1 INTRODUCTION AND OVERVIEW

In this section two case studies are discussed: the Côte d'Ivoire case study highlighting the social consequences of policy reform and the Tanzania case study, pointing out how reinvigorating economic growth can be made beneficial also for poverty groups. The case studies show the variety of factors that can lead to structural crisis: in the case of Côte d'Ivoire an export boom followed by an over ambitious investment program implemented, in addition, with little regard to hard nosed financial and economic viability criteria. In Tanzania, on the other hand, long-term institutional failures and market distortions led to inefficiency and waste. In both cases the economic situation became unsustainable.

The case studies also show how difficult it is to draw general conclusions concerning the poverty impact. Each country is a special case and each adjustment program has to be designed on the basis of a country- and situation-specific analysis.

Nevertheless, two general conclusions seem to be justified:

- even if urban groups are more affected by structural adjustment induced policy reforms it is the rural sector where often the largest number of poor and the most severe poverty is found. Thus compensating the urban groups at the expense of the rural poor seems to be misdirected policy.

- In cutting public expenditures and reducing state activities there is a danger that high priority social expenditures and services, particularly education and health suffer. These are vital sectors for long-term growth and productivity increase and must be protected against undue reductions.

2 SOCIAL CONSEQUENCES OF POLICY REFORMS: THE CASES Of CÔTE D' IVOIRE AND TANZANIA

2.1 Counteracting the "Dutch Disease": The case of Côte d'Ivoire

2.1.1 The nature and causes of macroeconomic destabilization

The first two decades after Côte d'Ivoire became independent in 1960 the country's economic performance was impressive. From 1965 to 1975 Côte d'Ivoire's annual GDP growth rate never dropped below 4 percent, averaging 8 percent a year. During this period Côte d'Ivoire was considered to be a notable success story among African economies, often referred to as the 'Ivorian miracle' or the 'African wonder' (Nohlen 1994). Five years later, in 1980, the country was finding itself suddenly within a severe economic crisis. The following decade is characterized by negative real GDP growth rates and rising poverty. What had happened? What were the reasons for the Ivorian miracle to fade away?

In order to understand the reasons which led into the crisis and also in order to comprehend the impacts of the implemented structural adjustment programs it is helpful to become aware of some features which determined the institutional setting of the pre-crisis situation in Côte d'Ivoire. Shortly summarized, specific features of the fiscal system, the monetary setting and the product market which made Côte d'Ivoire vulnerable to internal and external shocks (Demery 1996):

1. Fiscal dependence on revenues from the agricultural stabilization fund
Among the six principal, centrally operated special-purpose funds forming the Ivorian fiscal system in the pre-crisis situation it is the agricultural price stabilization fund which is the most important one to mention within the context of the crisis. The stabilization fund was established in order to keep producer prices of the key export crops - coffee, cocoa, cotton - at a constant level. The fund's revenues were dependent on the spread between the governmentally fixed domestic price and the world price for the respective commodity. Until 1986 the fund generated surplus which was used by government either for investment purposes or government consumption. Government relied heavily on this unstable source of finance and its drying up in 1986 led further into a crisis.

2. Monetary integration
As a member of the West African Monetary Union Côte d'Ivoire can not use the exchange rate system as a policy instrument to counteract economic shocks. The Union's common currency, the CFA Franc is pegged at a fixed parity to the French Franc. From the Union's foundation in 1948 up to 1994 its parity (CFAF 50 = FF1) remained unchanged. The first and only realignment of the parity to the actual purchasing power parity took place in 1994 when the CFA Franc was devalued by 50 percent. With the exchange rate being kept constant, the high inflation during the late 1970s led to a real appreciation of the currency which reduced Côte d'Ivoire's international competitiveness and led to a decline in its exports - a legacy which hampered adjustment efforts during the 1980s (Heidhues and Michelsen 1995).

3. *Poorly diversified and highly controlled product market*
Three features characterized the product market of the pre-crisis situation. First, poor diversification and high dominance of the agricultural sector: The Ivorian economy especially relied on the export of its two key crops coffee and cocoa which accounted for four-fifth of the export revenues (Nohlen 1994). Second, the dominance of the state: via direct price controls and marketing through public enterprises the state was involved in nearly every area of the economy. Especially during the 1970s the number of public enterprises increased rapidly. Third, the modern sector was characterized by an oligopolistic market structure. More than half of the manufacturing sectors were dominated by one or two firms. Both state interventions and oligopolistic market structures undermined competition and allocative efficiency.

This institutional setting made the country crisis-prone to external and internal shocks and hindered flexible policy measures to counteract destabilization. But what actually sowed the seeds of the crises in the 1980s was, ironically, a boom in the country's two key export crops cocoa and coffee in 1976, when world prices rose more than threefold as a result of a frost in Brazil (Chamley 1991). As in other countries experiencing a booming period of one sector this evolution induced macroeconomic disturbances which negatively affected other sectors - a phenomenon which is called the Dutch disease. But unlike other countries suffering from Dutch disease the producer prices of the booming sector were kept stable by the agricultural price stabilization fund, which aggregated a large surplus. Thus an excessive and disproportionate growth of the booming sector as a typical symptom of the Dutch disease was avoided in Côte d’Ivoire. Instead, the coincidence of following trends led into the crisis (Demery 1996):

⇒ *INSTABILITY of the cocoa and coffee prices*: the price boom in 1976 was short-lived. Between 1977 and 1980 export prices fell by 30 % and declined further during the 1980s. This development was detrimental because of the economic as well as the fiscal importance of both crops' revenues.

⇒ *GOVERNMENT'S wrong planing:* Despite the fact that the price boom was short-lived and the prices were falling again the government counted on high revenues from the agricultural stabilization fund and organized its expenditure plans on this level. Particularly an investment program basing on a report called *Côte d'Ivoire 2000* was responsible for the fiscal deficit and the macroeconomic imbalances in the early 1980s. It is true that the plan was designed in 1974 but final arrangements on many of its details were made at the beginning of 1977, within the boom period. The plan was very ambitious and with CFAF 1,020 billion the investment costs were more than CFAF 200 billion more expensive than the World Bank's estimations for a sustainable investment. The government's investment plan assumed a GDP growth of 8.7 percent annually, which exceeded what had been achieved in the past. Additional to overspending the implemented investment program contained further weaknesses; a lack of investments in the tradable sector, inefficiency of some investments and long gestation lags of other investments, especially in infrastructure. As a consequence returns from the investments were low.

⇒ *INFLATION:* Between 1976 and 1980 high inflation rates weakened the Ivorian economy. The impact of government spending on domestic demand is one factor, among others, which is said to be responsible for the increase of domestic prices (Chamley 1991). Inflation combined with the fix exchange rate reduced Côte d'Ivoire's competitiveness and led to declining exports.

⇒ *DECLINE in savings*; toward the end of the 1970s national savings declined dramatically. Private as well as public savings were significantly lower than had been planned in *Côte d'Ivoire 2000*. The fall in private savings was, among other things, caused by inflation. The decline in national savings together with the poor export performance in the late 1970s forced the government to rely on foreign credits to finance a big part of its investment program.

⇒ *AN INCREASE in the level of world interest rates* aggravated the burden of external debts and led to a dramatic increase in the country's debt service. The debt-service-to-export ratio more than doubled between 1975 and 1980.

By 1981 the fiscal deficit amounted to 12 percent of GDP, the current account deficit amounted to 17 percent of GDP and the ratio of foreign debt to GDP equaled 35 percent. The government was forced to undertake immediate steps towards financial stabilization. To put an end to imbalances, inflexibilities and supply side problems the government also began to carry out a Structural Adjustment Program .As one of the first African countries to implement structural adjustment programs Côte d'Ivoire started its first program in 1981 (Kanbur 1990).

2.1.2 Reform process

A short summary of progress

Since 1981 several structural adjustment programs have been undertaken by the Ivorian authorities. Influenced by diverse internal and external events the design of the adjustment policies and the willingness of Ivorian authorities to implement them changed over time. The first Structural Adjustment Loan (SAL) in 1981 marks the beginning of the first phase of adjustment (1981-1986). This phase was supported by both the World Bank with three SALs (1981, 1983, 1986) for a total amount of US$650 million and the IMF with one three-year arrangement (1981-83) and four stand-by arrangements, for the equivalent of 827 million SDR (Grootaert 1995). Adjustment policies in the first phase attempted to restore the internal and external macroeconomic balances mainly by reducing the fiscal deficit and to achieve sustainable growth by removing distortions in the economic incentive system. Favorable conditions (world price increases in coffee and cocoa (1984-1985) and a major depreciation of the French Franc (and through this of the CFAF) against the US-Dollar (1984)) supported the adjustment efforts during 1984-1986.

The fall of world prices for coffee and cocoa to their lowest level in recent history at the end of 1986 led to a further period of macroeconomic destabilization and economic decline. As a reaction the Ivorian government abandoned the structural adjustment program in 1987 (until 1989) and pursued to control the new macroeconomic imbalances mainly by expenditure cutbacks.

Towards the end of 1989 the Ivorian authorities took up reform programs, again assisted by World Bank and IMF. Within this second phase of adjustment the strategy has shifted towards a sectoral approach in providing incentives for sustainable growth (Grootaert 1995). During 1989 and 1990 three sectoral adjustment programs were implemented: in the agricultural sector, in the energy sector and in the water sector. The deterioration of the fiscal budget could be stopped. In 1991 three further sectoral adjustment loans were launched addressing the adjustment of the financial sector, the restoration of the overall competitiveness of the economy and the improvement of health and education services. In addition, 55 state-owned enterprises were privatized.

Supported by the devaluation of the CFAF by 50 percent in January 1994 the Ivorian economy showed the first signs of recovery which strengthened in 1995. After more than ten years of annual GNP per capita decline (with an average annual GNP/capita growth of -4.6% between 1985 -94) Côte d'Ivoire finally seems to be able to reverse the progress of economic decline.

Reforms during the first phase of adjustment

As the evolution of poverty between 1985-88 will be in the center of the next section the remainder of this section will focus on adjustment policies implemented before and during this period. Reforms within this first phase of adjustment, especially carried out in the course of the second and the third structural adjustment programs, covering the 1983-86 period are being summarized shortly below.

Adjustment between 1983-1986

Priority in the short-run was the reduction of the fiscal deficit. The fundamental weaknesses of the Ivorian economy such as weaknesses in the government, the public enterprise sector and distortions in the economic incentive system were addressed in the medium to long-term. In the following the major components - fiscal policy, public enterprise policy, agricultural policy and trade policy - which were on the policy agenda of the Ivorian government during the first period of adjustment (Kanbur 1990) are being reviewed shortly (Table 1).

Table 1 Objectives, policies and measures on the policy agenda during the first phase of adjustment

OBJECTIVES	POLICIES	MEASURES
SHORT-RUN		
financial stabilization	Contractionary fiscal policy	• reform of the investment planing procedure • drastic cuts in investment expenditures • cuts in current expenditures (e.g. new urban housing policy)
LONG-RUN		
restructuring the economic incentive system to achieve sustainable growth	Public enterprise policy	• financial and economic monitoring system • rehabilitation program • mergers, liquidation
• shifting terms of urban/rural terms of trade in favor of the rural areas	Agricultural policy	• producer price increases • reduction of input subsidies
• shifting tradables/non tradables terms of trade in favor of the tradables	Trade policy	• removement of quantitative restrictions • establishment of a uniform effective protection rate • export subsidy mechanism

FISCAL POLICY. Two major tasks were set on the fiscal agenda: To prevent previous mistakes of uncontrolled investment and overspending and to restore financial stabilization by reducing the fiscal deficit. To prevent uncontrolled investment and overspending the investment planning process was reformed in the early 1980s. To reduce the fiscal deficit government did not attempt to revise the tax system in order to broaden the tax base. On the revenue side the fiscal dependency on trade taxes therefore remained. Low revenues from coffee and cocoa (1981-1983) resulting from drought-reduced production and low international prices as well as an additional burden on the budget imposed by an increase in international interest rates forced the government to rely on drastic cutbacks of its expenditures in order to reduce the fiscal deficit. Particularly investment expenditures were cut drastically from their peak of 23 percent of GDP in 1978 to 13 percent in 1983 to less than 5 percent in 1986. Current government expenditures were not cut as drastically, hovering around 23 percent of GDP between 1979 and 1982, and 27 percent of GDP in 1983-89 (Demery 1996). Current expenditure cuts were achieved by a reform of the urban housing policies. Operating and maintenance cost of state-owned housing agencies for example were passed on to the tenants by increasing rents of state owned flats. Along with this, the government also decided to sell some of the properties in the hands of public housing agencies. The subsidization of housing for public sector employees was further reduced. In addition, government pursued a wage-freeze policy to reduce its current expenditures (Kanbur and Grootaert 1990).

PUBLIC ENTERPRISE REFORM. Objective of the *public enterprise reform* in this period was to increase the low efficiency of parastatal and public enterprises by establishing a financial and economic monitoring system and by launching a rehabilitation program for several enterprises. The target was rather improving management of enterprises than changing their ownership. A few enterprises were merged, a few were liquidated but privatization of public enterprises as implemented since the end of the 1980s has not been at the policy agenda at that time. (Demery 1996)

AGRICULTURAL POLICY. The agricultural policy aimed at increasing agricultural production by redressing the rural-urban terms of trade in favor of the agricultural sector. Several policy reforms were introduced to raise agricultural production incentives. While increases of coffee and cocoa prices were not passed on to farmers during the boom period domestic producer prices of these commodities were raised for the 1983-84 and kept constant until 1989. For other crops selected input subsidies were cut and simultaneously output prices were raised. (Grootaert 1995).

TRADE POLICY. Major issue on the trade policy agenda was to reform the incentive system in order to encourage export production. Major effort was to counteract the adverse effect of the overvalued exchange rate on the competitiveness of Ivorian exports by mimicking devaluation. Among the measures were the removement of quantitative restrictions and their replacement by a tariff system aimed at establishing a uniform effective protection rate of 40 percent. In addition, an export subsidy mechanism was introduced geared to provide the same effective assistance to exports as to import substitutes (Grootaert 1995).

In summary, policies between 1981-86 were determined by two main features; firstly by the drastic saving efforts of the government in order to reduce the fiscal deficit. And secondly by the governments' efforts to reorganize the economy's incentive system for production in favor of exports and the agricultural sector. Especially civil servants were negatively affected by several expenditure cuts, while the rural areas should profit from the rearrangement of the rural-urban terms of trade in favor of the agricultural sector. As civil servants generally do not count to the poor and most of the poor are smallholders living in the rural areas one would a priori expect that the designed adjustment programs led to a reduction of poverty. The next section will concentrate on the evolution of poverty between 1985 and 1988.

2.1.3 Poverty and policy reform

The impact of structural adjustment programs on the poor was subject of many criticisms of these programs since their beginning in the 1980s. But initial claims of the negative impact of adjustment policies on poverty failed to distinguish adequately between the effects of economic recession and those of adjustment policies - themselves launched as a response to surmount already existent states of economic crisis (Grootaert 1995). Recent research suggested that not structural adjustment measures but economic decline was the major cause for growing poverty and that countries which implemented adjustment policies consequently were able to stop their economic decline sooner than non-adjusting countries (Corbo et al. 1994). But this gives no direct hint to how the poor are affected by adjustment policies.

The objective of this section is to show the evolution of poverty in Côte d'Ivoire for the period from 1985-88 and to relate it to the changing macroeconomic framework during this period. Changes of incidence and depth of poverty as well as changes in the regional and socioeconomic distribution of poverty will be depicted in order to relate them to the structural change. The socioeconomic data base for this period is provided by the Côte d'Ivoire Living Standard Survey (CILSS). The analysis of this historic data can capture only a small part of the whole adjustment process which ideally would request en examination of the last twenty years. It also does not represent a period of constant macroeconomic conditions and consistent adjustment efforts but as shown in the previous section is a period of structural change; The first two years (85-86) comprise the effects of sustained adjustment supported by favorable external conditions while the latter two years (87-88) will reflect the period of destabilization characterized by the abandonment of the adjustment efforts and economic decline. According to Grootaert (1995) it is exactly this feature of structural change - even recognizing the existence of lagged effects - which is of particular importance to analyze the impact of the adjustment process on the poor, because it provides a 'natural' way to disentangle adjustment from recession effects.

Albeit the CILSS only comprises a four year period it nevertheless provides an outstanding good database on social and economic data containing micro-level information which cover different dimensions of household welfare and which in its scope and consistency is said to be unique in Africa. The survey was undertaken in a random sample of 1,600 households designed to be nationally representative. It collected annually detailed information on employment, income, expenditures, assets, basic needs and other socio-economic characteristics (Kanbur 1990). This data served as basis for several research studies analyzing the impact of the adjustment process on the poor. The following review of the analysis relies in particular on an analysis of the CILSS data by Grootaert (1995).

To analyze changes in poverty the per capita expenditure is taken as the basic indicator for welfare. In order to remove existing errors due to sampling bias Grootaert (1995) applied corrective weights to the data. To achieve inter-regional comparability for the purpose of welfare comparisons he developed a regional cost of living index in order to capture inter-regional price differences. Abidjan was found to be the highest cost region in Côte d'Ivoire, followed by other city areas. Cost of living in rural area was found to be lower with the lowest cost of living in the Savannah, Côte d'Ivoire's poorest area. To achieve inter-temporal comparability for the purpose of examining the changes of poverty within the four year period the data was uniformly deflated with a Consumer Price Index.

In order to identify and operate poverty two poverty lines were defined. The first poverty line - 128,600 CFA per year - was chosen to identify people living in poverty. Thirty percent of all individuals ranked by household expenditure per capita were falling below this poverty line in 1985. The second poverty line -75,000 CFAF per year- identifies all individuals who live in extreme poverty. It comprises the last 10 percent of individuals at the bottom of the ranking.
Using real per-capita-real-household-expenditures a profile of poverty and its change during the considered period can be drawn for Côte d'Ivoire. As the main redistributive feature of the adjustment process was the shift in the urban-rural terms of trade it is reasonable to disaggregate the analysis by region - distinguishing five region: Abidjan, other urban areas, West Forest, East Forest and the Savannah. To capture the income distributional effects of adjustment policies more closely it is necessary to further disaggregate the data by socio-economic aspects. This is because macroeconomic components of structural adjustment have their impact by shifting relative incentives in the favor of certain sectors (especially tradables) and at the expense of other sectors (e.g. non-tradables) of the economy. Other measures of adjustment may adversely affect particular groups such as government workers. As a regional classification may cut across these groups it is reasonable to use a further classification which

better corresponds to a tradable/non-tradable divide in the economy as well as to an agricultural/non-agricultural divide in order to capture the income distributional effects (Kanbur 1990).

The regional profile of poverty

Table 2 shows the development of the index of real household expenditure per capita in Côte d’Ivoire and on the dis-aggregated level for each of the five distinguished regions. For the country as a whole real household expenditure declined by about 30 percent over 1985-88. Whereas about two-thirds of the decline occurred in 1988. This trend is fully consistent with the macroeconomic developments mentioned in the previous section. The decline in real GDP in 1987 and 1988 was accompanied by a dramatic fall in real household expenditure which declined more in urban than in rural areas.

Table 2 Index of real household expenditure per capita, 1985-88 (Côte d'Ivoire, 1985 = basis)

	1985	1986	1987	1988
Abidjan	158.1	131.5	156.6	121.4
Other Cities	114.3	113.7	105.1	74.9
East Forest	69.1	72.5	70.6	64.1
West Forest	100.5	86.0	71.4	60.5
Savannah	64.1	65.0	57.2	50.7
Côte d'Ivoire	100.00	94.1	91.2	72.8

Source: Grootaert (1995)

Accompanying the decline in household expenditure poverty and extreme poverty increased throughout the period. The poverty index and its regional decomposition is summarized in table 3 (for the definition of the poverty index see Box 1). The fraction of population falling below the poverty line rose from 30 percent in 1985 to nearly 46 percent in 1989 and the fraction of population even falling below the extreme poverty line rose from 10 percent in 1985 to 14.1 percent in 1988. In numbers: Côte d’Ivoire counted about 2.8 million poor people in 1986 and 4.8 million people in 1988, which is an increase of 71 percent. Extreme poverty increased by 57 percent - from about 940,000 people living in absolute poverty to about 1.5 million. Looking at the single years it strikes that poverty did not change for 1985-86 - the years of favorable external conditions and adjustment efforts - while extreme poverty was reduced by over one third. Both poverty and extreme poverty rose one year later in 1987 when the economic situation was marked by destabilization and the government sought to handle the crisis by further expenditure cuts. With the incidence of poverty rising by 32 percent and the incidence of extreme poverty by 55 percent this trend of rising poverty even accelerated in 1988.

Table 3 Poverty and Extreme Poverty in Côte d'Ivoire, 1985-88

	1985	1986	1987	1988
Poverty (poverty line = 128,600 CFA/year)				
P_0	0.300	0.299	0.348	0.459
Extreme Poverty (poverty line = 75,000 CFA/year)				
P_0	0.100	0.064	0.091	0.141

Source: Grootaert (1995)

Box 1. The Poverty Index

Foster et al. (1988) Developed a method to measure poverty. The general formula of the poverty index is defined as:

$$P_\alpha = \frac{1}{n}\sum_{i=1}^{q}\left(\frac{Y_p - Y_i}{Y_p}\right)^{\alpha}$$

where n = size of the population, q = number of poor people, Yp = poverty line, Yi = expenditure per capita of individual i and α ($\geq$0) is the poverty aversion parameter, which is to be selected by the analyst. The higher α is chosen the more weight is given to the situation of the very poor in the index.

Source: Demery (1996)

Table 4 shows that the incidence of poverty is by far higher in rural than in urban areas. But the increase of poverty during the period was 1.6 percent higher in urban than in rural areas. This development can be related to the government's policy during adjustment to freeze wages in the public sector and to reduce other subsidies until then favoring the civil servants. It can also be explained by government's policy to shift the rural-urban terms of trade in favor of the rural sector. In spite of these trends the majority of the poor still lived in rural areas and the incidence of poverty in rural areas also rose - especially in West Forest where poverty more than tripled and because of this West Forest became the second poorest among the distinguished regions. This downturn can be understood by looking at the socio-economic profile of region. West Forest is the main coffee and cocoa growing area of Côte d'Ivoire with four-fifth of the households depending on farm income which fell sharply over the period.

Table 4 Regional Decomposition of Poverty (%), 1985 and 1988

	1985			1988		
	P_0	P_1	P_2	P_0	P_1	P_2
Abidjan	2.3	1.8	1.6	5.2	2.8	1.5
Other Cities	16.8	16.3	17.6	19.3	16.1	13.7
East Forest	37.1	36.8	35.3	25.5	24.1	23.3
West Forest	8.3	5.1	4.1	18.6	16.8	15.6
Savannah	35.6	39.9	41.4	31.4	40.2	45.9
Total	100.00	100.00	100.00	100.00	100.00	100.00

Source: Grootaert (1995)

The socio-economic profile of poverty

In order to assess the income distributional effects of adjustment it is necessary to disaggregate the data by socio-economic groups classifying the households according to their income source and occupational involvement into eight groups - export crop farmers, food crop farmers, public sector employees, private formal sector employees, informal sector employees, self-employed, inactive and unemployed. In table 5 the poverty index is disaggregated into these groups. It shows that the incidence of poverty increased in all distinguished groups, but the scale of affection varied significantly among the groups.

Among the urban groups it have been the public sector employees which were affected by recession and fiscal contraction most deeply. Compared relatively it is the group where poverty increased most. Starting from a relative low level of 5 percent in 1985 (representing less than two percent of total poverty) the incidence of poverty increased to 21 percent in 1988 (representing 6 percent of total poverty). This development is hardly surprising considering government's wage-freeze policy of the structural adjustment program and the overall tendency to shift the terms of trade in favor of rural areas. The increase of P_2 indicates that the depth of poverty also increased. This suggests that it have been predominately civil servants at the end of the earning scale. Those who were affected and who were not able to compensate income losses.

All other urban groups have also suffered. About half of all employees in informal sectors and similarly of all self-employed were falling below the poverty line in 1988. Unemployment increased from 4 percent in 1985 to 38 percent by 1988 suggesting that unemployment from a 'search' phenomenon to an involuntary state of being (Demery 1996).

Table 5 Poverty incidence in Côte d'Ivoire by socio-economic group, (Poverty line = 128,600 CFAF/year)

	1985			1988		
Poverty incidence within the groups	P_0	P_1	P_2	P_0	P_1	P_2
Rural groups:						
Export crop farmer	0.366	0.094	0.038	0.548	0.179	0.087
Food crop farmer	0.434	0.144	0.065	0.590	0.196	0.087
Urban groups						
Public sector employee	0.049	0.007	0.001	0.213	0.050	0.018
Private formal sector employee	0.071	0.014	0.005	0.151	0.025	0.007
Informal sector employee	0.262	0.075	0.028	0.542	0.183	0.093
Self-employed	0.262	0.104	0.058	0.462	0.127	0.052
Inactive	0.183	0.075	0.043	0.319	0.080	0.031
Unemployed	0.041	0.005	0.001	0.383	0.151	0.076
Côte d'Ivoire	0.300	0.098	0.045	0.459	0.142	0.063
Percentage share among all poor						
Rural groups:						
Export crop farmer	14.5	11.5	10.0	17.7	18.7	20.6
Food crop farmer	63.6	65.2	63.8	52.4	56.2	56.9
Urban groups						
Public sector employee	1.7	0.8	0.3	6.2	4.8	3.8
Private formal sector employee	2.4	1.4	1.1	3.0	1.6	1.0
Informal sector employee	1.5	1.3	1.0	1.6	1.7	2.0
Self-employed	12.8	15.6	18.7	14.8	13.2	12.2
Inactive	3.3	4.2	5.1	3.5	2.8	2.4
Unemployed	0.2	0.1	0.0	0.9	1.1	1.3
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Grootaert (1995)

Consistent with the highest poverty incidence in rural areas seen in the regional disaggregation the two distinguished rural groups show highest poverty incidence in the socio-economic disaggregation. With a share of 63.3 percent among all poor in 1985 the group of the food crop farmers was by far the poorest group. Most of the food crop farmers are located in the Savannah, which was identified as the poorest region. With a share of 14.5 percent the group of export crop farmers is the second poorest group. But this group experienced a bigger increase in poverty, the incidence of poverty increased by 17 percent between 1985 and 1988. In 1988 more than half of all export crop farmers were falling below the poverty line and the incidence of extreme poverty also became a severe problem in this group. This trend explains the increase of poverty in the West Forest region which is Côte d'Ivoire's major export crop production area. The decline in welfare in this group is attributed to a decline of the quantities of coffee and cocoa sold. Quantities sank partly because of a diminished cropping area attributed to these crops and partly because of declining returns.

In spite of relative bigger increases of poverty among urban groups and among export farmers the incidence of poverty remained highest among food crop farmers of all distinguished groups in 1988. But as the relative increase in poverty was lower among food crop farmers their percentage share in total poverty fell from 63.6 percent in 1985 to 52.4 percent in 1988 still remaining the socioeconomic group in which poverty is highest.

Conclusion

The results of the above analysis indicate that the level of poverty remained constant while the incidence of extreme poverty was reduced during the first two years (1985-86) when external conditions were favorable and the country undertook adjustment efforts. During the latter two years (1987-88) which were marked by economic destabilization and the abandonment of adjustment efforts poverty increased sharply. In 1988 the incidence of poverty was 50 percent higher than in 1985. This suggests that economic recession has had a greater impact on poverty growth than the carried out adjustment measures. Most strikingly is the speed and the extent with which economic decline trickled down to the household-level. An explanation for this is that reductions in aggregate demand have a faster impact on welfare than supply side measures such as price realignments or shifts of domestic terms of trade. In a decomposition analysis that looked at the importance of growth and redistribution effects in explaining the changes in poverty over the period Grootaert (1995) further finds that the entire increase in poverty can be attributed to negative GDP growth. Redistribution effects as induced by adjustment measures (e.g. shifting rural-urban terms of trade in favor of the rural areas) instead contributed to a reduction of poverty and especially of extreme poverty.

The disaggregation into socio-economic groups indicated that although all groups have suffered, especially two experienced greater hardship: the low paid public sector workers in urban areas and the export crop farmers in rural areas. The increase in poverty among the public sector workers can be related to the objective of the adjustment program to shift the domestic terms of trade in favor of the rural areas, by increasing the price level of key crops and by putting a freeze on salaries in the public and parastatal sectors. Poverty increased therefore faster in urban than in rural areas (Grootaert 1995).

But in rural areas poverty also increased substantially among export crop farmers. This is an indication that the key objective of the adjustment efforts to move relative prices in favor of the rural areas and especially in favor of the export crop farmers failed. According to Demery (1996) this was largely due to the failure of the adjustment process to depreciate the real effective exchange rate. Given the further decline in terms of trade and the cutting of the coffee and cocoa producers prices by half in 1989 it is likely that poverty among export farmers has increased even more since 1989. The depreciation of the CFAF in 1994 is likely to have improved export crop farmer's income situation again.

The brief analysis further indicated that the incidence of poverty can change very dramatically within a small period of time. This suggests that there can be a great deal of mobility into poverty. For policy design purposes it is important to asses the policy impact on poverty groups. Therefore it is necessary to identify and monitor poverty groups and groups which are living on the edge of poverty. Compensation measures for policy-induced income losses must especially take into account the social hardness of the losses. Groups which are on the upper end of the income scale can easier cope with bigger income losses than groups on the bottom of the income scale can cope with smaller income losses. Therefore not only the absolute size of the income loss has to be taken into account but also the social hardness of the respective losses. To identify the social hardness of income losses the distance of a socioeconomic group to the poverty line can serve as a good bench mark.

2.2 Counteracting economic decline: The case of Tanzania

2.2.1 Nature and causes of macroeconomic decline

In Tanzania economic performance deteriorated dramatically before the reform program was launched (Mans, 1994). While in contrast, in the 1960s, shortly after Tanzania had become independent, GDP increased at more than 6 percent and agricultural output at some 4 percent annually; exports grew at some 8 percent p.a. and the manufacturing sector also expanded. Despite this favorable performance of the Tanzanian economy, President Nyerere gave up the liberal development strategy pursued until then. In 1967, the Arusha Declaration was enacted announcing the beginning of what was later to be called the `Tanzanian experiment.´ Egalitarianism, basic needs and self-reliance were the proclaimed guidelines translated into action consequently centralizing and nationalizing the Tanzanian economy. Nationalization initially comprised industries, banks, insurance agencies and wholesale trading companies, later profitable private property and even village retail shops. State-run manufacturing companies were supposed to pave the way towards industrialization based on import substitution. In the agricultural sector, the distribution of agricultural inputs and the marketing of agricultural outputs were transferred from the primary cooperatives to monopolistic state-run enterprises. Workers´ right to strike was eliminated, and political power was in fact centralized. Since the early 1970s, prices were controlled for a continuously growing number of items, thus eliminating market forces almost completely. Obviously, these policies did not provide an effective incentive structure conducive for long-term efficiency.

External causes further aggravated the sharp economic crisis Tanzania was facing in the late 1970s and early 1980s. The 1973 oil crisis provoked a sharp increase in import expenditure. A severe drought at the same time led to increasing food prices and food shortages. Cereal imports became necessary and amounted to almost one fourth of total imports. Declining export revenues due to falling coffee prices additionally strained the trade deficit. War with Uganda from late 1978 until 1979 further depleted foreign exchange reserves: Tanzania spent an amount equivalent to more than half the 1977 export earnings for arms and other imported warfare material.

In the early 1980s, the Tanzanian economy collapsed after real per capita GDP had contracted each year since 1975. Industrial output fell by 15 percent per year and not even 25% of industrial capacity was utilized. The balance of payment worsened dramatically, when official import expenditure amounted to US$1.249 million in 1980 while exports stood at some weak $687 million.

Taking a closer look at the agricultural sector in the pre-adjustment period, one can identify the following detrimental effects on its functioning and performance (World Bank, 1994):

- The official exchange rate did not reflect true market forces and was highly overvalued. The real exchange rate appreciated dramatically during the late 1970s and early 1980s when Tanzania faced a severe balance of payment deficit and the government nevertheless refused to devalue the nominal exchange rate. This led to the emergence of a voluminous parallel market for foreign exchange. Valued at the official exchange rate, Tanzanian exports were not competitive on the world markets.

- Controlled producer and consumer prices could not fulfill their signaling function, i.e. effectively balance supply and demand. As a consequence, an extensive but inefficient parallel economy of food and basic consumer goods emerged. Instead of interpreting parallel markets as an alarm signal, the government tried to eliminate them, thus even more increasing risks, transaction costs and, as a consequence, the cost of living of the Tanzanian people.

- Productive factors could not be channeled to profitable investments, because the movement of labor and the allocation of capital were restricted and interest rate ceilings discouraged savers from depositing their money with financial institutions.

- In collectivizing agriculture and pursuing a villigazation program, the government centralized scattered plots into new socialist villages and block farms and relocated farmers. Tenure insecurity lead to reduced investments into land and into reduced conservation of land fertility.

- The rural co-operative system was dissolved and expropriated. It was therefore deprived of its potential to be institutionally developed into an efficient distribution channel for agricultural inputs and outputs. Although re-established in 1985, the co-operatives never managed to recover from the events of the late 1960s and 1970s.

- The parastatal agricultural monopolies were extremely inefficient. Their tasks in processing, marketing and distributing agricultural goods were fulfilled only insufficiently.

2.2.2 Reform programs

The first cautious reform measures were initiated under the structural adjustment program between 1982 and 1985 (Sarris, van der Brink, 1994). These measures aimed at

- cutting the public deficit, exempting social services;
- enhancing the efficiency of parastatals without resorting to forced dismissals;
- additionally some small devaluation were carried out.

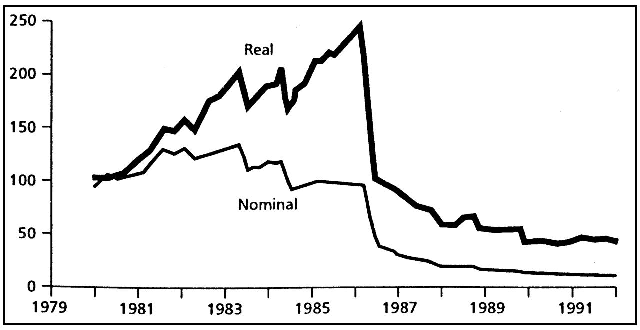
World Bank and IMF conditioned their financial support to the adoption of more far-reaching measures. When the Tanzanian government refused to accept these conditions, most bilateral donors cut financial aid, thus further aggravating the downward spiral of overvaluation, decreasing exports, deficit financing , more inflation, and more overvaluation.

In the face of the crisis and the lack of foreign exchange, the new government under Ali Hassan Mwinyi again entered into negotiations with IMF and World Bank. In 1986, the economic recovery program was launched to address the structural problems of the Tanzanian economy. The major steps taken will now be summarized and briefly evaluated. The review draws intensively on Mans (1994) and Sarris and van der Brink (1994). The overall economic effects of the reforms and their social consequences will be analyzed in section 2.2.3..

Exchange rate management
In 1984/85 the exchange rate was devaluated for the first time. The government could no longer close her eyes to the fact that the parallel market exchange rate amounted to eight times the official one. The cut by one third undertaken, therefore, could not be sufficient to compensate for the accumulated imbalances. The black market premium continued to rise. During the economic recovery program the official exchange rate was even further devalued. Its value fell from Tsh 17 against the US-Dollar in 1986 to Tsh 193 in 1990 (World Bank, 1994). The cumulative depreciation of the real effective exchange rate from 1986 to 1991 amounted to more than 80% (Figure 1). The resolution and magnitude of the currency devaluation finally undertaken by the Tanzanian government is all the more eminent considering its initial reluctance in pursuing this policy as recommended by World Bank and IMF.

Figure 1 Nominal and real effective exchange rates,

1980-92; Index (1980 = 100)



Source: Mans (1994), p. 370.

Liberalization of international trade
Dropping export revenues, declining external aid and lacking access to international credit were some of the reasons responsible for the severe balance of payments crisis Tanzania was facing in the 1970s and 1980s. To cut internal demand for foreign exchange the government responded with extensive quantitative and complex qualitative restrictions on imports. As a consequence, however, the average level of effective protection on domestic manufacturers amounted to some excessive 500 percent. Shut off from external competition, Tanzania's manufacturing activities were highly inefficient. Agriculture, on the other hand, was partly subject to even negative rates of effective protection.

Initially, import liberalization was promoted independently from World Bank and IMF advice. Besides cutting back quantitative and qualitative restrictions on imports, the government introduced the "own-funds" import scheme under the structural adjustment program in 1984. Unofficial sources of foreign exchange could be used to open a foreign exchange account. These accounts could be used to officially import consumer, intermediate and capital goods itemized on a positive list. Besides immediately counteracting the goods shortage prevailing in many sectors of the Tanzanian economy, the complex system of trade restriction could be evaded overnight. As a consequence, average levels of effective protection dropped to 150 percent in 1985, down from 500 percent in 1984. Under the economic recovery program in 1987 Tanzanian authorities introduced the open general license facility. The facility provides access to foreign exchange to importers on a first-come first-served basis. The range of eligible goods that can be imported under that scheme has been enlarged over the years and now comprises most intermediate and a wide range of capital goods. Table 6 shows the growing importance since its inception.

Table 6 Import licenses issued under all financing windows, 1986-91

Source of funds	1986	1987	1988	1989	190	1991
Open general license	--	--	49.70	167.50	309.97	465.39
Normal/free allocation	333.84	483.36	340.20	533.41	383.25	349.16
Import support	184.90	122.59	167.73	203.63	156.85	63.30
Loans, grants and credits	199.28	287.82	542.73	391.79	405.59	314.43
Supplier's credit	153.88	64.34	68.18	30.00	12.98	8.39
Barter trade	11.39	13.63	10.06	5.42	2.90	4.83
Export retention	0.70	2.88	8.12	19.29	19.25	5.60
Owns exchange	475.56	514.68	638.59	484.31	448.46	493.58
Total	1359.55	1489.30	1825.31	1835.35	1739.25	1704.67

-- Not applicable.
Source: Mans (1994), p. 372.

Besides imports, the own-funds scheme described above indirectly promoted (unofficial) exports. A more intentional step towards liberalizing exports was taken in 1986. The export retention scheme allowed exporters to use part of their export earnings to import necessary inputs not available in Tanzania. However, the scheme still was restrictive and required excessive red tape. Its importance, therefore, remained limited (Table 6). In sum, exports have been liberalized far less firmly than imports.

Liberalization of prices and domestic trade
The agricultural marketing system was gradually liberalized after it had been dominated by monopolistic village societies and a single export authority. Liberalization of foodcrop marketing has advanced more successfully than the one of agricultural export crops. For example, since 1992, coffee is sold exclusively via international auctions organized by the marketing board. Also, the process of price liberalization differs significantly within the agricultural sector. While food-crop prices paid to farmers are now market based, the first steps towards liberalizing producer prices for export crops have been taken only recently. Price and marketing liberalization was promoted much more vigorously in the industrial sector, where almost all price controls have been abolished. The "own-funds" scheme described above was an important step also in this context. Moreover, emerging parallel markets de facto abolished remaining regulations.

Fiscal policy and management
The measures adopted under the structural adjustment program had already reduced the central government deficit to 7.3 percent of GDP in 1985 as compared to almost 20 percent in 1979. The economic recovery program subsequently aimed at further decreasing government expenses and raising government revenues and streamlining the tax system. As a result, domestic bank financing of the government budget decreased significantly. However, donor financing still makes up a considerable part of the government budget; the Tanzanian government finances too many development projects, many of these are not sustainable. Tax base, tax compliance and tax enforcement continue to be low, and weak administrative capacity has always been an impediment to both effectively execute and reform the process of budget planning and monitoring.

Monetary policy
The Bank of Tanzania lacked control over monetary expansion almost completely. Excessive credit creation was due to credit financing of the public deficit and high credit demand by individual crop marketing boards. Commercial banks had almost unlimited access to refinancing facilities provided by the Bank of Tanzania. These overdraft facilities were abolished in 1992 and the Bank was granted a more autonomous status. Today, commercial banks are forced to extend credit much more cautiously.

Financial sector reforms
Before adjustment, Tanzania's financial sector performed utmost poorly. It was dominated by government-owned monopolistic institutions; banking supervision was ineffective; interest rates were controlled and bad loans made up a high share of commercial banks' loan portfolio. This was in part also due to weak internal organization and insufficient control mechanisms. The economic recovery program, therefore, provided for creating healthy competition. Only recently, interest rates were liberalized so that they were positive in real terms. Important steps were taken towards more effective regulation and supervision of the banking sector. The coming years will have to show if these reforms will be sufficient to take effect and what kind of measures will have to be taken to complement the ones adopted so far.

Labor and wage policy reform
Although the minimum wage was raised somewhat during structural adjustment, its increase has been far below the rise in cost of living. The public sector has always performed poorly due to low earnings and weak personnel management. Employment guarantees for university graduates inflated the civil service and were therefore abolished in 1991. The government has hesitated too long to reform the efficiency of the public sector. Expected budgetary, social and political costs of reforming the public sector continue to jeopardize a thorough and consistent reform of public authorities.

Public enterprise reform
Before adjustment, Tanzania numbered more than 400 commercial parastatals that exercised a predominant role in many sectors of the economy. Even now, parastatals account for 25 percent of wage employment and 20 percent of GDP. In 1992 the government embarked on reforming the parastatal sector. The measures include privatization of state-owned enterprises and the admission of private competitors. The first experiences made, however, show ongoing reluctance due to expected loss of income from the few profitable companies and due to fear of public discontent.

Social sector policies
During the 1970s Tanzania managed to improve social services significantly, as shown by the indicators in Table 7. In the wake of the economic downturn, however, the costly health and educational services could not longer be maintained properly. Moreover, the qualitative decrease in social sector performance is not even reflected in the quantitative indicators cited in Table 7. The economic and social action program of 1989 provided higher expenses for social services and in 1992 the government announced a population planning program. All these policies, however, have not been implemented so far. The challenges the social sector faces are continuously rising, though, to mention only the ongoing population growth and infectious diseases such as AIDS.

Table 7 Selected development indicators for Tanzania

Indicator	1965	1980	1987
Daily caloric supply	1,832	2,051	2,192[a]
Primary education enrollment (in percent)[b]	32	104	66
Secondary education enrollment (in percent)	2	4	4
Life expectancy at birth	43	52	53
Infant mortality rate (per thousand life births)	138	101	104
Population per nurse	2,100	2,980	8,130[c]
Population per physician	21,700	17,560	26,200

a. For 1986.
b. As a percentage of population in its age group.
c. For 1984.
Source: Mans (1994), p.382.

2.2.3. Reconsidering structural adjustment: The social dimension

The overall economic effects of the reform program will now be examined on the macro level and a closer look will be given at its social consequences. Among the macroeconomic indicators listed in table 8, the real exchange rate shows the most pronounced improvement. After appreciating dramatically from 1981 to 1985, it depreciated at an impressive 24% p. a. from 1986 to 1991 when the economic recovery measures were taken. Both the fiscal deficit as a percentage of GDP and domestic bank borrowing to cover the government budget have fallen significantly. Credit demand continued to be high, however, to finance the loss making parastatal sector and the agricultural marketing system. Due to ongoing monetary expansion the government was, therefore, not able to reduce the inflation rate significantly. During the economic recovery period it still amounted to more than 25% on average. Interest rates remained high and crowded out private demand for credit.

Table 8 Selected indicators of economic recovery program achievements (percent)

Indicator	Pre crisis Period 1970-80	Crisis years 1981-85	Economic recovery period 1986-91
Average annual GDP growth in real terms	4.6	0.1	4.0
Average annual export growth in real terms	0.1	-10.4	5.6
Investment as a percent of GDP	20.1	14.3	31.6
Average annual inflation rate	14.0	31.0	25.7
Fiscal deficit[a] as percent of GDP[a]	12.1	9.4	7.0
Primary fiscal deficit[b] as a percentage of international prices	..	8.6	3.9
Agricultural producer prices as a percentage of international prices	64.5	72.5	59.0
Average annual appreciation of the real exchange rate	0.2	16.1	-24.3
Central government deficit as percent of GDP	12.1	9.4	7.0
Current account deficit as percent of GDP	10.1	5.8	8.5
Gross domestic investment as a percent of GDP	20.1	14.3	31.6
Gross domestic savings as a percentage of GDP			
Official	..	10.4	1.0
... Including unofficial exports[c]	..	10.7	13.3

.. Not available.
a. Central government deficit on a checks issued, before grants basis, including interest.
b. Central government deficit on a checks issued, before grants basis, including interest.
c. Unofficial exports are private transfers from abroad which are often used to finance "own-funded" imports.

Source: Mans (1994), p. 356.

GDP growth and the performance of investment, savings and external trade reflect the long term impact of structural adjustment. GDP grew at an average 4.0 percent annually during the economic recovery period after a near to zero growth in the early eighties. Both figures are likely to be highly underestimated, however, since official data do not cover informal sector activities. Maliamkono and Bagachwa (1990) estimate the extent of the parallel economy at some 30 percent of official GDP. Investment improved considerably and amounted to 38 percent of GDP in 1991 with government and private investment amounting to 12% and 26% of GDP respectively. The efficiency of investment, however, is expected to be very low and a considerable part of these investments is financed by foreign savings. According to official data, domestic savings are extremely low. When official data on savings are adjusted by including unofficial exports, the picture brightens somewhat: Compared to the pre-reform period, adjusted savings rose from 10.7 to 13.3 percent.

Both imports and exports as a ratio to GDP increased during the economic recovery program. Although the ratio of imports to GDP grew almost 40% from 1985 to 1990, the level of imports in real terms has increased only slightly after the own-funds window had been introduced. Official exports as a ratio to GDP amounted to an average of 14% between 1986 and 1990 up from an average of 9% from 1981 to 1985. In real terms, though, total official exports have stagnated since 1990, thus limiting Tanzania's import capacity based on official export earnings. These figures, however, do not include unofficial exports that are supposed to exceed the value of registered exports. Expected exchange rate devaluation, bureaucratic procedures and the avoidance of price controls are some of the reasons responsible for the high volume of unregistered exports.

Taking a closer look at the industrial sector, we see that Tanzania's manufacturing GDP managed to recover significantly from its collapse in the pre-reform period. Although manufacturing GDP rose some 23% from 1986 to 1991 and was positive in real terms in almost every year, official data still estimate manufacturing at less than 10% of total GDP. Again, limited data quality suggests that formal sector activities are underestimated. Moreover, informal sector activities are completely left out from government statistics. How manufacturing sector's export performance has improved can be seen in table 9. Manufacturing exports tripled from $33 million to $99 million between 1984 and 1990. Although their volume declined in 1991, manufactured exports still made up 18% of total exports, compared with 9% in 1984.

Table 9 Exports, 1984-91

Exports	1984	1985	1986	1987	1988	1989	1990	1991
Traditional export [a]	268	196	262	201	224	213	221	198
Minerals	34	22	13	22	16	20	32	42
Petroleum products	23	13	5	7	12	17	16	7
Manufactured goods	33	33	39	63	73	105	99	63
Other	31	21	29	54	48	60	73	42
Nontraditional exports	120	90	86	146	149	201	219	154
Total exports	388	286	348	347	373	415	441	352

a. Traditional exports include coffee, cotton, sisal, tea, tobacco, and cashew nuts.
Source: Mans (1994), p. 395.

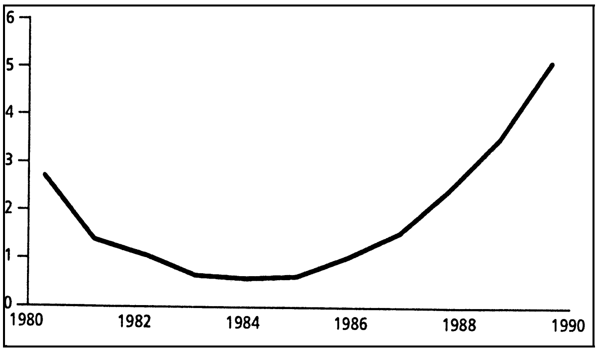
According to the World Bank Policy Research Report `Adjustment in Africa´, adjustment has generally improved the welfare of the poor (Faruqee and Husain, 1994). The situation of individual poverty groups is supposed to be affected in a distinctive way due to the broad variety of measures taken to adjust Africa's economies. In the case of Tanzania, the impact of structural adjustment on the poor as a whole and on individual poverty groups cannot be evaluated directly, however, because detailed time series data are not available. Not only research has failed to deliver the necessary data. World Bank, IMF, as well as national policy-makers did not properly assess the impact of the reform measures (van der Geest and Köttering, 1994). Nevertheless, there are several possible indicators we can fall back upon to assess the changing poverty profile during structural adjustment: First of all, a closer look has to be taken at the rural sector, because the vast majority of Tanzania's poor derive their livelihood from agricultural activities. Other indicators serving as proxies for the impact on the poor include income changes and public spending on social services.

Table 10 Official purchases of traditional export crops, 1980-91

Year	Coffee	Cotton	Pyrethrum	Tea	Tobacco	Cashews
1980	66,6	175,0	2,0	77,7	16,8	56,6
1981	55,0	133,0	1,9	74,9	16,1	44,3
1982	53,5	128,0	1,6	84,5	13,6	33,0
1983	49,1	140,7	1,4	73,0	11,0	48,3
1984	49,0	155,1	1,5	80,2	13,4	32,1
1985	52,8	108,2	1,4	74,4	12,6	19,0
1986	41,5	216,9	1,2	67,7	16,5	16,5
1987	45,7	253,7	1,4	63,8	12,9	24,4
1988	57,3	191,7	1,3	76,8	11,6	19,3
1989	53,2	113,5	1,6	79,5	11,1	17,0
1990	55,9	147,0	1,7	72,4	11,8	33,0
1991	58,0	261,9	2,2	78,0	17,0	36,0

Source: Mans (1994), p. 400.

Figure 2 Value of nontraditional agricultural exports,1980-90



in Billions of 1990 Tshs (deflated by CPI)
Source: Mans (1994), p. 401.

Table 11 Real price indexes, 1980-91

Year	Maize	Rice	Beans
1980	87	76	101
1981	100	100	100
1982	88	100	142
1983	131	133	157
1984	125	134	186
1985	77	102	142
1986	63	76	108
1987	67	72	111
1988	65	76	125
1989	57	69	118
1990	85	79	126
1991	92	84	120

Index of real open market prices
1981=100, deflated by CPI
Source: Mans (1994), p. 402.

Agricultural sector performance improved considerably as shown by various economic indicators:

- Agricultural GDP increased by 4.9% p.a. between 1986 and 1991;

- The volume of food sales increased substantially and even doubled between 1983 and 1988. With improved food availability, in 1990 Tanzania did no longer have to rely on food imports;
- Sales of traditional export crops increased by 68% between 1985 and 1991 (table 10), although sisal and cashew nut sales continued to perform poorly;
- Nontraditional export crops increased fivefold since 1985 (figure 2).

In part, these achievements have to be ascribed to the good weather conditions at the beginning of the recovery program. Trade and marketing liberalization lead to improved marketing efficiency and the consumer goods became much more available thus providing incentives for increased production and productivity.

The consequences of price changes observed in the agricultural sector are less straightforward and need to be analyzed separately for different economic participants. After real food prices had risen substantially in the pre-reform period they declined dramatically between 1984 and 1989. (Bad weather provoked the renewed price increases in 1990 and 1991.) The drop in real food prices (see table 11) clearly benefited consumers. Since poor households generally spend a substantial part of their income on basic food consumption, Tanzania's rural and urban poor are expected to have benefited relatively more than better-off households. Producers of traditional crops, however, could not translate improved terms of trade into a better export performance: Production levels stayed far below potential because monopolistic marketing institutions and inefficient cooperatives absorbed much of the terms of trade gains and left farmer incentives almost unchanged. Improved terms of trade could benefit nontraditional exporters, though, because this sector was liberalized with much more determination and thus early provided powerful incentives for increased production and export activities.

Mans (1994) argues, that structural adjustment - at least to some extent - had been successful in fighting poverty. Like in other countries, Tanzania's urban poor are better off than the poor in rural areas. Economic growth and above all the expansion of the informal sector have pushed the urban income level to four times the one prevailing in rural areas, albeit from a low starting point. Urban consumption has benefited from lower foodgrain prices. 39 percent of urban households are supposed to be poor while in the capital Dar es Salaam allegedly only 9 percent fall below the poverty line. However, even the standard of living of the non-poor is low compared to international standards. Poverty is much more wide-spread throughout rural areas, where 59 percent of the households are believed to be below the poverty line. Moreover, 90% of Tanzania's extreme poor belong to village areas. The economic recovery program could also reverse the decline in rural living standards. Both, export prices and production have increased for nontraditional crops. Both, agricultural and industrial goods exporters selling via official channels have benefited from exchange rate devaluation. Traditional crop farmers also increased their income from higher production in spite of the decline in prices. On the other hand, infrastructure, especially in rural areas, has deteriorated further; inadequate transport networks are responsible for high transportation costs and agricultural extension has worsened due to low civil service salaries and lack of trained personnel.

Finally, social sector policies - comprising the educational and health subsectors - pursued during the economic recovery program need to be evaluated with respect to their effectiveness in improving the livings standard of the Tanzanian people. Although real government expenditure on education has increased some 13 percent p.a. during the economic recovery program, educational services continued to deteriorate. More than 88 percent of the rural population does not attend primary school. On the other hand, there are not enough qualified teachers to cope with the increase in primary school enrollment. Only 3.5 percent of rural children younger than 14 years have a secondary education and only 10 percent of the educational budget went to secondary schools during the economic recovery program. The majority of secondary schools is now run by NGOs. While university education remains free of charge, school fees have been introduced at the primary and secondary level. The fees are too low, however, to cover costs, and fee collection is not enforced effectively.

The little data available on the health sector show a similar pattern. Although real government expenditure grew significantly each year, per capita expenses even declined due to ongoing population growth. Medical equipment is poor and the management of the public health sector remains weak. NGOs now provide 35% of health services in Tanzania. Tanzania's health sector problems are directly linked with the inferior infrastructure such as poor water supply. It is a truism, that future progress in improving the state of health of the Tanzanian people to a large extent depends on better infrastructure and more income possibilities for the working poor.

Shortly recapitulating and summarizing the Tanzanian experience, both internal and external factors were identified responsible for the sharp economic decline in the late 1970s and early 1980s, with excessive government intervention probably being the most import impediment. High inflation, goods shortages prevailing in most economic sectors and emerging parallel markets forced the government to adopt a structural adjustment program in the mid-eighties. Rigorous action was not taken until 1986, however, when the economic recovery program was launched, supported by World Bank and IMF. The macroeconomic starting point as well as the variety of adjustment measures taken are well documented and described above. It has been shown that liberalizing the Tanzanian economy and improved private sector incentives have clearly contributed to economic growth. Since the informal sector is unregistered per definition, there are no consistent long-term time series data available to assess the impact of adjustment on individual poverty groups directly. Looking at different indicators to serve as proxies, however, it seems that almost all social sectors have benefited from this upward trend and poverty has declined in both rural and urban areas. In contrast, many social indicators, above all in the educational and health sectors, continue to show an almost unchanged picture, though. Once more it has become clear that thorough, independent and long-term research is indispensable in the future to fully understand the effects of macroeconomic adjustment on households and individual poverty groups.

3 FROM THE SPECIFIC TO THE GENERAL

The criticism addressing the SAP concept at the beginning of the 80s was not surprising. It addressed the economic narrowness of the concept, particularly the fact that the formal and informal institutions in sub-Saharan Africa (SSA) as well as the social dimension of adjustment was neglected. The former was particularly detrimental to the privatization strategy within SAP. The latter points to the fact that certain population groups have suffered during adjustment when proper safety nets were not in place. Since the second half of the 80s, SAP tries to consider the structural overall conditions in SSA and the negative social impacts in its measures (Brandt 1997; Picciotto and Weaving 1997). In 1992, the World Bank modified its policy directive on adjustment lending to incorporated more explicit guidance for dealing with the social aspects of adjustment (Picciotto and Weaving 1997).

The adjustment process is complex and numerous intervening factors (global market, military conflicts, droughts, etc.) make it difficult to carry out a quantitative impact analysis of SAP that is comparable across different countries. Presently, statistical cross-section analyses could not unambiguously demonstrate the success of SAP. Also, even in countries that could be stipulated as successful (e.g. Ghana, see Figure 3) figures demonstrate that the economic recovery is largely based on the exploitation of non-renewable resources and has been accompanied by agricultural stagnation. Brandt (1997) points out that since 1993/94 some 20 countries have achieved positive per capita growth rates. He claims that this was due mainly through improved terms of trade. Nevertheless, since 1993/94 higher prices for primary goods and stable prices for industrial goods have allowed the terms of trade to clearly recover. The considerable devaluation (e.g. of the Franc CFA in Jan. 1994 by 50%), the rising world market prices for cereals, the halting of regionally targeted dumping of agricultural products by industrialized nations and a lower volume of food aid have led to increases in real prices in domestic food markets. The implementation of the WTO will increase these influences even more. Yet, in the global economic context, SSA still plays an insignificant role. It can be pointed out, however, that the overall mean per capita income in SSA is at best at the 1960 level. Its share in trade is approximately 1.7 %, the share of private finance and direct investment is below 1 %. Even if the terms of trade continue to be favorable and the SAP measures remain suitable, a lengthy running-in time is necessary before the economy will react on a broad basis (Brandt 1997).

Picciotto and Weaving (1997) refer to Jayarajah et al. (1996) with respect to the longer-term aggregate effects of adjustment on poverty. Successfully adjusting countries have apparently been capable of reducing poverty. Out of 23 countries that have implemented successful adjustment programs and that had micro-economic data available of the before and after situation, poverty declined in about one third (15 countries) of the cases. A reduction in poverty was observable in all five of the Asian country cases, but in only half of the ten countries studied in Latin America and in three of the five in SSA (see Figure 3). The study by Jayarajah et al. (1996) show that adjustment facilitates growth and that growth is highly correlated with poverty reduction. Of the 23 adjustment borrowers whose GDP increased, 19 demonstrated an unambiguous reduction in poverty. All in all, however, where adjusting countries have reduced poverty, they have not reduced it significantly. Poverty fell by less than 1 % annually in six countries, by 1 to 2 % in five countries, and by more than 2 % in only four countries out of the sample of 23 countries that are depicted in Figure 3. In fact, poverty increased in eight countries (Picciotto and Weaving 1997).

Figure 3 Poverty outcomes in successfully adjusting countries

Reduced poverty and inequality	Reduces poverty but not inequality	Did not reduce poverty
Colombia	Bolivia	Argentina
Costa Rica	Mexico	Brazil
Jamaica		Panama
		Uruguay
		Venezuela
Ghana	**Tanzania**	**Ivory Coast**
	Nigeria	Kenya
Indonesia	Bangladesh	
Pakistan	Thailand	
Philippines		

Morocco Tunisia (9)	(6)	Jordan (8)

Source: Picciotto and Weaving (1997)

On average, social indicators in SSA have improved, nevertheless, often due to donor initiatives. This meant that in numerous countries the health and education budgets are largely dependent on donor contributions. Despite this, the number of absolute poor increased from 105 million people in 1985 to 216 million in 1992 in SSA (Brandt 1997). Thus in the newer SAP, severance pay and assistance to retrenched workers are becoming standard features. Emergency public works, such as food for work programs, may be part of the social dimension of adjustment. Prices for food crops may be raised more slowly than other agricultural prices, or general food subsidies may be replaced by subsidies targeting particularly the poor (Picciotto and Weaving 1997). Jayarajah et al. (1996) found in their sample of successfully adjusting countries (see Figure 3) that public spending increased in more that half the cases and rose on average in Asia, Latin America and SSA. Social spending as a percentage of GDP fell less than government discretionary spending as a whole. They state also that social spending per head moved up consistently, and on average was more than 10 % higher in the post-adjustment period than before. Where the adjustment experience was mixed, social spending trends were mixed too. However, per capita social spending fell in real terms in almost two-thirds of the countries. This was largely due to population growth (Jayarajah et al. 1996). Picciotto and Weaving (1997) emphasize that if social spending was protected in adjusting countries, it was more because of their public employment content than because of a desire to maintain adequate services for the poorer population segments.

Public spending, in general, fell as a percentage of GDP in adjusting countries. Most of the cuts hit the economic services, particularly infrastructure. Investment in infrastructure (transport, communication and energy) fell in 85 % of the countries borrowing for adjustment. Given the vital importance of infrastructure this gives room for apprehension. To sum up, trends in public spending emphasize the necessity for selectivity when budgets are becoming narrower. It is crucial to give priority to services for producers and to basic health, education, and social security services (Picciotto and Weaving 1997).

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