The Center for Research on Economic Development at The University of Michigan

presents a report on the

Workshop on Economic Reform in Africa

July 18 - 20, 1989
Nairobi, Kenya

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Prepared by
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Preface

In July 1989, a Workshop on Economic Reform in Africa was held in Nairobi, Kenya. The workshop was organized by the Center for Research on Economic Development (CRED) of the University of Michigan, with financial support from the United States Agency for International Development (USAID). In Nairobi, the African Economic Research Consortium (AERC) assisted in facilitating the workshop.

This volume brings together revised versions of the papers, keynote addresses and major presentations which were delivered in Nairobi. It also includes a Summary of the Proceedings prepared by the project director, Dr. David Gordon. These materials express the 'state of play' in policy reform in Africa as well as raise crucial questions about the design, implementation, and political sustainability of the policy reform process.

The prime purpose of this workshop was to provide an opportunity for dialogue among senior African government officials concerning the design and implementation of current economic reforms. The Workshop built upon CRED's two very successful Seminars on Economic Reform in Africa, held in September 1988 in Nairobi and Abidjan. The 1989 workshop was fully bi-lingual and brought together delegates from all regions of sub-Saharan Africa, allowing an exchange of experiences and perspectives between anglophone and francophone participants. The workshop also provided the opportunity for African government officials to interact with independent researchers from a number of African, American, and European institutions and with officials from international organizations like the World Bank and the International Monetary Fund, in a relaxed and open atmosphere. The workshop was designed to facilitate a fruitful exchange of information, experiences and perspectives on the following themes: to review the experiences of policy reform and economic adjustment in Africa; to assess the impact of these programs on growth and equity; to draw lessons about key issues in the design and implementation of such programs; and to explore viable options for the future in several key policy areas.

The Center for Research on Economic Development is indebted to a range of individuals and institutions for their support in successfully undertaking this project. At USAID headquarters in Washington, Jerry Wolgin and Collette Cowey provided continual support. Youssouf Sylla of the Economic Development Institute (EDI) of the World Bank provided background case-study material. We are especially grateful to the two keynote speakers, Hon. Alassane Ouattara and Hon. Harris Mule for their personal interest and participation in the workshop. We would also like to thank Alfidja Abderrahmane for delivering Mr. Ouattara's speech, which he was unable to give due to a last-minute development.

In Nairobi, we would like to acknowledge the assistance of Jeffrey Fine and Benno Ndulu of the AERC. The USAID regional office and Kenya mission provided logistical assistance. In particular, we would like to thank Steven Sinding, Director of USAID/Kenya, and Satishandra Shah, Director of REDSO/ESA. Josefina Benson adroitly supervised the on-site logistical details. We are also grateful to the hospitable staff at the United Nations Common Services at Gigiri and the Serena Hotel in Nairobi.

At CRED, Christine Elias and Michael Aliber took responsibility for the very complex set of logistical arrangements which the project entailed. Nicole Yohalem, Jennifer Walrad, and Cathy Warner provided the support work; Susan Johnson managed the budget. We are especially indebted to Anne Hudon for editing this final report, as well as to Francisca Beer, Gisèle Bisaccia, and Nicole Tazartes who translated the English text into French.

Ernest J. Wilson, III
Director, CRED

David F. Gordon
Project Director

Ann Arbor, Michigan
December, 1989

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List of Acronyms

AERC	African Economic Research Consortium
BCEAO	Banque Centrale des Etats de l'Afrique de l'Ouest
CRED	Center for Research on Economic Development, the University of Michigan
ECA	Economic Commission for Africa, United Nations
EEC	European Economic Community
FAO	Food and Agriculture Organization of the United Nations
FCFA	francs CFA (50 FCFA = 1 franc français)
FMI	Fonds Monétaire International
GDP	Gross Domestic Product
IBRD	International Bank for Reconstruction and Development
IFC	International Finance Corporation, World Bank
IFPRI	International Food Policy Research Institute
IMF	International Monetary Fund
OECD	Organisation européenne de coopération et de développement
PIB	Produit intérieur brut
PNB	Produit national brut
PNUD	Programme des Nations unies pour le développement
SSA	Sub-Saharan Africa
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WHO	World Health Organization

List of Participants

Workshop on Economic Reform in Africa
Nairobi, Kenya July 18 - 20, 1989

Participant	Country/Pays -- Affiliation	Position/Titre
Alfidja Abderrahmane	BCEAO	Directeur Central de la Formation Professionnelle
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Peter Anyang-Nyongo	African Academy of Sciences	
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Leonard Gbaguidi	Benin	Directeur Général, Ministère de l'Industrie et de l'Energie
David F. Gordon	Center for Research on Economic Development	Project Director
Paul Horsnell	International Center for Economic Growth	Researcher

Participant	Country/Pays -- Affiliation	Position/Titre
Ousman Jammeh	The Gambia	Principal Planner, Ministry of Economic Planning and Industrial Development
Henri Josserand	OECD/Club du Sahel	Economiste
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Mokgwathi, Goitsemodimo	USAID/Botswana	Mission Economist
John T. Mukui	World Bank	Economist, Nairobi
Harris Mule	Kenya	former Permanent Secretary, Ministry of Finance
Dr. Andrew K. Mullei	African Centre for Monetary Studies	Director General
Egide Ndahibeshe	Burundi	Directeur Général des Recettes, Ministère des Finances
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Christine Ntamagiro	Burundi	Directeur de la Planification, Ministère du Plan
Dr. Alassane Ouattara	BCEAO	Gouverneur
Babatoundé Rachidi Radji	Benin	Directeur General, Ministère du Plan et de la Statistique
Dr. S. Ramakrishnan	Harvard Institute for International Development	Project Associate and Senior Advisor
Alexis Rieffel	IMF	Assistant to the U.S. Executive Director
Michael Roth	Land Tenure Center, University of Wisconsin	Professor, Agricultural Economics
Dr. Sall Abdoulaye	Mali	Directeur Général, Office des Produits Agricoles du Mali
Sy Savane	Guinea	Directeur Général Adjoint de la Coopération Internationale, Ministère du Plan et de la Coopèration Internationale
Mamecor Sene	Senegal	Directeur, Département des Projections, Ministère de l'Economie et des Finances
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Ernest J. Wilson, III	Center for Research on Economic Development	Director

Summary of Proceedings

Nairobi, Kenya
July 18 - 20, 1989

David F. Gordon
Project Director
Center for Research on Economic Development
The University of Michigan

The Workshop on Economic Reform in Africa was convened on the morning of Tuesday, July 18, 1989 at the United Nations conference facility at Gigiri, on the outskirts of Nairobi, Kenya. Professor Ernest J. Wilson III, Director of the Center for Research on Economic Development (CRED), and Professor David F. Gordon, project director, were in the chair. Delegates were in attendance from nearly twenty sub-Saharan African countries, representing both African governments and research institutions from all parts of the continent. African delegates were equally drawn from francophone and anglophone nations. In addition, delegates and observers were also present from the United States Agency for International Development (USAID), the World Bank, the International Monetary Fund (IMF), the United Nations Development Program (UNDP), and other international agencies and foundations.

Professor Wilson welcomed the delegates, noting that the Workshop was a follow-on to two successful Seminars on Economic Reform in Africa that had been held nine months earlier, one in Nairobi and one in Abidjan, Côte d'Ivoire. In his opening remarks, Professor Wilson stressed the global nature of economic reform in the 1980s and put the African experience of "structural adjustment" and "economic recovery" programs into a broader historical context. He remarked upon the extraordinary range of countries in which economic reforms, under one rubric or another, are being carried out: from "perestroika" in the Soviet Union to industrial "restructuring" in Western Europe to "structural adjustment" in the Third World. Wilson commented on both the technical difficuities involved in economic reform and on its political volatility. He stressed the importance of reform efforts to Africa's future and challenged the delegates to undertake a lively and fruitful exchange that would be both stimulating and useful to their continuing work in reform efforts in their home countries.

In his introductory remarks, Professor Gordon presented the hypothesis that Africa was entering the third phase of its policy reform endeavors. The first phase was marked by a broad debate about the causes of economic hardship and basic strategies for confronting economic decline. The key events of the first phase were the publication of two major reports -- the <u>Lagos Plan of Action</u>, drawn up by the Organization of African Unity in 1980; and the World Bank's <u>Accelerated Development in Sub-Saharan Africa</u>, issued in 1981. The second phase was marked by concerted international efforts to address Africa's continuing economic decline and the initiation of national level programs supported by the World Bank, the IMF, and other international donors. The high point of this second phase was the Special Session of the United Nations General Assembly held in 1986 to explore mechanisms for responding to Africa's crisis.

The third phase, according to Gordon, is attempting to chart the future of economic reform efforts, based at least partially on the early results of efforts undertaken so far. This phase has been inaugurated by the publication of two recent reports assessing the early results of Africa's adjustment efforts. One report, cautiously optimistic, has been issued by the World Bank and the UNDP. The second report, issued by the United Nations Economic Commission for Africa (ECA), is substantially more pessimistic and calls for a fundamental recasting of efforts. Professor Gordon stated that the timing of the Nairobi Workshop was especially propitious, coming as it does at the beginnings of this third phase, in that it offers African technocrats themselves the opportunity to review a range of country experiences in the design and implementation of economic reform programs.

Introductory remarks were then made by the Director of the USAID Mission in Kenya, Dr. Steven Sinding. Sinding took the opportunity to urge the delegates to persevere with the technically complicated and politically difficult reforms that had been started in Africa during the past several years. He criticized the ECA report for being far too quick in passing negative judgments on the outcome of policy reform efforts, especially given the negative results of two decades of statist policies that preceded the recent reform efforts. Sinding drew a parallel between the current discussions concerning economic reform and those of a decade or two ago concerning population planning. As was the case with economic reform today, so too was there a tendency among African officials to see population planning as simply a fad among the donors. Similarly, the early efforts in population planning were often accused of being ineffectual. But, just as almost all African countries have come to believe in the necessity of more effective population planning, so Sinding foresees the evolution of African attitudes becoming much more favorable to economic reform.

Mr. Sinding then introduced the first of the Workshop's two keynote speakers, Harris Mule. Mr. Mule, former permanent secretary in the Ministry of Finance in Kenya, was one of the architects of Kenya's economic reform program and is a distinguished figure in international development circles. He is the Chairman of the Advisory Board of the African Economic Research Consortium (AERC), which assisted CRED in facilitating the Nairobi Workshop. Mule reviewed the evolving meaning of the concept of economic reform and the evolution of policy reform efforts in Africa in the 1980s. He emphasized the evolution from a short-term approach that focussed on external imbalances and demand-side macroeconomic management to a longer-term approach that also seeks to change the basic productive structure. In this evolution, stabilization programs were necessary but not sufficient for restoring growth. The shift to a longer-term "structural" perspective, however, has been made more difficult by the fact that the economic theory behind structural adjustment is much weaker than that supporting stabilization.

Mule then turned to address the question of the impact of economic reforms undertaken thus far. While emphasizing the difficulties in disentangling different factors and the short time frame involved, Mule argued that improvements are evident, especially in countries which had been most severely hurt by poor policies. He went on to argue that the policy reforms involved in structural adjustment are likely to be a necessary precondition for achieving the longer-term fundamental transformation of African economies that are proposed in the ECA report. Mule concluded by stressing that sustaining the pace of economic reform in Africa will take a combination of political will on the part of governments and sensitivity and support from the international community.

Following Mule's speech and a coffee and tea break, there was a general plenary session on the issues raised in the morning presentations. Delegates asked questions concerning the role of conditionality in driving external financing in Africa, on the timing of various policy reform measures and on the empirical record of the impact of reforms thus far undertaken. Several delegates discussed the general status of economic reform activities in their own countries. The point was made that economic reform in Africa is, at the same time, more difficult than in other regions but also more important. Several delegates also stressed the need for improving the design of economic reform programs so that vulnerable groups do not bear a disproportionate share of the burden of adjustment.

The afternoon session of the Workshop's first day featured the second keynote speech. The speech was prepared for delivery by Mr. Allasane D. Ouattara, Governor of the Central Bank of West African States. Unfortunately, Mr. Ouattara was not able to attend the Workshop due to a last-minute development. His speech was delivered by Mr. Aberrahmane Alfidja, a senior official of the Bank. Mr. Ouattara's speech began with the observation that despite the reduction of some of the imbalances that lie at the root of Africa's economic crisis, the results in terms of economic performance are still lagging. Ouattara suggested that, in some cases, efforts to re-establish balance did not give enough consideration to the structural rigidities of the economies, with some adverse results. The poor outlook for Africa that the World Bank highlights in its 1989 World Development Report implies the need for better implementation of more efficient policies as well as increased support from the international community.

In the second part of his presentation, Ouattara emphasized the steps that needed to be taken in order to speed up economic recovery. He put special emphasis on strengthening financial systems in order to promote greater local savings and investment as well as attracting private capital and non-debt generating direct investment. He also stressed the importance of non-traditional exports and the need for realistic and sustainable programs of regional cooperation and integration. Finally, Ouattara emphasized, as had Mule, the joint responsibility of African governments and the international community in providing the political will and the financial resources that are needed for the success of such a program.

The final portion of the first day of the Workshop was given over to the organizational meetings of the three concurrent panels on (1) exchange rate management and trade policy; (2) budget reform and fiscal management; and (3) agricultural policy and food security. Each of these panels was organized with a CRED representative in the chair and an internationally recognized expert acting as facilitator. Professor Wilson chaired the panel on exchange rate and trade policy, with Dr. Andrew Mullei, Director of the African Centre for Monetary Studies in Dakar, as facilitator. Professor Gordon chaired the panel on budget and fiscal management, with Dr. S. Ramakrishnan, of the Harvard Institute for International Development and the Kenyan Ministry of Finance, as facilitator. Dr. Henri Josserand, Chief of the CRED technical assistance team in Niger, chaired the panel on agriculture and food security with Dr. Michael Roth of the University of Wisconsin as facilitator. During this first panel session, each group set an agenda of issues to be addressed in the concurrent panel sessions over the course of the Workshop and began to share the experiences of the different countries represented in the panel. The panels also each elected a delegate to act as rapporteur for the group at the final plenary session.

On the evening of the first day of the conference, a reception for the delegates, leading officials of the Government of Kenya, and representatives from the international community was hosted by USAID Mission Director Steven Sinding. The delegates had the opportunity to interact with a large number of Kenyans and meet representatives from various donor organizations in an informal and relaxed atmosphere.

The second day of the Workshop opened with a plenary session in which the authors of the three background papers prepared especially for the meeting delivered a summary version of their papers. Dr. Andrew K. Mullei's paper was entitled "Exchange Rate Management and Trade Policy". It highlighted the variety of circumstances under which restrictive exchange and trade policies have harmed the growth of African trade and suggested that African countries have suffered the futility of over-valued currencies. The prevalence of stringent trade and exchange restrictions has created distortions in many African countries such as over-valuation of imports, under-valuation of exports and smuggling across borders. Given this environment, the move toward liberalizing trade and exchange controls is the most critical instrument for improved trade prospects. Mullei reviewed the different approaches available for managing the exchange rate with the goal of creating an exchange rate regime consistent with governments' desire to promote growth in exports. He felt that pegging the rate to a basket of specified quantities of the currencies of major trading powers was the system that offered the most benefits. Mullei favored a flexible approach involving both overall decisions regarding how the exchange rate should move over the medium term, say two years, and also a strategy for day-to-day management that would provide both stability and credibility.

Dr. Michael Roth presented the paper "Policies and Choice in African Agriculture" which he co-authored with Prof. Kenneth Shapiro, also of the University of Wisconsin. The paper was organized to review the existing literature on a range of issues, all of which involve important policy choices for African governments. The first issue area addressed was marketing. African governments have traditionally favored intervening in markets of both food crops and export crops. Unfortunately, most governmental marketing efforts have been poor, perhaps worse than the private sector activities they supplanted. In recent years, African governments have responded to this experience by both reducing their role and by improving the efficiency of public marketing efforts. Government intervention can work where goals are simple and clear, staff is well-trained and motivated, and profitability criteria are maintained and political meddling in operations is avoided. A related area of policy is pricing and subsidies. The key dilemma here is how to have both incentives for producers and politically viable prices for consumers. As official markets contract, price and subsidy policy becomes less effective. Input subsidies do not benefit producers if farmers cannot gain access to inputs; consumer subsidies do not benefit poor people if they have no access to supplies.

Food security and trade is a third area in which policy makers face tough choices. Some countries are able to obtain more food through trade than through domestic production, but in doing so they experience vulnerability to world price fluctuations. Switching from export to food crops often merely switches vulnerability from international markets to weather fluctuations. Land tenure is another important policy issue area. Theoretically, land individualization should improve agricultural output by increasing investment in land. The empirical experiences in Africa suggest that the gains from individualization are not automatic. Without technological options and functioning credit and input markets, the investment response to land tenure changes have remained limited. Finally, Roth and Shapiro suggest that the international donor community has often tried to push agricultural policy reforms too quickly and that a more gradual approach might achieve more durable results.

Dr. Subramaniam Ramakrishnan presented his paper entitled "Issues in Budgeting and Fiscal Management in Sub-Saharan Africa." Ramakrishnan presented his view of fiscal reform as the *sine qua non* of successful adjustment. He argued that without successful efforts on the fiscal side, efforts to reform policies to reduce external imbalances were unlikely to be sustainable. Unfortunately, indications are that not much is being done in fiscal management to address the problems with national budgets and to rearrange priorities in support of economic reform programs. He put special emphasis on the weak and unstable revenue base in most countries and the lack of control over public expenditures that has robbed the budget of credibility. All too often, according to Ramakrishnan, budget reform had merely tried to reach short-term targets rather than address the underlying structural problems involved in restoring the budget to an instrument that could help guide national economic growth.

Ramakrishnan laid out a broad agenda for budgetary reform that focussed on (1) improving government employment policies, especially maintaining incentives for middle and senior level personnel; (2) linking expenditures more directly to the needs of the productive sectors of the economy; and (3) shifting the incentives away from project initiation and towards project fulfillment, to avoid a continuing proliferation of uncompleted projects. Ramakrishnan emphasized that, for fiscal reform to succeed, spending ministries must be brought more directly into the budget process, and an appropriate macroeconomic framework for the budget must be constructed. In addition, a multi-year expenditure plan with pre-budgeting activity to guide the annual budget should be instituted. The specifics of how to cope with these issues, however, need to be worked out at the individual country level.

All three of the papers were very well received by the delegates and a lively discussion ensued in which each of the authors was asked to further elaborate on the key points made in the papers. Several people commented on the essentially complementary themes embedded in the three presentations. Dr. Mullei was asked a series of questions about the viability of efforts to expand African trade given the weakness of demand in the international market. Mullei argued that there were few options for Africa other than trying to both recapture lost market share in traditional exports and creating incentives for the development of non-traditional exports. There was special interest in Dr. Ramakrishnan's point about budget reform as a prerequisite for other successful policy reforms. He cited a comparison of the experience in Ghana, where budgetary issues were attacked early on and overall adjustment efforts have been sustained, with Zambia, where budgetary pressures (and a continuing expansion of the money supply) was an important factor behind the lack of sustainability of the innovative foreign exchange management system that was attempted in 1986 and 1987. Dr. Roth was pressed on the impact that structural adjustment was having on the agricultural sector. He felt that a sector-wide assessment was too undifferentiated and that in order to answer the question, the sector had to be broken up into constituent parts, some of which have fared quite differently from one another.

Following the presentation and discussion of the three papers and the morning coffee and tea break, the group again broke out into concurrent panels and continued the discussions begun the afternoon before. The working groups began a systematic working through of the issues that they had put on their respective agendas. Each of the three working groups structured their discussions so that individual delegates were able to give details on what their governments had attempted, what the initial results were, and what the main constraints were on successful implementation and response to the reforms. In the afternoon, the concurrent panels continued and began to work towards building a consensus on the key issues and recommendations to be made that would be presented to the entire Workshop on the afternoon of the final day.

Following the afternoon session, CRED hosted a reception for the delegates to which the entire World Bank mission in Nairobi was invited. Again, the delegates were able to interact with donor community representatives and share views on the issues addressed by the Workshop as well as other themes of common concern.

On the morning of July 20, the final day of the Workshop, the three concurrent panels met for the final time in preparation for the afternoon plenary. In each of the panels, there was sharp discussion over the issues that should be included in the reports to the entire group. A major goal of the morning meeting was to determine to what extent a consensus had been reached on identification of the key impending issues in the three areas of focus and to lay out the available policy options for addressing them. Each concurrent panel also sought to determine what the key issues of contention remained on important policy questions in the three topic areas. Each panel then worked with its rapporteur in the preparation of the report that was to be delivered later in the day. These discussions proved long and challenging, with some of the delegates being forced to arrive late for lunch.

At the luncheon preceding the final plenary session, delegates were able to meet informally with representatives from the Regional Mission of the International Finance Corporation (IFC), the private-sector wing of the World Bank. The IFC is expanding its role in Africa, and a number of delegates had fruitful exchanges with the IFC team.

The final plenary session was held on the afternoon of July 20. Rapporteurs from each of the concurrent working groups presented a five to ten minute report summarizing the discussions held by their group. A revised version of these reports is reproduced later in this volume. All of the reports were well-received by the group and each rapporteur was asked to expand on points that were raised in the reports. The reports began by addressing some of the themes raised in the three briefing papers but, in each case, went into a wider range of issues than those first raised.

Professors Wilson and Gordon took the opportunity of the closing of the Workshop to thank all of the delegates for their excellent work. The delegates expressed their hopes that such meetings be continued and that academics remain interested in key issues of economic policy in Africa. Both the organizers and the delegates expressed their gratitude to Drs. Mullei, Ramakrishnan and Roth for providing excellent work as resource people for the three working panels. Gratitude was also expressed to the team of translators who allowed such in-depth discussion to occur across the language barriers that are often so difficult to bridge. In his final remarks, Professor Wilson spoke of the high technical level of the discussions and the experience of real sharing of ideas and experiences that had imbued the meeting, arguing that this fact alone improved the outlook for economic reform in Africa.

Welcoming Remarks to the Delegates

Steven W. Sinding
Director, USAID - Kenya

On behalf of the USAID Mission to Kenya, welcome to Nairobi and this Workshop on Economic Reform in Africa. I look forward to meeting and talking to many of you at the reception this evening. After three years in Kenya, I cannot resist the temptation to make a few observations on the theme of this meeting. You are meeting at a time when Africans are seriously reviewing their experience with reform programs and attempting to evaluate the impact of these programs on economic growth and on different social and economic groups in each society.

There is, of course, considerable debate about the effectiveness of various reform efforts and about who wins and who loses in the process. The World Bank and UNDP have jointly issued a report that cautiously concludes reform is working. ECA says it is not working and economic conditions are deteriorating for the majority of the people in the so-called reforming countries. Now ECA has issued a report that calls for renewed Government involvement in economic management in order to stimulate growth and simultaneously protect vulnerable groups.

The debate is largely about what the evidence shows. The Bank says it shows reforming countries have done a bit better than non-reforming countries. ECA says they have done worse and that poorer groups have suffered. I believe the evidence is very ambiguous but it does not support the conclusion that things have deteriorated because of policy reform. Furthermore, it is ambiguous because most countries have either not been involved in reform programs long enough, or because the reforms have not been implemented evenly and vigorously -- or both.

Considering that most African countries pursued Government-directed development programs for at least 20 years before the reform efforts first began three to four years ago, it seems reasonable to argue that 20 years of economic stagnation and decline could hardly be expected to be reversed in only three to five years of <u>initial</u> reform efforts. Let us give these alternative approaches a little time before we conclude that they are failing.

Certainly we must heed the warnings of various organizations -- both international organizations and donor organizations -- that care be taken to protect the most vulnerable groups from the dislocations occasioned by reform programs. The demand by these organizations that we anticipate these dislocations and protect the poor from them is well taken. Most donors are sensitive to the issue and are focusing their assistance programs accordingly. Certainly, USAID is attempting to do so.

But we must not confuse the requirement to create special buffers for the most affected groups with the critical importance of giving market-oriented policies and development programs the time they need to become effective -- to show whether or not they can raise the living standards of all groups. Indeed, the reform efforts are bound to fall apart unless the interests of important and powerful groups, or potentially powerful groups, are adequately protected.

Analogy from my own experience:

Population: Family planning programs were started in most countries in the late 1960's and early 1970's, but by 1974, many critics were declaring them failures after only a few years of experience. Many calls were heard to abandon family planning and concentrate instead on development. Yet, by the late 1970's it was clear family planning programs were working and by the 1984 International Population Conference, there was a consensus in favor of such programs. Ten years were required to demonstrate the validity of the approach and 15 years to get an international consensus.

Closely related to the question of the time it takes for policy reform to show impact, is the question of how effectively these reforms are implemented. I would contend that in some countries where it is said the reform programs are failing, the truth is that the reforms have not been vigorously or effectively implemented. Kenya committed itself to a serious reform program in Sessional Paper #1 of 1986 -- three years and a few months ago. And most Kenya policy makers would agree that progress in implementing this program has been uneven. In such critical areas as grain marketing reform, import liberalization, and parastatal divestiture, it has been very difficult to mobilize the political consensus required to follow through on the rhetorical commitment.

What can we learn from this?

Even if political leadership is convinced that a move toward market-based policies is desirable, it takes time to mobilize the political consensus necessary to effectively articulate these reforms and, more important, to implement them.

Donors must understand this and not insist on reforms that are politically infeasible. We cannot expect Governments to undertake reforms that threaten their survival. So, we must be prepared to see the reform process move only incrementally -- sometimes haltingly. And we must be prepared to help Governments protect themselves by cushioning the negative impacts of reform on the most vulnerable groups.

I hope in the next three days you will examine the experience of each country in implementing reforms not in the context of whether reforms are succeeding or failing, but by asking whether the reform program is being seriously implemented and, to the extent that it is not, why not. Out of this sort of examination and sharing of experience, I believe a practical understanding of the implementation process can result, and this, in turn, can lead to concrete suggestions for improvement.

The economic policy directions to which most African states committed themselves at the 1986 United Nations Special Session are the right ones. No one should have expected immediate results because fundamental changes in direction take time, great effort, and courage to implement -- and they take time to work. We must avoid the temptation to abandon prematurely a process which has barely begun.

Economic Reforms in Africa: Current Situation and Future Trends

Prepared by Alassane D. Ouattara
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Presented by Abderrahmane Alfidja
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The importance of the theme of our workshop cannot be overemphasized, especially during this last year of a decade whose main feature has been the search for economic policies which are more efficient than the one hitherto applied in Africa. In fact, since the years of the independences, there has been no time which has been more fertile, in the continent, as far as the development of new growth and economic development strategies are concerned. The Lagos Plan of Action (1980), the World Bank Report on the Accelerated Development of Africa (1981), the U.N. Priority Program for the Economic Recovery of Africa (1985), the U.N. Action Program for the Economic Recovery and Development of Africa (1986) are proofs of the will of the African governments, sometimes with the assistance of foreign partners, to find a lasting solution to the socio-economic difficulties of the continent.

In the 1980s, many countries have adopted vast economic reform programs, with the support of the Bretton Woods institutions, for most of them.

However, the situation has never ceased to be alarming.

That is the reason why I have felt it opportune to give a brief background of the economic reforms that have been undertaken and to bring out the trends of the year to come on the basis of the achievements and failures of those programs.

I. Economic Reform Policies in Africa: the Lessons from the Experience of the 1980s

During the 1960s and 1970s, many of the African countries which had then just gained international sovereignty implemented economic and financial policies to accelerate their growth and development. Those policies have turned out to be inadequate: expansionist monetary and fiscal policies, inappropriate pricing policies, exchange restrictions....

The effects of such policies have been amplified by exogenous shock waves, both external and internal. That situation led to profound economic and financial imbalances in the late 1970s.

Therefore, the first economic recovery actions were mainly concerned with re-establishing the major internal and external balances. To this effect, a special emphasis was given to demand management: restrictive fiscal and monetary policies, suppression of subventions, to consumer foods, realistic pricing policies. Later on, those economic stasificatio measures were confirmed with actions aimed at increasing supply through structural transformations. These were mainly actions aimed at improving the allocation of resources, eliminating pricing distortions (including interest and exchange rates), reducing state intervention for the benefit of the private sector, and promoting saving and more liberalization of the markets. In addition, the restructuration of public services was undertaken, and the choice and programming of public investments were improved.

These in depth and very courageous reforms have no doubt contributed to the reduction of some of the imbalances. However, one must recognize that in spite of the progress made, economic results are yet to be at par with the efforts made. According to the estimates from the International Monetary Fund, the growth rate of Africa's gross domestic product (GDP) stagnated at 1.2% in 1987 and 1.2% in 1988, far below the average population growth rate, resulting in a recession of 1.6% and 1.1% respectively in the average per capita revenue. The deficit in the current account of the continent increased from 5.3 billion U.S. Dollars in 1987 to 9.5 billion in 1988. Investment rates have also been declining, dropping from 26% in 1981 to 18.8% in 1984 and 18.2% in 1988. In addition, in spite of repeated reliefs, the external debt service ratio increased from 25.4% in 1987 to 28.8% in 1988 mainly due to the relatively height level of interest rates, including those on loans from the Bretton Woods institutions.

Not all the countries in the region have actually engaged in the necessary reforms, and amongst those who did some have not pursued them. It remains that the factors that explain these worrying trends have to do both with constraints from the external environment and deficiencies in the reform programs themselves.

As far as the external environment is concerned, the terms of exchange for the continent have shrunk once again by 9.2% in 1988 from their low level of 24.8% in 1986. The volume of exports from Sub-Saharan Africa dropped by 0.5% in 1988 after an increase of 2.4% in 1986 and 8.7% in 1987. Furthermore, financial flows to Africa continue to decrease. The drop in bank loans amounted to 1.7 billion dollars in 1988 against 1.4 and 1.5 billion in 1987 and 1986. The allocation of funds for official development assistance (ODA) amounted to 16.7 billion against 17.1 billion in 1986.

As to the reform programs themselves, the following deficiencies and weaknesses have been noted:

- The rapid liberalization measures have, more often than not, very negative effects on the national product, employment, investment, public finances and balance of payment of economies which are not prepared to face external competition.
- The implementation by all program countries of exports promotion policies of a limited range of products, resulted in the saturation and depression of external markets. In addition, such policies were affected by protectionist trade practices in the industrialized countries.
- Production to meet local demand has not been given the necessary attention so as to sustain growth.
- The very fast pace of re-establishing of major balances without giving due consideration to structural rigidities of the economics led to adverse effects.
- The uniformity of economic policy patterns which have not sufficiently taken into account local potentialities and realities has added to the problem. This explains why patterns based on an increase in exports has so little success in African countries, mainly due to delay in controlling and mastering the industrial process and capital accumulation whereas the countries of Southeast Asia have achieved remarkable success.

All in all, the plight of the continent is of great concern in spite of the restructuring measures taken. In fact, the World Bank report on world development for 1989, which has just been published, high-lights a bleaker outlook particularly for Africa south of the Sahara for the forthcoming years, while no improvement in per capita income is in sight before 1995. Hence the need for implementing more efficient policies and an increased support from the international community.

II. Future Trends in Economic Reforms

The furtherance of economic reforms in Africa is of utmost importance and worth mentioning. For there is no other way than that of a sustainable effort. In this regard, it is important to accelerate and increase all restoration and multisectoral measures underway in Africa. It is equally important that all measures to be taken during the next years should be within the actions undertaken so far, while relying on the progress achieved. In this respect, the main action plans in future should be as follows:

- ensure a sustained level of economic growth,
- better adapt reforms to country proper needs,
- further alleviate the social cost of reforms.

The reforms to be carried out for a sustained economic growth, a prerequisite if the continent is to overcome the current constraints should be as follows:

- The furtherance of lasting recovery of public finance and structural reforms that can lead to growth: not the non-adjustment growth sought for in the 1970s through the deceptive short-cut of petro-dollars recycling, but a lasting growth initiated from administrative structures and renewed efforts.
- The restoration of a financially sound, efficient and credible intermediation through the strengthening of financial systems, because the dire financial straits faced by several African countries bring about distortions in raising and earmarking funds which constitute a stumbling block to saving and investment and halt economic growth; in this respect, particular importance must be given to measures aimed at improving the level of savings and promoting the repatriation of drained capital.
- The setting up of conditions conducive to attracting private capital, and non debt generating direct investments.
- The furtherance of investment effort, which should be reinforced but re-oriented and better handled by greater streamlining of choices and a consideration of real economic possibilities and regional environment.
- The need for a change of mentalities to ensure more effective management at the level of all structures, particularly public enterprises.

- The search for alternative sources of growth to face the limitations to exclusive export-oriented basic commodities. In this respect, it is necessary to outline actions that can help ensure a better diversification of the backbones of economies, yet based on their overall assets.
- The integration of a sub-regional dimension into economic policy reforms because adjustment efforts geared toward growth and development will be incomplete if they are not within integration strategies at the level of sub-regions likely to create scale economies, and regional potentialities must be encouraged so as to gradually lead to economic entities from which the other regional and international economic entities can derive inspiration.
- The need to outline these economic reforms for a growth in a long-term outlook. Consequently, their implementation requires a steadiness in the follow-up and an effort to avoid the "stop and go" situation which brings about inconsistencies and serious delays.
- Lastly and most important, the availability of appropriate funding for these reforms which should be promoted by the international community within the framework of new initiatives for alleviating the debt burden, coupled with the contribution of seed money in order to bring down financial constraints to economic reforms. The increase of resources for Africa is all the more crucial as the prospects for improving the situation of international outlets of basic commodities look unlikely, at least in the short-term, in relation to the expected slack in growth in industrialized countries in 1989 and 1990 and the long-time effect of economic depression such as over-production in most of the basic commodities.

To better take into account the structural rigidities of economies, the following improvements are important in designing reform programs:

- The strengthening of program flexibility in relation to unforeseen events during the implementation period, through the setting up of appropriate financial arrangements. The setting up of clearing and financing facilities for IMF contingencies is a first step in the right direction.
- The articulation of reforms on potentialities and economic realities as well as on imperatives of country development.

Before concluding, I want to emphasize here the need to give more importance to the social dimension of reforms during the forthcoming years. Indeed a lot of progress has already been made in relation to the situation prevailing during the implementation of early stabilization programs. It is difficult to confess that economic reforms, because of the designing instruments, will bring about a worsening of the life styles of important strata of the population. Without questioning the basic objectives of adjustment, economic reforms should take into consideration the essential needs of the most needy people, mainly in food, health, education, training, and environment. Man, both the ultimate focus of any economic policy and primary resource of any nation, must be given the utmost consideration.

Conclusion

As I said at the beginning of this paper, Africa is aware of the need and is willing to bring about economic policies. In this respect the main issue which is raised is to design and to be able to implement successful economic policies which can help promote growth and development without overlooking improvement and adjustment, because as adjustment cannot last without growth, growth cannot last without adjustment. In so doing, Africa needs the support of the international community in order to find the ways and means to implement practical policies that are suitable for its realities.

The strengthening of international co-operation with a view to creating a favorable environment, to find appropriate solutions to debt issues and to ensure sufficient inflow of resources is very important.

Exchange Rate Management and Trade Policy

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Contents

Introduction

Since the late 1950's, the governments of African States have demonstrated sustained interest in efforts to bolster African trade as illustrated by the signing of the multilateral trade agreements with the EEC in 1958 and 1964, the establishment of eight sub-regional preferential trade arrangements, and the creation of sub-regional payments and clearing arrangements in West Africa, Central Africa, East and Southern Africa. However notwithstanding the efforts exerted, the share of African trade in the world economy has been declining over the past three decades. The prospects for the future, barring radical positive changes in Africa's trade policy, suggest that the declining trend would continue unabated leaving more to fear than to hope for in the coming decade. In this paper, an attempt is made to articulate the major obstacles to promotion of African trade. The discussion is rendered in four parts. Part I highlights the long-term trends in trade performance of African countries and serves as a background to the main subject. Part II is devoted to a discussion of some major obstacles to growth in Africa's trade. Part III presents an exchange rate management strategy necessary for enhancing trade of the African countries. Part IV provides the main highlights of the discussion.

I. Trends in Trade of African Countries

Table 1 shows the share of intra-African trade in total African trade for the period 1970 to 1985. The highest share of 7.2 percent was recorded in 1970. Thereafter a declining trend set in to reach about 4 percent in 1985. The data shows the share of intra-African countries exports in total African commodity exports having declined from 6.5 percent in 1970 to 3.7 percent in 1985. Similarly, intra-African imports share in total African commodity imports is shown to have declined from 8.1 percent in 1970 to 4.8 percent in 1985. At the global level (see Table 2) Africa's trade as a proportion of world trade stagnated at around 4 percent during the 1970 decade. Since 1981, the share of Africa in world trade declined monotonically to 2.2 percent in 1987. In absolute terms, total African trade rose from $23,600 million in 1970 to a peak of $168,096 million in 1980. Thereafter it declined to $117,058 million in 1987. Similarly, while the share of Africa's imports in world import trade declined from 3.7 percent in 1970 to 2.5 percent in 1987, Africa export trade as a percentage of world export trade fell from 4.5 percent in 1970 to 2.1 percent in 1987.

II. Obstacles to Growth in Africa's Trade

The basic causes of Africa's cheerless trade trends are both internal and external. Perhaps the most serious internal factor is the slippage in Africa's share in world commodity exports during the

Table 1

The Share of Intra-African Trade In Total
Foreign Trade of Developing African Countries
(US $ Million)

	Total African Trade			Intra-African Trade			Intra-African Trade a Percentage of Total African Trade		
Year	Imports	Exports	Total	Imports	Exports	Total	Imports	Exports	Total
1970	11,020	12,580	23,600	893	818	1,699	8.1	6.5	7.2
1971	12,640	13,000	25,640	771	702	1,473	6.1	5.4	5.7
1972	13,870	15,300	29,170	888	811	1,699	6.4	5.3	5.8
1973	18,090	21,490	39,580	1,158	1,053	2,211	6.4	4.9	5.6
1974	28,419	39,530	67,949	2,018	1,818	3,873	7.1	4.6	5.7
1975	37,952	35,273	73,225	2,125	1,940	4,065	5.6	5.5	5.5
1976	38,393	42,581	80,979	1,882	1,703	3,585	4.9	4.0	4.4
1977	48,250	49,055	97,305	2,563	2,139	4,702	5.3	4.4	4.8
1978	56,878	45,278	102,156	2,793	2,493	5,286	4.9	5.5	5.2
1979	57,452	66,864	124,316	2,829	2,868	5,698	4.9	4.3	4.6
1980	74,857	93,239	168,096	3,663	3,007	6,670	4.9	3.2	4.0
1981	86,165	74,215	160,380	3,496	3,262	6,758	4.1	4.4	4.2
1982	75,428	64,672	140,100	3,618	2,734	6,352	4.8	4.2	4.5
1983	64,971	58,264	123,325	3,227	2,593	5,820	5.0	4.5	4.7
1984	61,401	61,803	123,204	2,567	2,354	4,921	4.2	3.8	4.0
1985	60,677	59,507	120,184	2,717	2,216	4,932	4.8	3.7	4.1

Source: (1) United Nations, Monthly Bulletin of Statistics, various issues.

(2) African Development Bank: Selected Statistics on Regional Member Countries, Abidjan, 1987.

Table 2
World Trade and the Share of Africa in World Trade
1970 - 1987

	Total World Trade (Current Values) US $ million			African Trade Current Values US $ million			African Trade as a Percentage of World Trade		
Year	Imports	Exports	Total	Imports	Exports	Total	Imports	Exports	Total
1970	294,100	280,000	574,100	11,020	12,580	23,600	3.7	4.5	4.1
1971	328,300	314,100	642,400	12,640	13,000	25,640	3.9	4.1	4.0
1972	384,200	372,300	756,500	13,870	15,300	29,170	3.6	4.1	3.9
1973	529,100	517,800	1,046,900	18,090	21,490	39,580	3.4	4.2	3.8
1974	860,714	841,757	1,702,471	28,419	39,530	67,949	3.3	4.7	4.0
1975	904,637	875,438	1,780,075	37,952	35,273	73,225	4.2	4.0	4.1
1976	1,013,573	989,495	2,003,068	38,398	42,581	80,979	3.8	4.3	4.0
1977	1,160,596	1,125,090	2,285,686	48,250	49,055	97,305	4.2	4.4	4.3
1978	1,352,747	1,303,146	2,655,893	56,878	45,278	102,156	4.2	3.5	3.8
1979	1,692,517	1,642,767	3,335,284	57,452	66,864	124,316	3.4	4.1	3.7
1980	2,054,880	1,996,559	4,051,439	74,857	93,239	168,096	3.6	4.7	4.1
1981	2,036,982	1,971,801	4,008,783	86,165	74,215	160,380	4.2	3.8	4.0
1982	1,899,774	1,829,288	3,729,062	75,428	64,672	140,100	4.0	3.5	3.8
1983	1,873,868	1,804,640	3,676,508	64,971	58,264	123,235	3.5	3.2	3.4
1984	1,982,513	1,900,744	3,883,257	61,401	61,803	123,204	3.1	3.3	3.2
1985	2,025,173	1,926,437	3,951,610	60,677	59,507	120,184	3.0	3.1	3.0
1986	2,214,683	2,117,429	4,332,112	62,325	48,176	110,501	2.8	2.3	2.6
1987	2,576,114	2,482,441	5,058,555	63,996	53,062	117,058	2.5	2.1	2.2

Source: United Nations, Monthly Bulletin of Statistics - Various Issues.

past two decades and the shift of growth in the share and volume of non-commodity exports (such as manufactures) in total world merchandise trade into which African countries failed to gain a foothold. While other developing regions had maintained their shares of commodity exports in total world merchandise trade, they also managed to shift strongly into the booming non-commodity category. With Africa having missed this shift almost totally, most developing regions notably South East Asia were benefiting doubly from both the historic boom in world non-commodity trade and from the upsurge in some commodity subcategories.

Another internal factor important in the context of this paper is the use of legislative and regulatory means to control growth in international and intra-African trade transactions. According to the GATT, industrialized countries currently use protectionist measures such as tariffs, prohibitions, quotas, discriminatory import authorizations, duties and a host of other non-tariff barriers to impede international flows of commodities. While the increasing protectionist and restrictive tariff and non-tariff barriers mounted by the industrialized countries contribute in no small measure to Africa's poor trade performance, within Africa there are two sets of legislative and regulatory obstacles which also impede the growth in trade of Africa. The first set comprises the use of high tariff walls such as import duties and export duties, or other taxes of equivalent effect as tariffs, such as excise and consumption taxes, which tend to increase production costs with varying degrees of intensity and have the effect of restraining growth of imports and exports. High tariffs and related charges also tend to generate inflation which fosters inefficient export industries and creates exchange rate distortions which encourage smuggling and unrecorded trade transactions. Similarly, the imposition of high export duties tends to inhibit domestic production for export.

Besides tariffs, there are other impediments to the expansion of intra-African trade which are generally prevalent in Africa. These include stringent trade and exchange control practices such as restrictions on payments for imports, invisibles and capital transfers as well as compulsory surrender of part or whole of export proceeds; quantitative import and export limitations through import and export licensing practices; advance import deposit requirements; currency inconvertibility; the existence of disharmonized exchange rates and interest rates.

The prevalence in Africa of stringent trade and exchange restrictions has created distortions in many African countries such as over-valuation of imports, under-valuation of exports and smuggling of tradeables across borders. Furthermore, the existence in Africa of a multiplicity of non-convertible national currencies has led to the emergence of restrictive trade practices and tight exchange control regimes. As African countries with inconvertible currencies face balance of payments difficulties, they tend to impose more stringent exchange controls and other restrictions. Thus, as external pressures mount with increasing controls, the currencies become increasingly over-valued with varying degrees of over-valuation.

The trade effects of exchange rate misalignment can be best explained if one considers the existence of two countries whose exchange rates are assumed to diverge sharply. For country A (with an over-valued home currency) imports from country B (with under-valued domestic exchange rate) will be cheaper than they ought to be. Country A will thus run a persistent balance of trade deficit and will tend to experience outflow of resources to country B, whose exchange rate is under-valued. Conversely, in country B, assumed to maintain an under-valued exchange rate regime, importers will tend to lose when they trade with country A, whose currency is over-valued, and for this reason traders in country B with under-valued exchange rates will be reluctant to trade at the official exchange rate. When trading is allowed to take place through the "black market" exchange rates, other complications arise such as "smuggling" of goods, avoidance of tax and transfers of wealth from one country to another as explained below.

Assume for illustrative purposes that the home currency of Ghana is over-valued in relation to the home currency of Togo. Traders in Ghana are assumed to express preference for trade with Togo under "black market" exchange rate conditions. Thus when the smuggling affecting Ghana and Togo is taken as a case in point, it is evident that Ghana suffers a net transfer of wealth to Togo (i.e. transfer of foreign exchange). In terms of cocoa, for example, this can be measured as the difference between the domestic producer price in Togo and the price ruling on the world market multiplied by the quantity of cocoa smuggled out of Ghana.

Assuming that the proceeds gained by Ghanaian traders in Togo are used to purchase goods in Togo which are then smuggled back into Ghana, the following can be recounted as losses to the Government of Ghana.

(a) The Ghanaian Government would lose net revenue by way of customs duties and other levies with equivalent effect which have been evaded by the smugglers.

(b) The loss of export duties which are also a source of Government revenue.

(c) The loss of net social welfare (or net social cost) which is the result of combining the superficial welfare gain of the consumer with the loss incurred by the Ghanaian State.

It should be noted that the effects (a), (b) and (c) are made possible by the development of "black market" trading between two countries which are assumed to operate disharmonized exchange rate regimes. It should also be noted that the above adverse effects of currency over-valuation can be exacerbated by the existence of disharmonized tariff regimes such as uneven (ad valorem or specific) fiscal duties; uneven (ad valorem or specific) customs duties, or uneven subsidies of essential commodities.

The foregoing discussion suggests that in the unlocking of the major bottlenecks to increased trade of African countries, the move towards liberalizing trade and exchange controls is the key and perhaps the most critical instrument for improved trade prospects. Thus, given the importance African countries attach to the need for export promotion and the influence exchange rates have in shifting resources into the production of tradeables, it is the purpose in the balance of this paper to discuss in detail an approach for exchange rate management capable of achieving international competitiveness of Africa's exports.

III. Exchange Rate Management in African Countries

Following the floating of the major currencies in 1973, African countries faced difficult problems with regard to the choice of what exchange rate regime to adopt in order to promote exports. In the circumstances, some African countries reacted by maintaining the pre-existing relationship between their currencies and the major trading partner currencies, particularly the US dollar, the French franc and the pound sterling. Others felt the need to adapt their exchange rate systems and to gear these towards meeting a set of other objectives for exchange rate policy. With respect to the selection of an exchange rate regime, options open to countries of Africa so far have been limited to two, namely to maintain a fixed relationship with one of the major currencies (unicurrency peg) or to maintain a fixed relationship between the domestic currency and a composite of other major currencies (multicurrency or basket pegging).

For African countries which have expressed preference for pegging to a single currency, there have been a number of reasons for this. Most important, however, is the belief that "unicurrency" pegging helps to maintain the confidence (both at home and abroad) in the local currency and in government policies. For countries that have expressed preference for pegging the domestic currency to some composite of other currencies, the main consideration has been the desire to insulate the domestic currency from the effects of a fluctuation of the currency of a particular trading partner. Thus, while it would appear desirable to adopt unicurrency pegging where there is one major trading partner, the adoption of basket pegging has the advantage for countries with a widely diversified pattern of trade and financial relationships.

However, for both unicurrency peggers and composite currency peggers in Africa, the question arises as to whether the choice of any of these exchange rate regimes is consistent with the desire for these countries to promote growth in exports. While the practice of pegging to an average value of major currencies has become widespread, many African countries have not been able to design internationally competitive exchange rates because the statistical methods used to determine an export-oriented exchange rate are both complex and technical. The task involves designing an exchange rate index capable of providing appropriate insulation of exporters from volatility of the exchange rates of the major currencies, choosing the currencies to be included in the index, computation of the weights for the currencies chosen, and the adoption of procedures for managing the domestic exchange rate in order to ensure its competitiveness in terms of the currencies of major trading partners. Following an explanation of the consideration relevant to the choice of which currencies to include in a basket and what weights to assign to them, the paper proceeds to highlight the way in which the construction of an index of effective exchange rate is arrived at.

The Choice of Currencies and Their Weights

In quite a number of African countries, numerous obstacles are encountered in the choice of which currencies to include in a basket and what weights to assign to them. Linked with these obstacles are problems associated with the approximate objectives for the peg. If the objective is taken to be the insulation of the "average" exporter or importer from price changes in domestic currency due to exchange rate fluctuations, the currencies chosen for inclusion in the basket are those that represent the total direction of trade. The weights of the currencies chosen for inclusion are then determined by calculating the share of each of the currencies in total trade. In other words, a country's total trade is distributed amongst the currencies chosen in accordance with their respective share in total trade.

In the literature, the currency denomination approach is considered attractive as a basis for choice of currencies. This is because currency denomination is capable of meeting the same objective as the approach based on the direction of trade flow, but in addition, it takes into account exports which are traded in common currencies throughout the world. Currency denomination is also considered to be an improvement over the direction of trade flow given the aim of stabilizing fluctuations in domestic prices and the fact that it presents no more administrative difficulties than the direction of trade flow.

The price currency approach, which is a variant of the currency denomination approach, is thought to be superior to the latter in that it adjusts for the commodities which are traded in one currency, but for which contract prices are influenced by the relative value in another currency. For example, coffee may be sold in Japan for US dollars, but the dollar price the Japanese traders pay may be calculated from a price actually set in the Japanese yen (such that the dollar price they pay would be the Japanese yen price times the US dollar-yen exchange rate). In this case, the "correct" currency to put in the basket for Japanese consumption of coffee would be the yen. Although the price currency approach has theoretical advantages over the currency denomination approach, it requires detailed knowledge of the currencies that contract prices are set in, which is not, in practice, available. It also complicates derivation of the weights initially and if the weights are changed.

Another consideration relevant in the choice of currencies to include in the basket is the inflation of trading partners. Normally, it is considered inappropriate to include currencies which are rapidly depreciating due to hyperinflation in their countries or to include currencies the exchange rates of which are heavily influenced by exchange or trade control, particularly when these exchange rates are clearly at disequilibrium levels. To put the point somewhat differently, while a basket involves pegging the <u>nominal</u> exchange rate, this should not be done in a way which destabilizes the <u>real</u>

exchange rate. The reason for excluding these countries is that changes in the exchange rate with respect to a highly controlled exchange system might not result in changes in competitiveness with respect to those countries. However, such countries cannot be ignored entirely. For example, very large exchange rate changes in neighboring countries do have to be taken into account, but in a discretionary rather than a mechanical way.

Choice of Base Period for a Basket Peg

The choice of a base period is an important consideration in the implementation of a peg to an index. This is initially established by reference to a prior period when the exchange rate of the domestic currency was sustainable in terms of economic conditions and exports were deemed competitive internationally. As economic conditions change, both domestically and abroad, and as trading partners alter, then judgements about the sustainable level of the exchange rate must also be altered. This aspect of exchange rate management is crucial and requires adjusting the nominal exchange rate to reflect the competitiveness of exports on a continuous basis.

Implementation of a Peg to an Index

The preceding discussion has shown that the implementation of a peg to an index involves calculating the nominal exchange rates of each currency in the basket consistently with the overall strategy of exchange rate policy. If the policy is to maintain a fixed peg to an index, the exchange rates are adjusted so that the quantities of currencies in the basket are purchased with the same amount of home currency in each period. For depreciation, exchange rates are adjusted such that a larger amount of home currency is required to purchase the "basket", and vice-versa.

If the peg to the index is maintained at the same rate over periods when cross rates change, the weights of the various currencies in the index will change; the weights of the currencies which are appreciating relative to the peg to the index will decrease and the weights of the currencies which are depreciating relative to the peg to the index will increase. Over time, this could result in weights which would not be representative of a country's trade mix. Therefore, there should be periodic reviews of the index, perhaps annually, to adjust the weights to accord with changes in the trade mix and from appreciations and depreciations of the currencies in the basket.

Management of the Exchange Rate

Decisions regarding the management of the exchange rate would probably take place on two levels: first, overall policy decisions regarding how the peg should be moved over a given time period, and second the daily management of the exchange rate to achieve the overall policy. Since one objective of establishing an index would be to allow flexibility in exchange rate policy without disrupting markets in the private sector, overall policy should probably be set in a medium term framework of 1-2 years; and operational guidelines with respect to the exchange rate should be fixed for, say, monthly or quarterly periods.

This would allow the daily management of the rate to achieve the guidelines without even changing the peg to the index by a large amount. For example, if the guideline calls for a depreciation of the peg by 1.5 percent over a quarter in order to compensate for expected inflation differential over that period, the peg could be lowered by a small amount (say 0.5 percent) every month until the guideline was achieved. With this management, the transition would be slow and would be unlikely to cause disruption in private markets.

IV. Summary of the Paper

This paper has examined trends in African trade performance against the background of fairly elaborate institutional arrangements created in the four sub-regions of Africa to foster growth in trade. It was noted that the efforts made so far have produced limited impact on trade growth. This was evidenced by the fact that in the 1970's and 1980's Africa's total trade as a share of world trade declined while intra-African trade as a proportion of total African trade also experienced severe reverses. In examining the obstacles to African trade expansion, the paper took a broad view of the causes to embrace activities of governments which affect the composition, magnitude and direction of trade. The obstacles identified include the use of tariffs and non-tariff barriers, as well as the use of exchange controls and banking practices which impede growth in trade.

It was noted that these obstacles have tended to constrain growth in trade of Africa while introducing distortions which adversely affect domestic export industries and domestic production and at the same time, tend to impose inflationary pressures and the emergence of over-valued currencies.

The paper has argued that the establishment of multilateral clearing and payments arrangements do not provide for the convertibility of African currencies into each other nor for the harmonization of their exchange rates, exchange controls and banking laws which presently are competitive rather than complementary. It is also argued that the benefits to be realized, even when tariffs are reduced under existing preferential trade arrangements, can be vitiated by other barriers to trade arising from currency inconvertibility, disharmonized exchange rates or exchange control practices among African countries. In order to remove these bottlenecks in trade expansion, it would also be necessary to study ways of enhancing convertibility of different national currencies, to provide incentives to traders (especially exporters), in addition to facilitating improvements and effectiveness of the existing clearing and payments arrangements which at present lack recourse to external credit facilities.

The paper has also highlighted the manner in which currency misalignment can harm the growth of trade, and suggested that African trade has suffered the futility of over-valued currencies backed by restrictive exchange and trade controls.

The rationale for use of the exchange rate as an instrument of trade policy is provided in the paper, and an approach suggested for designing and managing an exchange rate in such a way as to achieve international competitiveness of exports. The approach presented in the paper for exchange rate management argues that an exchange rate peg to a basket of specified quantities of the currencies of major trading partners has several advantages for African countries which have less diversified production, are more vulnerable to external disturbances, and lack manpower needed to properly manage a more discretionary exchange rate system. The approach has attractions also for African countries, particularly in the current system of floating exchange rates, because it provides an automatic mechanism to reduce undesired appreciations or depreciations due to changes in cross exchange rates among trading partners.

The paper suggests that if the currencies and their weights which make up the basket peg represent the bulk of a country's trade mix, this would facilitate the achievement of a more rational exchange rate and would make it easier to manage the exchange rate since it would allow for small changes in the rate to be effected as circumstances require. However, to be meaningful, an exchange rate system based on a peg to basket currencies of trading partners would need to be reviewed periodically to reset the weights if this becomes necessary.

In addition, the management of the peg would need to be made flexible by providing some degree of monetary discretion in maintaining a margin of the actual exchange rate around the basket value, and in determining the frequency of adjustments in the value or the composition of the basket.

Finally, it is suggested that in order to ensure a smooth operation of a basket peg, countries pursuing this type of peg would find it useful to make small discrete adjustments in the value or the composition of the basket. The adjustments required to be made from time to time would be those that are adequate to offset a loss of export competitiveness or to accommodate a change in the structure of trade or to correct for a more rapid domestic inflation than in trading partners. Whenever changes in the basket become necessary, these would usually be best effected slowly so as not to disrupt domestic private markets.

Appendix

Construction of an Index for a Basket Peg

For a country with one trading partner, the relationship of the home currency vis-à-vis the currency of the trading partner is traced through the movements of the exchange rate (direct or indirect quotation) between the two currencies. When a count / trades with (y) other countries, there are (y) exchange rates. In such a case, it is convenient and at the same time useful for analytical and policy-making purposes to employ an index that reflects the relationship between the home currency and all other currencies. The rule for quoting the home currency (j) against a reference currency such as the U.S. dollar can be written as follows:

$$(1)\quad E(j,\$,t) = \left\{ \sum_{i=1}^{N} d(i)/E(i,\$,t) \right\}^{-1}$$

where:

$E(j,\$,t)$	=	the exchange rate for the home currency j in terms of units of home currency per U.S. dollar ;
$d(i)$	=	the amount of foreign currency i contained in the basket ;
$E(i,\$,t)$	=	the exchange rate for foreign currency i in terms of units of foreign currency i in terms of units of foreign currency per U.S. dollar.

The d(i) can be obtained from a set of weights w(i) and from exchange rate data on the starting date (period O) for the basket peg. The weights w(i) will reflect the importance attached to the various foreign currencies in the basket.

For $i = 1, 2, \ldots\ldots, N$, the d(i)'s are:

$$d(i) = w(i)\ \{ E(i,\$,0)/E(j,\$,0) \}$$

An Example:

Suppose the countries whose currencies are to be included in country j's currency basket are the U.S., France, Germany, and Japan. The weights to be assigned are 0.2, 0.4, 0.3, and 0.1, respectively. The exchange rates in the initial period are (assumed to be) 1.0, 5.7480, 2.2548, and 219.9 respectively. The initial rate for j's currency vis-à-vis the U.S. dollar is set to be J 2 = US$ 1.

Therefore:

d(1)	= 0.2 x (1.0/2.0)	= US$	0.10
d(2)	= 0.4 x (5.7480/2.0)	= FF	1.14960
d(3)	= 0.3 x (2.2548/2.0)	= DM	0.33822
d(4)	= 0.1 x (219.9/2.0)	= ¥	10.99500

Check:

Currency Amount		Exchange Rate	U.S. dollar Equivalent {COL1/COL2}
US$	0.10	1.0	0.10
FF	1.14960	5.7480	0.20
DM	0.33822	2.2548	0.15
¥	10.99500	219.9	0.05
			SUM US$ 0.5 = J 1
			J 2 = US$ 1

Suppose that in a future time period the exchange rates for the French franc, the Deutsche Mark, and the Japanese Yen against the U.S. dollar were 6.7250, 2.3765, and 235 respectively.

Currency Amount		Exchange Rate	U.S. dollar Equivalent
US$	0.10	1.0	0.1
FF	1.14960	6.7250	0.17094
DM	0.33822	2.3765	0.14232
¥	10.99500	235.0	0.04679
			SUM US$ 0.46005 = J 1
			J 2.17368 = US$ 1

This approach of using a "standard" basket is exactly equivalent to keeping the following arithmetic effective exchange rate index unchanged over time:[a]

$$(2)\quad EER(j,t) \quad = \quad \{\sum_{i=1}^{E} w(i) \quad E(j,i,t)/E(j,i,0)\}^{-1}$$

The other approach is to operate a log-linear currency basket. The rule for quoting the home currency (j) against any intervention currency can be derived as follows:

Define a geometric nominal effective exchange rate index (EER(j,t)):

$$(3)\quad EER(j,t) = \sum_{i=1}^{N} \{E(j,i,t)/E(j,i,0)\}^{-w(i)}$$

The objective can be specified as that of keeping the nominal effective exchange rate index over time equal to 1 (or 100 if so defined).

Equation (3) can be re-expressed in logarithmic terms as:

$$(4)\quad \ln EER(j,i,t) = -\sum_{i=1}^{N} w(i) \quad \{\ln E(j,i,t) - \ln E(j,i,0)\}$$

Use can be made of the fact that:

$$(5)\quad \ln E(j,i,t) = \ln E(j,\$,t) - \ln E(i,\$,t)$$

Thus, equation (4) may be rewritten as:

$$(6)\quad \ln EER(j,t) = \sum_{i=1}^{N} w(i) \quad \{\ln E(j,\$,t) - \ln E(j,\$,0) - \ln E(i,\$,t) + \ln E(i,\$,0)\}$$

Keeping EER(j,t) unchanged requires setting the logarithm of EER(j,t) equal to zero. Using the fact that the weights w(i) sum to one, equation (6) can be solved for lnE(j,$,t).

$$(7)\quad \ln E(j,\$,t) = \ln E(j,\$,0) - \sum_{i=1}^{N} w(i)\ln E(i,\$,0) + \sum_{i=1}^{N} w(i)\ln E(i,\$,t)$$

Or:

$$(8)\quad E(j,\$,t) = EXP\ \{\ln E(j,\$,0) - \sum_{i=1}^{N} w(i)\ln E(i,\$,0) + \sum_{i=1}^{N} w(i)\ln E(i,\$,t)\}$$

The first two terms in brackets on the r.h.s. will be constants computed at the time that the basket peg is introduced. On a day-to-day basis, the only information required to operate the peg are the exchange rates of the i foreign currencies in terms of units per numeraire currency. If, as is likely, one of the currencies in the basket is the U.S. dollar, only (i - 1) exchange rates will be required to operate the basket.[b]

An Example:

The data for the previous example can be used to illustrate the application of the log-linear basket. The initial value of currency j in terms of the U.S. dollar is taken to be J2=US$ 1. The value of the first constant in the brackets on the r.h.s. is therefore ln2=0.69315. The second constant can be computed using the weights and initial exchange rates for the foreign currencies in the basket.

Weight	Exchange Rate		COL1xCOL2
US$ 0.2	ln 1.0		0.0
FF 0.4	ln 5.7480		0.69954
DM 0.3	ln 2.2548		0.24392
¥ 0.1	ln 219.90		0.53932
		SUM	1.48278

Suppose at some future date, the exchange rates of the FF, DM, and Y were 6.7250, 2.3765, and 235.0 respectively.[c]

Weight	Exchange Rate		COL1xCOL2
FF 0.40	ln 6.7250		0.76233
DM 0.3	ln 2.3765		0.25969
¥ 0.1	ln 235.00		0.54596
		SUM	1.56798

The exchange rate for currency j against the U.S. dollar can be computed by substitution into equation (8).

$$E(j,\$,t) = \text{EXP}\ \{0.69315 - 1.48278 + 1.56798\} = \text{J}\ 2.17788$$

Discrete adjustments (i.e., devaluations) can be handled by an additional constant term. Thus, if at time t, the exchange rate were changed to J 2.25 = US$ 1, an additional term equal to the difference between the natural logarithms of 2.25 and 2.17788 (=0.03258) would need to be added to the equation. After time t the formula for operating the peg periods would be amended to:

$$(9)\quad E(j,\$,t+s) = EXP\ \{0.69315\ -1.48278\ +0.03258 \quad + \sum_{i=1}^{N} w(i)\ \ln E(i,\$,t+s)\}$$

Or:

$$(10)\quad E(j,\$,t+s) = EXP\ \{-0.75705 + \sum_{i=1}^{N} w(i)\ \ln E(i,\$,t+s)\}$$

Thus, the value of - 0.75705 would replace the previous constant of - 0.78963 = {0.69315 - 1.48278} in the formula.

In sum, the arithmetic-type peg allows the weights attached to various currencies to change depending on whether the currency in question is appreciating or depreciating. Another way of saying this is to point out that the percentage effective appreciation or depreciation of an arithmetic effective exchange rate index is not invariant to the choice of a base date or to the manner in which the index is expressed (i.e., foreign currency units per unit of domestic currency or vice versa). This is NOT the case with a geometric-type peg which does not suffer these disadvantages. The only virtue a "standard" or arithmetic basket has is its property of being like a currency (consisting of fixed units of actual currencies).

Appendix Notes

[a] The convention adopted here is to characterize a rise in the index as an appreciation. Using the opposite convention would call for changes in the above equation and those subsequently used in this paper.

[b] If a currency in the basket is normally quoted in U.S. dollars per unit (like the pound sterling), care should be taken to make sure it is inverted for the calculation.

[c] The U.S. weight is 0.2(ln1.0) = 0, and can be omitted.

Policies and Choice in African Agriculture

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Contents

Introduction

National policy makers and planners face a myriad of possibilities in guiding economic growth and development. The goals and objectives of any society are usually many and must compete for scarce resources. A nation's goals might include the stable supply of food at reasonable cost to consumers, remunerative prices to producers, improved livelihood and welfare of the country's rural population, making optimal use of a nation's resources for the benefit of present and future citizens, food self-sufficiency, and/or using agriculture as the "engine" of growth for economic development. Attaining these goals in practice involves compromises and trade-offs because of the limited resources at each country's disposal.

Methods for achieving these goals also vary from country to country. Herein lies the set of policy options from which each country's policy makers and leaders must choose. Decisions must be made on the role and level of public intervention in the market place, on the prices that inputs and commodities are bought and sold, on levels of output and cost in terms of resource use, and on the level of vulnerability to world markets. While these choices arise in all areas of concern, the following are particularly important and are the subject of this paper: (I) Marketing, (II) Prices and Subsidies, (III) Food Security and Trade, (IV) Land Tenure and Resource Management, and (V) Structural Adjustment.

This paper analyzes the choices that African leaders face as they formulate policy, and the arguments for and against those choices. Case studies are used to help illustrate policy issues, and the effects of policy reform. However, the paper tries to steer clear of making policy recommendations. In some cases, implications are drawn. But we consider it the responsibility of decision makers to review the arguments and examples from the perspective of their own national situation and to form their own judgements accordingly.

It is difficult in any review paper of this length to treat fairly such an important topic as agricultural policy and choice in Africa. The task is made even more difficult by differences in economic development, institutions, climate, history, and geography among countries. The coverage is largely determined by the personal research experiences of the authors, and their review of scholarly articles, reports, and newspaper clippings. Inevitably, important policy experiences of some countries will have been omitted. Some countries will receive more coverage than others. However, the intention is not to single out any one country, but instead to use different country experiences to illustrate the major policy issues and policy choices confronting the continent today.

I. Marketing

This section considers the appropriate role for private and public enterprises in marketing agricultural output. Marketing refers to the transformation of a commodity in time, space, or form. This is accomplished through storage, transportation, and processing, and usually involves transfer of ownership. Some of the ways that Governments can regulate or intervene in markets are shown below:

Transformation in time includes constructing storage facilities, developing new technology for improved storage, maintaining commodity stocks across seasons and years (buffer stocks and emergency stocks), providing credit to individuals holding stocks, buying post-harvest and selling pre-harvest to stabilize prices in parallel markets, and controlling seasonal price movements with official price ceilings and/or floors.

Transformation in space involves constructing and maintaining roads and railways, legally prohibiting or limiting inter-district and/or international commodity movement, constraining spatial price differences through official prices (e.g. pan-territorial pricing), regulating the transportation industry, and providing timely price and quantity information for different markets.

Transformation in form includes operating processing plants, setting prices for different forms of the commodity, developing new processing technologies, and setting grades and standards.

Transfer of ownership involves conducting official market operations, engaging in legal monopolies for buying or selling, licensing and regulating traders, taxing transfers of ownership, and enforcing contracts.

Some of these interventions are discussed in subsequent sections on price policy and food security and trade. This section focuses primarily on government as a direct actor in marketing as buyer, seller, and regulator.

Arguments For and Against Government Intervention

The argument underpinning a wide range of direct government intervention in marketing activities is that a nation's food supply is too important to leave in private hands. The argument is extended to export crops which are often a major source of foreign exchange. The roots of this argument can, in part, be traced to colonial traditions, especially in Francophone countries. It may also be linked to racial or ethnic factors, as trading may be dominated by minority groups; Asian traders in East Africa are a classic example.

Those who advocate direct government intervention in marketing activities tend to characterize private marketing as follows: (1) Traders collude against producers and consumers. (2) Profit margins are excessive. (3) Seasonal price swings are artificially exaggerated. (4) Farmers are at a competitive disadvantage in obtaining market information. (5) Remote areas are not well served. (6)

Poor consumers are at an unfair disadvantage. (7) The capacity to deal with emergencies is limited. (8) Taxes are evaded.

The first four elements imply situations that deviate significantly from economists' notions of competitive markets. Yet, there is also widespread belief among some donors that the private sector is reasonably competitive. Evaluating competitiveness is very difficult in practice, as outcomes vary with location, commodity, and time. The following two West African case studies reach different conclusions on the competitiveness of markets.

Private Market Performance: Grains in Burkina Faso

Sherman, Shapiro and Gilbert (1987), in a 1983/84 study of grain marketing in Burkina Faso, found that grain traders attempted to limit the effect of competition by agreeing on maximum purchase prices paid to farmers, and/or minimum sale prices charged to consumers. In practice, the difficulty of enforcing both prices and quantities forced traders to focus on non-price factors. Large merchants in the main cities were organized into associations. The wholesalers were a very powerful group, having successfully challenged various government decisions. The Ouagadougou Grain Merchants Association had a representative on the government commission that set official prices. When the government wanted to purchase a large quantity of grain for OFNACER, its official cereals marketing board, it approached the association rather than dealing with individual suppliers. There was also evidence that merchants set price floors for selling to consumers.

According to Saul's (1987) research in Bobo-Dioulasso, the grain merchants association, by executive committee, formally set a maximum price to be paid to farmers by private traders. Substantial fines (10,000 to 20,000 FCFA) were levied for non-compliance, serving to prevent smaller merchants from increasing market share by offering higher prices to producers. Saul notes that merchants saw nothing wrong with setting prices. In fact, it was consistent with official practices of price setting. In addition, he suggests that merchants took pride in setting maximum prices offered producers, since public sympathy was with maintaining low consumer prices.

Sherman (1984) found similar price setting in the regional town of Manga, but agreements among traders were less formal and sanctions less severe. Further, these cartel-like arrangements tend to break down as competition for grain intensifies, as was the case during the 1984/85 drought.

Estimating profits on trading margins is a difficult task because of problems obtaining reliable volume, price and cost information (Bukowski 1986). Sherman, Shapiro and Gilbert (1987) estimated rates of return on trade in cereals for various regions at different times of the year. For grain moving out of grain surplus regions (Volta Noire), rates of return on capital tended to be highest in the post-harvest season, diminishing fairly continuously and even becoming negative at points prior to the following harvest. For grain moving from the nation's capital, Ouagadougou, into food deficit regions (Sahel), the return on capital was just the opposite: lowest at harvest, increasing continuously through the soudure or hungry season.

The authors note that risks in grain trading, due to changing market conditions and changing government policies, must also be considered in evaluating returns to trading. In 1983/84, for example, the government of Burkina Faso tried to regulate inter-regional flows, and to enforce official prices, especially in large urban markets. It also confiscated grain from some traders who were rumored to have purchased at lower than official prices. Many larger traders withdrew grain from markets in response. Nonetheless, the authors conclude that there did indeed appear to be some excess profits due to market position, at least during certain seasons.

Private Market Performance: Meat and Livestock in Burkina Faso and the Ivory Coast

In contrast to the above example, Herman (1979) and Staatz (1979) both examined livestock trading and concluded that there was no evidence of severe imperfections in the market system. In a study of livestock traders in one small market (Djibo) and three larger markets (Kaya, Pouytenga, Ouagadougou) in Burkina Faso, Herman found that domestic traders had net margins of about 5-6 percent. Ouagadougou wholesale butchers had a net margin of 8.4 percent while traders who shipped from Ouagadougou to Abidjan had a net margin of 9.1 percent, due to higher risk and transport bottlenecks. These margins must cover the trader's or butcher's own salary, cost of capital, overhead, and returns to management and risk. Herman concludes that these margins do not support the hypothesis of an uncompetitive livestock trading sector in Burkina Faso.

Staatz's findings for the Ivory Coast support Herman's conclusions. After studying the structure and conduct of two large markets (Bouaké and Abidjan), he concluded that market concentration in Bouaké was very low, approaching the perfectly competitive model of many buyers, each with equally small market shares (1-2 animals per day). In Abidjan there was more market concentration among butchers. No single butcher, however, controlled more than about 15 percent of total purchases. Staatz estimated net margins of 4-9 percent of the final sale price of cattle in Bouaké and Abidjan. Rates of return to capital of traders who shipped cattle to Bouaké in 1976-77 varied from 16-30 percent per year, within the range of the opportunity cost of capital. Annual rates of return to traders who shipped cattle to Abidjan between November 1976 and February 1977 ranged from 25-65 percent. These rates were higher due to a severe transportation bottleneck that restricted shipments, and high risk in the Abidjan market. Staatz concludes that the private marketing system was fairly efficient.

Serving remote areas is a problem in many African countries where distances are great, roads are poor, and populations are dispersed. Producers and consumers are likely to face unfavorable prices because of high transfer costs. Opportunities to buy or sell may be few. In the Sahelian region of Burkina Faso, for example, consumers in remote villages were quite poorly served by large grain traders in 1983/84 (Sherman, Shapiro and Gilbert 1987), although as Bukowski (1986) points out, the comparative advantage shifts to small traders and to women in remote areas. Still, the profit/loss calculations that keep traders from remote areas bar rural consumers from the benefits of emergency stocks, food aid, and official consumer price subsidies that are available to consumers in more accessible locations.

Thus, there appears to be at least some truth to the unfavorable characterizations of private trade that lead governments to directly intervene in agricultural marketing. However, simply identifying problems in the private sector is not sufficient justification for intervention. It must also be based on better performance by the public sector. Unfortunately, most governmental marketing efforts have been poor, perhaps worse than the private sector activities they supplant.

Public Marketing Enterprises

African public enterprises (PE), including marketing agencies, have for the most part performed poorly. A World Bank study summarizes the situation as follows (Nellis 1988, p. ix):

> PE earnings are generally low; many run losses; often these losses are of a large magnitude. Far from contributing to government revenues, African PEs have more regularly become a heavy burden on already strained budgets. Few PEs generate revenue sufficient to cover operating costs, depreciation and financial charges; a good percentage do not cover operating costs alone. In many instances where PEs are classed as profitable, closer examination reveals distorted prices, direct subsidies, hidden transfers, preferential interest rates and a host of other elements which -- if properly accounted for -- would reduce the paper profits of the PE in question. The conclusion is that African PEs present a depressing picture of inefficiency, losses, budgetary burdens, poor products and services, and minimal accomplishment of the non-commercial objectives so frequently used to excuse their poor economic performance. Though every African country has one or more PEs which perform well . . . PE sectors [in general] are not fulfilling the goals set for them by African planners and leaders.

The problems of PEs are found across the continent (Nellis 1988, pp. 17-19). Cumulative PE losses in Mali reached 6 percent of GDP by the end of the 1980s. A 1980 study of eight Togolese PEs revealed losses equaling 4 percent of GDP. In twelve West African countries, a sample of PEs in the mid-1980s showed 62 percent with net losses and 36 percent with negative net worth (Bovet 1985). In Kenya, a study of 16 major agricultural PEs found aggregate before tax losses for 1977-84 of 2.9 billion K shs, or $183 million at 1986 exchange rates (Grosh 1986). Nellis (Ibid, pp. ix, x) identifies the causes:

> . . . [P]oor initial investment decisions and inappropriate pricing policies top the list. Many African PEs should simply never have been created. In a large number of African countries, controlled prices and failures to adjust prices in light of changing costs doom PEs to loss-making operations. African PEs tend to be undercapitalized -- high debt/equity ratios are the norm. Large amounts of working capital are tied up in

> inventories and especially receivables. Governments fail to pay PEs for the goods and services they provide; PEs retaliate by not paying taxes, or each other.
>
> A set of managerial/institutional impediments to good PE performance is also important. This set includes . . . overstaffing, political interference in day-to-day management decisions, unclear objectives, a weak human resource base, inadequate incentives for good managers, and the incompatibility of civil service procedures with commercial operations.

Public Marketing Performance: Groundnuts in Senegal

Consider the case of the Senegalese groundnut marketing authority, ONCAD (World Bank 1987). Groundnut marketing in Senegal was an exclusive Government monopoly from 1960-85. ONCAD, created in 1966, was given the mandate to purchase groundnuts from cooperatives for re-sale to local oil mills and for export. It was also responsible for the distribution of agricultural inputs, and assuring the reimbursement of credit from the agricultural cooperatives. Producer cooperatives were given the monopoly for the collection of groundnuts in 1967. SONACOS was created in 1975 to purchase groundnuts from ONCAD and process the oil using the services of the oil mills under contract. The groundnut oil was marketed by SONACOS in both local and foreign markets.

Sale prices by ONCAD to SONACOS were based on an official producer price plus predetermined costs of collection and transport services. Usually, the difference between the sale price and the official producer price was positive, with net revenues forwarded to the price stabilization fund (CPSP). Otherwise, the CPSP made up the difference, essentially subsidizing producers. Since any reduction in marketing costs within ONCAD would result in more money to CPSP, ONCAD had little incentive to reduce its operating costs.

By the end of the 1970s, ONCAD was facing severe problems (Martin 1986). First, the size of its staff was far in excess of the needs of its operations. Second, expenses had gotten out of control. ONCAD's expenditures represented 50 percent of the national budget in 1976, and 30 percent of the value of groundnuts harvested in 1980. Third, ONCAD's and the cooperative's operations were plagued by corruption: weighers would underestimate the quantity of groundnuts purchased, keeping the rest; some accounts managers would under-report reimbursements of credit by farmers, pocketing the difference; agents would create fictitious demands for inputs, which were then divided among agents and managers of the cooperatives.

Public Marketing Performance: Cotton in Madagascar[1]

There have, of course, been successful public enterprises in Africa. Nellis points to the Kenya Tea Development Authority, the Botswana Meat Commission, and the Ethiopian Telecommunications Authority as examples. Further, Malawi's Agriculture Development and Marketing Corporation, Tanzania's Investment Bank, and Ivory Coast's Palmindustrie Corporation are PEs, which were once in great difficulty, but have since been turned around by restructuring efforts. Several cotton development/marketing authorities in the mold of the French have also been successful. Nellis elaborates on one of these, HASYMA, Madagascar's cotton development agency.

HASYMA has accounted for the bulk of all profits reported by agricultural parastatals in recent years. Previously owned and run by CFDT-France, the agency was partially nationalized in 1979, with the Government owning 70 percent of equity and CFDT the remaining 30 percent. The agency's main functions include provision of extension services, inputs, and agricultural credit to cotton farmers, organization of the cotton marketing campaign, and operation of ginning facilities throughout Madagascar. HASYMA also manages several cotton farms for direct production.

The company is staffed and managed by nationals (500 in all), with 2 or 3 CFDT consultants providing assistance as requested by HASYMA management. The company has substantial autonomy in its decisions. It maintains close relations with the Ministry of Agricultural Production and Agrarian Reform on technical matters, and the Ministry of Industry and Commerce on pricing and marketing. Observers note a lack of interference from the ministries. HASYMA's financial position weakened in the early 1980s, due primarily to low official prices. Still, its performance has been good in comparison with other agricultural parastatals in Madagascar, and a sound producer price policy since 1983 has improved its finances.

Several other factors account for its good performance: (1) Its objectives are simple and clear to both staff and management. (2) It has an excellent staff which is well-trained and highly motivated. The company has managed to attract qualified staff by providing high salaries, substantial fringe benefits and opportunities for career development. (3) Staff and managers keep abreast of technical developments in their field and with world trends in cotton production and processing. (4) Management has placed emphasis on cost control to maintain the company's profitability. Transport and ginning costs are closely monitored. Certain responsibilities -- transport, land preparation and agricultural machinery maintenance -- have been delegated to the private sector. (5) It has been one of the few agricultural parastatals to successfully recover farmer payments for inputs and services provided. This cost recovery has been facilitated by its position as monopoly buyer of cotton, with input charges being deducted from crop payments to farmers.

II. Prices and Subsidies

Nearly all governments in sub-Saharan Africa act in some manner to control prices of inputs and foodstuffs. Prices are administered through procurements and sales by government marketing boards or parastatal agencies in an official market. Three official prices are common in African markets, although institutions for administering prices vary widely from country to country: (1) The official producer price is the price offered to farmers for a given commodity. (2) The official consumer price is the price consumers must pay to buy that commodity. (3) The official input price is the price charged to farmers for inputs such as fertilizers, seeds, and pesticides. Private markets operate in addition to official markets, balancing supply and demand. Private market operations may be legal, with prices determined by competitive conditions, or clandestine, in which case prices include an economic premium for risk. The size of official and private market shares varies by country and commodity.

It is now a widely held belief among western donors that low price incentives for African farmers contributed to Africa's agrarian decline during the 1970s and early 1980s. Indeed, for cereals, African marketing boards have had a penchant for 'buying low, selling low' to guarantee cheap food for urban populations, and for export crops, 'buying low, selling high', to augment state treasuries. In Zambia, for example, corn subsidies for the urban population accounted for almost 16 percent of the government's budget deficit in 1986. Farmers in the main coffee, cocoa and cotton exporting countries -- Ghana, Nigeria and Tanzania -- received only about 50 percent of the export price of their crops in 1984. Cameroon's coffee farmers received only 29 percent of the export price of Arabica beans in 1986. African farmers have responded by increasing trade in the private market.

Input markets also tend to be heavily regulated. The World Bank (1981) estimated that 50 percent or more of the countries in Africa in the early 1980s placed full or partial control of input sales and distribution in the hands of state agents. If mixed government and private sector involvement is considered, the figure was about 85 percent. Since foreign exchange is required to purchase capital inputs abroad, private marketing of inputs is often constrained by state foreign exchange controls, or foreign exchange allocations to state agencies.

Depending on how producer prices are set, producers and consumers may either be taxed or subsidized. The level of taxation and subsidy, for a given commodity, is determined by the level of the official price relative to the international parity price.[2] Producer prices above farmgate parity prices result in implicit subsidies to producers; prices below result in implicit taxation. Consumer prices above retail parity levels result in implicit taxation; prices below result in implicit subsidies. Official input prices act like consumer prices. An input price above the parity price (i.e. the price at which the state buys the input on the international market plus all transfer costs back to the farm) results in taxation; prices below parity levels result in input subsidies.

Consumer and Producer Subsidies

With urban populations growing in excess of 5 percent per year, creating highly visible problems of inadequate housing, infrastructure and under- and unemployment, policy makers face constant pressures to maintain low food prices for consumers. The urban constituency is better organized politically than rural farmers, and has considerable clout, as the recent riots in Algeria and Zambia can attest. Governments are faced with a dilemma. Increasing producer prices would raise incentives and may stimulate higher agricultural output, depending on the nature of the supply response schedule in agriculture. But, higher consumer prices increase food expenditures of urban consumers, raising political risks. This is the fundamental trade-off confronting analysts of food policy in Africa (Weber et al. 1988). A number of policy options have been used to deal with this dilemma:

1. Maintain Low Consumer Prices and Low Producer Prices. Low consumer prices reduce food expenditures and increase food demand. Low producer prices are necessary to maintain profitable operating margins or minimize operating losses of state PEs. Yet, low producer prices discourage production. The higher consumer demand combined with lower output result in higher food imports, increasing demand for scarce foreign exchange. Elements of this strategy can be found in a variety of situations across Africa.

2. Maintain Low Consumer Prices and Profitable Producer Prices. Higher producer prices increase food supply, assuming an upward sloping supply schedule in agriculture. But, smaller marketing margins reduce profits (or increase losses) of state PEs, unless official market share rises and state firms exhibit economies of scale in marketing. Countries able to export oil, mineral wealth, or merchandise goods have wider options. These export earnings enable a country to buy food and to pay agricultural subsidies. Yet, such dependency also increases exposure to international price risk, as seen in the section on Structural Adjustment.

3. Maintain Low Consumer Prices and Compensate Producers with Low Input Prices. Inputs are heavily subsidized to compensate farmers for low commodity prices, allowing consumer prices to be kept low. This strategy gives state PEs wider leeway in setting marketing margins, but the government incurs the higher costs of input subsidies. African governments in the early 1980s relied heavily on input subsidies to offset low producer prices. However, because of escalating budgets, input subsidies were among the first state interventions to be eliminated under The World Bank and IMF programs.

Input subsidies still remain a sensitive issue in the food policy debate. Proponents of subsidies argue that low input costs are necessary to promote utilization of modern inputs, and to compensate for farmers' tendencies in semi-arid areas to heavily discount the yield response of new technologies. There is also concern that for agricultural economies experiencing declining productivity, eliminating subsidies would have serious consequences for food security. Opponents argue that: benefits from modern inputs are realized only in more favorable climates, on more responsive crops, by the best (or wealthy) farmers; chemical input use has negative externalities; and, the state becomes increasingly unable to pay the subsidy costs as input demand rises.

Commodity and Input Rationing

The effectiveness of official price policy depends on market capacity constraints in the official sector. Input subsidies do not benefit producers if farmers cannot gain access to inputs. Higher producer prices do not benefit producers if official agencies lack the facilities to procure output. Lower consumer prices do not benefit consumers if the official market has no supply.

Marketing operations require operating capital, warehouse space, office facilities, truck fleet, staff, and facilities at buying and selling points. Capacity constraints limit the ability of official agencies to supply and distribute inputs, and to collect and distribute commodities. Further, official market constraints on input supply requires some rationing scheme to allocate inputs in the case of excess input demand. Even if facilities and staff provide ample capacity, a firm's ability to collect and deliver goods still depends crucially on its ability to meet recurrent costs out of the budget, and on the allocations of foreign exchange it receives to enable vital imports (fuel, parts, machinery and equipment). However, while budget deficits affect primarily official market activities, scarce foreign exchange affects both official and private markets, depending on rationing rules governing foreign exchange allocations. Parastatals effectively become unable to support their official prices, given capacity limits and these budgetary and foreign exchange constraints.

Price Policy Reform and Rationing Constraints in Burkina Faso[3]

Consider the case of Burkina Faso. OFNACER, the national cereals marketing board, implements a two-tier pricing structure, buying grain from producers at fixed producer prices and selling grain to consumers at fixed consumer prices. SOFITEX, the Fibers and Textiles Association, has a monopoly on the marketing and export of cotton. It buys cotton from farmers at fixed producer prices, operates the gins, and exports the ginned cotton. It is also the main distributor of modern inputs (fertilizer and pesticides), for cotton or otherwise, in cotton growing areas.

OFNACER maintained grain procurement targets of 30-40,000 tons in the early 1980s. Yet, actual procurements only averaged about 13,300 tons in 1979-81 due to capacity constraints, low producer prices, low operating margins, and cash flow constraints. OFNACER was able to offset these low procurements with food aid imports which it also sold at fixed consumer prices (CRED 1977). Food aid averaged 39,750 tons per year in 1979-81, making it the largest component of OFNACER's supplies.[4] These supplies were then sold to consumers at subsidized consumer prices. Because OFNACER's supply is constrained by its domestic procurements plus food aid imports, low consumer prices resulted in an excess demand for, and subsidies to consumers of, official market commodities. This excess demand was resolved by rationing (allocating) commodities mainly to consumers in Ouagadougou and to the worse grain deficit areas.

An aggressive subsidization policy was practiced for nearly all modern inputs in the early 1980s. The price of urea, in 1980, was subsidized 28-40 percent, depending on the region, while cotton fertilizer was subsidized 53-56 percent. However, due to limited foreign exchange allocations for capital imports, and the allocations of limited inputs to cotton zones, input supplies were unavailable to most farmers.

International financial authorities (IMF, World Bank) intervened in the early 1980's with reforms to increase producer prices for cotton and sorghum and to remove input subsidies on fertilizer. Reduction of food aid imports was a secondary goal aimed at increasing price incentives in the private sector. Roth and Abbott (1989) conduct a counter factual analysis of these proposed policy reforms using policy simulation with an agricultural sector model. Results of these policy simulations are presented below: (i) eliminate fertilizer subsidies; (ii) remove fertilizer rations; (iii) eliminate food aid; (iv) raise producer prices; and (v) all reforms combined. Their analysis illustrates the complexities involved in analyzing policy when consideration is given to both official prices and official market capacity constraints.

Eliminating Fertilizer Subsidies (i). Official fertilizer prices were raised in the model to import parity levels, eliminating the subsidies on urea and cotton fertilizer that existed in 1979-81. Regional fertilizer rations were retained. Model results indicated that removing the subsidies would have negligible effect on output, demand, prices or trade because the marginal value of fertilizer continued to exceed the unsubsidized fertilizer prices. The high marginal value of fertilizer is due mainly to the low level of fertilizer utilization nationwide stemming from low input rations. Fertilizer use would thus be profitable even at the higher prices, so output would not decline.

Eliminating Fertilizer Rationing Constraints (ii). Official fertilizer rations were eliminated in the model to assess the benefits of capital investments in input marketing infrastructure. Fertilizer utilization nationwide increased to 17 times over base 1980 levels. Government outlays for fertilizer subsidies increased from 0.7 to 11 billion FCFA. Cereals production increased 15 percent, although low world prices and high transport costs to Abidjan prevented exports of cereals at current exchange rates. Cotton production increased from 64 to 151 thousand tons. Even though cotton exports increased, the merchandise trade balance fell by 6.6 billion FCFA, due to higher outlays of foreign exchange for fertilizer imports. Thus, institutional constraints to the supply of fertilizer, not prices, seem to impose the most serious impediment to expanded fertilizer utilization. However, these forecasts give credence to the worries of international authorities that the government would become unable to meet subsidy costs or attain a positive balance of payments without fertilizer price reforms.

Eliminating Food Aid Imports (iii). Food aid imports were eliminated in the model to increase price incentives in the private market.[5] Price disincentives would be negligible if aid is successfully targeted towards the poor, refugees, or drought afflicted populations with low effective demand. But, food aid is normally sold on the official market at consumer prices. Food aid reductions in the model had four main effects: (1) Production fell, and private market prices rose by 2-19 percent, depending on the commodity. (2) Imports of wheat flour through Abidjan increased by 13 percent and rice imports by 26 percent, due to higher private market prices. (3) The balance of payments deteriorated by 1.1 billion FCFA because of higher food imports. (4) Consumer subsidies dropped nationwide by 0.5 billion FCFA due to lower consumer rations, despite higher private market prices. Since food aid comprises the bulk of official market rations, political repercussions from higher prices and negative welfare impacts on low income groups raise crucial concerns about the viability of the reforms.

Higher Official Producer Prices (iv). While food aid reduction is intended to increase prices in the private sector, output price policy is intended to increase producer prices in the official sector. Official prices were increased in the model, but OFNACER's procurements of cereals were constrained at 50,000 tons, reflecting capacity and financial constraints.[6] Raising official prices in the model increased cotton production from 64 to 195 thousand tons nationwide. Cereals production fell due to area displacement by cotton. Even with higher official producer prices for cereals, the constraint on national storage capacity limited what the government could effectively buy from producers at those prices. Because of higher official market supplies consumer subsidies increased from 0.7 to 2 billion FCFA. The trade balance improved by 13 billion FCFA due to higher cotton exports and fertilizer rations being kept at constant 1979-80 levels. However, total cereals consumption fell from 177 to 157 kg per capita for rural consumers and from 162 to 155 kg per capita for urban consumers, exacerbating food security problems.

Fertilizer, Food Aid and Price Policy (i through iv combined). When all the previous reforms were implemented simultaneously in the model, fertilizer utilization rose to 12 times base case levels. Cereals production increased 2 percent due mainly to fertilizer policy. Cotton production increased from 64 to 266 thousand tons, largely in response to higher producer prices. Wheat imports increased 13 percent and rice imports increased 21 percent due mainly to the elimination of food aid. Fertilizer import costs rose from 0.9 to 11 billion FCFA. However, cotton export revenues increased from 7 to 27 billion FCFA, more than compensating for the higher import bill. Overall, the trade balance improved by 9 billion FCFA.

Despite the government's goal of food self-sufficiency, model results clearly indicate that Burkina Faso has a comparative advantage in cotton production. By liberalizing prices and shifting resources from cereals to cotton, foreign exchange generations are more than sufficient to meet food security needs through food imports. Questions of international price risk involved in this strategy are dealt with in the following section.

III. Food Security and Trade[7]

Since the mid-1960s, vagaries in weather and the greater reliance of many African countries on food imports have resulted in perceptions of decreased food security. Huddleston et al. (1984, p. 3) define food security as "the assurance that supplies and financing will be available to meet minimally adequate consumption requirements without domestic price increases, regardless of world market conditions." They consider the main causes of food insecurity to be "fluctuations in domestic production and in the price of imported cereals."

Vulnerability to fluctuations in domestic production can be reduced by more irrigation, crop diversification, and varietal improvement programs that increase tolerance of cereals against disease and drought. Vulnerability to fluctuating world prices can be reduced by domestically producing a greater share of consumption needs. However, policy makers face a difficult choice. Many countries are able to obtain more food through trade than through domestic production by exploiting their comparative advantage in exports and capturing gains to trade. But, in so doing they experience greater vulnerability to world price fluctuations, both for exports and food imports.

A similar dilemma arises when attempting to increase the reliability of domestic production through investment in the irrigated sector. Expanding irrigation should decrease vulnerability to variations in rainfall. However, the same resources used to build, operate, and maintain irrigation systems may achieve higher output if invested in the rainfed sector.

Imports, Production and Food Security in The Sahel

The dimensions of food security and the trade-offs involved in developing food security strategies are clearly seen in the case of the Sahel. Since the late 1960s there has been a downward trend in rainfall and an increase in its variability. Cereal imports in six Sahelian countries (Burkina Faso, Chad, Mali, Mauritania, Niger and Senegal) increased from 1,028,000 metric tons in 1970 to 1,334,000 metric tons in 1985-86 (World Bank 1987, 1988). Food aid imports increased from 303,000 to 827,000 tons over the same period. This rise in food imports reflects several concerns:

High Cost of Domestic Cereals Production. Rice produced in much of Senegal cannot be delivered to Dakar at lower cost than rice imported from Thailand. In 1986, the average landed price of broken Thai rice was 52 FCFA/kg; in 1987 it fell to 44 FCFA/kg. In 1988, world rice prices rebounded by some 50 percent, bringing the price of imported rice to around 70 FCFA/kg. The cost of rice produced in the Senegal River Basin, delivered to Dakar, is estimated to be between 160 and 250 FCFA/kg (Martin 1986). There are several implications: (1) The price guaranteed to producers must be at least several times the import price to make Senegalese rice profitable. (2) Rice farmers are at a competitive disadvantage producing rice as a cash crop given current technology. (3) Capital investment in costly irrigation systems, or even the recurrent maintenance of these systems, may not be recovered.

Artificially Low World Prices. World prices of rice and wheat are strongly influenced by domestic policies in exporting countries. The United States, Thailand, European Economic Community and other countries regularly subsidize their cereal exports, providing income subsidies to their own producers. Governments relying on cereals imports feel some loss of sovereignty when food consumption is at the mercy of another government's domestic policies.

Unstable World Prices. Questions of risk and sovereignty also pertain to the instability of world prices. This is particularly true for the world rice market, which Siamwalla and Haykin (1983, p. 9) describe as "essentially a thin residual market." Small variations in weather in major producing and consuming nations can cause large percentage changes in their trade and major price swings for Sahelian importers. Price instability is reinforced when large producing countries manipulate trade in order to stabilize domestic prices (Huddleston et al. 1984).

Technological Prospects. Prospects for increasing food production in the Sahel are hampered by the lack of viable yield increasing technologies, particularly for millet and sorghum. These two crops accounted for almost 85 percent of total cereal production in the seven mainland Sahelian countries in 1985, with almost all of the remainder divided equally between rice and maize (FAO 1987). New technology for significantly increasing millet and sorghum yields is not available for adoption. In his authoritative review of millet and sorghum in West Africa, Matlon (1987, p. 31) states:

> After several decades of research probably less than 5 percent of total sorghum and millet area in the region is sown to cultivars developed in modern crop improvement programs. Moreover, under normal rainfall conditions, and with low to moderate input levels under farmers' management, the yield advantage of most improved cultivars rarely exceeds 15 percent and is often negative.

Recent World Bank studies confirm this assessment. In Senegal, "there have not been any major successes in technology development, transfer, and adoption which may clearly indicate which are the principal sources of growth in Senegalese agriculture" (World Bank 1987b, p. 19). An assessment of the situation in Niger concludes that modern technical packages suitable for Niger's rainfed agriculture have not yet been developed and that the cost of developing irrigation is extremely high (World Bank 1986).

High Opportunity Costs of Greater Self-Sufficiency. Yields of rice and maize are higher than those of millet and sorghum. Attention is usually devoted to the prospects of increasing the area devoted to these higher yielding crops. There are at least three issues to consider in promoting this substitution: (1) the cost of developing (or rehabilitating) and maintaining irrigation works for rice, (2) the availability of fertile land for the expansion of maize, and (3) the trade-offs in shifting land, labor, and capital inputs from other crops to maize and rice, including the losses in foreign exchange earnings from shifting out of export crops.

Expansion of irrigated rice has received considerable attention in Mali, Mauritania, Niger, and The Gambia. Many analysts, however, question the economics of the dependency on large-scale irrigation schemes for new rice production. One study in the central Gambia notes that labor, not land, is the critical constraint during the wet season. In the Jahally-Pacharr rice project, one hectare of fully water-controlled land requires 349 days of labor in the wet season compared with 90 days for "upland" millet, sorghum, or maize. Under partial water-control, the labor requirement is 262 days, compared with 217 days for traditional rice (Von Braun and Johm 1987). On the output side, the marginal productivity of labor in upland cereals and in groundnuts exceeds that of rice under every type of water control. The average productivity of labor in upland cereals and groundnuts was exceeded only by fully water-controlled rice ($2.45/day vs. $1.50/day). But the latter requires very large capital investment and maintenance costs.

Comparative Advantage and Food Self Sufficiency: Mali and Senegal

The Domestic Resource Cost (DRC) indicator is the ratio of the social opportunity cost of domestic resources to the value added from using those resources.[8] Calculating DRCs requires judgement about which prices -- official prices, border prices, local prices, shadow prices, current prices, or predicted prices -- should be used to value inputs and outputs. A recent study in Mali (Stryker et al. 1987) reveals the importance of these judgements and provides valuable insights into Malian agriculture. The study found that rice is less efficient at earning foreign exchange than either millet, sorghum, or maize. Cotton is more efficient than any cereal at predicted 1990 and 1995 prices, but not at 1986 world prices. The future foreign exchange situation for Mali would thus be worsened if resources were shifted from cotton to cereals.

Abt (1985) cites figures for Senegal from the mid-1970s that show groundnuts or cotton being very efficient foreign exchange earners (DRC less than 0.5), millet and sorghum favorable (DRC = .62) and rice unfavorable (DRC = 1.02). Somewhat later calculations in Pearson et al. (1981) show DRCs for rice well above 1.0 with few exceptions. The competitiveness of domestically produced cereals is quite sensitive to the location of their consumption. Pearson et al. showed that in 1981, the DRC for some rice was less than 1.0 for on-farm consumption, but greater than 1.0 for consumption in Dakar. The difference depends on supply and demand, and transport costs.

Vulnerability to Fluctuations in World Prices and Domestic Output: Sahel

Shifting from export crops toward food crops is widely believed to reduce risk of exposure to uncertain and unstable world commodity markets. However, a shift to greater self-supply does not necessarily reduce risk. Instead, there is a shift in risk exposure from fluctuations in export crop production and uncertainties in world prices, to fluctuations in domestic cereal production. To the extent that export crop production and world price movements are not closely correlated, exports may be less risky than reliance on domestic cereal production.

During drought periods there will be declines in Sahelian production of cereals, groundnuts and cotton. The effects of these declines are moderated if world groundnut and cotton prices rise or stay strong and world cereals prices fall or stay low. This reliance on world prices for food security is not viewed favorably by Sahelian governments, but it may be less risky than alternative options.

A review of historical data bears out these patterns. Over the 24 year period 1962 to 1985, Sahelian production of millet and sorghum declined in twelve of the years, and world prices for cotton and groundnut oil declined in 7 and 10 of the years, respectively. World rice and wheat prices increased in 10 and 9 of the years. Often times, production or prices changed by more than 10 percent from one year to the next. However, in five instances, a damaging change in one price (e.g. the fall in groundnut oil prices that happened from 1981-83 and again from 1984-86) was countered by a favorable change in the other (e.g. a fall in rice prices).

Thus, there does not seem to be clear evidence that Sahelian countries face less risk to food security when they cut reliance on world markets in favor of greater self-supply of cereals. There is at least one other factor to consider. Many Sahelian countries have a comparative advantage in their export crops. When world prices turn against the Sahel, cushioning devices exist (e.g. STABEX and IMF compensatory facilities) that are not available if cereals import replacement occurs at the price of reduced exports.

IV. Land Tenure and Resource Management

The study of resource tenure is concerned with access rights to basic factors of production and to the institutions that determine resource allocation and use among individuals. Most African countries use some combination of national legislation, administrative codes, government agencies and policies promoting state farms and cooperatives to exert control over the allocation and management of resources. As Lawry (1989) notes, this approach has given rise to two sets of problems: (1) State assumption of administrative rights has reduced the ability of local communities to manage local resources. (2) Ambivalent state attitudes toward customary tenure and lack of clarity of resource rights have affected farmers' incentives for investing in land improvement practices. The remainder of this section will be limited to land tenure policies. However, issues crucial to the analysis of land tenure -- resource access, tenure security, resource allocation, incentives for investment -- are equally relevant to other natural resources.

Problems of Resource Access

Africa is often viewed by development experts as a relatively land abundant, labor scarce economy. Statistics citing low populations relative to abundant land resources lend credence to this view. Yet, African policy makers are facing increasingly difficult choices due to problems of land scarcity, including excessive land fragmentation, uneconomic size of farm holdings, deterioration of land quality, expansion of production onto marginal lands, and declines in environmental quality.

High population pressures in areas of Uganda, for example, are resulting in settlement of forest reserve lands, raising environmental concerns. Countries such as Rwanda and regions like the Mossi Plateau of Burkina Faso are experiencing severe land shortages, resulting in the decline of traditional fallow, expanded cultivation onto marginal lands, and decline in soil fertility. Even within relatively land abundant countries, land use conflicts and tenure insecurity may occur in specific locations of higher quality lands, high population density, or areas of fixed place capital investment in land (e.g. improvements in road and water infrastructure). Tanzania, for example, with an abundance of arable land, has experienced a high degree of soil erosion from the slash and burn of forests and scrublands.

Problems of landlessness or land displacement may be the outcomes of national policy. Crowded communal lands in Kenya and Zimbabwe, for example, were at least partially caused by policies intended to place Africans in reserves. The 1975 Land Law in Somalia replaced the rights of land holders under customary tenure with a statutory system that gave priority to establishment of state farms, cooperatives, and large private farms.

National land policies are also influenced by political and economic forces beyond country borders. For example, preferential treatment given to olive producers in Portugal and Spain by the European Common Market is eroding returns to fixed placed investment in olive trees in the Mahgreb countries. By the end of 1988, over one million refugees, fleeing the consequences of war in Mozambique, had passed across borders to neighboring Malawi, South Africa, Swaziland, Tanzania, Zambia, and Zimbabwe, sharply increasing demand for land resources, as well as for food and health services. In Malawi alone, approximately 600,000 to 750,000 refugees had crowded into the country by 1988, resulting in loss of farmland, and in severe land degradation and deforestation as refugees cut down trees for fuel and building materials. Reductions in food aid, improved agricultural price incentives, and poor returns in manufacturing and service sectors have sharply increased the demand for land in Somalia's river valleys, resulting in land grabbing and land speculation (Roth 1988).

Options for dealing with land scarcity problems are quite limited: (1) Increase output per unit of land area through research in new technology, application of modern inputs or improved management. (2) Reduce the demand for land. (3) Shift labor resources off the land. (4) Expand the area of arable land resources. Or (5) Redistribute land holdings through land reform. Which option or set of options is feasible and appropriate is highly dependent on local conditions.

Technological packages to improve land productivity require years to develop, and considerable investment in basic research, extension, and marketing. As problems of uneconomic size of land holdings become very severe (assuming fairly equal land distribution), policies may need to gradually shift from land tenure policy to policies emphasizing greater opportunities for off-farm employment. But such shifts are only possible with increasing farm productivity per worker, or increased productivity in manufacturing and service sectors to enable imports of food from abroad. Countries also incur the risk of poverty and urban unemployment if the non-farm sector weakens or fails.

Land resettlement schemes, irrigation schemes, and land reclamation projects are important means of expanding the supply of arable land. The urge to open unsettled lands is hard to resist, particularly as the continent wrestles with problems of declining food production. Such programs as the Volta Valley Authority's planned resettlement of thousands of hectares of riverine land in Burkina Faso (freed of river blindness by WHO spraying programs) offer considerable potential. But such programs require managerial resources, a redirection of national resources for capital investment, and a diversion of attention away from traditional sectors. Opening up lands, even idle lands, can rekindle old land disputes and conflicts.

Tenure Security and Theory of Investment

Some argue that traditional African land tenure systems induce inefficient allocation of resources because property rights are not clearly defined or allocated to specific individuals or groups, and do not have legal and tenure certainty (Johnson 1972). Neo-classical economics suggests that increasing tenure security facilitates agricultural investment and higher output through four mechanisms (Johnson 1972; Ault and Rutman 1979): (1) It raises farmers' expectations of returns from fixed-place investment of labor and capital in land. (2) It encourages a land market which facilitates the flow of land resources from less efficient to more efficient users. (3) It enhances the collateral value of land (assuming that land rights are fully transferable and mortgageable), thereby increasing credit access. (4) Enhanced collateral lowers lender's costs, thereby increasing credit supply. Several African nations, including Kenya, Uganda, Zimbabwe, and others have laws establishing some form of freehold or state leasehold tenure. Many other countries are considering statutory changes and land registration as policy interventions to increase agricultural investment and productivity.

Land Registration: Kenya, Uganda, Zimbabwe and Nigeria[9]

When the land registration and consolidation program was implemented in Kenya in the 1950s, land scarcity due to population pressures was resulting in severe fragmentation of land holdings in many areas (Coldham 1978; Brokensha and Glazier 1973; and Wilson 1972). Land scarcity in some areas had led to land overuse and erosion (Okoth-Ogendo 1976). Landholders in East Kadianga were witnessing a high incidence of land disputes and enclosure (Coldham 1978). In areas such as Mbeere and Kisii, litigation over land disputes had become onerous and costly (Wilson 1972b; Brokensha and Glazier 1973). Increasing numbers of outsiders began settling areas of high agricultural potential in Masai in the late 1950s and early 1960s, enclosing large areas of the best grazing land to form private ranches (Coldham 1979).

A number of factors acted to increase demand for land: growing importance of the cash-crop economy, population growth, improved communication, and new market opportunities (Haugerud 1983; Coldham 1978). However, Okoth-Ogendo (1976) argues that the colonial government's practice of reserving land for Africans in "reserves" decreased the supply of land for African agriculturalists, exacerbating problems of land scarcity.

Effects on Tenure Security. Individualization did appear to increase tenure security in some instances, demonstrated by the high demand for title and the reduction of disputes in African courts following registration (Wilson 1972b; Odingo 1985). However the land consolidation and registration process also imposed insecurity on certain groups of rightholders, particularly those losing land rights as a result of registration. Consolidation under the rubric of one household/one parcel created uncertainties for those land holders who rely on multiple holdings under different ecological settings to disperse production risk (Brokensha and Glazier 1973; Haugerud 1983).

A number of right holders lost land in the adjudication process in Kenya: (1) Mau Mau suspects in Central Province; (2) muhoi and jadak tenants; (3) landholders absent when adjudication was in progress; and (4) married sons or wives, since land was generally adjudicated in the name of the family head (Wilson 1972; Coldham 1979). Haugerud (1983) adds a fifth category, those who lost land to chiefs, headmen, clan elders, and other influential persons during the colonial period. Land accumulation, particularly in the peasant sector, took place in two ways: (1) from previously influential and wealthy families acquiring larger-than-average holdings during the late colonial reform, and (2) from persons with access to off-farm income increasing their holdings after the reform through purchase (Haugerud 1983).

Land redistribution as a result of land registration is not unique to Kenya. After observing the allocation of certificates of occupancy in two Nigerian states, Koehn (1984) concludes that over 70 percent of the recipients of certificates were businessmen, public officials or traders, and all grantees had incomes significantly above the average for the area. Cobb et al. (1980), in a review of road construction impacts in Liberia, notes that individuals with economic and political resources, usually educated urbanites, obtained the title to land. Few farmers had the knowledge, capital, or political connections to acquire title.

Problems of tenure insecurity are exacerbated in rapidly changing tenure systems, where land transfers have the protection of neither the state nor customary tenure. Ega (1979) notes that in Nigeria, commercial transactions in land (purchases, pledge, and rent) usually take place illegally, without the approval of the minister or his local representative. Yet, these transactions, left unregistered, provide the most insecurity because they lack legal approval and recognition, and have lost the protection of customary tenure systems.

Effects on Capital Investment. Has land registration increased investment and productivity? Barrows and Roth (1989), in a summary and analysis of the literature on titling in Kenya, Uganda and

Zimbabwe, conclude that there is little evidence to support this proposition. More than half the land purchasers in Haugerud's Embu sample in Kenya had less than two-thirds of their land under cultivation (Haugerud 1983). Many of Wilson's (1972a) Kisii respondents who acquired land over 10 years prior to his study had not planted any crops; in a few cases holdings were never cleared. Cash crop production and peasant incomes increased following the first registrations. But the probable cause was elimination of restrictions on African production of cash crops and increased access to complementary inputs (Okoth-Ogendo 1976).

In Uganda, many aspects of the land law restrained commercialization of agriculture by mailo holders and tenants. Mukwaya (1953) notes that the strong protection of tenant rights mitigated against an owner aggregating enough land to invest in machinery and capture economies of scale in farm operations. He further suggests that in spite of a high savings rate among progressive farmers, there was little agricultural investment because farmers used all their savings to purchase land, leaving no funds for capital purchases. West (1972) argues that individualization leads to <u>less</u> investment in land than might otherwise have occurred, because the provisions of mailo law that protected and increased tenant security denied land access to potential investors who had amassed capital from non-farm activities.

<u>Effects on Credit</u>. Prior to land registration in Kenya, a few agricultural loans were made by the state sponsored Agricultural Finance Corporation (AFC). After land registration, commercial banks were less likely to extend credit to small holders unless title certificates were used as security (Wilson 1972b). The minimum size of loans for most banks exceeded the capital needs of smallholders. Because small loans generated little interest revenue, lenders had difficulty recouping administrative costs. Loans were thus given to registered proprietors, those with off-farm employment or salaried positions, and larger farmers (Wilson 1972a).

Okoth-Ogendo (1976) adds that while title is now a necessary condition for credit in Kenya, social status and liquidity are the sufficient conditions. "AFC loans in most districts go to less than 2 percent of title-deed holders in any one year . . . Both public and private agencies have become very reluctant suppliers of agricultural credit to small farmers except under the most exhaustive scrutiny . . . [A]lthough [these] institutions had wide powers of foreclosure, sale or appointment of receivers in case of default, it was not always easy to exercise them" (Okoth-Ogendo 1976, p. 175). Foreign owned banks expressed the most trepidation about foreclosure. Yet, even if foreclosure is difficult, title still increases lenders' security; as long as the title is in the bank's possession, the landholder is unable to obtain additional loans until the first is repaid (Wilson 1972b).

Small holders as a group exhibit very low demand for institutional credit. Even though Wilson (1972a) found a strong inverse relationship between capital investment per hectare and farm size in Kenya, small holders tended to rely on self-financing. In the Machakos area of Kenya, only 34 percent of the farmers sampled had applied for credit, but very few had applied to commercial banks or used land as collateral (Odingo 1985). Farmers on freehold in Zimbabwe often chose not to use credit for investments, but relied instead on financial assets accumulated through non-farm work (Weinrich 1975). This reliance on self-financing reflects the financial risks farmers perceive in acquiring credit. Cheater (1984) found that the majority of farmers in Msengezi did use short-term seasonal loans, but farmers run the risk of losing cattle, equipment or even their farms to recover debts in case of crop loss.

Customary Vs. Individualized Tenure: A Dilemma

The above experiences point out a fundamental dilemma facing policy makers. Customary tenure systems in Kenya (prior to registration) were resulting in fragmentation, tenure insecurity, soil erosion, and high litigation costs in some areas. Even if these problems were caused by colonial policy, or were location specific, land scarcity will ultimately prevail due to growth in population and economic opportunity. However, the state freehold and leasehold tenure systems chosen to supplant customary tenure have not been able to arrest fragmentation, have some times resulted in displacement of landholders' rights, and have not brought on the desired effects of higher investment and credit.

As Bruce (1986) and Lawry (1989) point out, customary tenure systems have proven themselves quite accommodating to market forces in a wide variety of situations. Yet, the structural adjustments being required of Africa today are beyond historical precedent. Fundamental questions emerge concerning their ability to efficiently and equitably cope with this change. Alternatively, if state intervention is required, can programs and institutions be developed that satisfy both efficiency and equity goals, yet require sufficiently low resources to meet limited state budgets?

Institutional Reform

Fundamental reforms in land institutions may be a precondition to economic development. Many of the legal statutes in Africa restrict transactions in land or prohibit specific use rights. In the case of Senegal, customary rights to lend, mortgage, and sell land were outlawed by the National Domain Law of 1964 (Hardy 1988). The 1975 Land Law of Somalia placed similar restrictions on land transfers, and further prohibits multiple parcel holdings (Roth 1988). Cheater (1982), speaking of one purchase area in Zimbabwe, notes that landholders are free to cultivate what they wish, but one landholder cannot grant use rights to another. Nigeria's Land Tenure Law of 1962 and its amendments of 1963 ". . . categorically prohibited occupants under statutory right from transferring land by sale, assignment or mortgage without the consent of the Minister" (Ega 1979, p. 290).

However, undertaking such reforms, whether changes in land legislation or implementation of land registration, can be a very long process, especially in economies with limited infrastructure, tight budgets, and a gradual learning curve to institutional and economic change. Measuring impacts of major institutional reform may require decades rather than years. Moreover, a number of conditions must be present before institutional reforms lead to higher investment: (1) the reforms must increase tenure security; (2) a functioning land market free of restrictions on use rights or transfer rights must exist; (3) profitable technological options for land investment must be available; (4) farmers must have access to market information and knowledge of these technological options; and (5) credit and input markets must be free of market capacity and institutional constraints.

The supply of institutional credit may be severely constrained by capital market imperfections. Foreign exchange shortages may constrain capital imports. Government budget deficits may constrain the supply of inputs and extension services by PEs. Opportunities for land investment may be limited because appropriate technologies either do not exist, are not widely disseminated, or are not considered to be economically profitable by farmers. Lenders may perceive no increase in security from land as collateral if political pressures prevent foreclosure, or the lack of active land markets prevents conversion of foreclosed land into a financial asset.

These market imperfections make it very difficult to measure the net benefits of institutional reform. Yet in situations of moderate to rapid technological and structural change, investment depends crucially on the institutional framework of property rights, and the freedom to exercise those rights. Conversely without technological options and functioning credit and input markets, investment in response to institutional change will remain limited.

V. Structural Adjustment

Structural adjustment has been added as a concluding section to this paper because it entails many of the policy issues and reforms covered in previous sections, and because such programs are so pervasive on the continent today. As many as 28 countries in Africa have undertaken policy reforms in recent years as a result of the World Bank and IMF structural adjustment programs. Loans are generally linked to recipient countries adopting more market oriented policies. Interventions generally follow the emergence of severe structural imbalances, including deteriorating balance of payments in external trade, rising government budget deficits, and/or steadily declining agricultural performance. Programs are tailored to the specific problems and circumstances of individual countries, but a number of aims are shared in common: (1) Devalue over-valued exchange rates to increase export competitiveness. (2) Raise producer prices to stimulate production and exports, and raise consumer prices to reduce outlays for consumer subsidies in the budget. (3) Reduce the input subsidies paid to farmers as compensation for low commodity prices to reduce budget outlays. (4) Reduce or eliminate the role of state PEs to increase marketing efficiency and to reduce government expenditures.

Trade Imbalances: Mineral Exporters

Dependency on mineral wealth for export earnings and the revenues to fund state programs has been a major factor underlying structural adjustment reforms across Africa. Oil exporters such as Algeria, Tunisia, and Nigeria, for example, were able to maintain expensive subsidies on agricultural inputs and foodstuffs in the 1970s as oil prices skyrocketed. But with the fall of oil prices in the 1980s, export revenues fell, and budget deficits mushroomed. Algeria's foreign debt mounted to $20 billion, or 35 percent of GNP in 1985. The dwindling imports of capital goods and termination of some popular government services at least partially contributed to the 1988 riots in Algiers.

Tunisia was also forced to undertake tough measures. Since 1986, it has devalued its real exchange rate by 25 percent to increase exports and attract tourism, and lowered subsidies on animal feed, meat and other food staples. However, it has avoided tampering with politically explosive bread prices by reducing the loaf size by 15 percent. Still, debt has mounted, to $5 billion in 1987, and exports of olive oil continue to be hurt by protectionist measures in the European Economic Community.

Togo is another example. When the price of phosphate moved to $75/ton in the early 1970s, the government invested heavily in capital intensive industries. By the early eighties, however, phosphate prices had declined by 50 percent and financial losses in state owned industries began to rapidly mount. The government moved to privatize government industries to control expenditures. Of about 70 state companies, the government of Togo had moved to liquidate eight and to privatize eighteen by 1987.

Heavy dependency on mineral export earnings to pay agricultural subsidies, and the unwillingness or inability to retract subsidies as earnings fell, resulted in major structural imbalances in budgets of these economies. The following three cases offer different experiences about the outcome of structural adjustment reforms.

A Success Story: Tanzania

Tanzania, once a leading proponent of African socialism, is now being considered one of the success stories of structural adjustment. Prior to 1986, import prohibitions had led to shortages of many consumer items, and low prices discouraged farmers from producing more than their family needs. Chairman Nyerere had long been an opponent of IMF and World Bank policies that impose generalized free-market export oriented programs on countries regardless of their specific conditions. But after winning important concessions, the Government agreed to an Economic Recovery Program in July 1986. The IMF agreed to shift its emphasis from balancing the budget by raising taxes and cutting spending to increasing revenue by stimulating development. The program called for curbing government spending to reduce domestic debt, sharply devaluing the currency to stimulate exports, raising agricultural prices by an inflation adjusted 5 percent each year, pushing industrial use to more than 60 percent of capacity from less than 30 percent, and improving marketing arrangements.

Production of cotton and tobacco, key export crops, went up sharply in 1987, in part due to plentiful rains, and in part to the reforms. Industrial output fell, but certain industries, such as tire and farm equipment manufacturing, posted increases. Basic supplies as well as consumer goods are now relatively abundant in shops and stores. As a result of these agricultural gains, per capita income rose for the first time in the 1980s.

The program has also brought new challenges. Tanzanian inflation, including the effect of currency devaluation, is about 30 percent per year. Farmers receive more for their crops, but prices of imported fertilizers and pesticides have risen sharply. Inadequate storage facilities have resulted in spoilage. Many farmers have found difficulty selling foodstuffs, despite good harvests, because of lack of processing facilities and transport.

Supply Response But No Demand: Mozambique

Mozambique is an example where higher prices led to a sharp increase in the supply of food, but low fixed urban incomes stifled demand. Prior to 1985, the government of Mozambique maintained strict price controls on food. Resources were invested in state farms and cooperatives. The traditional family-run sector, which produces more than 85 percent of the nation's food, was largely ignored as prices were kept low to subsidize urban consumers. The emphasis on collectivism led many farmers to stop producing for the market place. Food was rationed at state fixed prices, the amounts being dictated by family size.

In May 1985, the government lifted controls on prices of fruits and vegetables in a move to encourage private enterprise and foreign investment. Supplies flooded Maputo's markets, but prices were high, relative to the low fixed incomes of employees in the non-farm private and public sectors. Due to low effective demand, a lot of the fruit was rumored to have spoiled when traders did not lower prices. Traders were charged with excessive profiteering. Many western diplomats blamed excess liquidity for the high prices, as the government continued to expand the money supply to pay growing foreign debts, resulting in rapid inflation.

Political Risk of Reforms: Zambia

There has been an emerging feeling on the continent that the conditions stipulated by the World Bank and IMF for loans are too strict, and lack sensitivity to social welfare considerations. Zambia has openly criticized such policies and was the first to suspend an IMF program. Blessed with a rich lode of copper, Zambia was full of promise when it gained independence in 1964. It has fertile land, good weather, and abundant mineral wealth. However, when the price of copper (which accounts for

90 percent of export earnings) collapsed and the cost of imported oil skyrocketed in the mid-1970s, Zambia sought international financial assistance to stop its rapid decline.

Starting in the 1920s, colonial authorities imposed a hut tax to force peasant farmers to go to the mines to earn cash. Large populations sprang up around the mines, and food prices were kept low to attract workers. Now Zambia has the most highly urbanized population in Africa with more than 40 percent of the country's people living in the cities. The government used copper earnings to subsidize food prices, education and health services. When copper earnings plummeted, the government continued the subsidies by borrowing heavily. Lenders loaned money believing higher copper prices would return. But, copper prices in 1985 were still 60 percent lower than a decade earlier.

In the late 1970s, the IMF, the World Bank and a host of bilateral donors came to Zambia's rescue. Since 1978, the IMF has alone committed more than $700 million to help the Zambian government ease the financial pain of structural adjustment. In return, the government agreed to adopt a number of politically difficult reforms, including an end to most food subsidies. However, in December 1986, at least 15 people died in riots after the price of maize meal, the country's staple food, rose 100 percent following the termination of government subsidies.

Zambia suspended the IMF austerity program in 1987. President Kaunda accused the IMF of insensitivity to the social and political costs of its harsh belt-tightening measures. He designed his own austerity program that promised to soften the hardships. The program included limiting the nation's debt service payments to no more than 10 percent of export earnings, reimposing price controls, and banning both expatriate remittances and allowances for foreign travel. The plan also gave selected sectors (e.g. agriculture) access to foreign exchange, and has spurred efforts to diversify the economy. A coupon system was designed to cushion the blow of higher maize meal prices for the poor.

Aided by good rains, the economy rebounded in 1988. The rains doubled the maize harvest. GDP grew 2.7 percent following several years of stagnation, and the budget deficit as a percentage of GDP declined to less than 10 percent from about 35 percent in 1986. Almost a quarter of Zambia's bumper maize harvest rotted for lack of transport storage depots. Price inflation has been estimated at between 35 to 60 percent. The foreign currency shortage eased as the government limited payments on its $6 billion foreign debt. While more money was available for vital imports, like fuel, fertilizer and machinery, the long-term debt burden also increased. Zambia now owes $1 billion to the IMF. Officials say the country needs a massive injection of foreign currency. But that means going back to the IMF and the World Bank.

VI. Implications

There are a number of lessons to be learned from the above examples:

1. Agricultural prices, subsidies, foreign trade, balance of payments, and government expenditures are integrally linked. How prices are set influence trade and budget balances.

2. Foreign exchange shortages, budget deficits, and limited official market capacity can constrain government programs involving input distribution, commodity procurements from producers, and commodity sales to consumers. Under pricing regimes that result in producer and consumer subsidies, these constraints will result in input and commodity rationing, limiting the effectiveness of official price schemes. Foreign exchange allocations may have to be reallocated to agricultural sectors, and investments made in infrastructure and market facilities to increase the effectiveness of official market activities.

3. Farm and consumer subsidies are very difficult to remove once they are in place because of political risks. The gravity of problems facing the urban poor and unemployed would seem to justify food subsidies. Yet, a more appropriate set of policies might include programs to increase profitability of manufacturing and service sectors to improve workers' incomes and purchasing power. This may suggest even further decontrol of prices and deregulation.

4. There are always gainers and losers from policy reform. In most of Africa, urban consumers are the big losers from structural adjustment. Consumer subsidies have been maintained in many instances by government borrowing, food aid, and/or taxes on producing sectors. Borrowing and foreign assistance have enabled many countries to live beyond their means. After years of being the beneficiaries of subsidies, producers and consumers cannot be expected to look favorably upon the reforms. Maintaining subsidies would certainly limit the economic hardships. But the question remains of how to pay for the subsidies in the long run, particularly in face of declines in borrowing power and in foreign assistance. Donors must recognize that the costs of political instability arising from implementing reforms too rapidly may exceed the economic losses resulting from a more gradual implementation.

5. The World Bank and IMF programs often need to be implemented quickly to tackle serious problems of balance of payments and debt. Yet, reforms often require institutional changes that require years to implement. Policy reforms and institutional change require applied social science research to help guide intelligent policy choices and the strengthening of host-national research institutions to conduct policy analysis and to guide policy choices. Both require long term planning horizons.

6. Serious concerns have emerged among African nations and western donors alike, that current policy reform programs may be doing more harm than good. Along with many structural adjustment programs have emerged the problems of high inflation, layoffs in the public sector,

unemployment and declining incomes in heavily subsidized sectors. Loosening public sector controls and increasing self-reliance are appropriate goals for the long run. But the reforms will not bring about immediate private sector growth and vitality. Capital investment and redirecting growth in the economy will take time. Resource dislocations in sectors harmed by the reforms pose immediate problems. African economies are managing these hardships with limited resources and limited possibilities for growth in the short to intermediate run. This suggests that a more gradual approach to reforms is needed, and that greater donor assistance in the form of debt relief, grants, and aid will be required to assist African governments through the period of structural adjustment. This period may involve a very long time.

Notes

[1] This section draws heavily on Nellis 1988.

[2] For imports, the international parity price is the border price plus all costs of transportation, processing and handling back to a given region less any excess profits of parastatals that may be included. For exports, the parity price is the border price less all transfer costs. For goods which are neither imported nor exported, the parity price is difficult to estimate because the price wedge (difference between the price at which exports cease and the price at which the country begins to import) in land-locked African countries can be considerable.

3 This section draws heavily on Roth and Abbott (1989).

[4] Excluding international trade and food aid imports, OFNACER's market share, based on official sales, was around 16 percent of the commercial interregional trade in cereals in 1979-81. Including imports of cereals, OFNACER's market share at the retail level was 28 percent, reflecting its monopoly in handling food aid imports.

[5] To operationalize this policy, food aid imports equalling 15.4 thousand tons of white sorghum (3 percent of national supply), 16.4 thousand tons of maize (15 percent), 3.5 thousand tons of wheat (19 percent), and 5.5 thousand tons of rice (11 percent) were eliminated in the model.

[6] Official consumer prices were raised from 57 to 67 FCFA/kg for white sorghum, millet and maize, and 47 to 57 FCFA/kg for red sorghum. Producer prices of white sorghum, millet and maize were raised from 45 to 55 FCFA/kg, 37 to 47 FCFA/kg for red sorghum, and 55 to 67 FCFA/kg for cotton.

[7] This section draws heavily on Shapiro, Berg and Kristjanson, 1988.

[8] A country has a comparative advantage in a given crop if the DRC is less than 1.0, that is if the cost of domestic resources is less than the value added in producing that crop.

[9] This section draws heavily on Barrows and Roth, 1989.

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Issues in Budgeting and Fiscal Management in Sub-Saharan Africa

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Contents

I. Introduction

A number of African Governments are currently engaged in efforts intended to improve the management of their public expenditures and budgeting systems. The immediate pressure for policy and systems reforms in fiscal management has come from the economic reform programs being implemented to meet the challenges posted by external and internal economic factors. Since 1984 at least 29 Sub-Saharan African (SSA) countries have had fiscal adjustment programs designed to improve fiscal balance. In all but six of these countries, the programs specifically included measures for revenue increases and expenditure reductions.[1]

By 1988, 18 African countries had initiated structural adjustment operations and another 14 had borrowed to support policy reforms in specific sectors. Economic reform programs, whether for short-term stabilization or for the medium to long term structural adjustment, cover a wide range of policy initiatives: reform of exchange rate, deregulation of prices, market liberalization, and reforms in interest rate structure, and in specific sectors such as agriculture. 90% of these reform programs hao a common objective to be achieved, namely, a specified reduction of fiscal deficits and restoration of fiscal balance.[2]

Efforts to reduce government expenditures and fiscal deficits are by no means confined to Sub-Saharan Africa (SSA). Throughout the world, particularly in the developed countries there has been a sustained effort since the early 1970's to reduce the rate of growth of public expenditures and to contain the public sector fiscal deficit. Restoring the fiscal balance and narrowing the deficit has now gained primacy in the industrialized countries over the traditional Keynesian approach of using the budget to balance the economy. There is now a widespread belief that the budget cannot do much good to the economy unless its own structural problems are first addressed through expenditure stabilization and deficit reduction.[3]

Consequently the approach to public budgeting has changed from one which emphasized accountability, financial control and legislative overview, to that of developing long range fiscal norms in a planning process that is distinct from the formulation and review of budget estimates. The approach is to commit the government apparatus to budgetary stringency by imposing strong restraints on all actors involved. The type of control varies depending on national practices, from the most common one of limiting total public spending, to imposition of cash limits and limits on borrowings, to that of reducing the ratio of the public sector deficit to the Gross Domestic Product (GDP).[4]

In SSA nations the main policy objective for fiscal reforms in the 1980's has been the need to ease demand pressures emanating from the public sector in the context of economic adjustment programs. Thus the emphasis has been on reducing total government expenditures and internal borrowings and reducing the budget deficit as a percentage of the GDP. These measures however laudable in the short-run do not address the basic policy and process issues influencing public expenditures in SSA nations. Expenditure adjustment policies in order to be successful and sustained need the identification and effective implementation of corresponding policy and process reforms in a number of areas. This paper discusses some of the policy and process issues that need attention if fiscal balance is to be restored without losing sight of the need to enhance the effectiveness of public expenditures for promoting growth processes.

The paper is organized as follows. Section II reviews briefly the country experiences and the literature on the implementation of fiscal reforms in SSA and identifies three major features of the fiscal systems which suggest directions for further reforms. These include a weak and unstable revenue base, lack of effective control of expenditures, and the importance of fiscal reform for the success of other adjustment efforts. Section III briefly discusses three major policy issues that will require attention for improving fiscal management, namely the question of government employment, the recurrent costs problem, and the overextended portfolio of development projects and programs. Section IV identifies some of the process changes that could enable a proper consideration of these and similar policy issues influencing public expenditures, namely improvements in the budget process, the establishment of a macroeconomic framework for budgeting, relevance of ceilings, and guidelines, and forward planning.

II. Major features of SSA Fiscal Systems

Achieving reforms in public expenditures in SSA is a difficult task not only due to the lack of adequate institutional capacities in most governments and of viable alternatives to government involvement in a number of sectors of the economy, but also due to the extremely fragile nature of the financial systems and fiscal balance. This is evidenced by the slow pace of reform in a number of countries that are implementing adjustment programs. For SSA as a whole, central government expenditures as a percentage of GDP actually increased from about 31% during 1980-83 to 32% by 1986, although there is reported to be a fall in 1987. Budget deficits (inclusive of grants) continue to remain high and have changed little from 7.5% of the GDP in 1980-83 to 7.8% by 1986, with a decline to 7.2% in 1987.[5] According to another assessment central government deficit (exclusive of grants) declined to under 8.5% of the GDP in 1988 from 9.5% in 1987 and almost 10% in 1986.[6] This improved performance is attributed partly due to increased revenues as result of exchange rate liberalization and partly due to higher levels of concessional grants.[7] These indicators of performance indeed conceal wide variations in the fiscal policy stance adopted by individual countries and the important regional differences in the rates of growth of the GDP and central government deficits as a percentage of GDP.

Weakness of the Revenue Base

Perhaps the most significant factor contributing to the continued fragility of fiscal balance in SSA nations is that the weak efforts made by the governments in improving tax and non-tax revenues correspond to increases in expenditure plans and commitments. The revenue base for most SSA nations is very weak particularly where the tax structure is heavily weighted in favor of levying taxes on international trade. The share of such taxes in revenues is a high 22% in SSA, compared to 16% for developing countries.[8] Many low-income SSA nations rely heavily on export of primary commodities and consequently their revenue base varies widely from year to year due to fluctuations in terms of trade.

As far as non-tax revenues are concerned, SSA nations do not use the mechanism of user charges as frequently as other developing countries. The share of non-tax revenues in revenue is only 12% for SSA, compared to 21% for the developing countries.[9] Considerable potential exists for enhancing revenues through user chargers for infrastructure services such as electricity, water, roads and communications. As of now in many nations, deficits of public enterprises are a primary source of central government deficits. Such deficits could be gradually reduced by raising user charges to levels closer to marginal costs. A study by the World Bank estimates that the proceeds from such moderate increases in user charges in SSA at roughly 20% to 30% of central government revenues or 4% to 6% of the GDP.[10] Indeed greater reliance on user charges has to address other problems of equity and the impact on the weaker sections. With adequate safeguards, expanding the base for user charges could reduce the instability of revenues because the demand for such services is much less volatile than revenue from commodity exports. Many countries have already initiated policy reforms in this regard. For example in Kenya, after decades of following a policy of providing free services in the curative health and higher education sectors, the government in the 1989/90 budget has announced its intention to implement substantial user charges in these sectors.

A third factor contributing to the weak revenue performance is the lack of indexation of taxes to domestic prices so as to offset the loss of revenue due to collection lags, particularly in countries with high rates of domestic inflation. In addition to inflation, overvaluation of domestic currency also tends to shrink the tax base and leads to a reduction of revenues from traded goods. Apart from these factors, administrative difficulties in the collection of revenues to decreases in public sector revenues over a period of time.[11] Partly as a result of these features and partly due to the relative stagnation of the economies, revenues in SSA have declined as a percentage of GDP from around 20.5% in 1980-83 to 19.6% by 1987.[12] Unless sustained efforts are made to improve the base for tax and non-tax revenues and improve the administration and collection of revenues, it will be difficult to maintain a fairly constant rate of growth in public expenditures and fiscal balance.

Lack of Control Over Expenditures

In general, governments in SSA have found it extremely difficult to control the rate of growth of public expenditures even under very restrictive fiscal conditions. While this may be true of many governments in the world, in the context of implementing adjustment programs in SSA, reducing the budget deficit has proved to be the most difficult part for policy makers.[13] Experience has also shown that limited expenditure control has been the most important factor contributing to fiscal imbalance even in countries with positive rates of economic growth.[14]

Apart from a general lack of control over expenditures, another distinguishing feature in SSA is the tendency in several nations with heavy reliance on trade taxes to apply indiscriminately short-term increases in export revenues for increasing public expenditures. Examples are Kenya and Madagascar during the 1976-77 coffee boom, Côte d'Ivoire and Ghana during the 1975-77 cocoa boom and Zambia during the 1965-74 copper boom.[15] In all these countries, windfall gains in revenues, often leveraged by additional borrowings, led to large increases in current capital expenditures with subsequent entitlements on future budgets.

While in the case of Zambia, the boom lasted for almost a decade and was interpreted as a permanent increase, in other countries there was little justification for increasing expenditures. In Côte d'Ivoire, public spending increased from 28% of the GDP in 1976 to 35% in 1977, and in Kenya from 15% in 1977 to 21% in 1979. However, two other countries, namely Botswana and Cameroon, did manage cautiously similar commodity booms. In Botswana, public spending fell as a share of GDP during the diamond boom in 1983/84, and in Cameroon up to 75% of the revenues generated during the 1979-81 oil boom was saved abroad.[16]

Public expenditures have a universal and built-in tendency to increase rather than decrease. It is very difficult to cut back expenditures or control spending once a "plateau" of higher expenditures is reached. Expansion in government payrolls and consumer subsidies financed by short-term revenues gains create future commitments and are extremely difficult to cut back once the revenue increase has stopped. It has also been the experience in SSA that slow expenditure response to revenue decline contributed to a situation of chronic deficits, sustained appreciation of real exchange rates, and an accumulation of external and internal debts. Consequently the fiscal adjustment became extremely difficult not only as a result of declining revenues but also due to substantial increases in interest payments and reduced flows of net lending.[17]

The consequences of such a resistance to control expenditures and reduce deficits may be manageable in nations with sustained rates of growth in the economy, well developed financial markets, national savings, and an expanding revenue base. However, for most SSA nations with unstable revenues, the result of such inaction is a complete breakdown of the fiscal balance.

Importance of Fiscal Reform

Finally, experience with economic reform programs has demonstrated the importance of fiscal reform as a precondition to the success of policy reform in other areas. Prior control of fiscal deficits is essential for nations embarking on major liberalization efforts, particularly of the exchange rate regime.

Exchange rate liberalization increases the local currency value of revenues from import taxes as well as debt service payments. Although public expenditures, including transfers, are not indexed for inflation in SSA, there will be strong tendencies to apply the incremental revenues for current and capital expenditures, particularly to offset the increase in interest payments. Such fiscal expansion, particularly in the context of stabilization efforts and in countries where public expenditures constitute a fairly large proportion of GDP, will make it difficult to achieve the objectives of stabilizing the inflation and the exchange rate. The importance of prior fiscal control for the success of stabilization efforts has been illustrated by the relative success of Ghana and Zaire and the difficulties experienced by Zambia and Sierra Leone in liberalizing exchange rates.[18]

Fiscal reforms, particularly for improving the allocation of public expenditures and for the allocation of resources in the economy between the private and public sectors, are also essential in implementing adjustment programs. Here the emphasis should be on the allocative aspects so as to redirect public expenditures for improving capacity utilization, for the promotion of exports, and for promoting productivity growth in the economy. Unless these improvements take place simultaneously with other economic reforms, the pace of structural adjustment is likely to be delayed. For the same reasons, extreme caution is required in applying the local currency proceeds of commodity aid and the balance of payment support from donors for increasing public expenditures. Unless such increases are carefully programed and confined to high priority activities with an immediate economic impact, there will be no net benefits to the economy. Any tendency to increase expenditures on the ground that additional resources are available will work its way out in a manner so as to defeat the very objectives of stabilization.

III. Major Policy Issues Requiring Attention

Although controlling the overall fiscal deficits and limiting government expenditures occupy a prominent place in a number of economic reforms, undue emphasis on macro-level "performance targets" has led to a uniform compression of expenditures across the board, resulting in a serious misallocation of scarce resources which is counterproductive to the objectives of the reform program. The more important need is to change the composition of public expenditures from the traditional patterns, so that their reduced level is applied more effectively and efficiently to improve the growth processes in the economy.

The only significant change in the composition of expenditures that is noticeable in most SSA nations is the dramatic increase in the share of interest payments. These have increased three-fold during the period 1980-37, increasing in almost every country.[19] This increase has come about mainly as the direct result of continued external and internal borrowings in the past to finance budget deficits and partly due to reforms in exchange rate. Consequently there has been a relative compression of wages, non-wage operating expenditures, and capital spending. Even after such a compression, it is also the practice in a number of countries to postpone expenditures and delay cash payments so that the quarterly or annual "performance targets" on budget deficits and internal borrowings are adhered to.

Unless the underlying policies are reviewed and expenditure adjustments made according to well-defined priorities, mere compression and postponement of expenditures is only a short-term palliative and not a cure for restoring fiscal balance. Three of the more important policies that require review and adjustment are government employment, utilization of existing capacity, and the management of the portfolio of on-going development projects and programs.

Government Employment Policies in Sub-Saharan Africa

A review and a reorientation of government employment policies is called for in many SSA nations for the restoration of fiscal balance. This is not merely due to the unduly large share of salaries and allowances in total public expenditures, but more importantly due to the impact of such policies on productivity in government and efficiency in the delivery of government services. Increases in productivity and efficiency are in fact the overriding concerns in dealing with public employment issues. A mere reduction of expenditures on salaries without considering the manner in which such a reduction is achieved will further diminish efficiency and productivity in most SSA governments.

Since more than a decade now, many African governments, in an effort to achieve expenditure reductions have often pushed the rate of growth in government salaries to below the inflation rates. In some countries this has driven the public sector wages below the subsistence level. In Ghana, Nigeria, Sudan, and Uganda, the salary levels of top officials declined by about 14-35% every year between 1975-83.[20] Consequently the efficiency of the public sector is severely impaired, leading to ineffective delivery of services, delayed implementation of investment projects, increased costs and decreased revenues -- all of which will increase the budget deficit. Thus the actual employment policies implemented in order to reduce budget deficits have often exacerbated the situation.

Along with general reductions in real salaries, there has been a large scale expansion of government employment at lower grades, leading to an inefficient span of control in public services. Many governments tend to use government employment as political patronage and consider increases in them as the only means of controlling unemployment. Even for the educated unemployed, some governments have institutionalized guaranteed employment for particular types of school leavers and trainees from government training institutions. Examples are Côte d'Ivoire, Mali, Mauritius, Kenya, Senegal, Togo, Central African Republic, and Sudan.[21] Under these circumstances, the provision of unskilled government jobs, with very little relation to the requirements of government services or to productivity and efficiency, can only be viewed as a costly system of transfer payments to a privileged few in the economy.

A more important development, now well documented, is the relative compression of wage structure in government in a number of SSA countries, again as a result of efforts to reduce expenditures on salaries. Many African governments, faced with demands for salary increases to offset inflation in the context of budgetary stringency, have followed during the period 1970-83, a policy of making flat cost of living adjustments on the pay structure instead of making adjustments of a uniform percentage. Such a compression of the salary structure is often a standard bureaucratic response to reconcile a tight budgetary position with "social objectives". In some countries, the compression has been viewed as an effort to "narrow the gap" and exacerbated the problem of a decline in real terms in the level of pay. In two countries, such a compression was most pronounced, namely Zambia and Nigeria. In the former, Under Secretaries were paid in 1983 seven times as much as the lowest salaried employees, compared with a ratio of 20:1 in 1971 and 15:1 in 1975. In Nigeria, the basic pay of a Permanent Secretary in 1975 was 17 times that of an unskilled worker, and since 1983 it has only been 9 times as such. In Ghana, this policy of protecting the real wages of lower categories of employees resulted in the decline of salaries between the highest and the lowest paid employee to 2:1 in 1985. Subsequently, by 1986, the government had improved the ratio to 6:1.[22] Such a compression of the wage structure has led to severe problems in attracting and retaining qualified people in the middle and upper ranges of the civil service.

Although the above trends have been noticed in government employment, public enterprises appear to be less "affected" by budgetary constraints. Public enterprises in a number of SSA nations offer better salary levels, better working conditions, fringe benefits and well-defined job performance criteria. Combined with the real reduction of salaries in the civil service, these attractions have led to a substantial migration of talent from the government to the public enterprises in a number of countries. This phenomenon is particularly true of accountants and economists, the two categories of professional cadres whose services are essential for improving fiscal management.

This phenomenon has two perverse effects on fiscal balance. On the one hand public enterprises contribute substantially to fiscal deficits, despite their monopolistic and protected nature. Their potential "excess profits" instead of going to reduce government deficits are applied partly to pay their employees at a higher level than government and partly to subsidize their inefficiencies and the consumer. At the same time, through following inappropriate approaches to reduce budget deficits, governments are losing key manpower to the same public enterprises, leading to further inefficiencies and decline in productivity in government, and ultimately contributing to increased deficits. Surely this paradox needs to be resolved if fiscal balance is to be restored.

These and other problems will have to be addressed so as to improve fiscal balance in a sustained manner. In a number of countries, the directions of reform could consist of (i) removing guaranteed employment opportunities in the civil service for trainees from training institutions and school leavers, (ii) exercising much greater control in the recruitment of lower level and non-technical cadres with a view to achieving a shrinkage in public sector employment, rather than reducing expenditures in salaries, (iii) rationalizing or removing the artificial distinction in the salary levels between government and public enterprises for middle and senior level personnel, and (iv) improving the salary levels at middle and higher levels commensurate with productivity and efficiency.

The Problem of Recurrent Costs

Another dysfunctional consequence of attempts to reduce expenditures and budgetary deficits in SSA is the decline in the volume of real resources being allocated to the operations and maintenance of existing infrastructure such as road networks, hospitals, education facilities, and government services. Years of arbitrary expenditure control and budgetary stringency have led to significant declines in the share of expenditures on goods and services for the operation and maintenance of installed capacity. As of 1987, SSA nations allocated around 17% of the total expenditures for "goods and services" (a proxy for recurrent costs) compared to 30% for new projects and investments.

The proverbial manifestations of this problem, such as doctors without drugs, teachers without blackboards, extension agents without the means of transport, and roads full of potholes are well-known in many SSA nations. However there have been very few attempts either to diagnose the extent of the problem in specific sectors or to provide solutions. The origins of this problem can be traced to the enthusiastic promotion of a large number of infrastructure and human resources development projects by the donor community in a number of SSA nations in the late 1960's and early 1970's. Often heroic assumptions were made about the financing of recurrent costs of such investments either through user charges or increased revenues. A review of the recurrent cost financing of 29 such projects in the 1980's in five countries in the West African Sahel found that such projects were promoted on a much larger scale than was warranted by the state of knowledge about the costs and benefits of project strategies.[23]

The long-run solution to the problem has to come via the expansion of the tax base, concomitant with economic growth and improvements in government savings. The progressive decline in the current surpluses in many countries since the early 1970's accompanied by increasing share of salaries in total expenditures implies a tight squeeze on non-wage operating expenditures. In Kenya for example, the current surplus declined from 11.1 % of the total revenues in 1976-77 to -18.4% in

1982-83; during the same period the share of salaries in the recurrent budget of the Ministry of Agriculture increased from 48% to 59%.[24] Apart from financial stringency, an important reason for the progressive reduction in the volume of resources for recurrent costs has to do with the manner in which the budget processes are adapted in public bureaucracies. At the core ministries such as finance and planning, recurrent costs are an easy target for reduction under conditions of budgetary stringency, as there are no advocates for this group of expenditures either from within the system or outside. At the sector ministries, the political pressures and bureaucratic incentives are for the promotion of new projects and for employment of more people. This combination represents a line of least resistance for achieving macro-level control on total expenditures without creating conflicts in the organizations involved.

Another organizational factor which might have contributed to this problem has to do with the different procedures followed in many countries for the preparation of the recurrent and investment budgets. In quite a few countries, the former is done by the ministry finance, while the latter is prepared by the ministry of planning or its equivalent. Consequently there is no opportunity either for identifying the recurrent cost requirements of on-going and completed investment projects or for considering explicitly the trade offs in allocating incremental resources between recurrent expenditures and new investment projects.[25] In this regard, the practice in Botswana where the budgetary system gives explicit attention to recurrent costs is perhaps a step in the right direction.

In the context of extreme under-utilization of public sector capacity, incremental allocations to recurrent expenditures has the potential to activate idle capacity and generate social benefits far in excess of the incremental expenditures. It is this aspect which gives high opportunity costs for uncommitted government revenues under such conditions. However establishing a high rate of return by itself is not enough to change the resource allocation patterns. For this to happen, specific policy and process changes should be initiated to asses the magnitude of underutilization in specific sectors, identify the appropriate mix of inputs, and to ensure that allocation patterns do change.

Ghana is currently experimenting with establishing norms for allocating funds for recurrent expenditures for the ministries of agriculture, health and education. Kenya's Budget Rationalization Programme provides high priority to increase the allocation of resources for recurrent expenditures and seeks to achieve this through a system of multiple incentives and disincentives built into the budget process.[26] The incentives include giving freedom to the sector ministries to reallocate expenditure ceilings between recurrent and development budgets and for the use of additional user charges collected for increasing their non-salary recurrent expenditures. The disincentive is the provision of separate ceilings for salaries in the recurrent expenditure ceilings so far as to free the incremental portion of recurrent budget ceilings for allocation to operating expenses.

In the context of stabilization and structural adjustment efforts, the recurrent cost problem has acquired a special dimension, namely the linkage effects of increasing capacity utilization in specific sectors on productivity increases and growth processes in the economy. This could be particularly true of "economic infrastructure" such as the road network, irrigation systems, agricultural extension and research, and manufacturing and processing enterprises in the public sector. Therefore in designing policies for improving the allocation of resources, it is also necessary to establish priorities based on such linkages, amongst alternative uses of incremental non-wage operating expenditures. In the foreseeable future, it may not be possible to enhance capacity utilization in all sectors simultaneously. Once the recurrent costs issue is put on the agenda for reform, earmarking of resources from incremental revenues and user charges could also be considered for allocation to non-wage operating expenditures.

Portfolio of Investment Projects and Development Programs

Finally, in many SSA nations the portfolio of on-going development projects and the new ones being generated year after year is too large considering the fiscal constraints, administrative capacity, and operations and maintenance problems. While pre-financing of projects from grants and soft loans could mitigate to some extent the fiscal constraints, the quality of such externally financed investments has often been questioned. The overall performance of investments in SSA, with a few exceptions, has been extremely poor.[27] Many of the externally financed projects were extremely costly in terms of financing, design and capital intensity, and often the linkages assumed between project outcomes and economic productivity did not materialize. While part of this poor impact of such investments on the generalization of revenues for repayment of the loans borrowed could be attributed to the poor macroeconomic environment, a major reason is that many of the investments did not reflect priorities either for the economy as a whole or within a given sector.[28]

The fiscal constraint and the need for keeping a limit on expenditures has also resulted in stretching such investments over a long period of time, leading to delays in implementation, cost escalation and postponement of the likely benefits to the economy. In many SSA budgets, the available resources for development expenditures have been spread too thinly across a large number of underfunded projects with the extent of underfunding increasing every year as new projects are introduced in the budget. This is particularly true of projects funded by government resources, which have a tendency of creeping into the budgets with very little earmarking of funds in relation to their total costs.

In fact, in many budgeting systems in SSA, it is difficult to obtain information on the total costs of the project portfolio. All that is available is a yearly picture of the allocation for a given project and in some cases the previous year's expenditures. Consequently three separate budgets have evolved for such projects, namely the allocations in the estimate books, a commitment budget reflecting the actual expenditure obligations made by the implementing ministries, and finally a cash budget which is based on the actual release of funds to the contractors for the work done. Often this feature results in contractors abandoning the site, accumulation of pending bills and the private sector financing of such projects. Also a large number of projects remain uncompleted, requiring rehabilitation.

A large portfolio of on-going projects also results in straining the administrative capacity of the implementing ministries, leading to ineffective and delayed implementation. This is not due to the lack of administrative capacity but the application of that capacity for designing new projects and getting them into the budget, due to bureaucratic incentives and political pressures in the system. Consequently very little time is spent on supervising and coordinating the implementation of on-going projects.

It is however extremely difficult to slow down the process of generation of new projects and concentrate on the completion of on-going ones and on the much needed rehabilitation of incomplete projects. This will require concerted action on the part of the governments in SSA in establishing a tight control on the generation of new projects and in ensuring that they are initiated only after a careful review of the likely benefits and according to well-established priorities for investment. This will also require better coordination of aid and resistance to donor pressures for new projects of questionable benefits to the economy. However under the present fiscal circumstances in many SSA nations, rationalization of the existing project portfolio and completion of on-going projects has to be given higher priority than spending time on designing, negotiating and starting new projects.

IV. Budgetary Process: Need for Redirection

Improvements in the Budget Process

Many years of crisis budgeting seem to have eroded the credibility of the budget process in a number of SSA nations, making it all the more difficult to achieve a better allocation of a reduced level of resources. In a number of countries, the budget is no longer seen as the major vehicle for planning total expenditures and for their distribution amongst various sectors. Revenue declines and liquidity problems, combined with an ever expanding volume of commitments and pending payments, have resulted in a cash budgeting system in which the release of cash has no relation to what was budgeted for that year. Consequently, the large number of agencies involved in the budgeting and spending of public resources no longer view the budget process as the only means for doing so, but have developed their own adaptive strategies to get what they want.

Supplementary estimates, in theory meant to provide flexibility to handle unforeseen events, are now the order of the day in many countries. Often supplementaries are as high as 10% to 15% of the original budget with expenditure authorizations of a substantial magnitude even for generally predictable items of expenditures such as salaries and for the initiation of new activities.[29] While such supplementaries are easily rationalized on the grounds of having to accommodate mid-year policy changes in government salary levels, there is no pressure within the system to postpone the announcement and implementation of such policies having substantial financial implications until the next budget.

These problems appear to be more acute in countries implementing fiscal reform programs and could be traced to the bureaucratic adaptation of such programs in the ministry of finance, leading to a ritualistic adherence to annual or quarterly performance targets on total expenditures and domestic borrowing. In Ghana for example, sector ministries had no basis for incurring expenditures on projects, as development budget estimates were not printed or widely circulated. At the same time, the actual cash release for the contractors was highly centralized in an effort to adhere to cash limits on expenditures.[30] Although this situation has now vastly improved and the budget process is being rehabilitated, it is illustrative of the impact of a target approach to total expenditures without considering the structural problems of the budget or changes required in allocation priorities.

There are indeed wide variations in the practices, institutional traditions and capacity across the nations. Therefore the above description is not a universal picture nor does it reflect all the problems in the processes. Reform efforts for improving the processes should however recognize two fundamental institutional features in budget reform. On the one hand, finance ministry officials easily adopt macro-level targets on expenditure, speak the same language as the IMF and the World Bank, and often declare that they "will hold the line come what may", leaving the onus of cutting and prioritizing to the sector ministry officials. The sector ministry officials are typical "budget maximizing bureaucrats" and invariably seek strategies to overcome what they perceive to be short-term constraints which should not in any case apply to their ministry.

Fiscal reform requires a satisfactory resolution or at least a reconciliation of the conflicting interests of these two groups, each of whom perceive their functions differently. This will require a considerable rehabilitation of the budget processes, making them more predictable, transparent and the only means for controlling public expenditures. Such a rehabilitation is required to re-establish the traditional objectives of accountability, expenditure control and efficiency. In addition, the budget process also requires a reorientation in order to accommodate to the more stringent fiscal conditions and to improve the allocative aspects. Only through such a reorientation can a policy-oriented budget process be put in place, the pressures for expenditure growths dampened, the capacity to restraint strengthened, and the productivity and efficiency of public expenditures enhanced. The more specific directions for such rehabilitation and reorientation will have to be country-specific; however the following sections briefly outline some of the broad directions for change.

Establishing a Macro-level Framework for Budgeting

Fiscal reform under severe resource constraints with emphasis on enhancing the productivity and efficiency of public expenditures requires a process which is vastly different from the earlier unconstrained bottom up budgetary systems where totals were decided at the end, often by cutting at the margin. Briefly stated, three major changes in the processes are called for: (i) establishing strong linkages within the budget process between the macroeconomic conditions and public expenditures, (ii) establishing institutional capacity to disaggregate macro-level fiscal objectives into specific targets and guidelines and to review projects and programs in the light of these norms, and (iii) securing system-wide acceptance of these targets and guidelines.

The setting of a macroeconomic framework for budgeting is an important element in process reform as it enables the establishment of appropriate fiscal norms ahead of the actual compilation of the budget by the sector ministries. These could be developed, subject of course to country-specific variations, within a medium term framework covering two or three years, on an analysis of the underlying economic aggregates such as the projected rate of growth of the economy, anticipated inflation trends, balance of payments projections, sectoral growth rates, and projections of tax and non-tax revenues and anticipated aid flows. On the expenditure side, similar aggregates could be developed for real expenditures on debt redemption and interest payments, salaries, and other committed expenditures. Based on the overall fiscal situation and policy orientation of the government, appropriate levels of target budget deficit could be established, which can then set a limit on total expenditures and domestic and foreign borrowings.

The determination of total expenditure ceilings is an important pre-budget activity; there are bound to be problems of availability of information and technical skills to review the macroeconomic aggregates and to prepare norms for public expenditures. However a beginning must be made despite such problems, so that the exercise could be improved over a period of time through experience. The proposed expenditure levels could also be further elaborated (as is now being done in Kenya) to reflect policy directions and the required incremental improvements in allocation. For example, expenditure ceilings might be set for ministry recurrent expenditures along with ceilings for salaries, for projects and programs financed by government resources and those to be financed through foreign project grants and loans.[31]

However, the establishment of overall fiscal norms will be useful only if it is done after considerable deliberation and consultation, particularly with the sector ministries. In the absence of such an open and consultative process, the norm setting exercise could turn out to be a top-down technical exercise, the legitimacy of which will often be questioned. It is the general experience that the very nature of this centralized rationing process with emphasis on totals and not on programs, leads to easy adaptation by finance ministry officials who tend to emphasize different deficit and expenditure levels but not on activities to be retrenched or reviewed. Hence this pre-budget activity should be participative and open. Again, it is just the beginning of a series of other activities.

Relevance of Ceilings and Guidelines

The disaggregation of macro-level fiscal norms into specific sectoral allocations and the development of guidelines for the review of projects, programs and other spending activities, in the light of the norms, is an important aspect of the budget process, so that by the time the sector ministries are preparing their expenditure requests, ceilings and guidelines are already in place and, they are constrained as to the amounts that can be requested.

Although economists and planners are likely to consider such sectoral allocations on highly abstract criteria, in practice a major part of the allocation exercise is already there on the ground, in terms of the existing activities and portfolio of projects in each of the sectors. What is more important in this phase of activity, is to realize that increments in revenues, such as may be projected, have a very high opportunity cost and should be carefully allocated to high priority sectors and activities which have significant linkages for renewing the growth processes. The overall structural problems of the budget can also be reviewed at this stage and adjustments made towards easing the constraints. The approach should be to establish the general directions for change in allocations and thus to improve the quality of allocation resources over a period of time.

Ministry-wise financial ceilings should also be supplemented by specific guidelines for prioritizing the activities, programs and projects within each sector as the basis for preparation of expenditure requests. An example is given by Kenya's Budget Rationalization Programme[32] which provides three distinct sets of guidelines for enabling the ministries to prioritize their funding requests within the expenditure ceilings. The first set consists of general financial criteria, such as the need to complete ongoing projects, the need to reduce the number of projects so that those that are included in the budget can be fully funded and implemented in time, and the need to increase the utilization of existing capacity. The second set, also cutting across all the sectors, provides general economic criteria such as the need to increase production and productivity in the economy, create employment opportunities, assist small farmers and pastoralists to increase their economic productivity, and to promote exports. The third set of criteria are sector specific which are required to be developed within the ministries.

The development of guidelines for prioritizing expenditures is also an iterative process which can be continually revised in the light of experience. A major problem which many countries may face is the capacity within sector ministries to develop guidelines for establishing expenditure priorities. Although the ministry of planning (or its equivalent) can help in this regard, often planners are trained and spend most of their time in designing and evaluating new projects rather than on reviewing the existing portfolio and developing criteria for the rationing of funds. The emphasis on rationing implies that the current benefits being generated from a given portfolio of projects in a given sector has to be reviewed carefully. This will require considerable reorientation of the approach to planning, particularly to identify less important activities, so that funds could be released for the high priority activities.

Multi-year Expenditure Planning

By the very nature of the analytical work involved and the volume of review of performance necessary, pre-budget activities such as those described in the above paragraphs cannot be done during the preparation of the annual budget. They are best undertaken done in a multi-year expenditure planning framework of preparing rolling expenditure plans leading into the annual budget. Many countries in SSA have established mechanisms and processes for forward planning and the preparation of a public investment program. Some examples are the Forward Budgets in Tanzania and Kenya and the newly started Public Investment Programme in Ghana. These could provide a valuable means for an extended pre-budget review leading to the determination of expenditure levels for the annual budgets as well as the means by which system-wide acceptance to fiscal norms and guidelines is generated.

However, in the context of the reorientation required in the budget processes, the emphasis in such multi-year planning exercises should be more on the management and financial control aspects of public expenditures and not merely on "planning" in the traditional sense of the term. This requires several changes in the approach to the multi-year planning.

First, the exercise should be the main vehicle for an extended review of all the activities, including those funded through the recurrent votes, projects and programs, especially from the point of view of the current benefits being generated and the constraints observed in the sector. Such a program review should lead to the development and further refinement of guidelines and criteria for the allocation of financial resources within the sector.

Secondly, where the problem of an overextended portfolio of development projects is acute, the multi-year planning exercise should be used to review the implementation of projects in the sector, with a view to establish priorities within the group of on-going projects for budget allocation. Monitoring of expenditures and scheduling of implementation should become an essential activity during the exercises, so that projects are completed in time and the annual budgets reflect the scheduled implementation requirements.

Thirdly, the exercise should also be used to review the extent of underutilization of capacity within the sector and to assess the recurrent funding requirements both for the existing capacity and for on-going development projects. As already discussed, the question of establishing priorities within a sector for the allocation of non-wage operating expenses should also be explicitly considered in the exercise.

Fourthly, there could be other policy issues which are sector specific such as the relative priorities amongst primary, secondary and university education or between curative and preventive health, employment and training policies, and the levy of user charges with in a given sector. The multi-year planning exercise should be used as the mechanism to bring such issues on the agenda, so that a beginning is made towards resolving them over a period of time.

Finally, the exercises should also be used as the only authorized means for the generation of new projects, their review and acceptance in principle for funding. Such a control on the generation of new projects is an important function which cannot be resolved during the annual budget exercises. In order that the multi-year expenditure plan become an important link in the budget process, it is essential that the final document be as detailed as the budget and that the annual budget be based strictly and entirely on the allocations and projects finally approved for the year in the multi-year plan. It is also essential that no new projects or activities nor the financial effects of policy changes are considered at the time of preparing annual estimates. It is only through such systematic linkages that the rolling plan can become a useful and extended pre-budget activity.

In these respects, the multi-year planning is different from the traditional planning exercises or the preparation of public investment programs. Instead of emphasizing new investment projects, the emphasis is on the review of policies and programs in each sector and the development and annual refinement of criteria for the allocation of financial resources for the sector. Over a period of time, this exercise, if carefully carried out, could create considerable consensus among the participants in the budgeting processes and generate internal pressures for reform. This could be more productive and sustained, rather than using the budget processes to follow superficially externally induced concepts of good budgeting and fiscal management.

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Monetary/Trade Working Group Summary Report

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The Problem for Discussion:

African trade performance has deteriorated in the last decade. Africa's share in world trade, globally, has sharply declined. Even within Africa, intra-African trade, as a proportion of total African trade, is also declining. The data in the lead paper by Dr. A. Mullei documents this problem, which has far-reaching consequences for balance of payments and debt management, and for the growth of income, employment, and equity.

Policy Reforms:

We examined three broad areas of policy reforms to ameliorate the problem:

(a) trade liberalization, to remove barriers, both against global and intra-African trade.

(b) the promotion of non-traditional exports to create new trade, given that the future demand of Africa's traditional commodity exports to Europe is bleak.

(c) the use of exchange rate policy and other instruments of equivalent effect (where exchange rates cannot be changed, e.g. interest rate policy).

Discussion Questions:

1. What has been Africa's experience so far with the economic reforms (a) - (c) above?

2. How effective have the reforms been so far in ameliorating the trade problem?

3. What outstanding questions does this workshop suggest should be followed up in the future for research, discussion, etc.?

I. Africa's Experience with Policy Reforms to Improve Trade Performance

There has been candid recognition of the problem of deterioration in trade performance and serious commitment to policy reforms. This is evidenced by the many sub-regional trade and payments arrangements both in the 1970's and the 1980's, enumerated by Dr. A. Mullei; it is also evidenced by the experiments with a variety of exchange rate regimes, away from fixed exchange rates, since the early 1980's. There are also active policy discussions in Africa on what to do in the near future: the status quo is no longer taken as acceptable.

II. Effectiveness of the Policy Reforms Taken So Far

The effectiveness of policy reforms so far undertaken has been limited by a number of problems:

Africa is undertaking reforms at the time that she is facing a serious debt crisis, whose servicing is absorbing the very scarce resources needed for investment to change the structure of exports.

The ex-colonial productive structures of many African countries are competitive, not complementary. The transportation infrastructure also needs reorientation to promote intra-African trade flows.

Some reform measures, with long-term benefits, have serious short-term adverse consequences; for example, devaluation will ultimately improve exports' competitiveness and augment foreign exchange earnings. But in the short-run production for exports is price-inelastic, until the new investments and infrastructural changes begin to yield results. Meanwhile, devaluation immediately raises the domestic price of imports in local currency, many of which are essential and cannot be cut.

Some measures require time and gradual change to become socially acceptable. Some African countries have had to experiment with multiple exchange rates that would allow a gradual shift of transactions from the low fixed exchange rates, to the devalued higher rates. The multiple rates are transitional, but they take time to be understood both by the local population and the international community. Also exchange rate stability and predictability are necessary to promote trade, yet initially large and often frequent devaluations are required to move away from the previous over-valued rates.

Trade liberalization also affects different income groups which must be persuaded to support the new measures, or where alternative compensation must be found in the case of the very poor.

Large shifts in trade patterns also affect budgetary revenues, e.g. through changes in export and import duties. Yet controlling budgets is necessary to stabilize exchange rates, and this balance is precarious.

III. Outstanding Questions for the Future

(a) We as technocrats should work and identify alternative policy instruments to recommend to governments so that they have flexibility in implementing difficult reforms. But we need research and discussions on how the alternative instruments re-enforce each other to achieve the stated objectives and how the transitional measures should be optimally phased out.

(b) Complete trade liberalization will make it impossible for small African economies to change their productive structures to promote new trade. Yet protection and multiple barriers are inefficient and costly. We need research as to which "selective protection measures" will promote the trade objectives efficiently, and make the required changes in productive structure possible.

(c) In our discussions, the countries with a comfortable inflow of foreign resources have had greater success in implementing trade reforms. There is need for research into alternative means of attracting foreign resource inflows into Africa. This is not to ask for any aid, which will just worsen the debt burden. But concessional assistance, and other imaginative measures to attract capital inflow, e.g. interest rate policies, should be examined where feasible.

(d) Government involvement in trade has previously been restrictive. We need to re-define a new constructive role of government in promoting trade. How can our governments assist in laying new infrastructures, e.g. export promotion councils, payment clearance arrangements, etc. The governments recognize the problems of trade they face and are keen to do something. But within the move for privatization, they are at a loss on how to intervene. We believe they have a constructive role to play, and here we want to suggest comparative research examining how governments in Asia have promoted new trade, and what relevant lessons can be drawn for African governments, where appropriate.

(e) There is also a need to build more competent human capacity in formulating, analyzing and implementing reforms in Africa in the various government ministries that must administer these reforms, and in the private sector. The problem of how to improve the competence of human resources should be looked into.

Agriculture and Food Security Working Group
Summary Report

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Day 1

In his opening remarks, the group chairman, Dr. Josserand, reminded his colleagues that there are few working sessions (5) and that one of them will have to be set aside mostly to prepare for the final presentation in plenary session on Thursday.

Each participant to the group introduced him/herself and stated his/her interest in the discussion.

The group chairman discussed with participants his understanding of the role he was to play during the deliberations.

The issue of splitting the working group along language lines for one of the sessions was considered jointly by the group. I was unanimously decided that all participants would remain together, interpretation being provided by group members themselves.

The chairman suggested to the working group that our main objective was to promote among participants a sharing of experiences on the design and implementation of policy reform in their respective countries.

To help set the stage for discussion, Dr. Roth went briefly over several policy reform areas which are usually main components of policy reform programs in the agricultural sector.

The group felt that by and large these were suitable for discussions of policy reform experience in the agricultural sector. One of the participants, however, emphasized the need to keep in mind the objectives and farming system features of subsistence agricultures. The group agreed that food security is as valid a concept and policy objective, at the household as at the national level.

The first discussion of policy reform design and implementation involved land tenure reform in Lesotho, which was first attempted in 1979. There is a perceived need to reform the current land tenure system in view of the commons problem on grazing areas, and of the fact that even with pressure from farmers only part of arable land is being cultivated.

There were basically two design problems:

1. The program design occurred too late, and did not take popular experience and wishes into account;

2. The program design did not take into account constraints on administrative capacity to carry out and enforce the reform.

Mr. Mokgwathi was elected rapporteur/group delegate; he will be assisted by Ms. Christine Ntamagiro, who will especially keep track of contributions made to the discussions by francophone participants.

Day 2

There has been a common tendency in policy reform design to concentrate on purely financial issues at the expense of social considerations. This has had several consequences, in particular:

At the stage of inception, there has often been limited participation by members of the national administration. There has been a lack of consultation of national research institutions and experts, and there has been very limited information on policy reform program measures and implications for the benefit of concerned populations.

Policy reform design has placed much more emphasis on diagnostic and prescription than on detailed planning, including institutional and financial implications, (e.g., new marketing and input distribution policies). As a result, there often remains a significant contradiction between policy reform orientations and basic national policies (e.g., removal of agricultural input subsides vs. increased input use and higher farm productivity).

One of the conclusions from recent experience is that governments must make very clear from the start, to their population and to international financial institutions, what their position is with respect to key social objectives (food security, equity) and their willingness to bear the costs of these orientations.

Another consequence is that the financial burden of policy implementation, including compensation to some groups for economic losses, were not always clearly foreseen, (e.g., cereal marketing reform in Mali).

Conflict and competition between the public and private sectors has given way to a more fruitful view of complementarity. However, this balance and the resulting pattern of resource allocations between the sectors remain to be worked out in detail. For instance, the benefits derived from a transfer of economic activity from the public to the private sector may be preceded by a lengthy and costly period of adjustment.

Positive aspects:

There is a clear tendency by African administration to "appropriate" the policy design effort, to become major active partners in the design process.

In several cases the national administration has overcome the lack of detailed planning in policy reform implementation through innovative and efficient policy measures (constructive restructuration), which have received the financial backing of donors.

The need to promote circulation of information on the objectives and implications of policy reform programs within the administration, and within the concerned population, is now well recognized, and progress is being made in this direction.

Participants cited several examples where policy reform led to increases in agricultural production (paddy in Mail, cocoa in Ghana). However, the point was made that higher production is not in itself a long term solution, (e.g., profitable outlets must be identified). Policy reform design implementation must go beyond the short term to plan for the consequences of successful programs. In other cases, policy reforms have not had the anticipated impact on agricultural production. Part of the reason is that the effectiveness of these reforms was undermined by a lack of appropriate financial, human, and technical resources.

Fiscal/Budget Working Group Summary Report

The lively discussion of budgetary issues closely followed the outline of Dr. Ramakrishnan's paper and presentation. The discussion and paper can be summarized as follows:

The fiscal balance in a number of Sub-Saharan African countries is extremely fragile and many of them are now engaged in efforts to streamline public expenditures, reduce budget deficits and restore fiscal stability, as part of overall economic reform programs for stabilization and structural adjustment of their economies. Experience in Sub-Saharan Africa has shown that successful fiscal reforms are an essential pre-condition for the success of reform efforts in other areas. However, the indications are that not much is being done in fiscal management to address the basic structural problems of the national budget and to rearrange the priorities for public expenditures in support of the economic reform programs.

This could be due to the "target approach" being followed in many reforming countries of trying to reach short-term performance targets on total expenditures and borrowing without addressing the basic policy and process issues influencing public expenditures. Dr. Ramakrishnan's paper discussed some of the issues that need attention if fiscal balance is to be restored without losing sight of the need to enhance the effectiveness of public expenditures for promoting growth processes.

The paper was organized in four sections. The first section was introductory; the second reviewed briefly the country experiences and the literature on fiscal reform in Sub-Saharan Africa and identified three major features of Sub-Saharan African fiscal systems which suggest directions for further reform. These include a weak and unstable revenue base, lack of control over public expenditures and the important role fiscal reform plays for the success of other reform efforts.

The following three major and frequently observed issues in Sub-Saharan Africa must be resolved if fiscal balance is to be restored on a sustained basis. These are (i) government employment policies which seem to be leading to an inefficient use of manpower, especially the middle and senior level personnel; (ii) expenditure policies leading to an underutilization of capacity in the economy and to the emergence of the recurrent costs problem; and (iii) the problem of an extended portfolio of development investments and projects straining the fiscal and administrative capacity and leading to delays in completion and the generation of benefits.

These issues do not have any general solutions, but each country will have to develop its own method of resolving them. Fiscal reform requires a satisfactory resolution or at least a reconciliation of the conflicting interests of different ministries. This will require a considerable rehabilitation of the budget processes, making them more predictable, transparent and the only means for controlling public expenditures. Such a rehabilitation is required to re-establish the traditional objectives of accountability, expenditure control and efficiency. In addition, the budget process also requires a reorientation in order to accommodate to the more stringent fiscal conditions and to improve the allocative aspects. Only through such a reorientation can a policy-oriented budget process be put in place, the pressures for expenditure growths dampened, the capacity to restraint strengthened, and the productivity and efficiency of public expenditures enhanced. The more specific directions for such rehabilitation and reorientation will have to be country-specific; however the following are some of the broad directions for change:

- establishing a macroeconomic framework for the budget processes;
- establishing expenditure norms and guidelines to guide the spending ministries; and
- putting in place a multi-year expenditure plan as an extended pre-budgeting activity to guide the annual budget.

The discussions during both days of group meetings delved deeper into the points raised in Dr. Ramakrishnan's paper.