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Article

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compatible with the two articles. These measures have to be phased out within two years (industrial countries), five years (developing countries) and eleven years (least developed countries). Developing countries may, however, still continue to use TRIMs to promote economic development (Article XVIII, Gatt). Beside the missing comprehensiveness of the agreement, discretionary elements thus continue to exist. TRIMs will have to remain high on the agenda of trade policy agreements.[21]

Summary

The world economy has changed substantially in recent years. Unilateral trade liberalizations in many developing countries, the completion of the internal market programme of the EC, as well as the ongoing system transformations in central and eastern Europe have created new chances for a more integrated world economy and new growth opportunities. Whether these potential gains can be realized depends not only on sound domestic policies but also on the future external policies of the main economic actors in the world.

Tariffs no longer represent the most serious impediment to international trade. As the importance of tariffs in restricting free trade has been declining, non-tariff barriers are becoming increasingly important. Similar to classic tariffs selective trade restricting instruments reduce competition and give wrong incentive signals. Due to their selectivity, trade may be distorted significantly even if the share of trade covered by those measures is relatively small. Anti-dumping measures and trade related investment measures represent two NTBs that have become increasingly important.

The analysis has shown that anti-dumping investigations have frequently been initiated against exports from developing countries as well as against producers from central and eastern Europe. A number of discretionary elements remain in the initiation procedure and in the evaluation of dumping actions. They may be misused for discriminatory protectionist purposes.

TRIMs may be seen as one typical example of the vicious circle of regulations, circumventions and new regulations. Quantitative restrictions such as voluntary export restraints encouraged international companies to circumvent them by directly investing in the foreign country. As a consequence governments either include domestic production by foreign companies in quantitative restrictions or try to regulate foreign direct investment by means of various TRIMs. The agreement on TRIMs within the Uruguay Round must be seen as only a first step in the right direction. Escape clauses for developing countries as well as the consideration of only a few selected types of TRIMs represent the major weaknesses of the agreement. A more comprehensive agreement is needed.

[21] Peter Nunnenkamp: The World Trading System at the Crossroads. Multilateral Trade Negotiations in the Era of Regionalism, Kiel Discussion Papers, No. 204, March 1993.

STRUCTURAL ADJUSTMENT

Heike Proff*

Structural Adjustment Programmes and Industrialization in Sub-Saharan Africa

In sub-Saharan Africa, like elsewhere in the Third World, great hopes are attached to industrialization as a means of achieving economic and social development. Are the IMF and the World Bank, via their Structural Adjustment Programmes in the region, helping to create a leaner, more competitive industrial sector or are they in fact weakening the industrialization process?

The IMF's and World Bank's Structural Adjustment Programmes (SAPs) in less developed countries are designed to deal with persistent balance-of-payments problems. The IMF, which has played the lead role in developing the SAPs,[1] does not pursue any particular industrial policy for the countries concerned. In general, though, the measures taken by national governments as a condition for obtaining balance-of-payments support lending serve to improve the overall economic environment for efficient, mostly exporting companies.

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Such companies benefit from improved selling and procurement opportunities abroad, particularly following a currency devaluation and the liberalization of trade, while their inefficient counterparts, frequently import-intensive companies, are forced to rationalize or to leave the market altogether as a result of rising import prices and foreign competition.[2] However, in sub-Saharan Africa even relatively large, potentially viable companies have gone through a painful transitional phase in which they have faced intense financial problems, as the World Bank, confronted by increasing destitution in large sections of the population, has shifted the emphasis of its project- or sector-based support away from industry and towards the agricultural sector.[3] Though the Bank does still promote industrial projects, it has nevertheless temporarily switched to placing a prime emphasis on supporting small enterprises and agriculture in order to secure basic needs.

This raises the question of whether the Structural Adjustment Programmes in sub-Saharan Africa are helping to create a leaner, more competitive industrial sector or whether they are crucially weakening the industrialization process which could accelerate the modernization of these countries' economies and societies, or in other words contributing to a deindustrialization process.[4]

This article first considers the significance of industrialization in the developing countries and in the IMF's and World Bank's concepts, and then endeavours to assess the development of the industrial sector since the early 1980s in selected countries in sub-Saharan Africa with the aid of macroeconomic indicators and, in the case of Ghana, by referring to the findings of a survey of the economic situation of industrial companies. Ghana is widely regarded as a classic model of the incidence of the IMF and World Bank programmes.

Significance of Industrialization

Industrialization is taken to mean a process of economic and social transformation during which there is disproportionate growth in the industrial sector and, in favourable cases, a rationalization of production processes in general. Although the assumption that industrialization leads both to economic and social development[5] is subject to some dispute,[6] many developing countries do nevertheless wish to push ahead with industrialization for the following reasons:[7]

- industrialization has been correlated with increased per capita incomes in the present-day industrial countries;
- the countries concerned face deteriorating terms of trade and pronounced fluctuations in the world market prices of agricultural products and raw materials;
- the long-term development potential of the industrial sector is seen as greater than that of agriculture, as the income elasticity of demand for manufactured goods is greater than that of unprocessed goods;
- they need to modernize and rationalize their economies and to create non-agricultural jobs for a rapidly growing population; the concomitant increase in urbanization is expected to promote social transformation and hence also national integration in the less-developed countries;
- finally, it is regarded as a means towards import substitution and technological development.

Failure of Import Substitution

In the hope that they would be able to free themselves from the political and economic dependencies they had been subject to since the colonial era and to diversify their products and markets, many countries which were not very highly integrated, either internally or internationally, opted for a strategy of *import substitution.* The provision of selective, temporary protection against foreign competition was intended to boost domestic production and to achieve link-effects in the longer term to other upstream and downstream processes.

In the event, most sub-Saharan African countries did not manage to make the transition from import substitution to the export diversification which is essential to any thoroughgoing industrialization with an internationally

[1] Cf. International Monetary Fund (ed.): Theoretical aspects of the design of fund-supported adjustment programs. A study by the Research Department of the IMF, Occasional Paper No. 55, Washington, D.C. 1987.

[2] Cf., e.g., The World Bank (ed.): Sub-Saharan Africa: From crises to sustainable growth. A long-term perspective study, Washington, D.C. 1989, p. 117.

[3] Cf. G.M. Meier and W.F. Steel (eds): Industrial Adjustment in Sub-Saharan Africa, New York etc. 1989, p. 3; W. F. Steel: Adjusting Industrial Policy in Sub-Saharan Africa, in: Finance & Development, Vol. 25 (1988), No. 1, p. 36.

[4] Cf. H. Stein: Deindustrialization, adjustment, the World Bank and the IMF in Africa, in: World Development, Vol. 20 (1992), No. 1, p. 89.

[5] Cf. H. H. Glismann, J. E. Horn, S. Nehring and R. Vaubel: Weltwirtschaftslehre. Eine problemorientierte Einführung, Vol. II: Entwicklungs- und Beschäftigungspolitik, 3rd. ed., Göttingen 1987, p. 60.

[6] Cf., e.g., D. Senghaas: Weltwirtschaftsordnung und Entwicklungspolitik. Plädoyer für Dissoziation, Frankfurt am Main 1977.

[7] Cf. A. Kamya: Industrialisation in sub-Saharan Africa: problems and research needs, in: A. P. Smits (ed.): Industrialisation in Developing Countries: Kijkduin Seminar, 29th-30th October 1987, The Hague 1989, pp. 26-29; R. Chandra: Industrialization and Development in the Third World, London & New York 1992, pp. 1-4.

competitive corporate sector.[8] Although it did have a dampening effect on imports of consumer goods, import substitution in these countries, and hence their strategy for maintaining internal and external equilibrium, ultimately failed

- because of the absence or poor performance of intermediate goods and capital goods industries, the increase in imports of such goods and the dependence on foreign economies and foreign-exchange availability,
- because of the absence or poor performance of primary products industries,
- because small enterprises were neglected,
- because of the low capacity utilization in the mainly large, capital-intensive production facilities which, without sufficient downstream and upstream links, primarily met the needs of higher income groups, but not the basic needs of the majority of the population,
- because internal markets were too small and purchasing power too low,
- because production costs were too high due to inefficiency, over-employment and a shortage of foreign exchange,
- and finally because of the overinflated public sector.[9]

Change in the Focus of Support

Following the international financial institutions' inability to prevent economic crises in sub-Saharan Africa with the aid of import substitution strategies in the past, the World Bank has been relying since the mid-1980s upon medium and long-term industrial development. Thus it has again taken up some older concepts of *structural change* from a traditional, chiefly agricultural economy to a modern one, shaped much more by industry and services.[10] The Bank's hope is that agricultural productivity can be raised to such an extent that it will still be possible to feed the population adequately even as non-agricultural activities increase. Agricultural exports, it is hoped, will pay for non-substitutable, essential imports of industrial raw materials and input products while at the same time building a stock of capital. The agricultural sector's demand for industrial products will in turn guarantee a basic market for an industrial sector.

As mentioned above, as large portions of the population in sub-Saharan Africa are increasingly being marginalized, the World Bank has been reducing its direct support for large enterprises and switching towards helping to improve the overall economic environment and providing greater support for small enterprises and agriculture. The idea of this strategy is to attain self-sustaining economic growth;[11] steady growth rather than industrialization as such is the prime aim.[12]

The right kind of data for evaluating SAPs are not available. Although the programmes generally improve the conditions for economic activity, with differing effects on export-oriented and import-intensive businesses, the parallel change in the World Bank's main focus of support can be assumed to have had a negative impact on large enterprises. No comparative enquiries have been made into changes in industrial production as a proportion of gross domestic product in countries with and without SAPs. Comparative analyses of the effects of IMF and World Bank policies in less developed countries[13] and of developments in countries with and without SAPs[14] suggest, having allowed for country-specific differences, that very little improvement, if any, was made in macroeconomic indicators, particularly GDP.

However, none of this offers any way of establishing what effects the SAPs have had on industry. Even if GDP declines, it is still possible for the degree of industrialization, i.e. the ratio of manufacturing output to total GDP,[15] to improve. In addition, manufacturing only represents part of the producing sector in the broader sense.

Developments in Selected Countries

A comparison of five sub-Saharan African countries which had similar levels of industrialization in the late 1970s but which have since undergone very differing degrees of structural adjustment (see Table 1 and

[8] Cf. H.-R. Hemmer: Wirtschaftsprobleme der Entwicklungsländer, 2nd ed., Munich 1988, pp. 532-538.

[9] Cf. N. Wagner, M. Kaiser and F. Beimdiek: Ökonomie der Entwicklungsländer. Eine Einführung, 2nd ed., Stuttgart 1989, pp. 71-73.

[10] Cf. ibid., p. 35.

[11] Cf. The World Bank, Sub-Saharan Africa ..., op. cit., p. 108.

[12] Cf. S. Rajapatirana: Industrialization and Foreign Trade, in: Finance & Development, Vol. 24 (1987), No. 3, p. 2.

[13] Cf. T. Killick and M. Malik: Country experiences with IMF programmes in the 1980s, in: The World Economy, Vol. 15 (1992), No. 5, pp. 599-632; United Nations Economic Commission for Africa (ed.): African Alternative Framework to Structural Adjustment Programmes for socio-economic recovery and transformation (AAF-SAP), Washington D.C. 1989.

[14] Cf. J. Harrigan and P. Mosley: Evaluating the impact of World Bank structural adjustment lending: 1980-87, in: M. H. Malek (ed.): Contemporary Issues in European Development Aid, Aldershot 1991, pp. 83-119.

[15] Glisman et al., op. cit., p. 34.

Table 1

Programmes Instituted by Selected Countries and their Macroeconomic Development

Country	IMF and World Bank Programmes	Macroeconomic Development
Côte d'Ivoire	– Initially a model country for the implementation of a stabilization programme; subsequently, weakening of fiscal discipline and stability, increased corruption, military expenditure and external interest payments – No support from Structural Adjustment Facilities (SAFs) or Extended SAFs (ESAFs), but stand-by credit agreement with the IMF which was regularly renewed – Increased financial aid from the World Bank and from France, the former colonial power – After 1990, initial intensification of structural adjustment, then credit moratorium by IMF due to inadequate implementation of administrative and institutional reforms – Negotiations resumed but again broken off	– With the exception of 1985, fall in real GDP of 21% between 1981 and 1989, a one-third per capita fall – Severe balance-of-payments problems from 1985 to 1989, and decline in the savings and investment ratios – Reduction in the budget deficit from 1990 onwards
Ghana	– Consistent implementation of a Structural Adjustment Programme since 1983 – Continual financial assistance, particularly via SAFs and ESAFs	– Strong reduction in inflation, large devaluation – Real GDP increased by an average of 5.3% per annum since 1983
Kenya	– Short-term IMF stand-by credits and World Bank SAPs in the early 1980s to correct exchange rates and interest rates, compulsory prices and incomes restraint – Withdrawal of financial assistance after the failure of institutional reforms, e.g. reforms of import taxation and export promotion, and resistance by affected parties – Negotiations resumed, broken off, and resumed again.	– Reduction in real GDP growth since 1988 – Foreign-exchange shortage and currency crisis in 1992/93
Zambia	– Showed little willingness to consistently apply economic reforms before 1991, and had a number of major quarrels with the IMF and World Bank – Since 1991, negotiations and cuts in government subsidies	– Decline in real GDP up to 1991 coupled with a deep-seated economic crisis – Since 1991, slight fall in inflation as the first indication of stabilization
Senegal	– Persisting attempts at adjustment since 1983 – In 1986, import substitution strategy superseded by a liberalization strategy	– Real increase in GDP since 1983

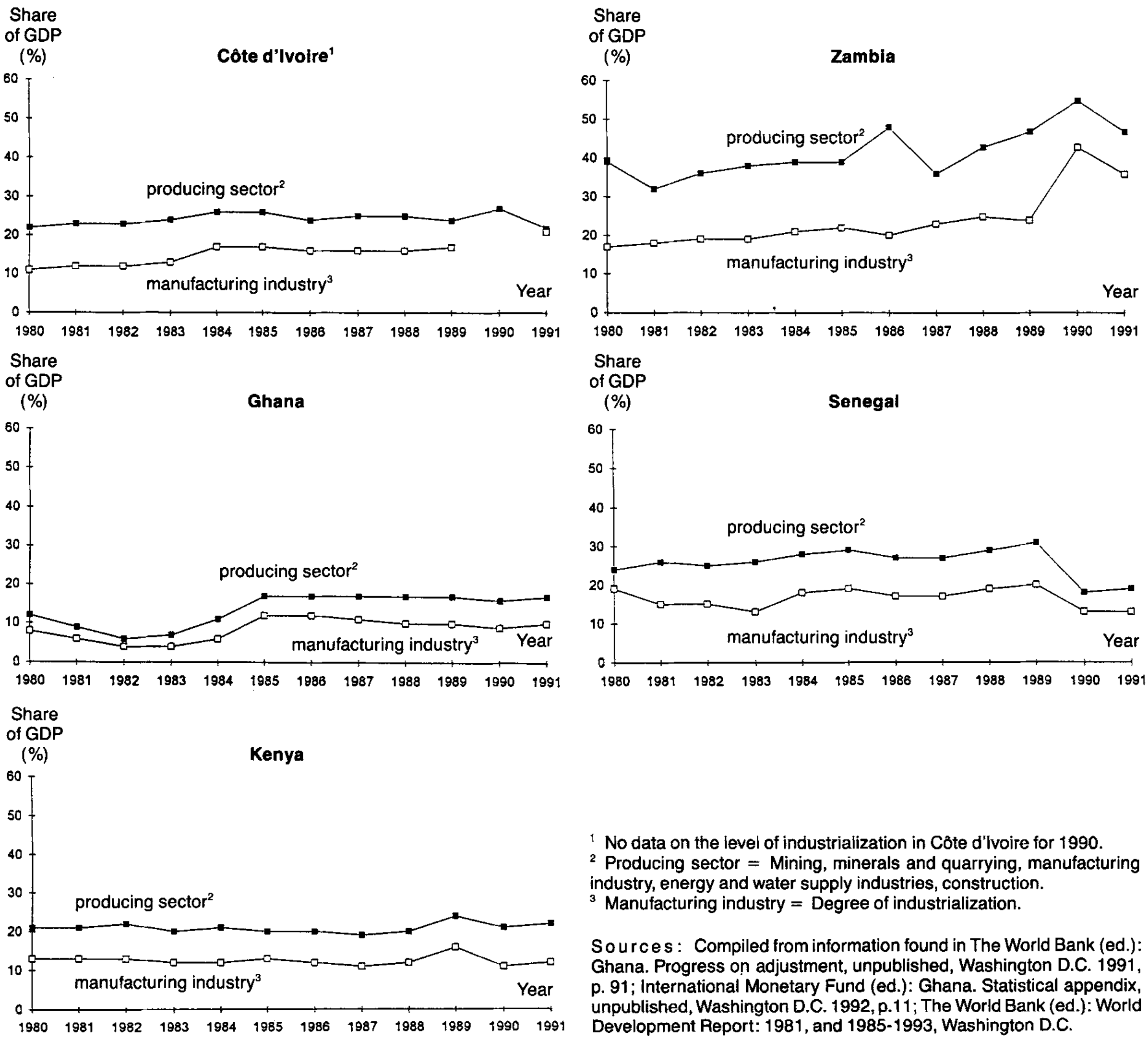
Sources: Compiled from information found, inter alia, in J.-F. Marquis: Das Modell des Scheiterns. 10 Jahre IWF-Politik der Elfenbeinküste, in: Dritte Welt (1992), No. 7/8, pp. 30-31; I. Kapur, M.T. Hadjimichael, P. Hilbers, J. Schiff and P. Szymczak: Ghana: Adjustment and Growth 1983-91, IMF Occasional Paper No. 86, Washington D.C. 1991; I. Stracker: Kenia zur Jahresmitte 1993, Bundesstelle für Außenhandelsinformation, Cologne 1993; Bundesstelle für Außenhandelsinformation (ed.): Sambia am Jahreswechsel 1991/92, Cologne 1992, pp. 1-2; S. R. Weissman: Structural adjustment in Africa: Insights from the experiences of Ghana and Senegal, in: World Development, Vol. 18 (1990), No. 12, p. 1624.

Figure 1), does not furnish evidence of an unambiguous connection between the policies put forward by the international financial institutions on the one hand and overall economic and industrial development on the other. Inadequate data are the main factor impairing such a comparison. Differing resource endowments, cultivation conditions, movements in the prices of export products, or the inflow of foreign capital are not allowed for. The degree of industrialization can at most provide certain indications of the influence exerted upon the industrialization process by structural adjustment programmes.

There has been hardly any increase in the industrialization of these countries since the early 1980s. The only ones to achieve economic growth through SAPs with the support of the IMF and World Bank were Ghana and Senegal. However, despite massive support, neither country has been able to maintain the recovery in the degree of industrialization. Although manufacturing industry in Senegal was well diversified until 1990, it was concentrated almost entirely in the first stage of production with low productivity, inefficient government or quasi-governmental enterprises, high factor costs and an overvalued CFA-franc exchange rate.[16] Since that time,

[16] Cf. H. Ernst: Senegal zur Jahresmitte 1992, Bundesstelle für Außenhandelsinformation, Cologne 1992, pp. 4-5.

Figure 1
Time-Series of Industrialization in Selected Countries, 1980-1991



[1] No data on the level of industrialization in Côte d'Ivoire for 1990.
[2] Producing sector = Mining, minerals and quarrying, manufacturing industry, energy and water supply industries, construction.
[3] Manufacturing industry = Degree of industrialization.

Sources: Compiled from information found in The World Bank (ed.): Ghana. Progress on adjustment, unpublished, Washington D.C. 1991, p. 91; International Monetary Fund (ed.): Ghana. Statistical appendix, unpublished, Washington D.C. 1992, p.11; The World Bank (ed.): World Development Report: 1981, and 1985-1993, Washington D.C.

poor harvests caused by drought and the closure of businesses have led to a fall in industrial production.[17] In spite of the indisputable success of its SAP following the serious crisis of 1981/82 Ghana, too, which was rashly described as a positive case of structural adjustment, is now seeing output and industrialization on the decline. That decline is attributed to the facts that growth has so far largely been funded externally, that the productive sector is withering, unemployment in the informal sector is rising, and real wages are falling.[18]

In Zambia, presumably because of the intensified structural adjustment taking place since the early 1990s, production is currently falling in the largely inefficient industrial sector, and GDP is not yet rising again. It is

[17] Cf. Statistisches Bundesamt (ed.): Länderbericht Senegal 1990, Stuttgart 1990, pp. 63, 66; Statistisches Bundesamt (ed.): Länderbericht Senegal 1993, Stuttgart 1993, pp. 80-81.

[18] Cf., e.g., S. K. Chand and R. van Til: Ghana: Toward successful stabilization and recovery, in: Finance & Development, Vol. 25 (1988), No. 1, pp. 32-35; T. Siebold: Testfall Ghana. IWF und Weltbank in Ghana. Eine Zwischenbilanz, in: der Überblick, Vol. 24 (1988), No. 1, pp. 65-69; R. Speit: Ghana: Aufschwung mit IWF- und Weltbankhilfe?, in: Jahrbuch Dritte Welt (1987), pp. 177-191.

regarded as a prerequisite for sustained economic and, particularly, industrial recovery that the country should reduce its dependence on copper exports and on imported mining equipment. The extent of that dependence has tended to dilute the effect of structural adjustment.[19]

Following a relatively long period with a stable, slightly increasing degree of industrialization, Côte d'Ivoire has seen output in the producing sector decline as a proportion of GDP since 1990. The country's recession is set to persist despite rising world market prices of its chief export commodities, cocoa and coffee. In Kenya too, which is suffering from a combination of scarce foreign exchange, political uncertainty, recession and drought, the prospects for industry tend to be viewed unfavourably.

Trends and changes in industrialization do not provide a sufficient answer as to whether structural adjustment really does strengthen efficient producers capable of future development, or as to whether the industrialization cores are large enough and sufficiently interlinked to form the basis of sustainable future industrialization. It cannot yet be clearly discerned whether deindustrialization is continuing or whether tendencies towards re-industrialization are now taking effect. How the effects of structural adjustment policies are assessed also depends upon what definition of industrialization is used and which year is chosen as the base year for comparison. If for example – as the international financial institutions have done – one takes the producing sector as a whole as the measurement criterion and, as they did in Ghana's case, one takes the crisis year of 1982 as the base year (see Figure1), one can say that the degree of industrialization has risen sharply. However, if one takes the boom year of 1975 as the base year and manufacturing industry as the measurement criterion, one finds that the degree of industrialization at that time was one third higher in real terms than in 1990[20] – a less impressive result. Measured in these terms, the degree of industrialization in Ghana increased strongly from 4% in 1983 to 12% in 1985, but has fallen since that time (Figure 1).

There is a need to analyse the structure and networking of the industrial sector in more detail. Taking Ghana as an example – regarded as one of the positive cases in sub-Saharan Africa – the author has endeavoured to attain a more realistic assessment of the effects of the IMF's and World Bank's SAPs by means of a survey.[21]

The Case of Ghana

The first indications of changes in Ghana's industrial sector since the introduction of its Structural Adjustment Programme are provided by statistics and industry studies. These show a high level of dependence on imports and very limited export orientation. Three-quarters of industrial raw and other input materials are imported, while only 5% of industrial output is exported.[22] There has been a pronounced fall in the number of larger enterprises,[23] and privatization has progressed only very slowly. Though customs duties are being reduced, the level of protection remains high,[24] while increases in efficiency – measured in terms of changes in capital and labour intensities – have been limited, and only evident in a small number of industries.[25] An examination of changes in efficiency and protection levels in individual industries leaves the question unanswered as to whether there are any enterprises operating competitively in other industries.

The author set out systematically, and with appropriate theoretical backing, to establish the correlation between executive decisions in private-sector industrial enterprises with more than 50 employees which are oriented to foreign markets on the one hand and the government measures initiated by the IMF and World Bank on the other. Only larger firms were included in the survey as these are practically the only ones able to export, and only they were affected by the World Bank's changed support approach. As tends to be the case in developing countries generally, government enterprises in Ghana are very inflexible and barely capable of responding to political signals, so the survey concentrated its attention on private-sector companies, examining the effects of the government policy (as influenced by the IMF and World

[19] Cf. J. Loxley: Structural adjustment in Africa: Reflections on Ghana and Zambia, in: Review of African Political Economy, 1990, No. 47, pp. 8-27.

[20] Cf. World Bank: Ghana. Progress on Adjustment, op. cit., p. 8; International Monetary Fund (ed.): Ghana. Statistical Appendix, unpublished, Washington D.C. 1992, p. 11.

[21] H. Proff: Auswirkungen der Politik der internationalen Finanzinstitutionen (IWF und Weltbank) auf importintensive und exportorientierte Unternehmen in Ghana, Verlag für Entwicklungspolitik Breitenbach, series "Entwicklung und Finanzierung", Vol. 1, Saarbrücken 1994.

[22] Cf. Ghana Export Promotion Council (ed.): Export Performance of the Non-Traditional Export Sector, January-December 1990 (by Exporter), Accra 1991.

[23] No official statistics have been compiled on the number of companies since 1986 ("Ghana National Industrial Census 1987" (Phase I and II), Accra 1991, quoted in UNIDO/ILO (eds.): Industrial Sector Review and Programming Mission to Ghana, Accra 1991, p. 116). Of the 8,351 enterprises counted at that time, only 5% employed more than 50 people, yet they accounted for two-thirds of the employed workforce.

[24] Cf. Plan Consult, Louis Berger International Inc. (ed.): Kind and Level of Protection Required by Local Industries – Final Report, Accra/Paris 1991.

[25] Cf. World Bank (ed.): Ghana. Survey of medium and large manufacturing enterprises, Technical Working Paper No.5, Washington D.C. 1990, pp. 28-30.

Bank) upon sales, procurement, investment and employment, or in other words on revenues and material input, capital and labour costs and the overall scope for action available to these companies.[26]

Changes in Sales Conditions

As expected, the sales climate was found to have improved for most of the companies surveyed which export much of their output, while it had deteriorated for many of those exporting little or none of their output, as also had their procurement terms. However, approximately half the import-intensive firms surveyed reported improvements in their selling and procurement conditions. Evidently, the terms on which firms do business are rather less dependent on the import ratio than had been assumed.

In order to establish the effects of government measures rather more precisely, the import-intensive companies were divided into two groups: those with improved sales and procurement conditions and those suffering a deterioration in such conditions. Whether or not they cooperated with foreign companies tended not to have any specific directional influence on the business conditions they faced, for although the number of firms with foreign partners was greater among the group with improved sales conditions than among the group with worse conditions (61% in the former, 45% in the latter), the difference is less pronounced than expected. The survey's findings can largely be explained on the strength of the following assumptions:

Sales conditions have improved as expected after structural adjustment for exporting companies, i.e. those whose markets are abroad and which do not have to import raw materials or other inputs. Even companies previously exporting a relatively small proportion of their output took advantage of the drop in export duties, new export incentives and the improved supply of foreign exchange, not to mention the advantages flowing from a series of devaluations of the cedi. The lower the proportion a company exports, the more susceptible it is to domestic economic influences. Both exporting and import-intensive firms have felt the effects of anti-inflationary policy, of the reorganization of the civil services and public-sector enterprises, the reduction of subsidies, and increasing foreign competition. If one finds sales conditions improving not only for exporting firms but also for many import-intensive companies, the main reasons for that are that they have been able at least partly to compensate for lost demand and foreign competition by

- ☐ improvements in productivity,
- ☐ supplying goods with a low elasticity of demand, particularly everyday products such as groceries and clothing material, e.g. material with traditional Ghanaian patterns, or of goods with limited competition and high transport costs such as furniture, mattresses or plastic tubing,
- ☐ having customers which are relatively immune from the overall performance of the economy such as the government, governmental institutions and the construction trades,
- ☐ or pursuing corporate strategies such as improving product quality, lowering prices, diversifying, reverse integration, and expanding the distribution network.

Hence those among the larger exporting or import-intensive companies which now have more stable or higher sales and profitability tend to have achieved these by their own efforts rather than with the help of externally initiated structural adjustment programmes, no matter how import-intensive they are.

As expected, though, sales conditions for other import-intensive companies deteriorated as they were confronted with stiffer competition and demand fell sharply. Other internal factors within the companies may also have been responsible for this deterioration, such as a lack or even absence of initiative, or decision-making errors. At the time the survey was conducted, in September 1992, a number of companies were on the point of closing down, while others had only been able to survive by diversifying into other activities such as the hotel and catering or wholesaling and retailing trades.

Procurement and Investment Conditions

On the *procurement side,* too, it is only possible to explain the changes which have occurred by the combined effect of a number of different measures. To some extent, these cancel one another out, e.g. the liberalization of goods and foreign exchange markets, currency devaluation and the reduction of subsidies. Though the most important variable affecting a company's procurement is its sales, companies using inputs from abroad nevertheless stated that improved accessibility of procurement markets was more important to them than the higher prices they had to pay for those inputs. If the goods companies are producing have a low elasticity of demand and are relatively insensitive to competition, or if sales tend to be relatively stable, they have a reasonable chance of passing on the higher input prices paid. Conversely, companies which suffered a deterioration in their sales conditions were unable to pass on the input price rises they

[26] For the derivation of the hypotheses tested in the enquiry, see H. Proff, op. cit.

had faced. As expected, they were particularly severely hit by the higher prices generated by currency devaluation and the reduction of government subsidies. Companies with foreign associates, firm supply relationships and supplier credits are better able to survive under these circumstances than others without such associates or such relatively secure procurement arrangements.

Both for exporting companies and for many import-intensive companies, the structural adjustment programme including the liberalization and deregulation of both goods and capital markets, tax reductions and investment incentives not only improved conditions in their sales and procurement activities, but also the *conditions for investment.* Indeed, such conditions even improved for importing companies whose sales and procurement conditions had deteriorated. Jobs thus became more secure for *employees.* However, structural adjustment's more long-term impact upon employment in Ghana was not yet empirically verifiable at the end of 1992.

The Ghana survey results show that the impact of structural adjustment on companies not only depends upon the extent and nature of their involvement in foreign trade but also on their own entrepreneurial strategies. By the autumn of 1992, most of the respondents had embarked upon more or less stable survival strategies, either by concentrating on particular market segments or niches or by diversifying into new, non-core activities. Though the operating environment, especially for potentially viable companies, had generally improved since 1983, it was still far from being regarded as favourable. About one company in five believed it would only be able to survive in the longer term with significant state support. That does not provide an adequate foundation for stable economic development and stronger industrialization.

Increased Number of Small Enterprises

According to studies carried out by the World Bank and the Association of Ghana Industries, the number of large companies in Ghana has fallen since 1983 whereas the number of small to medium-sized enterprises has grown. The liberalization undertaken as part of the SAP has put an end to the long-standing discrimination against these companies regarding the allocation of licences, loans or foreign exchange by the government. Steel and Webster[27] regard the increased number of small enterprises as a positive signal that industrialization is gathering strength. On the basis of time-series and industry analyses, they suppose that industrialization generally begins with a rapid increase in the number of small enterprises, some of which then grow while others remain in market niches. The strategy of import substitution having been a failure, Steel and Webster believe that the provision of support for new businesses is a prerequisite for industrialization. They cite the following three reasons:

- Successful industrialization depends on a base in the domestic economy. The development of small enterprises not only encourages the growth of an experienced entrepreneurial stratum in society, but there is also a growing likelihood of capital being invested in the domestic economy and of people being capable of running larger companies.
- Small enterprises tend to be more labour-intensive than large ones, and are more likely to use appropriate technologies. As the number of small enterprises grows, output could be expected to increase by a continuous process of technological improvement.
- Small enterprises act as suppliers to large ones and are in a better position than large companies to serve a widely scattered domestic market.

Nevertheless, however important the promotion of small enterprises may be from the point of view of creating jobs, their development potential remains limited. Another disadvantage from the state's point of view is that, because such enterprises operate mainly in the informal sector, increases in their output do not enhance tax revenue as growth among large enterprises would do. Finally, increasing competition from abroad means that only larger enterprises have a real chance of growing substantially.

Need for Intensified Cooperation

Since Ghana introduced its Structural Adjustment Programme, although there have been pronounced increases in the level of industrialization, productivity, value-added and capacity utilization, the country still has not succeeded in creating new jobs in structurally strong businesses which are competitive both in home and foreign markets, and which use an increasing proportion of domestically obtained raw materials and other inputs. Thus the World Bank's positive assessment of the impact of SAPs needs to be seen in perspective. On a longer-term, macroeconomic view the outcome appears rather less favourable than on a short-term, sectoral view.

Certain key features of a thoroughgoing industrialization are absent, such as

[27] W. F. Steel and L. M. Webster: How small enterprises in Ghana have responded to adjustment, in: The World Bank Economic Review, Vol. 6 (1992), No. 3, pp. 423-438.

☐ changes in employment and occupational structures and the qualification patterns of the workforce, particularly a falling number of people in subsistence employment and in the informal sector coupled with increased employment in the formal sector, in industry, wholesaling and retailing, and in services,

☐ above-average growth in value added and in industrial exports,

☐ and technical and organizational changes in production processes.

Industrialization along South-East Asian lines would call for firmer leadership and more control over economic development by the state, which in particular would have to invest more in human capital and the infrastructure, e.g. by improving educational and training facilities as well as transport and communications. A relatively stable, reliable institutional framework is not in itself sufficient to spur on private-sector initiative in Ghana. A prime indication of this is given by the level of foreign direct investment which is still too low. Because the domestic market is only small, economies of scale can only be achieved by exporting more or by specializing. Intensified inter-governmental cooperation in West Africa and a more effective division of labour among Ghanaian companies would both be helpful.

Is there now a danger of deindustrialization in Ghana, as is often claimed,[28] because the new enterprises are not emerging to replace those forced to close down? A continued improvement in operating conditions for older and for new enterprises could be expected to generate increased employment, value added and incomes. Since the early 1990s, greater support and encouragement has again been given to larger private and externally oriented industrial enterprises; in Ghana's case that support has been made available by a World Bank investment programme[29] and by the Bank of Ghana. The latter's activities include acting as an intermediary to attract outside investment in companies with future potential. As hardly any use had been made of the World Bank programme by mid-1992, the World Bank is now providing targeted support to approximately 40 companies, having first vetted approximately 200 industrial enterprises with regard to their eligibility for promotion. Thus the Bank has now indeed recognized that larger enterprises, too, require financial and technical assistance.

Successful instances of industrialization under the SAP have so far amounted to little more than the increased real net output of a number of important enterprises, including a large aluminium smelter, which had been unable to produce at times of crisis due to lack of raw materials. Because many suppliers of input and intermediate products had to close down, there is a lack of industrial procurement and sales markets. Though the economic environment has improved markedly, the economy still has not yet returned to its level of development in 1975. So the prospects for greater industrialization are not very favourable.

Limited Room for Manoeuvre

If industrialization prospects are not especially bright even in a country which is regarded as a positive model of the benefits of structural adjustment, one could expect other African countries with a much more one-sided economic structure, such as Zambia, to be in a still less favourable position. In view of the increasing discrepancy between the needs of a rapidly growing population and the scarcity of resources, a continuation of existing IMF and World Bank programmes would hardly seem to offer any major chance of industrialization. UNIDO, too, reaches a relatively unfavourable assessment of industrial growth in sub-Saharan Africa in the short to medium terms.[30] If the industrial countries do not put a stop to their protectionism against goods from this region and if the countries themselves do not manage to cooperate more strongly on a regional basis to attain the market size necessary for the efficient production of manufactured goods, then other strategies will need to be considered.

One idea which does not appear very promising is an approach being considered by the World Bank[31] which would entail allowing countries with low levels of industrialization to develop via the agricultural sector along similar lines to New Zealand, by means of long-term supply arrangements with multinational companies. This idea recalls some of the options which were considered immediately after independence. At that time, it was noted that countries pursuing a one-sided orientation to agricultural produce would face fluctuating world market prices of raw materials and deteriorating terms of trade; they were therefore recommended to industrialize by fostering import substitution. Today, however, the room for manoeuvre is far more limited in view of the considerably larger population and increased indebtedness.

[28] Cf., e.g., H. Stein, op. cit., p. 89.

[29] The World Bank (ed.): Report and recommendation of the president of the International Development Association to the executive directors on a proposed credit of SDR 84.6 million to the Republic of Ghana for a program to promote private investment and sustained development, unpublished, Washington D.C. 1991.

[30] United Nations Development Organization (UNIDO) (ed.): Industry and Development, Global Report 1991/92, Vienna 1991, p. 51.

[31] Information supplied verbally by a World Bank staff member in Ghana.