

## SUB-COMMITTEE ON ECONOMIC REFORM POLICIES

### CHAIRMAN'S REPORT

*This is the first meeting of this sub-committee, it follows the brainstorming meeting held in Accra in December 1991 to propose the terms of reference of the sub-committee. H.E. Mr. Joshua Mayanja-Nkangi, Minister of Finance and Economic Planning of Uganda chaired the meeting on behalf of H.E. Dr. Kwesi Botchwey, Minister of Finance of Ghana and Chairman of this Sub-Committee.*

#### I Terms of Reference

The terms of reference of the Sub-Committee, as adopted in the Accra meeting, were confirmed. It was agreed that the terms of reference should emphasize that economic reform programs are an integral part of an overall medium and long term development strategy. This agreement will be reflected in the terms of reference of the Sub-Committee.

#### II Sharing of Experiences

In the context of sharing of experience on economic reform policies, the following issues were highlighted:

- The active involvement of the private sector in economic reform programs is essential. The private sector, however, has not been given adequate weight in the reform process. There is a need to strengthen the private sector to increase its capacity for international as well as domestic competition. The managerial and technical capacities of the private sector needs to be strengthened during the reform process.
- In the past, some Structural Adjustment Programs did not work since they were not "home grown". Therefore the need to internalize economic reform policies, including the design, negotiation, implementation, and evaluation is essential. African countries should have ownership of these economic reform policies if these programs are to be sustainable. Ideally, the African Governments should themselves design the Structural Adjustment Programs and build domestic consensus in support of these reforms.
- In the past, Structural Adjustment Programs have not adequately addressed income distribution and poverty issues. Recent Structural Adjustment Programs, however, have focused on the social dimensions of adjustment at the design stage. Programs such as the PAMSCAD in Ghana and PAPSCA in Uganda have been designed to protect the poor during the adjustment process.
- Structural adjustment is a dynamic and continuous process. The sequencing and speed of adjustment is critical for its success and sustainability.

- In the context of the design and implementation of Structural Adjustment Programs, it is essential to identify what structure needs to be adjusted. Participants identified the following:

- Production structure
- Consumption structure
- Marketing and distribution structure
- Financial structure
- Social structure
- Infrastructure

These structures should be adjusted within the overall framework of human resource development and capacity building.

- African countries are part and parcel of the international economic system. Therefore, the regional and international dimension of adjustment should be addressed. It is essential, therefore, to develop international market standards in order to compete in world markets and attract public and private foreign investment.
- Countries which are contemplating adjustment raised the following concerns:
  - Devaluation and inflation vicious circle
  - Increased indebtedness
  - Inability of Structural Adjustment Programs to alleviate poverty
- Countries which are undergoing adjustment noted that
  - (i) the devaluation and inflation cycle depended on the state and structure of the economy, the initial macroeconomic conditions, and the stance of fiscal and monetary policies following the devaluation. It was emphasized that where the parallel foreign exchange markets were pervasive, with the unofficial rate being the effective marginal price for imports, a devaluation was a key instrument in bringing inflation under control, provided appropriate fiscal and monetary policies were pursued.
  - (ii) foreign borrowing, if directed to productive activities, does not necessarily increase indebtedness of the country.
  - (iii) in order to alleviate or reduce poverty, Structural Adjustment Programs need to be sustained over the medium and longer terms; and
  - (iv) in general, economic reform programs work and produce positive results but adjustment should not be done in a vacuum. Adjustment should be undertaken and determined within national priorities, including appropriate sequencing of policy measures.

The meeting reviewed a paper entitled "Civil Service Reform in Africa", which was prepared to provoke discussion. The paper outlined results and experiences with civil service reforms and posed several questions and indicated lessons learned. During the course of the discussion, the following points and issues were emphasized:

- Civil service reforms are generally needed to enhance the functional efficiency of the civil service and reduce the wage bill. In some cases (Senegal), reducing the number of civil servants did not necessarily reduce the wage bill.
- Civil service reforms are not unique to Africa, they have been undertaken by other developing countries as well as OECD countries.
- Most civil service reforms centered on: (i) reducing the size of civil service by elimination of "ghost" employees, enforcing age and overdue retirement, (ii) promoting voluntary and early retirement by introducing severance packages, (iii) retrenchment of regular and temporary employees, and (iv) attrition through hiring freezes.
- Definition of civil service varied between countries. Teachers and health workers, police, and local authorities were not affected by civil service reforms in most countries. e.g. Senegal.
- Voluntary retirement with attractive severance packages, if not implemented very carefully, could result in the loss of the best and desired skills which governments need.
- Monetizing benefits and incorporating them into the salary structure is essential to reflect the true size of wage bills.
- African countries have learned from each others' experiences, e.g. Uganda has benefitted from the lessons and experiences of Ghana.
- Phasing and timing of civil service reforms is key to its success. At what stage in the economic reform program should civil service reforms be implemented? Thus the sequencing issue is important because the ineffectiveness of the Civil service could undermine the implementation of reforms.
- It is essential that an overall plan be devised before proceeding with civil service reforms. Therefore, job evaluation and functional review should be undertaken before retrenchment.
- Specific efforts to attract nationals living abroad and local consultants, to fill long-term positions, such as Ghana's skill mobilization scheme, resulted in a low morale problem of existing employees. The scheme was therefore suspended.

- Ghana's experience with advertising locally and internationally short-term consultancy assignments to attract qualified local consultants, civil servants, and Ghanaians living abroad was successful.
- Due to budgetary problems of African countries, donors should assist in financing the implementation of severance packages.
- Incentive schemes are needed to reward and retain efficient employees and attract required skills.
- Some countries, e.g. Botswana, have introduced civil service reforms (job evaluation) to increase efficiency of government and not for budgetary reasons. It is too early, however, to evaluate the results of this effort.
- There is a need to define specific criteria for recruitment. The practice of automatic recruitment of graduates in some countries has compounded the problem.
- There is a need for governments to focus on longer-term policies to build a capacity for formulating personnel policies to better manage and increase productivity of civil service.

#### IV Regional Integration and Structural Adjustment

The meeting was briefed by Mr. Baba Dioum, on behalf of Minister Sissoko, Minister of Rural Development and Water Resources of Senegal, and the spokesperson of the West and Central African Agriculture Ministers' Conference. The briefing highlighted the activities of this group, which includes 17 countries. The purpose of this group is to promote regional integration for a specific crop or specific activity. The main recommendations of the recently completed workshop held in Dakar on regional integration and structural adjustment are:

- Sectoral adjustment policies should be increasingly designed at the regional level to promote new markets.
- Countries should coordinate their efforts at the regional level when designing their national programs in order to minimize or avoid distortions.
- The link between development and sustainable resource management should be emphasized.
- It is essential to establish information and monitoring systems at the country and regional levels:
  - At the country level, implement systems aimed at monitoring Structural and Sectoral Adjustment Programs and their impact by using relevant indicators.
  - At regional level, (i) set up a network of experts, and (ii) organize workshops to disseminate results of comparative studies.

Participants supported the activities of the Agriculture Ministers and agreed with the recommendations of the Dakar Workshop. These recommendations are similar to the view and mandate of this Sub-Committee. It was agreed, therefore, that the two groups should coordinate their activities.

## V Economic and Social Indicators

The meeting was in general agreement with the proposals and recommendations of the two documents presented on this subject, entitled "Actions to be Taken to Improve the Monitoring of Social and Economic Trends in Africa", and "Data on Selected Economic, Financial, Social and Environmental Indicators in Africa". The main points raised during the discussions are:

- Timely and reliable data are essential for sound economic management and are needed to monitor progress of economic reform programs.
- Need to keep indicators simple but informative.
- Need to be selective and realistic in the number of indicators to be monitored.
- Need to make efficient use of resources allocated to statistical development in Africa.
- Need to involve African universities and research institutions in data analysis.
- In addition to the indicators proposed in the document, the following indicators were also suggested:
  - Per capita income
  - Balance of payments.
  - Overall reserve levels.
  - Public sector borrowing requirements.
  - More indicators on human dimensions, e.g. life expectancy.
  - Government expenditures on social sectors, e.g. education, health.
  - Size of civil service.
  - Integration indicator, e.g. inter-regional trade.
  - Growth of manufacturing sector.

It was agreed that these indicators would form the basis of the proposed GCA Annual Report to monitor the social and economic progress of African countries.

## VI Registry of African Experts and Institutions

The participants noted that proposed draft lists of experts and institutions were a first attempt at compiling these registers. Additional information, however, is needed on the type of expertise which each expert and institution could provide, including a short CV of each expert. It was agreed that participants would provide additional names of experts and institutions to be included in the registers. It was suggested that experts from other developing countries could be added to the list. It was proposed that the GCA Secretariat and the African Capacity Building Foundation (ACBF) collaborate in compiling these

registers. The ACBF representative welcomed this proposal. The UNDP/TCDC representative has also agreed to cooperate with GCA and ACBF in this effort. It was also agreed that these registers will be made available to African countries, institutions, and the donor community and will be updated periodically.

## VII Second Meeting of Sub-Committee

It was agreed that the second meeting of the Sub-Committee will be convened in Accra in November 1992. The exact date of the meeting will be determined following consultation with Dr. Botchwey.

The following topics were agreed for an in-depth discussion during the next meeting:

- The role of the private sector in the process of economic reforms.
- Agriculture policies, supply response, and impact on food security during periods of adjustment.
- Structural adjustment and options for foreign exchange rate policies.

It was also agreed that issues papers will be prepared for each topic. The papers will provide policy options and cite country experiences. It was suggested that the paper on agriculture policies should be prepared in collaboration with the West and Central African Agriculture Ministers' Conference, given their interest in this topic.