenders. As the two countries proceed with financial reforms, it is important that they take into consideration the credit needs of the informal in addition to the formal sector. This is an area they had hitherto ignored as evidenced by a recent report by Ethiopia's Ministry of Planning and Economic Development which noted that "credit schemes and institutions targetted for the informal sector are non-existent, while small- and medium-scale industries have been marginalized in the credit allotment of the Agricultural and Industrial Development Bank" and recommended the creation of a "banking infrastructure targetted to service rural and small-scale industries". This is a welcome move at this time of reforms.

Incentives and joint ventures

90. Whereas Zambia's Investment act recognizes and accords duty and tax holidays to small- and medium-scale enterprises in general, Ethiopia's

investment ceilings artificially bar small- and medium-scale enterprises from accessing the proposed government incentives. The Investment Proclamation accords incentives only to enterprises with at least BR250,000 worth of investment. Such a ceiling would bar most of the small-scale enterprises from benefiting from the incentive package, considering that in 1989 the average capital for private enterprises was only BR130,000. Similarly, the minimum ceiling for joint ventures at US$500,000 keeps out small- and medium-scale enterprises from this important incentive. The ceilings ought to be revised downwards for the above incentives to be applicable and useful to the small- and medium-scale enterprise sector.

Short-term paradox

91. Theoretically, the high inflation should give enterprises comfortable profit margins. But this is offset by the high cost of inputs the entrepreneur has to pay. In Zambia, for example, SIDO's hammer mills across the country have more than doubled their profitability and loan repayment because people can no longer afford the high price of mealie meal in shops. They rather buy the maize and get it ground at these mills, thus ending up with cheaper flour. On the other hand, some small rural bakeries in the two countries have been forced to close down because bread has become too expensive and luxurious for the rural population. People interviewed said that they had been forced to substitute sweet potatoes, cooked bananas or cassava for wheat-bread.

92. A combination of tight fiscal and monetary policy has the effect of high borrowing rates and low lending ceilings. Faced with competition from imported goods, the best course of action for industry is to rationalize and modernize production including expansion that would normally lower the unit cost. However, in the short term, this is not possible due to the very high internal cost of money. This apparently is the irony of restructuring whose objective ought to be stimulation, rationalization and expansion of domestic productive capacities. Commercial and financial sector activities are in the short run more profitable and more attractive than industry or agriculture. Banks find no urge to lend as they can get better returns on their deposits in government securities. Mopping up policies should be closely monitored lest they help kill the very industrial sector they were meant to stimulate.

Macro-economic policy challenge

93. Small- and medium-scale enterprises, especially in the formal sector, are likely to survive the rough sea of the structural adjustment programmes. In fact, the latter has given a definite fillip to the sector in that the two countries visited are already in the process of reinforcing the official policies for the future development of small- and medium-scale enterprises. Faced with large retrenchment of labour arising out of divestiture and privatization along with restructuring of the public service (including the armed forces in the case of Ethiopia), the extra labour after proper retraining may usefully be absorbed in the small-scale enterprise sector as entrepreneurs or workers. Other than issues related to land, credit and institutional support arrangements, there is every indication that the new economic environment could be a blessing to the small- and medium-scale enterprise sector in the medium term.

94. However, across the board, there are short-term disruptions that must be taken care of to avoid them becoming entrenched features of the economy. The inflation that the monetary and fiscal policies are trying to curb in the short term could become cyclic, if not well managed. For the best and lasting

cure of inflation is increased and optimum domestic capacity utilization and production. While the macro-policies may put pressure to bring inflation down, the effect would be short-lived if the micro-policies do not exert pressure on and induce productive capacities across the economy to produce more.

95. Although the joint action of exchange and interest rates is intended to reactivate and at the same time give protection to the domestic economy, the latter has instantaneous effect of discouraging borrowing (and therefore investments), while the former (exchange rate) takes time to have any impact. In the short term, therefore, the domestic economy might become a suppliers' paradise and thus defeat the very essence of restructuring. In fact, some cynics in Zambia (and maybe elsewhere) have used this apparent short-term paradox to criticize the restructuring programme as imported and not home-grown. They suggest that the reforms are rushed through without adequate planning, evaluation and understanding of the possible implications. Indeed, there is no evidence that in the short term the volume of exports would increase, especially from the non-traditional sectors.

Short-term distortions in the structural adjustment programme

96. The basis of the structural adjustment programme is market liberalization both internal and external. Any form of grip on and dislocation of the market forces must be removed. In the case of Zambia and possibly Ethiopia, owing to past serious production inefficiencies caused by artificial interruption in the internal market forces including arbitrary regulation of both the producer and consumer prices, plus high and economically unjustifiable price subsidies, the quality and prices of the domestic products are uncompetitive. Consequently, many enterprises, particularly in the import substitution market, and those dependent on imported inputs may, in the short term, find themselves in serious difficulties. The textile and soap industry in Zambia is a victim of this imbalance.

97. Increased imports of certain cheap consumer goods such as saraula or mitumba should be perceived in the light of the above distortions. They are imported because they are cheaper than the artificially costly domestic products; to restrict them would not only interfere with the free market forces but more so it would be punishing the consumer unnecessarily. After all, in view of the devalued currency, it is such cheap imports that one can afford.

98. It follows then that in the short run, some of the domestic production capacity may lie idle or "die" naturally. But should there be cases of proper price distortions on the part of the exporting countries through dumping, then this should be sorted out bilaterally through internationally recognized channels.

99. According to the World Bank, the purported fear of de-industrialization of Zambia, Ethiopia or any other country because of short-term imbalances during reforms is unfounded. The market forces, especially inflation-corrective mechanisms such as interest rate combined with exchange rate will eventually iron out any distortions in the economy and make way for new horizons including increased efficiency in the productive capacities. Nonetheless, there is need for continuous evaluation of the net effect of the reforms on the economy as a result of deregulation of the various regimes with a view to making corrections when and where necessary.

100. Should the economy become import-oriented, then that would be counter-productive. Careful analysis of the internal economic structures and forces must then be undertaken to isolate the possible distortions that must be corrected. There is urgent need to undertake such an evaluation in Zambia where imbalances on the internal market are apparent and could mar the spirit of the structural adjustment programme.

People's involvement in reforms

101. The structural adjustment programme has become the topic of the day in all the countries affected. A casual walk in the streets of Addis Ababa and Lusaka brings one face to face with all kind of questions and comments about structural reforms. Ordinary people raised doubts and queried the noticeable effects such as price increases; others wondered about the very future of their currency, while a few heaped all the woes of reforms onto the Government of the day. It is clear that people, the masses, do not understand what is going on, and since they are eager to know about the economic reforms in their country, the Government has an obligation to them. In one week, one's attention is captured by newspaper headings such as "Enlighten public on structural adjustment programmes", "Privatization should go step by step", "Only big players are going to survive in the global market place" etc. All these go to indicate that members of the public are interested and want to participate in the reforms.

102. A private entrepreneur in Lusaka suggested that his Government went to Washington and bought from the International Monetary Fund (IMF) a basket of structural adjustment programmes, and now they were finding it difficult to sell the same to the people of Zambia, especially the business community. That Government is not alone in this blame. Most of the African Governments are guilty of the same omission. They leave behind the most important player in the game of the structural adjustment programme: the business community. Well informed discussion on this topic which affects every one's life is seriously lacking. Such wide information gap could turn out to be quite expensive as Zambia came to realize through mass demonstrations and strikes against high prices two years ago. Maybe special information cells ought to be established to interact with the public on the subject. Institutions of higher learning should be encouraged to hold discussions, symposia and even public lectures on the structural reforms. It is through people's understanding and participation that such reforms would receive support and succeed.

103. Structural adjustment programmes really work. In the 1970s, Mauritius faced a 40 per cent inflation rate, 13 per cent budget deficit, only an 8-day foreign exchange import cover, an overvalued exchange rate, and a host of controls by the Government. The country introduced an IMF-supported economic reform programme in 1983 including devaluation, fiscal reform policies, trade liberalization, investment incentives including an export-processing zone, and a number of other monetary policy reforms. By 1991, Mauritius had succeeded to turn her economy around to the extent that the county could do without IMF financial support and is soon becoming a newly industrialized nation. Unemployment has been reduced from 17 per cent at the beginning of the reforms to almost zero.

104. Similarly, Ghana's economy was hit so hard by the drastic drop in exports of cocoa in the mid-1970s that by 1991 it had fallen almost to subsistence level. The country successfully implemented IMF-brokered structural reforms which today have helped to bring the economy back almost to the days of the cocoa boom.

105. Uganda is another country that is on the way to success after implementing the structural adjustment programme. Her inflation rate has been brought down from 60 to 5 per cent, and external investments have substantially increased. All these and other examples elsewhere in the Third World do show that structural adjustment programmes work.

VII. INTERVENTION VERSUS FREE ENTERPRISES

106. Short-term pains of structural adjustment programmes are likened to what the surgeon's knife inflicts on a patient. Eventually the patient lives to rejoice. In the same way, Zambians, Ethiopians and other will rejoice at the end of the present paid from high prices, critical shortages, loss of value of one's lifetime savings, reduced standard of living, high taxes and fees etc. which are all part of the surgeon's treatment of the sick national economy. When the latter recovers (as it is bound to do if the reforms are well managed), the pain will be forgotten and everybody will smile except IMF which would have spent large sums of balance of payments support and other aid. But to what extent would the forces of economic reform work without any official government intervention?

107. While macro-economic policies should be applied in total across the board, the government has to intervene at the micro-level with its priorities to prop up those areas considered important for the restructuring process and which may not be effective on their own. It is in this light that small- and medium-scale enterprises including the informal sector may need special policies, strategies and instruments in order to play their crucial role in the African economies. For example, such supportive sectoral measures may include:

(a) Differential interest rate support;

(b) Availability of special loan portfolios for small- and medium-scale enterprises;

(c) Selective approach to import liberalization in their favour, since most small-scale enterprises operate in import substitution areas.

108. In cases where any of the policies tend to be punitive rather than conducive, for example, if industrial rationalization, modernization or expansion is hindered by the high interest rate, the government should intervene and review the situation with a view to taking corrective action. Such intervention may also be necessary in cases of undesirable social effects of economic reforms.

109. In the East Asian miracle that is quoted as among the best Third World examples of liberalized economies, interventionist policies were selectively (and according to priorities) applied by the Governments of Hong Kong, Malaysia, Indonesia, Singapore, the Republic of Korea, Taiwan and Thailand. From 1965 onwards. Exports from those countries to Japan grew from 9 to 21 per cent of total global exports in 1990.

110. All these countries pursued different economic policies with varying degrees of government intervention. Singapore and Hong Kong had the most free economic models, but Japan and the Republic of Korea pursued the highest level of interventionist policies. All of them shifted over time at the micro-level from one strategy to the other depending on the prevailing circumstances. For example, they would move from serious export drive to middle-level manpower

training and development and then to general industrial rehabilitation and modification. However, they still pursued sound basic economic policies that maintained the inflation rate at no more than 8 per cent on the average. They opened their doors to external modern technologies, maximized internal capital formation, emphasized the most needed priority areas in their educational programmes and kept sound fiscal and monetary policies and strategies.

111. Zambia, Ethiopia and other African countries have a lot to learn from the East Asian miracle and the few African countries that are on the way to prosperity. Success followed government intervention through taxation and other inducements which created such congenial environment that the private sector grew at the expense of the public sector. Exports were strainously induced through official award schemes while industrial credit was deliberately subsidized. There was unproportionately high expenditure on primary and technical education at the expense of university education, the exact opposite of the general African educational scene. For about ten years, governments in East Asia directly intervened to encourage the growth of those sectors and subsectors considered as priority at different times, thus eventually creating the economic miracle. But let it be emphasized that despite the intervention, the market forces in all those countries remained so strong that they developed equitable distribution of resources through the economy. The cost of labour and capital remained stable and with skilled manpower (resulting from the right education policy), prompt reaction and adjustments to economic shocks were possible, thus facilitating economic stability and growth.

Conclusion

112. The lesson to be learnt is that there is no one easy road to economic miracles. There has to be a carefully selected mixture of stable macro-economic policies and proper investment in manpower, well remunerated and disciplined public employees, deregulation of the market and, above all, strict control of the domestic rate of inflation. It is towards this goal that structural adjustment programmes are being implemented. It took over ten years of disciplined and constant implementation of economic reform policies for other countries to realize any meaningful results. It may not be practical for Zambia, Ethiopia and all other African countries to expect economic prosperity tomorrow. What is needed is faith in the reform programmes and constant will-power to carry them through.

Annex

Annual average exchange rates for Zambia

Year		Kwacha per US dollar
1980		0.79
1981		0.87
1982		0.93
1983		1.26
1984		1.81
1985		3.14
1986		7.79
1987		8.89
1988		8.82
1989		12.90
1990		28.90
1991		61.70
1992		171.00
1993	About	360.00

Average merchandise exports 1987-1991

	Value (US$ million)	Percentage
Copper	960.6	83.1
Cobalt	74.6	6.5
Zinc	15.0	1.3
Manufactured goods	12.6	1.1
Other commodities	93.1	8.1
Total	1,155.4	100.0

Source: World Bank

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